

EFTPS

ELECTRONIC FEDERAL TAX PAYMENT SYSTEM

Answers to the Most Commonly Asked Questions

THE QUESTIONS AND ANSWERS COVER:

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Businesses withhold or pay a variety of federal taxes, such as FICA, FUTA, and corporate income taxes. Businesses have historically been required to deposit these taxes in a government depository (e.g., a commercial bank or savings institution) and accompany each deposit with a paper coupon. The bank processes the coupon information and forwards it to the federal government.

Congress enacted section 6302(h) of the Internal Revenue Code in 1993 to require the IRS to implement an electronic funds transfer system to largely replace the paper coupon system. Congress wanted this system to be a simple, paperless way for taxpayers to make federal tax deposits — as easy as using a telephone for certain payment options. Treasury and the IRS complied with Congress' directive by developing the Electronic Federal Tax Payment System (EFTPS).

Section 6302(h) requires the IRS to phase-in EFTPS from 1994-1999 by collecting electronically a statutorily specified percentage of total business taxes in each year. To comply with section 6302(h), the IRS sent letters to approximately 1.2 million taxpayers in late June/early July to inform them of their obligation to begin making their federal tax deposits electronically by January 1997 and thus avoid penalty assessments for failing to use the system. Due to a recently enacted legislative change taxpayers now have until July 1, 1997, to learn about, enroll and begin using EFTPS. After July 1, 1997, penalties will be asserted if taxpayers fail to meet their electronic payment obligation.

The IRS is aware that many taxpayers have questions about EFTPS and their obligation to make federal tax deposits electronically. This fact sheet provides basic information on EFTPS and answers the most frequently asked questions. Taxpayers may also call special toll-free numbers for information on EFTPS enrollment and payments: 1-800-555-4477 and 1-800-945-8400 (taxpayers may call either one).

Questions and Answers on EFTPS

DESCRIPTION OF EFTPS

1.Q. What is EFTPS?

1.A. EFTPS is a system for initiating tax payments electronically. It is operated by First National Bank of Chicago and NationsBank on behalf of the Department of the Treasury. EFTPS continues the process of transforming the current paper based Federal Tax Deposit ("FTD") coupon system to a more efficient electronic system. EFTPS is thus a paperless system to make tax payments — it is not a paperless system for filing tax returns.

2.Q. What is a Treasury Financial Agent?

2.A. The Treasury Department contracted with NationsBank and First National Bank of Chicago to function as Treasury Financial Agents in managing EFTPS. The two

banks enroll taxpayers in EFTPS, provide customer service in the enrollment and payment processes, direct payments in a timely manner to the government account, and provide tax payment information to the IRS to update taxpayers' tax accounts.

3.Q. Has EFTPS been tested?

3.A. Yes. EFTPS has undergone extensive testing, including security testing, by the government and an independent contractor. For taxpayers choosing the ACH Debit payment option (described below), First National Bank of Chicago or NationsBank will do an additional test by sending a zero balance transaction through EFTPS before they even send a personal identification number to the taxpayer to ensure the system is working correctly for that taxpayer. A taxpayer should check to see if their bank will do this kind of test for an ACH Credit payment (described below).

4.Q. Does a taxpayer have to open a bank account with First National Bank of Chicago or NationsBank to use EFTPS?

4.A. No. NationsBank and First National Bank of Chicago never receive a taxpayer's tax deposits. Tax deposits flow directly from the taxpayer's bank account to the federal government's account.

5.Q. What federal tax deposits must a taxpayer make through EFTPS?

5.A. Taxpayers required to use EFTPS must make the same federal tax deposits through EFTPS that they would have made by using paper FTD coupons.

6.Q. What is the difference between TAXLINK and EFTPS?

6.A. TAXLINK is the currently operating system for the electronic deposits of federal taxes. Although only 1,500 businesses prior to January 1997 have been required to participate in TAXLINK, another 64,000 businesses have voluntarily enrolled because it provides a much improved and easier method for making tax deposits. EFTPS builds upon the advantages of TAXLINK but is capable of handling a significantly larger number of tax payments. EFTPS also incorporates many of the suggestions of taxpayers, practitioners, and private sector groups currently using TAXLINK. The IRS will assist TAXLINK participants to transfer gradually to EFTPS, since EFTPS will ultimately replace TAXLINK.

LEGISLATIVE ESTABLISHMENT OF ELECTRONIC DEPOSIT OBLIGATIONS

7.Q. Why does IRS require certain taxpayers to make their federal tax deposits electronically?

7.A. Section 6302(h) of the Internal Revenue Code requires the IRS to establish a system for taxpayers to make their federal tax deposits electronically rather than use paper FTD coupons. Section 6302(h) requires an increasing number of taxpayers to deposit their federal taxes electronically during the years 1994-1999.

Because of the legislative structure for this phase-in of deposits, there is a substantial increase in the number of taxpayers who must begin making deposits electronically in 1997.

8.Q. Why do certain taxpayers have to begin using EFTPS beginning in 1997?

8.A. To meet the phase-in requirements of section 6302(h), all taxpayers who had a yearly employment tax obligation of more than \$50,000 in 1995 are subject to the semi-weekly deposit rules and must begin making federal tax deposits electronically in July 1997.

9.Q. Are there any exemptions from enrollment in EFTPS in 1997 for taxpayers with a 1995 tax deposit obligation of more than \$50,000?

9.A. No. There are no exemptions for these taxpayers in 1997 or beyond.

EFTPS ENROLLMENT PROCESS

10.Q. How does a taxpayer enroll in EFTPS?

10.A. To enroll in EFTPS, a taxpayer must fill out an enrollment form (**Form 9779**) to use EFTPS and send the form to the address designated in the form's instructions. After processing, taxpayers will receive payment instructions and personal identification numbers to begin making payments.

11.Q. How does a taxpayer get an enrollment form?

11.A. The IRS sent letters, enrollment forms, and instructions in late June/early July to 1.2 million taxpayers who are required to enroll in EFTPS. Taxpayers may also receive enrollment forms by calling **either 1-800-555-4477 or 1-800-945-8400**.

12.Q. How long does it take to enroll in EFTPS?

12.A. It will take approximately 2-10 weeks after NationsBank and First National Bank of Chicago receive the enrollment form from the taxpayer to complete the enrollment process and send to the taxpayer a personal identification number and payment instructions.

13.Q. Will payroll processing companies enroll taxpayers in EFTPS?

13.A. Generally yes— but check with the payroll processing company. If a taxpayer's payroll processing company does not make all of the taxpayer's federal tax deposits, the taxpayer must enroll in EFTPS to make the remaining deposits.

14.Q. If a taxpayer does not understand the enrollment process, form or instructions, what should the taxpayer do?

14.A. The taxpayer should call **1-800-555-4477 or 1-800-945-8400 (either number)** — the same toll-free numbers listed on the enrollment form under "EFTPS Customer Service."

EFTPS PAYMENT OPTIONS: ACH CREDITS AND DEBITS**15.Q. What options are available to taxpayers to pay their taxes under EFTPS?**

15.A. The primary options are ACH Credits and ACH Debits. A taxpayer may choose either or both options and change his/her option choice at any time by contacting NationsBank or First National Bank of Chicago.

16.Q. What does ACH mean?

16.A. ACH means Automated Clearing House. ACH is the financial network run by the Federal Reserve to transfer funds electronically. ACH is widely used by the financial community to transfer funds, for example, for the direct deposits of wages and social security payments.

17.Q. How do taxpayers initiate payments using the ACH Debit option?

17.A. Taxpayers initiate payments using the ACH Debit option by instructing NationsBank or First National Bank of Chicago to institute an ACH Debit. The taxpayers' banks actually withdraw funds from their bank accounts for payment to the government's account. Taxpayers can instruct First National Bank of Chicago or NationsBank by calling the banks' toll-free numbers and either talking to a customer service representative or using the automated touchtone telephone system. Taxpayers can also use their personal computers to initiate payments (NationsBank or First National Bank of Chicago will send to the taxpayers Windows-based software if they want to use a personal computer).

18.Q. Are there safeguards to prevent parties other than the taxpayer, including the IRS, from initiating an ACH Debit from the taxpayer's bank account?

18.A. Yes. First National Bank of Chicago and NationsBank will institute a transaction with the taxpayer's bank only after receiving instructions from the taxpayer. The two banks will not initiate an ACH Debit without the taxpayer's identification number (TIN) and the taxpayer's personal identification number (PIN). Although the TIN identifies the proper taxpayer account for recording the tax information with the IRS, the IRS does not, and will not, have any of the EFTPS PIN numbers.

19.Q. How do taxpayers initiate payments using the ACH Credit option?

19.A. Taxpayers must first determine if their banks can initiate an ACH Credit. Taxpayers making a federal tax deposit using the ACH Credit option instruct their banks to withdraw funds from their bank accounts for payment to Treasury's account. Different banks may have different requirements for taxpayers to initiate a credit transaction (e.g., by telephone, personal computer, personal visit). Taxpayers must contact their banks to determine the bank's required procedure.

20.Q. How can a taxpayer verify to the IRS that a payment was made through either an ACH Debit or an ACH Credit?

20.A. The IRS will accept as proof of payment a copy of the taxpayer's bank statement or other bank records that (1) identifies the U.S. government as the payee, (2) shows a withdrawal from an account with a sufficient level of funds to cover the taxpayer's deposit, and (3) that the payment had not been reversed or returned.

21.Q. How can taxpayers establish that a federal tax deposit was timely initiated to avoid penalties if they use ACH Debit or Credit?

21.A. Taxpayers can establish that a federal tax deposit was timely initiated by using the records of either their bank or the Treasury Financial Agent and/or the taxpayers' books and records to establish that they timely initiated an ACH Debit or Credit (this would include the acknowledgment number from a Treasury Financial Agent). The records must show that the taxpayer had sufficient funds to pay the applicable tax.

22.Q. What fees must a taxpayer pay to use EFTPS?

22.A. Neither the IRS nor the Treasury's Financial Agents charge fees for either ACH Credits or Debits. Depending upon the taxpayer's banking arrangements, a taxpayer's bank may charge a fee for ACH Debit and Credit transactions. Taxpayers should consult their banks to determine what fees may be charged.

23.Q. Are there payment options for EFTPS taxpayers other than ACH Credits and Debits?

23.A. Yes. While ACH will generally be the payment mechanism for all EFTPS payments, in some instances a business may find it necessary to make a wire payment from their bank on the deposit due date. Further information on the use of these wire payments will be provided in the taxpayer's enrollment confirmation package.

SMALL BUSINESSES AND EFTPS

24.Q. Did the IRS try to exclude the smallest businesses from being required to enroll in EFTPS?

24.A. Yes. The EFTPS phase-in is designed to exclude businesses with the smallest payrolls. For example, only 1.2 million employers of a total 5.2 million employers with federal employment tax liabilities must use EFTPS beginning in 1997.

25.Q. Does a small business have to buy new equipment to use EFTPS?

25.A. No. If a small business chooses the ACH Debit option, the taxpayer can initiate a payment with even a rotary phone by calling a toll-free number at First National Bank of Chicago or NationsBank to talk to a customer service representative. The taxpayer can also use a toll-free automated touchtone telephone system or their personal computer (NationsBank or First National Bank of Chicago will send to the taxpayer Windows-based software if a taxpayer wants to use a personal computer).

26.Q. Do any small businesses voluntarily use TAXLINK to make federal tax deposits?

26.A. Yes. In fact, TAXLINK customer service surveys show that small businesses are strongly in favor of TAXLINK, because they no longer have to interrupt their business to rush to the bank with their paper coupons to make tax deposits. EFTPS is even easier to use than TAXLINK.

WHERE TO CALL FOR ADDITIONAL HELP

First National Bank of Chicago and NationsBank provide EFTPS customer service lines to answer taxpayer questions on the enrollment and payment processes. You can call either bank for information.

First National Bank of Chicago: 1-800-945-8400

NationsBank: 1-800-555-4477

