


# CHAPTER FIVE: Tax Collection Systems

## Electronic Federal Tax Payment System

 IN 1993, CONGRESS passed legislation, the North American Free Trade Agreement, requiring the Treasury to issue regulations that would phase in the use of electronic funds transfer (EFT) for depository tax payments during the period 1994-99. The legislation required that at the end of the phase-in period, and thereafter, 94 percent of all depository taxes collected in the United States must be paid electronically.

The Treasury embarked on an effort to modernize the collection of tax revenue. The Electronic Federal Tax Payment System (EFTPS) uses EFT and advanced communication technology, including electronic data interchange. The Treasury developed the final design of the EFTPS in 1994 and implemented the system in 1996.

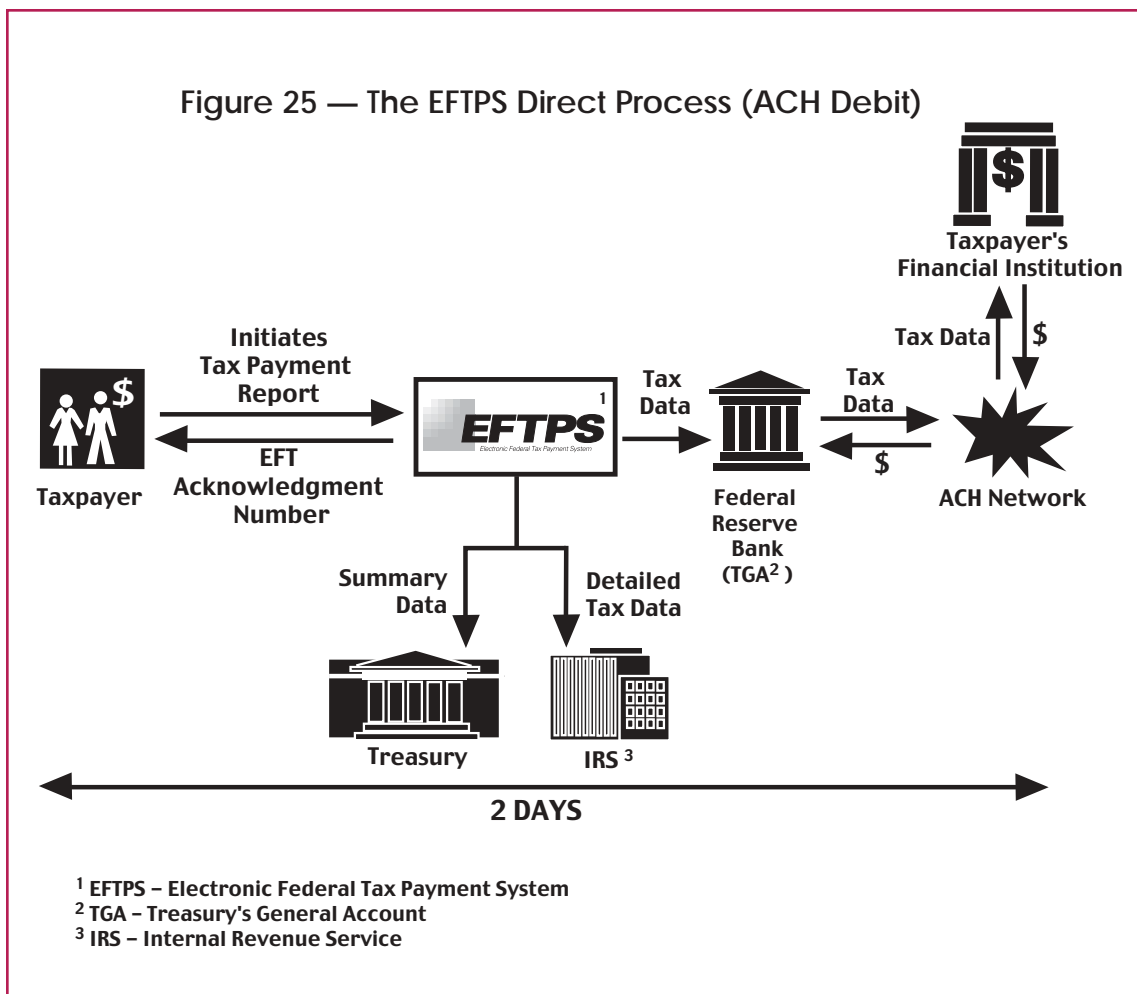
The EFTPS allows corporate businesses and individuals to pay their taxes electronically. The Treasury has designated two financial agents to provide EFTPS services. Each financial agent receives taxes from remitters in its designated half of the country. Payments can be made via Automated Clearing House transactions or wire transfers.

**EFTPS – Direct (ACH Debit)**

Here is how EFTPS - Direct works:

- The taxpayer contacts EFTPS to initiate payment via the Internet, PC software, or telephone at least 1 calendar day before the tax due date.
- The taxpayer receives the EFT acknowledgment number as a receipt of the scheduled ACH debit transaction.
- EFTPS originates an ACH Debit to the taxpayer's designated bank account.
- The funds move to the Treasury's account at the FRB on the due date.
- The tax data is reported to the IRS to update the taxpayer's tax records.

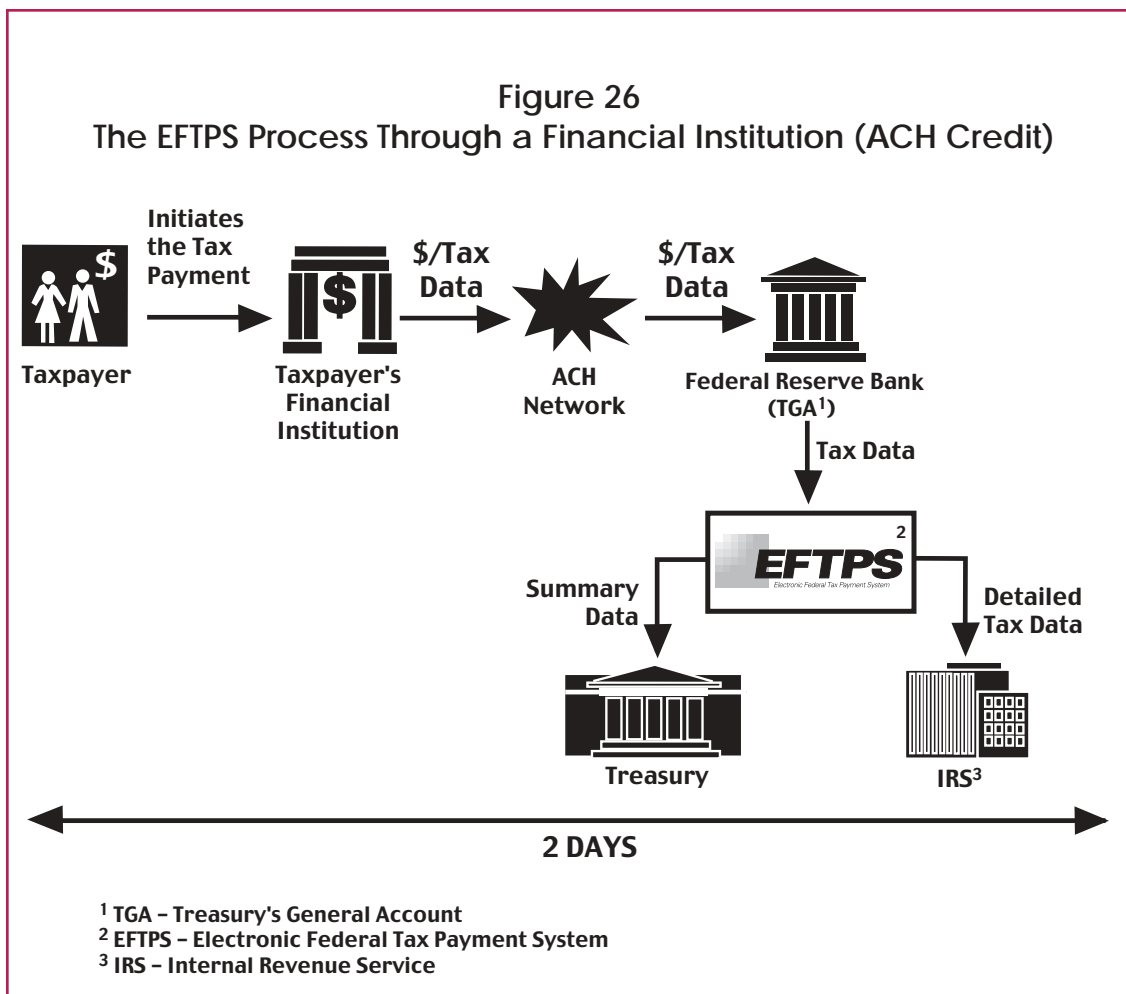
Figure 25 — The EFTPS Direct Process (ACH Debit)



### EFTPS – Through a Financial Institution (ACH Credit)

Here is how EFTPS - Through a Financial Institution works:

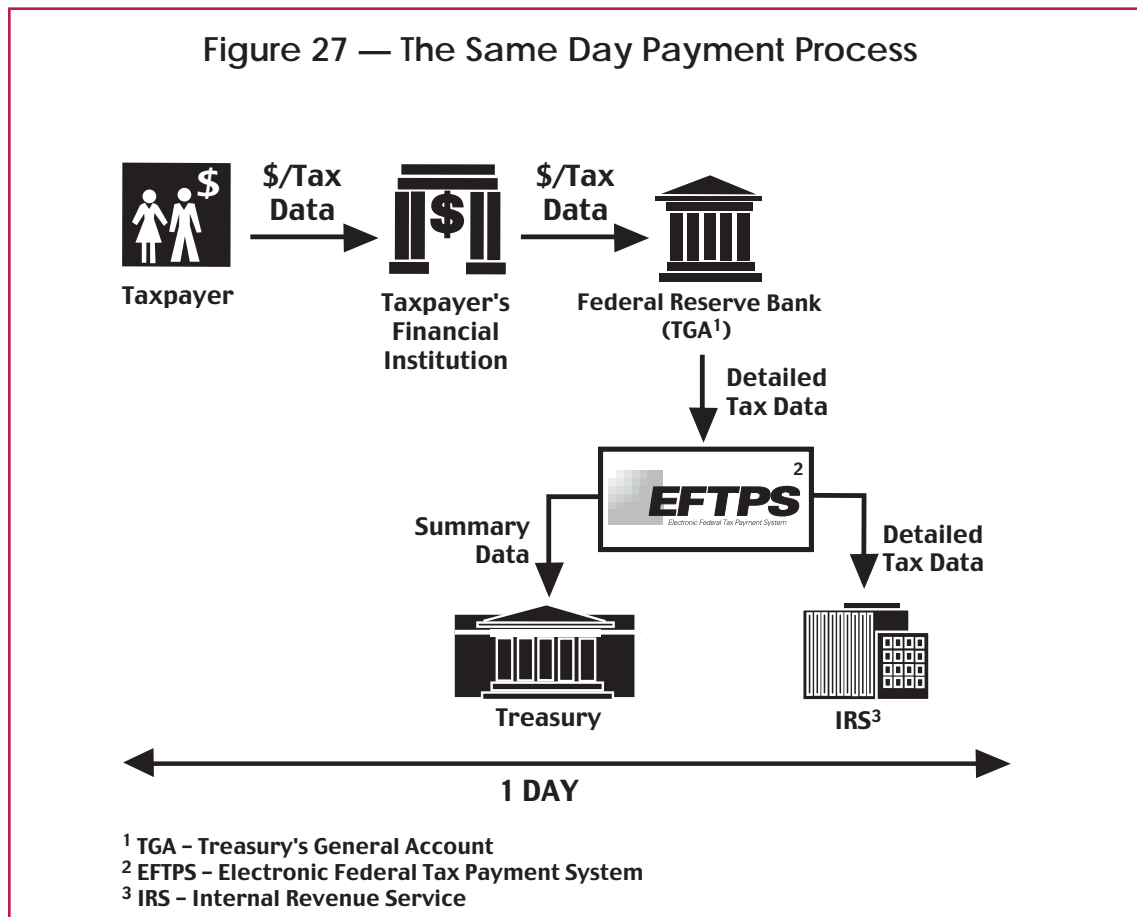
- At least 1 day prior to the tax due date, the taxpayer initiates the tax payment through its financial institution.
- The taxpayer's financial institution originates an ACH credit transaction to EFTPS.
- The funds move directly to the Treasury the day after origination.
- The tax data is reported to the IRS to update the taxpayer's tax records.



### Same Day Payment (Wire Transfer)

Here is how the Same Day Payment works:

- The taxpayer initiates a wire transfer for payment through its financial institution.
- The taxpayer's financial institution originates the payment.
- The funds move directly into the Treasury the same day.
- The tax data is reported to the IRS to update the taxpayer's tax records.



### EFTPS Benefits

- Expedites the deposit of funds to the Government.
- Improves speed, efficiency, and accuracy of revenue collections.
- Eliminates labor-intensive paper processing.
- Reduces the burden of compliance on taxpayers.

## Treasury Tax and Loan Program: Treasury Investment Program/Paper Tax System

The Treasury Tax and Loan (TT&L) program enables participating financial institutions (FIs) to collect Federal tax payments from its customers and/or retain these funds (provided all funds retained for any period are fully collateralized) at a competitive rate of interest. These funds can provide an FI with a ready source of liquidity. The TT&L program has three major functions: tax collection/settlement; withdrawals/investments; and collateral monitoring. Two TT&L system enhancements, the Treasury Investment Program (TIP) and the Paper Tax System (PATA), assist in the tax collection and investment process for both FIs and the Treasury.

TIP and PATA are applications centralized at the Federal Reserve Bank of St. Louis. TIP is the TT&L enhancement used to collect and report business tax payments (remitted electronically through EFTPS or through PATA) and invest Treasury funds with participating FIs. The PATA enhancement collects, adjusts, and reports all Advices of Credit (AOC) representing paper Federal Tax Deposits (FTDs). These systems provide timely information to the Treasury and interface on an hourly basis with the Federal Reserve systems, resulting in hourly debits and/or credits to an FI's Federal Reserve account. TT&L statements are delivered electronically to FIs to provide timely access to TT&L account information.

Participants in the TT&L program are classified as follows:

### ■ Collectors

A Collector Depository accepts electronic and/or paper tax payments from its business customers. The amount of paper tax deposits collected by the depository is withdrawn from the FI's Reserve account for deposit to the Treasury's account on the business day that the Federal Reserve receives AOC information supporting the deposits. Electronic tax deposits are remitted immediately.

### ■ Retainers

A Retainer Depository accepts electronic and/or paper tax payments from its business customers. Retainers may retain the tax deposits depending on their balance limit, collateral value, and account balance. All investments in a Retainer's TIP Main Account must be fully collateralized, and FIs pay the Treasury interest for use of the funds. Although notice is generally given, funds may be withdrawn at any time at the Treasury's discretion.

**■ Investors**

An Investor Depository may retain a portion of the tax deposits received through electronic and/or paper tax payments and/or accept funds from the Treasury via Direct Investments, Dynamic Investments, or Special Direct Investments (SDIs). All investments in an Investor's TIP Main or SDI account must be fully collateralized, and FIs pay the Treasury interest for use of the funds. Although notice is generally given, funds may be withdrawn at any time at the Treasury's discretion.

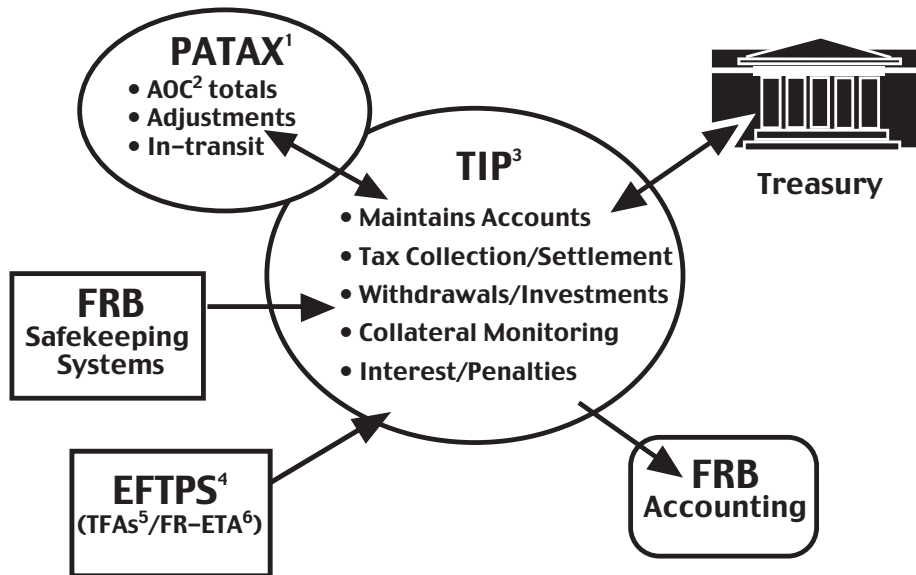
**The Paper Tax (PATAX) System Process:**

- Business taxpayers remit Federal tax payments by presenting a Federal Tax Deposit (FTD) coupon to a designated TT&L depository.
- The depository prepares an Advice of Credit (AOC) summarizing FTDs for the business day.
- Immediately after completing its AOC, a depository sends the IRS copy of the AOC, with the corresponding FTD coupons, to its IRS service center.
- In addition, depositories must send AOC data electronically to PATAX on the business day following the day the depository received the deposits and supporting AOC.
- PATAX collects, adjusts, and reports AOCs and monitors in-transit funds.

**The Treasury Investment Program (TIP) Process:**

- TIP assists the Treasury with its cash management processes and performs all TT&L program functions except collecting AOC and adjustment data.
- TIP interfaces with EFTPS, PATAX and the FRB safekeeping (collateral) systems and maintains accounts for financial institutions in furtherance of three major functions: (1) Tax Collection/Settlement, (2) Withdrawals/Investments, and (3) Collateral Monitoring.

Figure 28 — The Paper Tax System Process and The Treasury Investment Program Process



- <sup>1</sup> PATAx — Paper Tax System  
<sup>2</sup> AOC — Advice of Credit  
<sup>3</sup> TIP — Treasury Investment Program  
<sup>4</sup> EFTPS — Electronic Federal Tax Payment System  
<sup>5</sup> TFAs — Treasury Financial Agents  
<sup>6</sup> FR-ETA — Federal Reserve, Electronic Tax Application

### TT&L/TIP/PATAx Benefits

#### Retainer/Investor Depository Benefits

- Ready source of liquidity.
- Use of Federal monies at a competitive interest rate.
- Timely access to all TT&L account positions/information.

**Government Benefits**

- Competitive interest earned by the Government when monies are withdrawn by the Treasury from an FI's account.
- Specific collateral requirements and hourly collateral monitoring mitigate risks associated with monies held outside of the Treasury.
- Timely collection, reporting, and investing of funds.