Part 1—Chapter 2100

FEDERAL TAX COLLECTIONS USING THE PAPER TAX SYSTEM

This chapter guides depositaries that process Federal tax collections using the Paper Tax System (PATAX).

Section 2110—Applicability

Volume IV of the Treasury Financial Manual (TFM) binds financial institutions designated as depositaries. They also are bound by applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations to 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.**

Section 2115—Authority

Title 31 CFR 203 and 380 govern designation of Treasury Tax and Loan (TT&L) depositaries that maintain and administer TT&L accounts and/or Treasury Investment Program (TIP) main account balances and/or Special Direct Investment (SDI) account balances.

Section 2120—Definitions

See IV TFM 1-2000 for definitions.

Section 2125—Accepting, Dating, Forwarding and Adjustment Procedures for Federal Tax Deposits (FTDs)

2125.10—General

Depositaries must pledge collateral before crediting FTDs to their TT&L account if the FTDs bring the account balance higher than recognized insurance coverage.

Each depositary has an established cutoff time for its business day. The depositary includes items or deposits received after that time with the next business day's work and records them with that date for accounting purposes. The procedures for accepting, processing and forwarding FTDs follow:

- A depositary's cutoff time for FTD deposits must coincide with its normal business day cutoff, provided it is not earlier than 2 p.m. local time. For example, if a depositary's normal business day cutoff is 4 p.m., it must accept FTDs until 4 p.m. Depositaries must date FTD coupons with the current date and report the coupons under an Advice of Credit (AOC) dated the same business day. In this example, this depositary should consider FTD coupons accepted after 4 p.m. as part of the next business day's work. Therefore, those coupons should carry the next business day's date and depositaries must include them in the AOC for the next business day. The depositary should not deduct such FTD coupons from the customer's account nor credit them to the TT&L account until the next day.
- If a depositary's normal business day ends before 2 p.m., it must continue to accept FTD coupons until 2 p.m. These coupons should carry the current date and depositaries must include them in that day's AOC.
- The depositary must ensure the same date appears on each FTD coupon and its supporting AOC.
- If a depositary is open on Saturday but uses the following business day as its accounting date, the depositary may date FTD coupons with Saturday's date only if it forwards AOCs the same day. Otherwise, the depositary dates the FTD coupons as of its next business day and includes them in that business day's AOC.

2125.15—Forms of Payment

A depositary must accept tax payments in the form of:

- Cash.
- Postal money order drawn to the order of the depositary.

OR

- A check or draft drawn on and to the order of the depositary with presentment of the FTD coupon.

A depositary may accept other forms of payment at its discretion, but it must absorb any float involved. When accepting FTD coupons, either over the counter or through the mail, a depositary must date-stamp these payments on the business date received. When requested, a depositary must issue a receipt to taxpayers that make FTD payments.

2125.20—Acceptance

A depositary that accepts FTD coupons must accept them from all customers or taxpayers that meet the standards set in Section 2125.

2125.25—Corrected, Blank or Photocopied FTD Coupons

A depositary that accepts FTD coupons also must accept taxpayer-corrected FTDs as well as Form 8109-B, a legitimate substitute. A depositary, however, cannot accept photocopied FTD coupons. It should instruct taxpayers with photocopied FTD coupons, or no coupons at all, to obtain Form 8109-B from the local Internal Revenue Service (IRS) office.

2125.30—Magnetic Ink Character Recognition (MICR) Encoding FTD Coupons

Treasury encourages depositaries to use MICR encoding to record the amount of deposit on each FTD coupon. Encoding not only can benefit the depositary's internal processing, but it can reduce the volume of IRS-requested adjustments. Depositaries must ensure that the encoded information appears in the bottom right-hand corner of the FTD coupon and nowhere else. Do not use check endorsers or similar devices on FTD coupons.

2125.35—Completion and Distribution of Treasury Form 2284: Advice of Credit

Each business day, depositaries consolidate all FTD coupons with that day's date. Depositaries calculate the sum of the coupons and indicate their amount on the AOC. The depositary sends this AOC to the IRS with a machine listing of FTD amounts. Depositaries must maintain records that identify each FTD coupon and its associated AOC.

To accelerate the classification of Federal tax deposits and reduce the number of IRS requested adjustments to depositary accounts, depositaries should include no more than 100 FTD coupons per AOC.

(1) **Depositary Copy—**A depositary retains this copy of the AOC for its records. It must not release any taxpayer information, including name, deposit amount or taxpayer identification number, to anyone other than the IRS or FRB. Disclosure of this information violates statutory provisions of the tax disclosure laws.

(2) **IRS Copy—**Immediately after completing its AOC, a depositary must send the IRS copy of the AOC with the corresponding FTD coupons to its IRS service center. The IRS prefers that depositaries send these via priority mail so the IRS can classify customers' tax deposits promptly.

In addition, depositaries must send AOC data electronically to the FRB National Customer Service Area (NCSA) by 5 p.m. eastern time (e.t.) the following business day.

2125.40—Ordering AOC Forms

When the supply of AOC forms reaches the 60-workday level, the depositary should order more from the FTD coordinator at the local IRS service center. After receiving the new forms, the depositary should ensure that its name and American Bankers Association (ABA) number are correct on all AOCs. Depositaries should report discrepancies to the FTD coordinator at the local IRS service center.

Depositaries must use AOCs sequentially and must not submit photocopies. If the depositary has run out, or nearly run out, of AOCs, it should contact the NCSA for special instructions.

2125.45—Record Keeping

A depositary must establish an adequate record of all Federal tax deposits to identify them if FTD coupons are lost in shipment. At a minimum, the record should show:

- Employer identification number.
- Amount of deposit.
- Date of deposit.
- Tax period ending date.
- Type of tax deposited.
- Employer name.

The depositary may use its AOC copy if it shows the above information and lists each deposit separately. Depositaries are strongly encouraged to photocopy FTD coupons, among other things, for use in contesting charges for stale and undated FTD coupons.

Depositaries must retain records of FTD coupons and associated AOCs for 36 months from the business day accepted and/or presented.

2125.50—Missing FTD Coupons

A depositary may need to reconstruct data on FTD coupons it has mailed to the IRS service center if the IRS cannot locate the coupons. For this reason, a depositary must retain the records shown in paragraph 2125.45 for the required 36 months. In most instances the IRS, working with the FRB, is the first to discover missing FTD coupons and subsequently notifies the depositary. If the depositary is the first to discover that the FTD coupons are missing, it must reconstruct the lost shipment and contact NCSA as soon as possible.

2125.55—Use of the TT&L Account

A TT&L depositary credits FTD coupons to its TT&L account on the business date of receipt and ensures there is sufficient insurance coverage and/or collateral. No other accounting method is acceptable.

2125.60—Adjustments

A depositary must reconcile total taxpayer remittances and amounts encoded on FTD coupons to the amount on the supporting AOC. It must properly deliver the required documents electronically to the NCSA and properly route them to the IRS (see paragraph 2125.35). A depositary also must reconcile statements promptly.

If an AOC is overstated or understated, the adjustment requires that interest on the understated or overstated amount is paid to the depositary or Treasury, whichever was denied the use of funds, except as noted in paragraphs 2125.65 or 2125.70. If the adjustment process is delayed, or adjustments are made in error and must be reversed, interest continues to accrue. The interest rate applied is the TT&L interest rate factor. These procedures maintain the "exchange of value" concept on which the adjustment principles are based. NCSA applies these adjustment principles uniformly systemwide to all depositaries. For charges against depositaries, the NCSA may not exercise discretion in waiving or reducing the resultant interest. Frequent or large overstatements may result in elimination of the interest payment.

2125.65—Payments Made in Error

If a customer or its agent requests a partial or total FTD refund from a depositary because of an overpayment or a payment made in error, the depositary should advise the customer to contact the IRS.

2125.70—Uncollectible Checks and Requests for Refunds

Each depositary must contact the taxpayer to obtain restitution for an uncollectible check, whether the check was drawn on that depositary or another financial institution. If the depositary is unsuccessful, it requests a reversal from the NCSA. The depositary must support the request for a reversal with clear and sufficient documentation. The NCSA requires the following information to process the adjustment:

- A copy of the check, front and back, with the reason it failed to clear.
- A statement of collection efforts made.
- The taxpayer's identification number.
- The AOC identification number.

Section 2130—Charges for the Improper Processing of Federal Tax Deposits

2130.10—General

A depositary must:

- Stamp the date it received the tax deposit and its name and location in the space provided on the face of the FTD coupon.
- Credit all Federal tax deposits to the TT&L account on the date of receipt, ensuring sufficient insurance coverage and/or collateral exist.
- Deliver the AOC electronically to the NCSA by 5 p.m. e.t. on the business day following the day the depositary received the deposits supporting the AOC.

2130.20—Description and Effect of Delayed Processing

Treasury charges a depositary for the value of delayed funds and imposes a penalty. It computes the charge from the date the NCSA should have received the AOC supporting the FTD coupon(s) until the date the NCSA receives the deposit.

Under the TIP, the NCSA computes interest from the first business day after the depositary presents the FTD coupon. If a depositary receives an FTD coupon but the NCSA does not receive the AOC supporting that deposit in a timely manner, the Government loses the earnings value of that deposit for the number of calendar days it does not have use of the funds. The NCSA imposes the following charges to ensure proper processing of FTDs:

- Late fees.
- Stale-dated FTD coupon charges.
- Undated FTD coupon charges.
- Penalties.

2130.30—Computation of and Basis for Stale-Dated FTD Coupon Charges

The FRB assesses a stale-dated coupon charge to any depositary that sends the IRS a coupon with an earlier date stamp than the supporting AOC. It determines charges by multiplying the total delay in 1-day funds for the cycle(s) by the daily interest rate factor for stale-dated FTD coupons for the corresponding TT&L reporting cycle(s).

The FRB issues a monthly statement electronically on or about the 10th business day of each month (see IV TFM 1-2040) detailing the charges and the basis for its computation. On the 13th business day of each month, the FRB debits the depositary's, or the designated correspondent's, reserve or clearing account for stale-dated FTD coupons.

2130.40—Appeal Process for Stale-Dated FTD Coupon Charges

A depositary may appeal a stale-dated charge by submitting a written request for an adjustment of the charge to the NCSA. The NCSA must receive the request no later than 90 calendar days following the date of the charge. The depositary must include copies of the FTD coupons and the AOC. It also must adequately describe the circumstances that warrant a reversal of a charge. The depositary should not contact the IRS service center for copies of stale-dated FTD coupons. The IRS service center refers all inquiries to the NCSA.

2130.50—Computation of and Basis for Undated FTD Coupon Charges

The FRB levies a charge against any depositary that fails to date-stamp an FTD coupon. It determines the monthly charges by multiplying the dollar amount of the undated FTD coupons for the cycle(s) by the interest rate factor for undated FTD coupons for the corresponding TT&L reporting cycle(s). The FRB assesses the charge for 2 calendar days.

The FRB issues a monthly statement electronically on or about the 10th business day of each month (see IV TFM 1-2040) detailing the charges and the basis for its computation. On the 13th business day of each month, the FRB debits the depositary's, or the designated correspondent's, reserve or clearing account for undated FTD coupons.

2130.60—Appeal Process for Undated FTD Coupon Charges

A depositary may appeal an undated charge by submitting a written request for a charge adjustment to the NCSA. The FRB assesses a $25 administrative charge for each coupon appeal NCSA rejects.

The NCSA must receive an appeal no later than 90 calendar days after the date of the charge. A depositary should not contact the IRS service center for copies of undated FTD coupons. The IRS service center will refer all inquiries to the NCSA. The NCSA determines if the undated FTD coupons were processed in a timely manner with no delay of funds to Treasury.

If a depositary appeals the undated charges, and the NCSA determines that there was no delay in funds to Treasury, the NCSA will reverse the undated charge.

If the NCSA finds that the depositary properly dated the FTD coupon, it will reverse the undated coupon charge and it will not assess the $25 administrative charge.

If a depositary fails to date a large number of coupons, it should consider appealing only coupons that carry a charge greater than the $25 administrative charge. Contact the NCSA to discuss this procedure.

2130.70—Computation of and Basis for Penalties

A taxpayer penalized by the IRS for late payment of taxes may provide the IRS with proof that the taxpayer deposited the payment in a timely manner. If the taxpayer can prove the depositary received the payment on time, the IRS will cancel the taxpayer's penalty. In those cases, FMS will charge the depositary for delayed processing. The NCSA will advise the depositary of the charge no later than 1 business day before its account is debited. The NCSA will debit the depositary's, or the designated correspondent's, reserve or clearing account for the penalty.

The NCSA calculates the charge by multiplying the total dollar amount of the taxpayer's FTD coupon by the number of calendar days delayed. It then multiplies this amount by the interest rate factor for penalties for the corresponding TT&L reporting cycle(s).

2130.80—Appeal Process for Penalties

A depositary may appeal any penalty by submitting a written request for a charge adjustment to FMS. FMS must receive the request no later than 90 calendar days after the date of the charge. Send the appeal to the address listed in the Contacts page.

The Director, Electronic Banking Services Division, FMS, reviews the appeal within 45 calendar days of receipt and may unilaterally extend the deadline for issuing a decision. FMS advises the depositary, in writing, of the Director's decision. The Director may uphold the charge, reverse the charge or mandate another action. The Director's decision is final.

For an over recovery or under recovery of the charge, Treasury will either reimburse the depositary's account or instruct the FRB St. Louis to credit or debit the reserve or clearing account of the depositary or its designated correspondent's account, as appropriate.

Section 2135—Computation and Collection of FTD Late Fees

A depositary must ensure the NCSA receives the AOC by 5 p.m. e.t. on the business day following the day it received the deposits supporting the AOC. If the NCSA does not receive the AOC by that time, it charges the depositary a late fee.

The NCSA determines the amount of the late fee by multiplying the total dollar amount of the late AOCs by the daily interest rate factor for late AOCs for the period that the AOCs were late. On the second business day after the close of a TT&L reporting cycle, the NCSA collects late fees due Treasury through the depositary's, or the designated correspondent's, reserve or clearing account. The NCSA includes this information in its monthly statement (see IV TFM 1-2040).

Section 2140—Temporary Secondary TT&L Accounts Due to a Merger

The FRB maintains secondary TT&L accounts for TT&L depositaries according to instructions and guidelines in this volume. However, authorized insurance coverage does not apply to the secondary TT&L account. The depositary must collateralize 100 percent of the secondary TT&L account and TIP main account balances with acceptable collateral (see IV TFM 1-2355).

Unless specifically requested otherwise by the NCSA, the surviving TT&L depositary may maintain the nonsurvivor's TT&L account for up to 12 months after the effective date of the merger. The surviving TT&L depositary may do this without its parent, or head office, completing the necessary forms for the nonsurvivor, if the parent institution has completed the necessary forms on its own behalf.

Contacts

Direct inquiries concerning this chapter and appeals for penalties to:

Federal Finance
Financial Management Service
Department of the Treasury
401 14th St., SW.
Washington, DC 20227
Telephone:
202-874-6892 (Tax Collections)
202-874-7150 (Investments)