



FEDERAL RESERVE BANK
OF DALLAS

TONY J. SALVAGGIO
FIRST VICE PRESIDENT

December 18, 1995

DALLAS, TEXAS
75265-5906

Notice 95-121

TO: The Chief Operating Officer of
each financial institution in the
Eleventh Federal Reserve District

SUBJECT

Electronic Federal Tax Payment Program

DETAILS

The Department of the Treasury has prepared updated information for depository institutions regarding electronic Federal tax payments. Electronic Federal tax payments may have implications for numerous operational areas in your institution, e.g., Automated Clearinghouse, Funds Transfer, Treasury Tax and Loan, and Cash Management, as well as automation areas that support Fedline and Computer Interface connections to the Federal Reserve. We encourage your close review of this documentation and appropriate distribution to affected operational areas within your organization. If you use your head office or a correspondent to process transactions, please ensure they receive a copy of the Taxpayer Instructions for Submitting Electronic Same-Day Federal Tax Deposits.

ATTACHMENT

Attached is correspondence from the Department of the Treasury regarding electronic Federal tax payments.

MORE INFORMATION

For more information about the Electronic Federal Tax Payment Program, please contact Janie Worley at (214) 922-6761.

For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

December 1995

ELECTRONIC FEDERAL TAX PAYMENT PROGRAM

**Purpose of
Correspondence**

The purpose of this correspondence is to provide you with general information regarding the electronic Federal tax payment program to help you respond to possible customer inquiries. The correspondence:

- Discusses current and projected participation levels for the electronic Federal tax payment program.
- Reviews the issues associated with the transition from TAXLINK, Treasury's prototype electronic Federal tax payment system, to the Electronic Federal Tax Payment System (EFTPS).
- Reviews the impact of electronic Federal tax payments on the Treasury Tax and Loan (TT&L) investment program.
- Provides information regarding EFTPS education.
- Provides key contacts for electronic Federal tax payment information.

**Participation
Levels**

Participating Depository Institutions (DIs)--As of October 31, 1995, approximately 300 DIs nationwide had customers who were participating in the electronic Federal tax payment process.

As the number of participating taxpayers will be increasing significantly, the number of participating DIs will also increase. The projected level of taxpayer participation is provided in **Exhibit 1** to give you some appreciation for the potential magnitude of that participation. Many of these taxpayers may be turning to you for assistance in reporting tax payments.

Mandated Taxpayers--Internal Revenue Service (IRS) regulations mandate that all Federal tax deposits^{1/} be made electronically when the taxpayer's annual employment tax deposits exceed the dollar threshold for a specific "determination" period. The number of taxpayers, dollar thresholds, determination periods, and effective dates for the phase-in period from January 1, 1995, through January 1, 1999, are shown in **Exhibit 1**.

The one million taxpayers who must begin paying taxes electronically by January 1, 1997, will be notified by the IRS early in 1996, with instructions to enroll in the EFTPS. These taxpayers will be encouraged to enroll early and to begin paying taxes electronically prior to January 1, 1997.

Volunteer Taxpayers--Taxpayers may volunteer at any time to participate in the electronic Federal tax payments program prior to being mandated. Approximately 45,000 volunteer taxpayers are currently enrolled in TAXLINK.

**Taxpayer
Reporting and
Payment Methods**

In accordance with the IRS revenue procedures, business taxpayers must remit taxes to the IRS based on a schedule that is correlated to the amount of tax due. The tax due date and information availability will dictate whether a taxpayer will use a future-day or same-day tax reporting method.

Future-Day Tax Reporting Methods--Most business taxpayers will be able to report tax liability information to the designated Treasury Financial Agents (TFAs), First National Bank of Chicago and NationsBank, at least one day prior to the designated tax payment due date. The reporting and payment mechanisms available to these taxpayers are referred to as future-day mechanisms--mechanisms that support: 1) the reporting of tax information at least one day in advance of the tax payment due date; and 2) payment settlement on the designated tax payment due date. The primary payment mechanisms for future-day transactions will be ACH debit and ACH credit. Taxpayers using ACH debit will report through the TFA. Taxpayers using ACH credit will report through their DI.

^{1/} The mandate refers to the electronic reporting of Federal Tax Deposit (FTD) coupon detail, not the electronic reporting of Advice of Credit (AOC) information to Reserve Banks by DIs.

Same-Day Tax Reporting Methods--Some taxpayers are not able to report information one day prior to the tax payment due date. These taxpayers require mechanisms that allow for the reporting of tax information and the payment settlement to occur on the designated tax payment due date. These reporting and payment mechanisms are referred to as same-day mechanisms. The primary payment methods for same-day transactions will be the Federal Reserve Fedwire Funds Transfer value and non-value message formats, non-value Fedline Taxpayer Deposit (TD) Application, and Computer Interface (CI). Taxpayers needing same-day mechanisms will report through their DI. DIs are encouraged to explore the benefits of using the non-value applications. Contact your local Federal Reserve Bank's Treasury Tax and Loan (TT&L) area for more details.

**Transition from
TAXLINK to the
EFTPS**

TAXLINK is currently available nationwide for business taxpayers who are mandated or volunteer to remit electronic Federal tax payments. The EFTPS, TAXLINK's successor, is currently scheduled to become operational in April 1996. TAXLINK will remain operational until October 1996.

Effect on Taxpayer Enrollment--DIs and taxpayers should be aware of changes in enrollment requirements between TAXLINK and the EFTPS:

- **Up Until April**--Taxpayers enrolling for electronic Federal tax payments prior to April 1996 will enroll in TAXLINK (including taxpayers mandated January 1, 1996).
- **Effective April**--Effective April 1996, taxpayers will enroll in the EFTPS for electronic Federal tax payments.

All TAXLINK participants will be converted to the EFTPS during the period of July through September 1996. Notification and instructions on how to convert to the EFTPS will be provided to TAXLINK participants by the IRS.

- **TFA Assignments**--The EFTPS is operated by two TFAs with geographical boundaries established to accommodate taxpayer payment volumes. Taxpayers will be enrolled in the system based on where their Federal tax deposits are currently made (see **Exhibit 2**).

In most instances, enrollment will coincide with the taxpayer's geographical location but will actually be dictated by where the taxpayer banks. For example, a taxpayer located in Detroit who currently makes Federal tax deposits at a DI in Detroit will be enrolled in the EFTPS through First Chicago, whereas a taxpayer located in Detroit who currently makes Federal tax deposits at a DI in Dallas will be enrolled in the EFTPS through NationsBank.

Effect on Taxpayer ACH Tax Reporting--The Treasury's goal is to make the conversion from TAXLINK to the EFTPS as easy as possible; however, taxpayers and DIs should be aware of some key changes in reporting requirements:

- **ACH Debit**--Taxpayers participating in TAXLINK will receive either new PC debit origination software or voice response scripts with new toll-free numbers for tax payment reporting. This information will be provided to taxpayers by the TFAs prior to the conversion to the EFTPS.
- **ACH Credit**--Taxpayers participating in TAXLINK will receive a new CCD+ TXP Addenda Record format and a new Treasury Financial Agent routing number that must be used when making tax payments. There will also be some changes in the tax reporting information required for the EFTPS. This information will be provided to taxpayers by the TFAs prior to the conversion to the EFTPS. The taxpayer will be instructed to provide the reporting information to the DI in order to initiate tax payments.

Between April and October 1996, DIs may have some ACH credit customers who are enrolled in TAXLINK and some who are enrolled in the EFTPS.

Same-Day Tax Payment Mechanisms--The same-day tax payment mechanisms will **not** convert to the EFTPS environment until October 1996. Certain changes to the tax reporting elements will be required in the EFTPS for same-day reporting. These changes will be communicated to DIs in early 1996 (to become effective in October 1996).

**Treasury Tax and
Loan (TT&L)
Investment
Program**

DI Loss of Free Overnight Use of Funds--In the electronic Federal tax payment environment, all tax information must be received by the designated Agent in time to facilitate settlement on the tax payment due date. The free overnight use of funds by DIs is eliminated in the electronic tax environment.

Collateralization--Tax payments settled electronically do not require collateralization unless the funds are deposited to a TT&L note balance.

Tax Investments--With the implementation of the EFTPS, tax funds collected through the ACH will be invested in the DI's note balance, if the DI is a TT&L note option institution.

Each day, the TFA will provide each FRB TT&L a summary file of ACH tax activity by DI. If a DI is a note institution, the TT&L system will credit the DI's reserve account for the amount of taxes collected.

The investment credit will post at the same time as the ACH transaction. (The posting time for ACH transactions is expected to be 8:30 a.m. ET for credit files and 11:00 a.m. ET for debit files while the investment credit for fourth cycle ACH credit files may post to the DI's reserve account at 11:00 a.m. ET.) The dollars will also be posted to the DI's TT&L note balance.

Impact on Non-TT&L DIs--The Treasury is in the process of modifying regulations governing the collection of Federal taxes by non-TT&L DIs. Currently, non-TT&L DIs may only use the ACH and Fedwire value applications to submit Federal tax deposits.

Education

EFTPS Educational Information--The Department of the Treasury's Financial Management Service (FMS) conducted EFTPS Educational Workshops for DIs in 1995. Workshops were conducted in Atlanta, Boston, Chicago, Dallas, Los Angeles, Minneapolis, Philadelphia, and San Francisco. Approximately 600 DIs participated in the eight workshops. Post-workshop surveys completed by the participants indicated a favorable evaluation of the workshops.

The FMS will conduct additional Educational Workshops in 1996. The workshop dates will be announced at a later time.

An Electronic Federal Tax Payment handbook containing detailed electronic Federal tax payment information was distributed to all TT&L DIs in December 1994. The handbook is being revised and will be distributed to all DIs in early 1996.

DI Training Materials--The FMS is developing an EFTPS DI information kit that will be available in early 1996. The kit will include EFTPS instructional and marketing videos, EFTPS marketing materials (for example, statement inserts and brochures), and a detailed EFTPS instruction manual.

Questions

For questions about the electronic Federal tax payment program, please see **Key Contacts**, page 7.

Key Contacts

Questions about TAXLINK or the EFTPS can be directed to the FMS, IRS, or the TFAs. Telephone assistance is available Monday through Friday, 8:00 a.m. ET to 8:00 p.m. ET. Questions regarding the same-day reporting applications can be directed to your local FRB during normal operating hours.

Depository Institutions--Additional Information on TAXLINK or the EFTPS

- Contact the Financial Management Service

Walt Henderson	(202) 874-7454
Elizabeth Oldenburg	(202) 874-6835
Grace Testoff	(202) 874-6747
Deborah Pearson	(202) 874-9178
Mike Mackay	(202) 874-6892

- Contact the TFA EFTPS DI Helpline

NationsBank	(800) 605-9876
First Chicago	(800) 945-7900

- Questions or comments about the EFTPS may also be directed to the Treasury EFTPS Project Team through the Internet at the following address:

eftps.questions@fms.sprint.com

Depository Institutions--Additional Information on the Same-Day Reporting Methods (contact information is FRB District-unique)

- Contact The Federal Reserve Bank of Dallas

Ms. Janie Worley (214) 922-6761

Taxpayers--Additional Information on TAXLINK or the EFTPS

- Contact the IRS TAXLINK Helpline (800) 829-5469
- Contact the TFA TAXLINK Helpline (800) 332-4104
First National Bank of Maryland
- Contact the TFA EFTPS Taxpayer Helpline ^{2/}

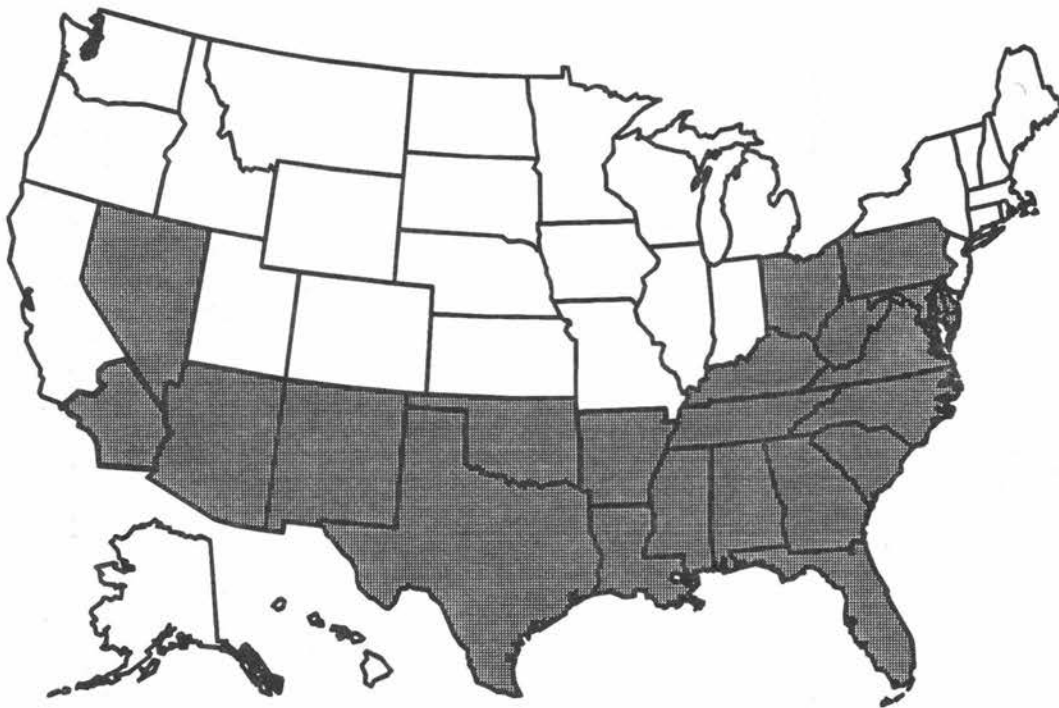
^{2/} First National Bank of Chicago and NationsBank. Contact numbers to be provided in early 1996.

Electronic Tax Payment

IRS Regulations on Mandated Taxpayers

<u>Number of Taxpayers</u>	<u>Threshold Amount</u>	<u>Determination Period</u>	<u>Effective Date</u>
800	\$78 Million	1/1/93-12/31/93	January 1, 1995
800	\$47 Million	1/1/93-12/31/93	January 1, 1996
	\$47 Million	1/1/94-12/31/94	January 1, 1996
1,000,000	\$50 Thousand	1/1/95-12/31/95	January 1, 1997
<Unknown>	\$50 Thousand	1/1/96-12/31/96	January 1, 1998
3,000,000	\$20 Thousand	1/1/97-12/31/97	January 1, 1999

**Taxpayer Split Between
EFTPS Financial Agents**



NationsBank - Shaded Area*

First Chicago - Unshaded Area

*California counties reporting to NationsBank include Los Angeles, Orange, San Diego, Imperial, Riverside, and San Bernardino