

## Part 1—Chapter 2200

# FEDERAL TAX COLLECTIONS USING THE ELECTRONIC FEDERAL TAX PAYMENT SYSTEM

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This chapter guides financial institutions that process Federal tax collections using the Electronic Federal Tax Payment System (EFTPS).

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### Section 2210—Applicability

The Treasury Financial Manual (TFM) binds financial institutions that accept or originate Federal tax payments. Those institutions also are bound by applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations at Title 31 of the Code of Federal Regulations, Parts 203 and 380 (31 CFR 203 and 380). Users may access Volume IV on the Financial Management Service's (FMS') website at [www.fms.treas.gov/tfm/v4toc.html](http://www.fms.treas.gov/tfm/v4toc.html).

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### Section 2215—Authority

Title 31 CFR 203 and 380 govern:

- Financial institutions that process Federal tax payments electronically through EFTPS.
- Designation of Treasury Tax and Loan (TT&L) depositories for maintaining and administering TT&L accounts and/or Treasury Investment Program (TIP) main account balances and/or Special Direct Investment (SDI) account balances.
- Collateral security requirements.

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### Section 2220—Definitions

See IV TFM 1-2000 for definitions.

### Section 2225—EFTPS

EFTPS provides an electronic alternative to the Paper Tax System (PATAX). It also enables taxpayers to report Federal tax payments and deposits to the Government using electronic reporting methods. Using EFTPS, taxpayers may transfer their payments or deposits using electronic funds transfer (EFT) technologies.

#### 2225.10—Role of Financial Institutions and Depositories

Financial institutions and depositories have an integral role in the tax collection process. With EFTPS, a financial institution or depository chooses the extent to which it will service its customers' Federal tax payment needs.

Financial institutions and depositories may provide the following electronic services to meet their customers' Federal tax payment needs:

- Receive Automated Clearing House (ACH) debit entries and post the entries to the customer's account.
- Originate ACH credit entries, at the direction of its customers, to the Department of the Treasury's (Treasury's) account.
- Originate same-day payment transactions, at the direction of its customer, to Treasury's account.

For Internal Revenue Service (IRS) audit purposes, a taxpayer may seek proof of a timely funds transfer from its financial institution. If requested by the taxpayer, financial institutions must provide information such as:

- Transaction trace number,

OR

- Input message accountability data (IMAD) number.

To further assist customers, financial institutions should use the term "USATAXPYMT" or otherwise clearly identify EFTPS payments on customer account activity statements.

#### 2225.20—Role of Treasury's Financial Agents (TFAs)

TFAs do the following:

- Receive, verify and validate taxpayer enrollment data.
- Operate the ACH debit reporting mechanisms (touch-tone phone and personal computer).
- Provide taxpayers with an EFT number that identifies the payment record in EFTPS.
- Originate and deliver ACH debit files to the ACH operator.
- Receive ACH credit files from the ACH operator.
- Validate tax payment detail information and transmit it to the IRS.

- Balance and reconcile EFTPS transactions.
- Respond to taxpayer and financial institution questions through the EFTPS Customer Service Center.

### **2225.30—Role of the Federal Reserve Bank**

The FRB, as Treasury's fiscal agent, provides a same-day payment mechanism for the EFTPS. This is called the Federal Reserve-Electronic Tax Application (FR-ETA). FR-ETA uses the FRB funds transfer system and FedLine® taxpayer deposit application for same-day payments. The FRB does the following:

- Validates tax payment detail information and transmits it to the IRS via the TFAs.
- Assigns an EFT number to accepted transactions.
- Balances and reconciles transactions received.
- Responds to IRS, financial institution, depository and taxpayer inquiries regarding same-day tax transactions through the FR-ETA Customer Service Unit.

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### **Section 2230—EFTPS Enrollment Processing**

Treasury requires that all EFTPS taxpayers enroll with the TFA before making an electronic Federal tax payment via ACH debit or credit.

Taxpayers who change financial institutions or depositories, or who change their accounts within a financial institution or depository, must re-enroll with their TFA to use ACH debit. Do not use the EFTPS Confirmation Update form for account change notification.

### **2230.10—Enrollment Form Availability**

Taxpayers may obtain enrollment forms:

- By calling the TFA's EFTPS Customer Service Center.
- By calling 1-800-TAX-FORM (1-800-829-3676).
- By contacting their financial institution or depository.

Financial institutions may order large quantities of enrollment forms and instructions from the U.S. Government Printing Office (GPO) by calling 202-512-1800 and requesting item numbers 1996-405-503/41602 (enrollment forms) and 1996-615-016/54297 (instructions). They also may request these forms on GPO's website at [www.gpo.gov](http://www.gpo.gov).

GPO charges a fee for the enrollment forms and instructions. Financial institutions should contact GPO directly to obtain prices.

### **2230.20—Financial Institution and Depository Enrollment Responsibilities**

At the request of a taxpayer that selected ACH debit as a funds transfer method, a financial institution or depository must verify the accuracy of the financial institution's routing number and the taxpayer account number and account type indicated on the enrollment form. The taxpayer must ensure the completed enrollment form gets to the EFTPS enrollment processing center. The financial institution or depository may offer this delivery service to its customers.

### **2230.30—ACH Debit Prenotification Process**

The TFA originates a prenotification entry to the account indicated by the taxpayer on the enrollment form for

taxpayers that select ACH debit as their payment method.

Upon receipt of a prenotification entry, the financial institution or depository verifies the taxpayer's account number and account type. If the taxpayer's account number and account type are correct, the financial institution or depository takes no further action. However, if the account number and/or account type are incorrect, the financial institution or depository must initiate a return or notification of change (NOC) entry to Treasury's account within 6 banking days of receipt of the original prenotification entry.

Treasury may impose an interest assessment against a financial institution or depository that fails to respond to an incorrect prenotification entry. It assesses interest for the lost value of funds resulting from live ACH debit payments returned because of incorrect account numbers or account type information. Refer to Section 2250 for interest calculation information.

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### **Section 2235—Conditions for Making an EFTPS Payment**

A financial institution or depository may establish conditions the taxpayer must satisfy before it will effect the electronic tax transaction. For example, a financial institution or depository may specify a cutoff time for receipt of a customer's Federal tax payment instructions. If conditions are not satisfied, the financial institution or depository may return an ACH debit entry and/or refuse to originate an ACH credit entry or a same-day tax payment.

### **2235.10—Risk**

There are operating risks for financial institutions or depositories that process EFTPS payments and deposits using ACH credit and same-day payment and deposit methods. For example, Treasury may assess a financial institution or

depository interest for an incorrect ACH credit entry or same-day payment (see Section 2250). The financial institution or depository does not encounter these risks with ACH debit transactions. The financial institution or depository should establish guidelines consistent with the level of risk it is willing to assume.

### **2235.20—Guidelines**

A financial institution or depository should publish, or otherwise make available to its customers, the guidelines it uses when originating ACH credits and/or same-day Federal tax payments. At a minimum, these guidelines should identify the following:

- How taxpayers should deliver Federal tax payment instructions to the financial institution or depository for processing.
- When taxpayers must deliver the Federal tax payment instructions (daily cutoff times).
- How and when the financial institution or depository will notify the customer of the success or failure of the transactions.
- How and when the financial institution or depository will deliver the ACH transaction trace number, EFTPS EFT reference number and/or Fedwire® IMAD number to the customer.

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### **Section 2240—Electronic Future-Day Federal Tax Payment Mechanisms (ACH)**

EFTPS supports two future-day payment mechanisms: ACH debit and ACH credit. Any financial institution or depository capable of originating and/or receiving ACH transactions, itself or through a correspondent, may offer these services to its taxpaying customers.

### **2240.10—ACH Debit**

For ACH debit payments, the taxpayer or the taxpayer's agent reports the Federal tax payment information to the TFA using one of the available EFTPS reporting methods. The TFA conducts on-line, real-time editing and validation of the Federal tax payment information. It issues the taxpayer an acknowledgment or EFT number to confirm a timely deposit report. The TFA originates the ACH debit entry to the taxpayer's account 1 business day prior to the settlement date designated by the taxpayer.

#### ***ACH Debit Prenotification Instructions***

Refer to paragraph 2230.30 for ACH debit prenotification instructions.

#### ***Receiving Depository Financial Institution (RDFI) Responsibilities***

An RDFI does the following:

- Validates ACH entries.
- Returns unpostable entries in a timely manner.
- Originates NOC entries in a timely manner as appropriate.

An RDFI also uses an NOC when a merger results in changes to the financial institution's routing number and/or the customer account number or type of account.

ACH debit, through EFTPS, offers taxpayers a warehousing capability. Warehousing provides taxpayers the ability to schedule, as soon as the amount is known, future deposits or payments for settlement on the due dates. This feature eliminates the taxpayer burden of remembering to initiate a deposit 1 business day before the tax due date. Using this warehousing capability, business taxpayers may schedule a future-day settlement up to

120 calendar days in advance. Individual taxpayers may schedule a future-day settlement up to 365 calendar days in advance. Taxpayers are encouraged to use the warehousing capability of EFTPS whenever possible.

#### ***ACH Debit Corrections***

Consistent with standard ACH rules and guidelines, TFAs or RDFIs may take the following actions:

- Returns—An RDFI may return an ACH debit entry. It must originate the return in a timely manner and indicate the appropriate return reason code.
- Dishonored returns—The TFA may dishonor a return entry.
- Contested dishonored returns—The RDFI may originate contested dishonored return entries.
- ACH debit reversal—The TFA may reverse an ACH debit file or entry.

#### ***Tax Payment Identification***

The RDFI should identify Federal tax payments on a customer's statement. For example, the RDFI may use the term, "USATAXPYMT," available in field 7 (company entry description field) of the ACH company batch header record.

### **2240.20—ACH Credit**

For ACH credit payments, the taxpayer's financial institution originates an ACH credit entry to Treasury's account at the FRB. The ACH credit addenda record contains the Federal tax payment detail. The FRB transmits the payment detail to the TFA for validation and transmission to IRS.

### **ACH Credit Prenotification Process**

#### **(1) Zero-Dollar Entry with TXP Addenda Record or Prenotification Entry With TXP Addenda Record—**

At the taxpayer's request, a financial institution or depository originates either:

- A zero-dollar entry with TXP addenda record at least 2 business days prior to the live ACH credit entry;

OR

- A prenotification entry with TXP addenda record to Treasury's account at least 6 business days prior to origination of the first live ACH credit entry.

The TFA's account information is:

- RDFI: Federal Reserve Bank Chicago, IL; Routing transit number (RTN): 071036210; Account number: 04236036; Account name: Treasury General Account;

OR

- RDFI: Federal Reserve Bank Atlanta, GA; RTN: 061036000; Account number: 23401009; Account name: Treasury General Account.

Before originating the zero-dollar entry with TXP addenda record or prenotification entry with TXP addenda record, the financial institution or depository must obtain each taxpayer's correct TFA RTN and account number. Not all taxpayers are assigned to the same TFA.

The enrollment confirmation package informs taxpayers they have been assigned to a specific TFA. If a taxpayer does not receive the enrollment confirmation package, including the payment instruction booklet, the financial institution should refer the taxpayer to the EFTPS Customer Service Center.

- (2) Return of a Zero-Dollar or Prenotification Entry—**The TFA reviews all zero-dollar and prenotification entries. If the entries contain incorrect taxpayer information (for example, the TIN in the entry detail record is missing or invalid) or if the taxpayer is not enrolled in EFTPS, the TFA returns the entry to the originating depository financial institution (ODFI). The TFA must return the zero-dollar entry so it is available to the ODFI no later than the opening of business on the second business day following the settlement date of the original zero-dollar entry. The TFA must return the prenotification entry so it is available to the ODFI no later than opening of business on the sixth business day following the settlement date of the original prenotification entry.

The taxpayer's financial institution carefully reviews and makes any necessary corrections to the information before originating another zero-dollar or prenotification entry. The financial institution or depository may contact the appropriate EFTPS TFA help line for assistance. The TFA help line numbers for financial institutions, as of the date of this document, are: EFTPS Bank of America, 1-800-605-9876, and EFTPS BankOne, 1-800-945-7900.

- (3) Failure to Originate a Zero-Dollar or Prenotification Entry—**Treasury may assess interest to a financial institution or depository that fails to originate a zero-dollar or prenotification entry at a taxpayer's request, causing a future ACH credit entry(s) to be returned. Refer to Section 2250 for interest calculation information.

- (4) ODFI Responsibilities for Originating an EFTPS ACH Credit—**An ODFI must originate ACH credit entries at least 1 business day prior to the date the taxpayer requires the payment to settle. It originates the payment

using the cash concentration or disbursement ACH format with tax payment addenda record (CCD+TXP) banking convention to the appropriate Treasury RTN and account number.

- (5) Tax Payment Identification—**The ODFI should identify Federal tax payments on a customer's statement. For example, the ODFI may use the term, "USATAXPYMT," available in field 7 (company entry description field) of the ACH company batch header record.

- (6) ACH Credit Corrections—**Consistent with ACH rules and guidelines, the following ACH credit corrections are permitted:

- Reversals—An ODFI may initiate an ACH credit reversal for a duplicate or erroneous file or entry. A reversal of a Federal tax payment may subject the taxpayer to an IRS late payment penalty. Therefore, the ODFI should use caution when processing a reversal for a Federal tax payment. It does not need IRS approval prior to originating an ACH credit reversal.
- Returns—The TFA may return an ACH credit entry if it is unable to identify the entry as a Federal tax payment or if the TIN is invalid. A financial institution or depository must notify its customers in a timely manner of any failed transaction.
- Dishonored returns—The ODFI may dishonor an ACH credit return.
- Contested dishonored returns—The TFA may contest a dishonored return.

- (7) Notification of Change—**The TFA may originate NOC entries, when needed.

### **Section 2245—Electronic Same-Day Federal Tax Payment Mechanisms**

The FRB provides the following electronic same-day payment alternatives for the deposit and payment of Federal taxes:

- Fedwire® value (Typecode 1000) transfer.
- Fedwire® non-value (Typecode 1090) transaction.
- FedLine® taxpayer deposit application transaction.

Both the Fedwire® non-value and the FedLine® taxpayer deposit application have preformatted screens for entering taxpayer detail. They also contain built-in edits for editing tax information.

Financial institutions may obtain detailed information on format, reversal procedures, adjustments and interface with the investment program from the FRB's Electronic Payments Customer Support Staff or FR-ETA Customer Service Unit (1-800-382-0045).

#### **2245.10—Deadline for Transmission of Same-Day Federal Tax Payments**

A financial institution must send same-day Federal tax payments so that FR-ETA receives them no later than 5 p.m. eastern time (e.t.). FR-ETA will return deposits received after 5 p.m. to the originator. The taxpayer, financial institution or depository may be assessed a late fee for returned tax payments if it results in tax payments not made in a timely manner.

#### **2245.20—Fedwire® Value (Typecode 1000) Transfer Settlement**

Fedwire® value tax payments settle immediately in the Fedwire® system. It

debits the financial institution's reserve account and credits Treasury's account the day of the transfer. Fedwire® passes value information to TIP. TIP reinvests these monies with Investor and Retainer depositories.

#### **2245.30—Fedwire® Value (Typecode 1000) Transfer Format**

The Fedwire® value tax payment uses a specific format and a customer transfer (CTR) product code. Fedwire® value message fields 4200, "Beneficiary," and 6000, "Originator to Beneficiary Information," provide tax payment detail. Contact the FRB's Electronic Payments Customer Support Staff or the FR-ETA Customer Service Unit for detailed format information.

#### **2245.40—Fedwire® Non-Value (Typecode 1090) Transaction Settlement**

The FRB's TIP system settles Fedwire® non-value transactions throughout the business day. Contact the NCSA for further information. Contact the FRB's Electronic Payments Customer Support Staff or the FR-ETA Customer Service Unit for detailed format information.

#### ***TT&L Retainer or Investor Depository***

The FRB's TIP system will post Fedwire® non-value transactions for Retainer and Investor institutions with capacity. The transactions will post to the TIP main account on an hourly basis. The reserve/clearing account will be debited for Retainer/Investor financial institutions without capacity.

#### ***TT&L Collector Depository or Financial Institution***

By initiating a Fedwire® non-value tax payment, a financial institution or Collector depository authorizes the FRB

to debit its, or its designated TT&L correspondent's, reserve account for the amount of the tax payment.

#### **2245.50—Fedwire® Non-Value (Typecode 1090) Transaction Format**

The Fedwire® non-value tax payment uses a specific format and an IRS product code. Fedwire® message fields 4200, "Beneficiary," and 6000, "Originator to Beneficiary Information," provide tax payment detail.

Contact the FR-ETA Customer Support Unit for format information, including the format for processing bulk filer tax payments.

#### **2245.60—FedLine® Taxpayer Deposit Application Settlement**

The FedLine® taxpayer deposit application is an alternative payment method to the Fedwire® non-value transaction. A financial institution initiates a FedLine® taxpayer deposit transaction using the FRB's FedLine® taxpayer deposit application. FR-ETA passes this information hourly to TIP. The FRB's TIP system settles FedLine® taxpayer deposit transactions throughout the business day. NCSA can provide additional information. Contact the FR-ETA Customer Support Unit for taxpayer deposit application information. Contact the FRB's Electronic Access Department for FedLine® electronic access.

#### ***TT&L Retainer or Investor Depository***

The FRB's TIP system will post FedLine® taxpayer deposit transactions for Retainer and Investor institutions with capacity. The transactions will post to the TIP main account on an hourly basis. The reserve/clearing account will be debited for Retainer/Investor financial institutions without capacity.

### ***TT&L Collector Depository or Financial Institution***

By initiating a FedLine® taxpayer deposit transaction, a financial institution or Collector depository authorizes the NCSA to process the transaction through the TIP system and debit its, or its designated TT&L correspondent's, reserve account for the amount of the tax payment.

### **2245.70—FedLine® Taxpayer Deposit Application Format**

The FedLine® taxpayer deposit application provides preformatted screens for entering taxpayer detail. It contains built-in edits for editing tax information. Upon request, the FRB's Electronic Access Department will provide FedLine® software for this application to financial institutions and depositories.

The FedLine® taxpayer deposit application is separate from the FedLine® TT&L Application that depositories currently use to report Advices of Credit (AOCs) in PATAX.

### **2245.80—Correction of Erroneous Same-Day Federal Tax Payments by Financial Institutions and Depositories**

Contact the FR-ETA Customer Support Unit for reversal procedures.

#### ***Correction of Erroneous Entries Before the 5 p.m. e.t. Cutoff on Settlement Day***

A financial institution may correct erroneous same-day Federal tax payments by reversing the entire erroneous transaction and, if applicable, initiating a corrected transaction before 5 p.m. e.t. on the settlement date. The reversal must be for the total dollar amount of the original transaction.

Contact the FR-ETA Customer Support Unit for additional information.

- **Fedwire® Value Transaction**—If a financial institution requests a reversal of a Fedwire® value transaction before the 5 p.m. e.t. cutoff, FR-ETA will return the funds to the originating institution. If applicable, the financial institution should initiate a corrected Fedwire® value payment before the 5 p.m. e.t. cutoff.
- **Fedwire® Non-Value and FedLine® Taxpayer Deposit Application**—Upon receipt of the request to reverse a Fedwire® non-value or FedLine® taxpayer deposit application transaction, FR-ETA reverses the transaction, if received before the 5 p.m. e.t. cutoff. FR-ETA does not create accounting entries (as these are non-value) to effect settlement of reversed transactions. If applicable, the financial institution should initiate a corrected transaction before the 5 p.m. e.t. cutoff.

TIP statements contain original and reversed transactions. Financial institutions can reverse transactions up to 5 business days following the date of the original transaction. They should direct subsequent requests to IRS.

#### ***Correction of Erroneous Entries After 5 p.m. e.t. on Settlement Day***

Financial institutions direct requests for adjustments made the same day but after the 5 p.m. e.t. cutoff to NCSA as soon as possible. They should provide an explanation of the error and request an adjustment.

### **2245.90—Rejection of Same-Day Federal Tax Payment by the FRB**

The FRB may reject a same-day Federal tax payment for the following reasons:

- The payment was initiated after 5 p.m. e.t.
- The payment did not conform to edit and format requirements prescribed by IRS.

The IRS may return a same-day Federal tax payment because of an overpayment.

The financial institution or depository must notify its customers in a timely manner of a rejection or reversal that results in a deposit or payment not settling on the taxpayer's requested settlement date.

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### **Section 2250—Interest Assessment for the Improper Processing of Electronic Federal Tax Payments**

#### **2250.10—Computation and Basis of Penalties for Improper Processing of EFT Payments**

Treasury may charge a financial institution or depository for the value of delayed Federal tax payments. It may assess this charge if the taxpayer meets the financial institution's or depository's conditions for making an EFTPS deposit or payment (Sections 2230 and 2235), and the financial institution or depository fails to process the payment properly. Treasury assesses interest from the date the Federal tax payment should have settled to the Treasury General Account (TGA) to the date the payment actually settled to the TGA. Treasury assesses a financial institution or depository interest to recoup the earnings value of funds lost. It computes the penalty using the interest rate factor for penalties under EFTPS.

Treasury assesses interest from the day the taxpayer specified settlement to Treasury until receipt of the payment by Treasury. It determines the assessed interest by multiplying the total delay in 1-day funds for the cycle(s) by the daily interest rate factor for penalties (under EFTPS) for each week of the corresponding TT&L cycle(s).

The NCSA, at the direction of FMS, debits the financial institution's or depository's reserve account, or the account of its designated correspondent, for the amount of the penalty.

### **2250.20—Financial Institution and Depository Limitation of Liability**

Financial institution and depository liability is subject to the following limitations:

- Interest is limited to no more than 7 calendar days for ACH debit transactions.
- Interest is limited to no more than 45 calendar days for ACH credit and same-day transactions.

The limitation of liability applies only to any interest assessment in which there is unauthorized use, indication of fraud, presentment of a false claim, or misrepresentation or embezzlement on the part of the financial institution or depository, or any of its employees or agents.

### **2250.30—Unauthorized ACH Entries to the TGA**

A financial institution or depository must not originate an ACH entry that results in an unauthorized debit to the TGA.

### **2250.40—Computation and Basis of Charges for Unauthorized ACH Entries to the TGA**

A financial institution or depository that originates an unauthorized ACH entry to debit the TGA is liable for the amount of the transaction and charges. Treasury determines the interest charge by multiplying the amount of the unauthorized entry for each calendar day by the interest rate. It calculates the interest charge from the date the TGA was debited to the date the TGA was credited.

According to 31 CFR 210.8(b)(1) (Federal Government Participation in the Automated Clearing House), there is no limitation of liability, either time or amount, for unauthorized ACH entries to the TGA. This does not preclude any other sanctions.

The NCSA, at the direction of FMS, debits the financial institution's or depository's reserve account, or the account of its designated correspondent, for the amount of the charge.

### **2250.50—Appeal Process for Penalties**

A financial institution or depository may appeal any penalty or charge

imposed under Section 2250 by contacting the NCSA.

A financial institution or depository dissatisfied with an appeal decision from the NCSA may make a final appeal to FMS. FMS must receive the written final appeal no later than 90 calendar days following the date of the charge or assessment, or 90 days from the date the FRB declined the initial appeal. In its final appeal to FMS, the financial institution or depository must include appropriate and sufficient documentation to justify a reversal or reduction of the assessment or charge. Send the final appeal to the address listed in the Contacts page.

The Director of FMS' Electronic Banking Services Division will review appeals within 45 calendar days of receipt. FMS, however, may unilaterally extend the deadline for issuing a decision by providing the financial institution or depository with written notice of the extension that includes an anticipated final ruling date. FMS will advise the financial institution or depository, in writing, of the Director's ultimate decision—whether it is to uphold the assessment or charge, reverse the assessment or charge, or mandate another action. The Director's decision is final.

In the event of an over recovery or under recovery of the assessment or charge, Treasury will reimburse the financial institution or depository by instructing the FRB to credit or debit the reserve or clearing account of the financial institution or depository, or the account of its designated correspondent, as appropriate.

## **CONTACTS**

***Direct inquiries concerning this chapter and appeals for penalties 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