

Part 1—Chapter 2000

FEDERAL TAX COLLECTIONS OVERVIEW

This chapter explains the Federal tax collection process for financial institutions that process Federal tax payments or participate in the Treasury Tax and Loan (TT&L) program.

Section 2010—Applicability

The Department of the Treasury (Treasury) regulations and procedures in Volume IV of the Treasury Financial Manual (TFM) bind financial institutions that accept or originate Federal tax payments. These institutions also are bound by applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations and Title 31 of the Code of Federal Regulations Parts 203 and 380 (31 CFR 203 and 380). Treasury's Financial Management Service (FMS) provides electronic access to the TFM on its website at www.fms.treas.gov.

Section 2015—Authority

Title 31 CFR 203 and 380 govern:

- Financial institutions that process Federal tax payments either electronically through the Electronic Federal Tax Payment System (EFTPS) or through the paper-based Paper Tax System (PATAX).
- Designation of TT&L depositories that maintain and administer TT&L accounts and/or Treasury Investment Program (TIP) main account balances and/or Special Direct Investment (SDI) account balances.
- Collateral security requirements.

Section 2020—Definitions

Acknowledgment Number—An acknowledgment number is the unique electronic funds transfer number assigned to track EFTPS transactions, also known as the Electronic Funds Transfer (EFT) number. The Treasury Financial Agent (TFA) assigns an acknowledgment number to each Automated Clearing House (ACH) debit and credit. The FRB assigns an acknowledgment number to all same-day applications (Fedwire® value transfer, Fedwire® non-value transaction and FedLine® taxpayer deposit application transaction).

Advice of Credit (AOC)—Depositories use Treasury Form 2284: Advice of Credit, to summarize and report Federal Tax Deposit (FTD) coupon deposits to the Internal Revenue Service (IRS) and the FRB. They should send AOC information electronically to the National Customer Service Area (NCSA). Treasury charges depositories for late AOCs.

Automated Clearing House (ACH) Credit Entry—An ACH credit entry is a transaction originated by a financial institution in accordance with applicable ACH association formats and applicable laws, regulations and procedural instructions. The taxpayer instructs its financial institution to initiate the transfer of funds to make a Federal tax payment from the taxpayer's account to the Treasury General Account (TGA).

Automated Clearing House (ACH) Debit Entry—An ACH debit entry is a transaction originated by the TFA, at the

request of the taxpayer, in accordance with applicable ACH association formats and applicable laws, regulations and procedural instructions. The taxpayer instructs the TFA to initiate the transfer of funds to make a Federal tax payment from the taxpayer's account at its financial institution to the TGA.

Balance Limit—Balance limit is the highest amount a depository has stated it will accept in its TIP main account balance and must be fully collateralized.

Borrower-In-Custody Collateral (BIC)—Also referred to as Off-Premise Collateral (OPC). BIC and OPC refer to an arrangement by which an institution pledging collateral to secure SDIs in TIP is permitted to retain possession of that collateral on its own premises, subject to the terms and conditions agreed upon between the FRB and the financial institution.

Bureau of the Public Debt (BPD)—BPD is a bureau within Treasury with regulatory responsibility to establish acceptable collateral and to determine the valuation of the collateral for the TT&L program.

Business Day—Any day on which the FRB is open is considered a business day.

Capacity—A depository's capacity for its TIP main account balance refers to its balance limit or current collateral value (whichever is lower) minus its current account balance. Pending withdrawals and investments are included in the calculation. The depository's capacity for its SDI account balance refers to current collateral value minus account balance.

Cash Concentration or Disbursement ACH Format with the Tax Payment Addenda Record (CCD+TXP)—This is an ACH format for EFTPS credit entries.

Collateral—Collateral is a marketable security or instrument that has been determined by Treasury and approved by the FRB as acceptable. The pledgor (depository) gives collateral to secure deposits or investment balances at risk to Treasury. Acceptable collateral and its valuation is defined in 31 CFR 380. See BPD's website at www.publicdebt.treas.gov for a list of acceptable collateral.

Collector Depository (formerly Remittance Institution)—A Collector depository is a TT&L depository that accepts electronic and/or paper tax payments from its corporate customers, but does not retain any such deposits as tax investments and does not accept Direct Investments or SDIs. The amount of paper tax deposits collected by the Collector depositories is withdrawn from the depository's reserve account for deposit to Treasury's account on the business day that the FRB receives AOC information supporting the deposits. The amount of electronic tax transactions initiated by the depository will settle on the processing or settlement date (that is, ACH transactions settle on a future business day; same-day transactions settle the day received). Because paper tax deposits settle on the day after the depository receives them, the depository has overnight use of the Federal tax deposit funds, which must be fully collateralized.

Depository—A depository is a financial institution authorized to participate in the TT&L program. (See also Treasury Tax and Loan Depository.)

Direct Investment—A Direct Investment places Treasury funds with a designated depository, resulting in a corresponding increase in the depository's TIP main account balance and reserve account credit.

Dynamic Investment—A Dynamic Investment is a same-day investment

with a designated depository. These investments normally occur hourly from noon until 5 p.m. eastern time (e.t.) and consist of funds that would otherwise flow back to Treasury for the day.

Election of Option Form—An existing depository uses this form to indicate a change in the option (Collector, Retainer, or Investor) under which it will administer its TIP main account balance and/or participate in TIP. The NCSA supplies Election of Option Forms.

Electronic Federal Tax Payment System (EFTPS)—EFTPS is the system through which taxpayers remit Federal tax deposits and payments electronically.

Electronic Funds Transfer (EFT) Number—The EFT number is a unique 15-digit acknowledgment number used by EFTPS (FR-ETA and the TFAs.) The EFT number is assigned to track each transaction. (See also Acknowledgment Number.)

Federal Funds Rate—Treasury uses the Federal Funds Rate as the basis for computing interest and penalty charges. The Board of Governors of the Federal Reserve System publishes the Federal Funds Rate weekly as a yield-percent per annum.

Federal Reserve Account—This is an account with reserve or clearing balances held by a financial institution at an FRB.

FRB TT&L Application Deposits—Currently FRB TT&L application deposits include electronic Federal tax payments through EFTPS using ACH (credits or debits), and same-day tax deposits (using Fedwire® value, Fedwire® non-value and the FedLine® taxpayer deposit application) or paper coupons through PATAX. The Federal Reserve's TIP system places TT&L deposits to a depository's TIP main account balance or collects/reports them upon receipt.

Federal Reserve-Electronic Tax Application (FR-ETA)—FR-ETA is the office at the FRB of Minneapolis and is a subsystem of EFTPS that receives, processes and transmits same-day Federal tax payment information for

taxpayers to the IRS through a TFA. Financial institutions use the Federal Reserve System's Funds Transfer System or the FedLine® taxpayer deposit application as the delivery mechanism to FR-ETA.

Federal Tax Deposit (FTD)—An FTD is a Federal tax deposit or payment made by taxpayers using an FTD coupon.

Federal Tax Deposit Coupon (FTD coupon)—IRS Form 8109: Federal Tax Deposit Coupon, accompanies a Federal tax deposit. IRS supplies FTD coupons to taxpayers.

Federal Taxes—Federal taxes are those taxes or other payments specified by the Secretary of the Treasury as eligible for payment through EFTPS or PATAX.

FedLine®—FedLine® is the computer-based electronic delivery system that affords financial institutions access to the Federal Reserve System's services and information.

FedLine® Taxpayer Deposit Application—Within FedLine®, this application supports the same-day reporting of Federal tax payments on the date of settlement.

FedLine® Taxpayer Deposit Transaction—This is the same-day Federal tax payment information transmitted to FR-ETA by a financial institution using the Federal Reserve's FedLine® taxpayer deposit application. These transactions settle through TIP throughout the day.

Fedwire®—The Federal Reserve System owns and operates this funds transfer system.

Fedwire® Non-Value Transaction—In the EFTPS environment, this transaction is the same-day Federal tax payment transmitted by a financial institution to FR-ETA using a Fedwire® non-value (Typecode 1090) message with a specific format and an IRS product code. These transactions settle through TIP throughout the day.

Fedwire® Value Transfer—In the EFTPS environment, this is a same-day

Federal tax payment transmitted by a financial institution to FR-ETA using a Fedwire® value message (Typecode 1000). These payments settle immediately in funds.

Financial Institution—A financial institution is any bank, savings bank, savings and loan association, credit union or similar institution. Any financial institution may process payments and deposits through the EFTPS. However, financial institutions participating in PATAX and/or TIP are referred to as depositories in this document.

Fiscal Agent—Fiscal agent refers to the FRB acting as agent for Treasury.

Input Message Accountability Data (IMAD)—IMAD is a unique number assigned to track each Fedwire® transaction sent by a financial institution.

Investor Depository (formerly Note Option Institution)—An Investor depository is a TT&L depository that accepts Direct Investments of Treasury funds, depending on their balance limit, collateral value and account balance. It may participate in the Dynamic Investment option and accept Special Direct Investments. It also may process electronic and/or paper tax deposits and retain such deposits as investments subject to the same conditions as a Retainer depository. All investments in an Investor depository's TIP main account balance or SDI account balance must be fully collateralized. Institutions pay interest to Treasury for use of these funds.

National Customer Service Area (NCSA)—NCSA is the office at the Federal Reserve Bank of St. Louis (FRBSTL) that manages a depository's TT&L program participation, keeps a record (that is an account) of a TT&L depository's TIP main or SDI account balances, and monitors collateral pledged under Treasury programs. The FRBSTL acts as fiscal agent on behalf of the U.S. Treasury.

Notification of Change (NOC)—An NOC is a non-dollar entry sent through the ACH by the TFA to the financial

institution, or by the financial institution to the TFA, to give notice that previously valid banking information (account number, account type, etc.) has changed. The TFA or financial institution also uses an NOC to correct erroneous information contained in an ACH prenotification.

Off-Premises Collateral (OPC) Arrangement—An OPC is a collateral custody arrangement that permits a depository to hold in its possession, for Treasury, collateral pledged to secure funds invested with the depository as SDIs (same as BIC arrangements.)

Originating Depository Financial Institution (ODFI)—An ODFI is a financial institution that originates an ACH entry. For an EFTPS ACH credit entry, the taxpayer's financial institution is the ODFI. For an EFTPS ACH debit entry, the TFA is the ODFI.

Paper Tax System (PATAX)—This is the centralized paper-based system through which the depository prepares an AOC summarizing the FTD coupons representing taxpayers who remit Federal tax deposits or payments by presenting an FTD coupon and payment to a depository.

Penalties—Penalties are monetary charges against depositories and financial institutions for delayed processing of tax payments on behalf of a taxpayer through EFTPS transactions and for late processing of tax deposits. (See IV TFM 1-2130.70.)

Prenotification—A prenotification is a non-dollar entry sent through the ACH network at least 6 banking days prior to the first live-dollar entry. It alerts the receiving financial institution that a live-dollar transaction will be forthcoming (and that the receiver's account information should be verified). TFAs originate prenotifications when a taxpayer enrolls for ACH debit in EFTPS. (See also Zero-Dollar Entry for ACH credit prenotification.)

Procedural Instructions—These include procedures contained in TFM Volume IV and other Treasury instructions issued by Treasury or

through TFAs and Federal Reserve System operating circulars.

Receiving Depository Financial Institution (RDFI)—A financial institution that receives an ACH entry is an RDFI. For an EFTPS ACH credit entry, the FRB, as fiscal agent, is the RDFI. For an EFTPS ACH debit entry, the taxpayer's financial institution is the RDFI.

Recognized Insurance Coverage—Recognized insurance coverage is the insurance provided by the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA) or insurance organizations specifically qualified by the Secretary of the Treasury.

Retainer Depository (formerly Note Option Institution)—A Retainer depository accepts electronic and/or paper tax payments from its customers and retains some or all of the deposits depending on its balance limit, collateral value and account balance. All retained deposits must be fully collateralized. These depositories pay interest to Treasury for use of the funds.

Same-Day Payment—Same-day refers to the following FR-ETA payment options:

- FedLine® taxpayer deposit application transactions.
- Fedwire® non-value transactions.
- Fedwire® value transfers.

Secretary—Secretary refers to the Secretary of the Treasury or the Secretary's authorized delegate.

Settlement Date—Settlement date is the scheduled date on which the FRB will debit a financial institution or depository, or its correspondent.

Special Direct Investment (SDI)—An SDI is an investment of Treasury funds with a depository and a corresponding increase in that depository's SDI account balance. SDI funds are withdrawn within 21 days.

SDI Account Balance—An SDI account balance is an open-ended, interest-bearing note obligation equal to the current net dollar amount of an Investor depositary's Treasury investments (that is, funds credited to the depositary's Federal Reserve account) made under the SDI program. The investment must be fully secured by specified acceptable collateral retained in the possession of the depositary (OPC or BIC arrangement). The depositary pays Treasury interest on these funds and must qualify to hold collateral in a BIC arrangement. SDIs are withdrawn within 21 days.

Stale-Dated Coupon Charge—A stale-dated coupon charge is a monetary charge against a depositary that failed to include an FTD coupon (Form 8109) in the AOC (Form 2284) on the same day the FTD coupon was presented. Instead, it is included in an AOC of a later date. (See IV TFM 1-2130.30).

Tax Due Date—Tax due date refers to the day a Federal tax payment is due to Treasury. Statutes and applicable regulations determine this date.

Taxpayer Identification Number (TIN)—A TIN is a nine-digit identifier required of all individuals and businesses that file tax returns in the United States. Section 6109 of the Internal Revenue Code of 1986, as amended (26 U.S.C. 6109), describes a TIN.

Transaction Trace Number—The taxpayer's financial institution assigns a transaction trace number to track each ACH credit entry.

Treasury Financial Agent (TFA)—A TFA is a financial institution designated as an agent of Treasury for processing EFTPS enrollments, receiving and processing EFTPS tax payment information, and originating ACH debit entries for taxpayers.

Treasury General Account (TGA)—The TGA is an account maintained in the name of the U.S. Treasury at an FRB.

Treasury Investment Program (TIP)—TIP is a centralized FRB application under the TT&L program

that receives tax collections, invests funds and monitors collateral pledged to secure public money.

Treasury Investment Program (TIP) Main Account Balance—The TIP main account balance is an open-ended, interest-bearing note obligation equal to the current net dollar amount of a Retainer or Investor depositary's current retained Federal tax deposits plus any Treasury investments made under the Direct Investment program. The depositary pays Treasury interest on these funds. Treasury investments are credited to the depositary's Federal Reserve account.

Treasury Tax and Loan (TT&L) Account—A TT&L account is a record of transactions on the books of a TT&L depositary reflecting paper tax deposits received by the depositary. Settlement for TT&L transactions is made upon receipt of the AOC information by the NCSA and through the depositary's Federal Reserve account (or that of its designated correspondent).

Treasury Tax and Loan Depository (TT&L Depository)—The NCSA designates a financial institution as a TT&L depository. A TT&L depository maintains a TT&L account and/or a TIP main account balance and/or an SDI account balance. These depositories also may process Federal tax payments through EFTPS.

Treasury Tax and Loan (TT&L) Program—The TT&L program includes PATAX, EFTPS and TIP. Through this program, Treasury collects taxes and other funds and invests its short-term operating cash.

Treasury Tax and Loan (TT&L) Reporting Cycle—For PATAX, the TT&L reporting cycle begins on the first Thursday of each month and ends on the Wednesday preceding the first Thursday of the following month. For TIP, the TT&L reporting cycle begins on Thursday and ends on the following Wednesday.

Treasury Tax and Loan (TT&L) Weekly Interest Rate Factor—The

Federal Reserve provides this rate. The annual rate is calculated and applied for the 7 calendar days ending on Wednesday.

Undated Coupon Charge—Treasury charges a monetary undated coupon charge when a depositary fails to properly date-stamp an FTD coupon (Form 8109). (See IV TFM 1-2130.50.)

Zero-Dollar Entry—A zero-dollar entry is an ACH entry (zero-dollar amount) with payment-related remittance data. A taxpayer's financial institution must initiate a zero-dollar entry upon request of the taxpayer before initiating the first live-dollar ACH credit entry to the TGA.

Section 2025—Tax Collection Systems Overview

Financial institutions may process Federal tax payments using paper coupons or electronic entries. To process paper coupons, however, the financial institution must be an authorized TT&L depository.

2025.10—Paper Tax System (PATAX)

PATAX is used to facilitate the reporting and processing of FTD coupons. The depository completes an AOC summarizing the FTD coupons accepted that business day. It forwards the coupons and a copy of the AOC to the IRS and electronically submits the AOC information to the NCSA on the next business day. The NCSA will charge the depository's reserve account for the amount reported on the AOC upon receipt, if the depository is a Collector depository, and credit the TGA. For Retainer or Investor depositories, the FRB will credit the depository's TIP main account balance.

2025.20—Electronic Federal Tax Payment System (EFTPS)

The EFTPS requires a taxpayer to enroll with the TFA and select a tax

payment method. A taxpayer can make tax payments in EFTPS using an ACH debit or credit or a same-day FR-ETA transaction. The taxpayer can initiate an ACH debit through the assigned TFA. Or, the taxpayer can initiate an ACH credit or a same-day payment option through the financial institution of its choice. The TFA or financial institution must initiate ACH entries at least 1 business day before the intended settlement date. Financial institutions may initiate same-day payment options and settle them the same day through FR-ETA.

In outline form, the EFTPS payment options include:

1. ACH (future-day payment mechanism):
 - a. ACH debit entry.
 - b. ACH credit entry.
2. FR-ETA (same-day payment mechanism):
 - a. Fedwire® non-value transaction (Typecode 1090).
 - b. Fedwire® value transfer (Typecode 1000).
 - c. FedLine® taxpayer deposit application transactions.

Section 2030—Difference Between Financial Institutions and Depositories

2030.10—Financial Institution

A financial institution participates in the EFTPS by receiving an ACH debit entry or originating an ACH credit entry in payment of a Federal tax liability. It posts the entry to its customer's account. A financial institution also may originate a Fedwire® value transfer, Fedwire® non-value transaction or FedLine® taxpayer deposit application transaction for payment of a customer's Federal tax liability.

2030.20—Depository

A depository is a financial institution designated as a depository by the NCSA,

acting as Treasury's fiscal agent. A depository participates in the TT&L program by using any combination of the following:

- Paper Tax System (PATAX)—PATAX requires that a taxpayer present an FTD coupon and payment to a depository. The following business day, the depository must electronically submit the AOC to the NCSA. If the depository is a Retainer or Investor depository, NCSA credits the depository's TIP main account balance. For Collector depositories, the FRB charges the depository's reserve account for the amount of the payment and credits the TGA.
- Retainer or Investor Depository—A Retainer or Investor depository elects to participate in the TIP and is designated by the NCSA to do so. Designation as an Investor depository permits the depository to receive a portion of Treasury's excess operating cash for investment purposes, if the depository so elects. An Investor depository is not required to participate in PATAX or EFTPS. (See IV TFM 1-2325.60 for sources of investments.)

Section 2035—Classification of Depositories

A depository processing FTD coupons may choose to be designated as either a Retainer, Investor or Collector depository. A depository also may elect to participate in TIP as an Investor depository without processing EFTPS payments or FTD coupons.

2035.10—Investor and Retainer Depositories

Some depositories elect to participate in TIP as Investor depositories. This designation allows a depository to

receive a portion of Treasury's excess operating cash, which it may use for cash investment purposes. (See IV TFM 1-2325.60 for sources of investments.) Treasury invests its excess operating cash in open-ended, interest-bearing accounts maintained by the depository.

Retainer depositories retain the tax deposits they collect. They, too, may use the deposits for cash investment purposes.

The FRB classifies Retainer and Investor depositories as Class A, B or C. This classification depends on the depository's:

- Total FRB TT&L application deposits during the preceding calendar year.
- Deposit liabilities (both demand and time) as of September 30 of the previous year.
- Balance limit (the highest amount the depository is willing to accept).

2035.20—Collector Depository

The NCSA, after receiving the AOC, immediately withdraws funds equivalent to the FTD coupons credited by a Collector depository to its TT&L account. The FRB does not classify Collector depositories into different categories.

2035.30—Annual Reclassification

Annually, Treasury requests that the FRB report annual TT&L application deposit flows for individual depositories. Treasury uses this information to determine if the depository's previous year's classification will meet its cash-flow needs for the next year. The FRB reclassifies the depositories using Treasury's criteria (see paragraph 2035.10). Treasury may change classification criteria at any time.

Section 2040—Statements to Depositories and Financial Institutions

The NCSA issues statements to depositories and financial institutions for all activities under this chapter. Depositories or financial institutions must receive these statements electronically.

2040.10—Statements to Depositories

The NCSA issues electronic statements to appropriate depositories. These statements include interest earned by Treasury on TIP main account balances and the average daily balance of TIP main account balances for Retainer and Investor depositories. The statements include charges for late delivery or improper processing of AOCs as well as the number of calendar days each AOC was late, the daily interest factor applied and the late fee. NCSA makes available statements for TIP showing interest earned every Thursday. It provides PATAX statements, showing late charges, monthly on the Thursday following the end of the reporting cycle.

If appropriate, the NCSA issues a supplementary statement to depositories on or about the 10th business day of the month that includes charges for stale and undated FTD coupons. (See IV TFM 1-2135.) The statement shows:

- The AOC and FTD coupon dates.
- The number of calendar-day variances for stale-dated FTD coupons.
- The number of undated FTD coupons.
- The daily interest rate factor for stale-dated and undated FTD coupons.

TIP Statements

TIP activity statements are available throughout the day. The end of day

statement is sent between 7 p.m. e.t. and 9:30 p.m. e.t. This activity statement contains information about the day's electronic and paper tax deposits, Treasury investments and withdrawals, adjustments, collateral value, and interest charged.

The TIP main account activity statement for Retainer and Investor depositories includes:

- Account activity.
- Collateral balance status.
- TIP main account balance limit.
- Pending Treasury investments.
- Pending and future Treasury withdrawals.
- FR-ETA decrease adjustments.
- PATAX decrease adjustments.
- Weekly interest (Thursday only).
- Adjustment interest (Thursday only).
- Penalties and penalty abatements (Thursday only).

In addition to the TIP main account activity statement, an Investor depository with an SDI account balance will receive an SDI account TIP activity statement. This statement includes:

- Account activity.
- Collateral balance status.
- Pending and future Treasury withdrawals.
- Weekly interest (Thursday only).

TIP activity statements for Collector depositories include:

- Account activity.
- Collateral balance status.
- FR-ETA decrease adjustments.
- PATAX decrease adjustments.
- Adjustment interest (Thursday only).

- Penalties and penalty abatements (Thursday only).

PATAX Statements

PATAX statements include a daily deposit listing report, a daily collateral deficiency wire, a stale and undated charges report, a depository cycle statement and an AOC processing report. The PATAX daily deposit listing report includes:

- Depositor and customer American Bankers Association (ABA) number.
- Transmittal serial number (TSN).
- AOC date.
- Transaction amount.
- FTD count.
- Time sent to TIP.
- Batch number.

The PATAX daily collateral deficiency wire includes:

- Deficiency amount.
- In-transit amount.
- Excess collateral.
- Insurance amount.

The PATAX monthly stale and undated charges report includes:

- FTD detail.
- Total charges levied for stale-dated FTDs.
- Total charges denied for undated FTDs.
- Charges for undated FTDs.
- Total charges assessed.

The PATAX monthly depository cycle statement includes:

- Late AOC detail.
- Total late fee charge.
- Date change adjustments.

- Charge reversal for stale-dated FTDs.
- Charge reversal for undated FTDs.

The PATAX monthly AOC processing report includes:

- Details of AOCs entered by the financial institution.

- Adjustment log deposit information entered by the FRB.
- Any FRB-entered AOCs.
- Total deposits.
- Time AOC information sent to TIP.

2040.20—Statements to Financial Institutions

The NCSA issues statements to appropriate financial institutions in a timely manner. They include charges for late or improper processing of electronic tax payments.

Contacts

Direct inquiries concerning this chapter to:

Electronic Banking Services Division
Financial Management Service
Department of the Treasury
401 14th St., SW., Room 313
Washington, DC 20227
Telephone: 202-874-6580