

# **Non-Federal Tax Payment Data and Format Changes: Improving Communications for Businesses and Banks**

**DRAFT**

**November 7, 2008**



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## 1. Background

Many businesses pay non-federal tax payments (e.g., state, local, and municipality) electronically through bank provided services. Banks and non-banks (collectively referred to as “service providers”) offer business taxpayers a wide range of ACH credit payment initiation services, which must conform to the agency format requirements in order to be successfully processed and applied to the taxpayer account at the agency. In general, these service providers hard-code the account number, transit-routing number, addenda and other information to properly route the payments, based on the tax agency formatting requirements.

When non-federal tax authorities make ACH format changes for electronic tax payments (e.g., routing/account number changes, adding new tax types), they communicate the changes only to the businesses, typically by US mail. The service providers are not notified directly by the tax agencies. Instead, service providers typically find out about a change when taxpayers contact the service providers with questions or other issues.

The lack of communication between tax authorities and service providers regarding the payment format changes creates inefficiencies and risk.

- Tax payments may be misrouted until the service provider can make the change. Late fees and penalties may arise causing disputes and negative customer relations between the business taxpayer and service provider.
- Taxpayers will contact the service providers requesting clarification resulting in multiple phone calls to determine whether the change has been made to affect tax payments.

There are a number of areas in which the communications between the tax authorities and various stakeholders could be enhanced, including:

- Establishing direct communications with service providers;
- Expanding communications media using email; and
- Establishing a standard lead time prior to the effective date of the changes to allow service providers to make the changes.

## 2. Process for Developing a Solution

NACHA’s Council for Electronic Billing and Payment convened a workgroup to further articulate this issue, and to explore potential solutions for improving communications between non-federal tax agencies, businesses, and banks regarding data and format changes. The purpose is to develop a business case to support an improved communications process between non-federal tax agencies and service providers that will:

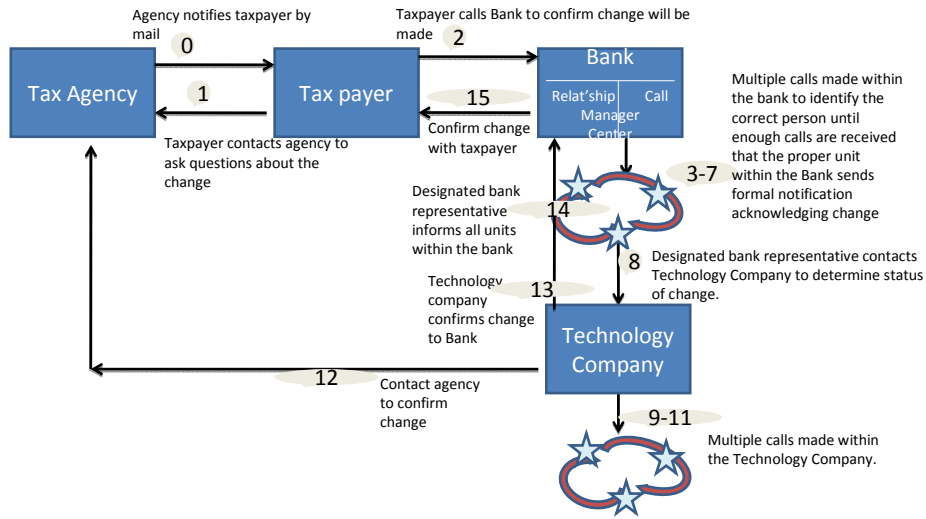
- Minimize returns and exception processing support for tax agencies, along with related costs.
- Minimize customer support impact on and negative taxpayer perception of service providers.
- Ensure agencies capture tax payment dollars on a timely basis and as per expectations.

### 3. Process Flows

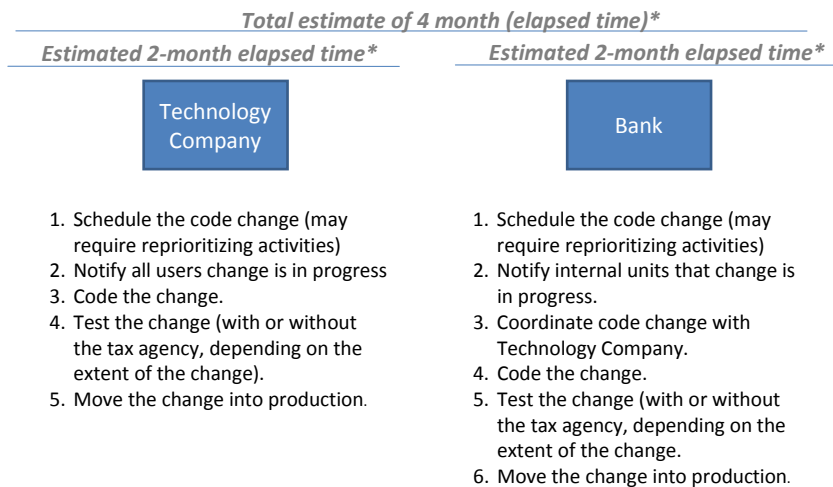
The following charts describe the:

1. State tax authority notification process for changing requirements
2. Service provider process for making changes.
3. Potential consequences for not providing timely changes.

#### Behind the Scenes: Notification

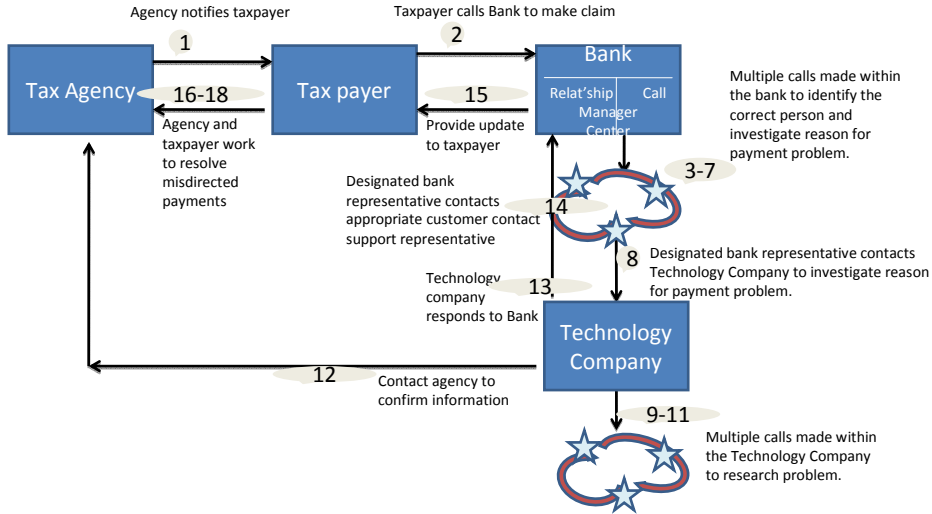


#### Behind the Scenes: Making the Change



*\*Excludes "holiday freeze" periods*

Behind the Scenes:  
Change Not Made on Time or Incorrect Change Made



#### 4. Defining Stakeholder Impact

This section describes the impact to stakeholders due to the lack of timely information communicated to service providers regarding non-federal tax authority requirement changes.

	<b>NOTIFICATION METRICS</b>	<b>Source</b>	<b>Estimates</b>
1	Number of business tax payers paying non-federal taxes (electronically)		
2	Percentage of businesses that originate payments electronically through service providers		
3	Number of tax authorities		FDR – estimates 2,000 different “applications” ACI – 150 state tax applications – and multiple tax types within each (many county/local are contained in the state, but more are becoming separate applications)
4	Number of service providers	FDR ACI	
5	Average number of changes per month- States: Cities: Counties: Municipalities		ACI and FDR reported 4 – 5 changes/month
6	Number of bank clients bank providers have		
7	Average number of calls/emails/other follow ups per inquiry (include all contacts between business customer, bank, service provider, and tax authority- States: Cities: Counties: Municipalities:		FDR reports est 500 calls/emails from taxpayers  ACI may have about the same number  Bank product managers receive 20 – 50 calls/change (Biloz, Lambert)
8	Cost impact per: a) call and b) email		Estimate an average of \$30/call/email (JSW)
9	Number of calls the tax authority receives per change	FTA?	
10	Number of payments that are potentially affected by the requirement change		
11	Cost to banks to receive “unscheduled” changes from their vendors		

12	Cost to technology companies to receive “unscheduled” changes		
13	Intangible costs - Relationship costs (taxpayer anxiety when call made to bank and unable to respond on a timely basis)		
14	Average time service providers require to implement a change		ACI – 4 weeks (then banks customers need time to test) FDR could take 5 months (including bank customers making necessary changes) – would like 3 months lead time
15	Average time banks require to implement a change		

	<b>LATE PAYMENT METRICS</b>	<b>Source</b>	<b>Estimates</b>
A	Number of late payments that are caused by a requirement change		
B	Average tax payment		
C	Cost impact of late payment (time/value of funds for tax authority, penalty for business)		
D			
E			
F			
G			
H			
I			

## **5. Potential Solutions**

Descriptions and costs to be developed – draft ideas identified in the following chart.

### Exhibit 1 – Potential Solutions

<b>Status</b>	<b>Potential Solution</b>	<b>Approach</b>	<b>Benefits</b>	<b>Considerations/Other</b>	<b>Business Case</b>
?	Email –Groups	Start with State contacts only. Organizations would be responsible for registering. States provide update and then everyone is notified. NACHA notifies membership that they can enroll in this “group” notification		Address coordination, providing quality control and maintenance  Confirm there are no security issues	
?	Email – NACHA Outbound messages	NACHA notifies membership that they can receive timely notification of tax changes. FTA notifies NACHA of changes. NACHA sends emails using distribution list		Address coordination, providing quality control and maintenance	
?	Email – FTA outbound messages	NACHA notifies membership that they can receive timely notification of tax changes via FTA. Stakeholders register with FTA for outbound messages.	Potential to add expand to other services	Address coordination, providing quality control and maintenance  Limited to State payments only	
?	SecureLink from Federal Reserve			Can the Fed reach corporations?	
No	NACHA – Notification of Change			Stakeholders need lead time	
?	FTA Website		Potential to expand to provide other services (e.g., self-service testing).	Address coordination, providing quality control and maintenance	

				Limited to State payments only, which is only a partial solution	
?	Independent hosted website		Potential to expand to provide other services (e.g., self-service testing).	Address coordination, providing quality control and maintenance  Full solution for all non-Federal tax agencies	