

My questions only consider transactions that DOR initiates (refunds to taxpayers via ACH Credit, and ACH debits for tax payments).

Fields 3, 4, 5 and 6 in the Fifth IAT Addenda Record identify the Receiving DFI, and my question is this, Is this the domestic DFI that we are actually transacting with or is this the truly foreign DFI the taxpayer will subsequently move the funds to/previously transferred the funds from?

**The answer to your question below is - it could be either the domestic RDFI OR a foreign financial institution - depending on the services your ODFI offers.**

- 1. If the ODFI offers their customers a service to originate international ACH transactions to foreign countries, the Fifth IAT Addenda record would contain the information on the foreign financial institution that holds the account of the beneficiary. Or, if you know the ACH transaction you are originating is going out of the country once it reaches the US RDFI and you have the information on the foreign FI the Fifth Addenda Record would contain the information on the foreign FI.**
- 2. If, on the other hand, you know that ACH transaction is going out of the country but do not have the information on the foreign FI - the Fifth Addenda Record could be populated with the information on the US RDFI. In this situation the Receiver of the ACH transaction has a relationship with the RDFI and has provided them with the information on the foreign FI. The originator of the ACH transaction would still need to format this as an IAT because they are aware that the transaction is going out of the US.**

**QUESTIONS SUBMITTED FOR WEBINAR  
AUGUST 13, 2009**

- A. Oregon would like to know if direct deposits for delinquent filings has been addressed. How are other states going to deal with it (i.e. send all refunds to paper check, request the information separately, etc.) Oregon would like to continue to offer direct deposit for delinquent returns but since we don't have the ability to change our prior year forms, we need to know how we can make that possible.
- B. Questions from Utah:
1. Does the IAT specifically apply to Tax Refunds? **IAT applies to all incoming and outgoing payments, including Tax Refunds.**
  2. Assuming IAT applies to refunds for past tax years, how do we handle IAT for refunds on previous year returns, since the forms we are using don't include any IAT information? **Suggest that you base action on taxpayer's address, as due diligence, though there may be some addresses that are misleading.**
  3. When will the TIGERS proposal for how to ask if payments or refunds are IAT transactions the Final wording that should be placed on our forms, or is it just a recommendation? **Wording is included in Powerpoint from August 13 webinar. This wording is not binding on states, but is strongly recommended for consistency between states.**
  4. Can individual States approach NACHA and OFAC to request a waiver? **This is not recommended; given that no waivers have been given to FTA's appeal on behalf of all states, it is unlikely to be given to any individual state.**
  5. Since Withholding Tax payments are exempt from IAT, shouldn't the refund of those taxes be exempt also? (specifically Income Tax refunds) **First off, Withholding payments are not in themselves exempt from IAT – this was a misunderstanding. The exemption was that a Payroll Service Provider (ADP, Ceridian, Paychex, etc.) who provides a single payment for a number of taxpayers is not being required to split out two files, one of regular ACH and a second file of IATs – they can send a single file without the IAT. That being said, a single Withholding payment sent directly to a tax agency from a taxpayer, where the payment was initiated from a foreign bank, will be an IAT. Tax refunds (Withholding or Income Tax) which will flow through to foreign bank account must use the IAT.**
- C. DC questions we have now are
1. How do we treat military personnel who are overseas? **Most military personnel continue to bank with US banks, which often have ATMs on military bases. They can also access US accounts via debit cards, or use credit cards. US military bases are considered to be WITHIN the territorial US. For this reason, it is likely that payments from, or refunds to, US military will not be IATs.**
  2. How do we treat people that work overseas as US citizens? **This depends on their banking practices, so the due diligence question is needed. If the citizen continues to maintain a US bank account, and access it remotely (see military example above) then a payment or refund would not be an IAT. On the other hand, if the citizen is a resident of a foreign country and chooses to bank with a foreign bank from which the citizen makes payments or into which it receives refunds, then an IAT will be required.**
  3. In the case of refund, we will issue a paper check, but in the case of a payment, if it is a foreign bank, and they answer yes, do they have to send us a paper check? **That is the tax agency's choice administratively. Ideally, you will at some point fully support the IAT, so that you can take the electronic payment. In the meantime, you may request another form of payment.**

D. Questions from Pennsylvania:

1. PA would like to request an explanation for “Account Funding” information provided on pg 5 first paragraph, of the IAT Survival Guide.

If a corporation has an established cash management service that funds the company’s daily presentments (all items cleared including ACH, check and cards, wires) at their financial institution and the funding is received from a financial agency outside the territorial jurisdiction of the United States - this action does not trigger the definition of the IAT. Also funding of corporation business activities on a recurring basis by a parent company outside the territorial jurisdiction of the United States does not trigger the definition of the IAT. These funding scenarios are different than funding a specific ACH file, which make the transactions IATs.

This seems to be a contradiction between the scenarios. **Please review the slides of IAT and non-IAT scenarios. In the first two scenarios in the paragraph above, the US subsidiary receives general funding from a foreign source, but it originates each tax payment itself, from its US account. In the last-mentioned scenario, the foreign parent company is originating the actual tax payment itself (“funding a specific ACH file”) from the foreign bank, so that is an IAT.**

2. Are States required to store any or all of the additional addenda records for future auditing purposes? **There is no NACHA requirement for an agency to retain the data. The tax agency may wish to store the data in case of need for error resolution, or for levy source.**

E. State of Hawaii question:

DOTAX supports ACH debit payments by contracting with a vendor to serve as its Data Collection Center. Although IAT uses multiple Addenda types, DOTAX only captures information from the Addenda type for Remittance Information, i.e., Addenda type '17'. Therefore, would our Data Collection Center still need to create the other Addenda types (10-16), or could they be treated as optional, and thus omitted from the batch? **All new addenda records for the IAT are mandatory.**

F. Additional questions from Utah after the webinar:

1. What Effective or Received date should we use for the IAT payments?
2. Should it be the day we request the funds, or the day the funds are deposited in our account?
3. What are other states planning regarding payments that are held for weeks by OFAC before they are actually processed?

**This is a difficult issue. Assume that you are referring to an IAT debit, where you initiate the IAT payment from information provided by the taxpayer. The states that have discussed this issue tend not to credit the taxpayer’s account until the funds are actually deposited. If the Effective/Received date is the initiation data (or more likely, the following day when a domestic ACH debit will settle), the agency’s account totals will not balance to the agency’s bank accounts.**

G. Additional questions from New Jersey after the webinar:

1. What about the thousands of EFT filers that are already registered with a State? Do we have to verify that they do or do not fall into the IAT category (i.e. some sort of mass mailing, or re-registration)? **Since this could be an expensive process, NACHA will consider it due diligence if the state assumes that taxpayers with foreign addresses are IAT situations,**

**and others non-IAT. This form of due diligence is being used by the Social Security Administration and is sanctioned by NACHA. However, transactions that turn out to be other than assumed will be rejected by NACHA and will have to be resubmitted.**

2. What about states that receive paper checks and process them through check 21. Will we have to perform some sort of due diligence? **No, the writing of the check is the origination of the transaction from a US bank, so the checks will not be IAT situations.**

## Responses to State Questions on the IAT

### Maryland

Below are questions from Maryland for the upcoming call with NACHA on IAT.

Do the new IAT rules only apply to incoming debit payment, or does it also include outgoing direct deposits? **Yes, both.**

If the new IAT rule does apply to outgoing direct deposits, and a taxpayer has a US address and a US routing number, and has an agreement with their US bank to forward incoming funds to their account to a non-US bank, how would the government agency generating the direct deposit know that this direct deposit was an IAT? **Due diligence is required. NACHA will create a sample document to illustrate. See Powerpoint posted on the FTA website at <http://www.taxadmin.org/fta/edi/nacha/default.html> for example of a scenario. Also see 8/13 Powerpoint for recommended questions to ask taxpayers to determine IAT situations.**

Will the new IAT record layout be a separate ACH record layout or an expanded/exploded version of the existing ACH record layout with additional IAT fields to be used only when a transaction is identified as an IAT? **New record layout with one detail record and seven addenda records.**

NACHA indicated in an August 21, 2008 memo that "The purpose of the IAT rule is to enable financial institutions to identify international ACH payments, and perform due diligence as required by the U.S. Office of Foreign Assets Control (OFAC)." Since tax authorities/government agencies are not financial institutions, are they exempt from reporting on and performing due diligence on IATs? If NO, are there specific reporting requirements for tax authorities/government agencies? **Tax authorities/government agencies are not exempt from OFAC compliance. There are no specific reporting requirements for tax authorities/government agencies, just compliance with the NACHA rules on usage of the IAT.**

Currently, our tax authority/government agency does not accept funds from banks outside of the US. Will the IAT funds be US-centric? **The immediate funds are coming from a US bank – NACHA only moves money between US banks. The funds are of foreign origin.**

Can a tax authority/government agency refuse foreign funds? **No, an agency cannot refuse an IAT transaction if the agency utilizes any ACH transactions.**

Can you please define what transactions will be defined as IAT transactions? What will specifically be considered an "international" transaction? **See 8/13 Powerpoint for examples of IAT and non-IAT scenarios.**

Is a foreign address of a taxpayer a criteria for an IAT or just the Bank Address? **Bank address of any financial agent outside of the territorial US which is involved in the transaction at any point. The immediate transaction may be between two US banks. The foreign address of a taxpayer may be a good reason to suspect an IAT, but it is not a definite criterion.**

Can the states refuse to participate in this program? **Not if they utilize ACH payments. If states perform due diligence, there are ways to avoid utilizing the IAT, but they may involve paper checks.**

If states have to participate, please define the scope of due diligence expected by the states. **Difficult to completely define, but as an example, you could put a question on your website asking where the funds are coming from – "Is this transaction funded from a source outside of the U.S. funds account?" (check if yes – if checked, either utilize the IAT or else flip an outbound payment/refund to a paper check; if inbound; either ask that another form of payment, such as credit card, be used or else ask for additional information as to the source, to ensure that the IAT data elements are collected.**

What is the IRS going to do? (this question is to both NACHA and the IRS) **The Federal Government is not automatically subject to NACHA rules. (NACHA is a private association of banks and financial service providers.) The Financial Management Service in the U.S. Treasury (IRS's EFT provider) must decide to accept any requirement imposed by NACHA. They do this by a rulemaking process.**

**They issue a Notice of Proposed Rulemaking when they have to/need to comply with ACH rules. (Federal Rules are at 31 Code of Federal Regulations (CFR) Section 210 – and govern the use of the ACH by all federal agencies.) There is a Notice of Proposed Rulemaking out now on the IAT. Public comment period on it is ongoing, and internal vetting of FMS's potential decision is going on now. A decision is expected in about two months, or approximately when the NACHA rule will be effective (September 18, 2009). The IRS will do whatever FMS determines it must or should do to comply with NACHA Rules.**

**Best current guess is they will accept use of the IAT. Our NACHA representative has stated that the Federal Government will comply.**

Does NACHA, or OFAC, know of the status of the FTA request for an exemption? If so, what is the status and if there is a granted exemption - for how long?

**NACHA would like to clarify one point on the request for relief from the IAT requirements.**

**OFAC has the authority to provide the states an exemption for the OFAC review requirements and the mandate to comply with U.S. law, but OFAC does not have the authority to exempt the states from the requirements to comply with the IAT SEC code format for transactions that meet the definition of the IAT. The format requirements and the use of the IAT SEC code is a NACHA Rules requirement.**

**NACHA stated in its 5-15-09 letter to the FTA that it cannot provide an exemption to the states regarding the requirements of the IAT, and they will need to be able to originate and receive IAT transactions.**

If a taxpayer is providing a US Bank and US Bank Account number set up for payment by US foreign funds, do we need to care about identifying those transactions with that account? What will be required for reporting and due diligence? **Yes, the transaction may still require use of the IAT, depending on the ultimate source or destination of the funds. See other answers in this Q&A for suggestions on due diligence.**

Question #24 in the FAQs for Corporate Customers ([http://www.nacha.org/IAT\\_Industry\\_Information/docs/Corporate IAT FAQs Final 1 30 09.doc](http://www.nacha.org/IAT_Industry_Information/docs/Corporate_IAT_FAQs_Final_1_30_09.doc)) states: *"What additional information do I need to provide for an IAT entry? The new IAT format has added the following mandatory fields to carry the information needed for a regulatory review: Receiver's Account Number, Receiver's DFI Identification Number, Payment Amount, Reason for Payment, Receiver's Name, Receiver's Street Address (not P.O. Box), Receiver's City, State or Province, and Postal Code, Originator's Name and Identification Number, Originator's Street Address (not P.O. Box), Originator's City, State or Province, and Postal Code, ISO destination country code (or at least destination country), Receiving bank (name, identification, qualifier, branch country code), Amount of entry and FX arrangements, and Transaction type code (reason for payment)."*

Are states expected to populate the Receiver and Originator addresses for IAT direct debits and direct deposits? If so, what should be provided for each of the addresses for each type of transaction? For a direct debit, would the receiver contain the state agency's address and the originator contain the address on the tax return (or perhaps an additional address that would need to be entered by the taxpayer)?

**For these questions please refer to NACHA guidance. Use of the new fields is mandatory.**

## **Wisconsin**

We receive ACH Debit origination from many sources; how would we recognize an international financial institution? We currently check all debit request RTN's against a list we receive from the Federal Reserve. It appears to me that only domestic RTN's/Institutions are on that file. Is there an equivalent list of international RTN's? **No, every country is different. Remember that the immediate ACH transaction is between US financial institutions with US RTNs. You would not recognize the transaction as requiring the IAT without due diligence.**

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## **Mississippi**

Here's a list of questions that Mississippi would like to have addressed in the conference call if possible:

Our internet filing website compares routing numbers given by taxpayers for ACH debit origination to a Federal Reserve list of valid routing numbers. Our financial institution has told us this would mean we would not be originating any IAT transactions, and therefore would not need to make any format changes. Could NACHA confirm that this is true? **This is not correct. The account that the taxpayer gives for the transaction may receive the funds from a foreign source for purposes of making the tax payment.**

How would we know that a transaction we are going to originate should be formatted as IAT? Does NACHA/OFAC recommend that we collect the additional information required for IAT from all taxpayers or simply ask the taxpayer if it is an international payment? The first option seems excessive and there's too big a loophole in the second option. **NACHA does not recommend asking all taxpayers for the data. Due diligence can be carried out by asking the taxpayer whether the payment involves international accounts.**

Must all CCD transactions be formatted as IAT? Page 12 of NACHA's "Introduction to IAT" slide show seems to say that. We use CCD+ for ACH Credit transactions. Should those be IAT? **No. NACHA rules do not allow use of the IAT for completely domestic transactions.**

We initiate ACH Credits for Income Tax refunds. It seems that the rule change would apply to those payments. If so, is there a recommendation for how to check these transactions for IAT format requirements?

**Yes, the rule applies if any payment is ultimately destined for a foreign account Determination requires a response to a question, then further due diligence is required, depending on the answer.**

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**New Hampshire -  
Dept. of Revenue and Admin.**

1. What will rejected IAT transactions look like
  - a. If there are no IAT addenda records when required? **Rejected.**
  - b. If the IAT addenda records are present but incomplete or have erroneous data? **Rejected-no way to validate.**
  - c. Is there an IAT NOC format for correction notices? **Yes.**
  - d. Are there reject/correction codes specifically for IATs? **No.**
  
2. How would a web site operator know that a bank account entered by the user in a transaction is from a foreign bank, requiring the IAT addendas?  
**Can't tell based on U.S. RTN. A specific question is required.**
  - a. Should they assume that any routing number that did not begin with 01 to 32 is a foreign bank? **No – transaction is between banks with US RTNs.**
  - b. Subscribe to a validation service? **Would not work as a service likely only encompasses domestic banks.**

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**Alabama**

I have a few specific questions that pertain to ACH debit method payments authorized by taxpayers through the department's online filing and payment

system for state and state-administered local taxes. The online system validates the taxpayer's bank routing number against the Fed ACH Directory file, and, therefore should only process transactions from domestic banks. **See previous questions; this does not ensure that the transaction does not require an IAT.**

The department has a number of taxpayers who have an address on record outside the territorial jurisdiction of the U.S. The foreign address may be the taxpayer's primary address, the mailing address only, or an alternate address only.

1. With the exception of withholding tax payments which are not required to be IATs, ACH debit method tax payments initiated through the online system by a taxpayer with a foreign address on record would be an IAT unless the department has specific knowledge that the transaction was funded domestically. Is this statement correct? **This would be a prudent approach. Please note that Withholding tax payments are not exempt from IAT rules. The exemption is for payroll service providers who send a single payment for multiple employers; they are not required to determine foreign transactions and split the consolidated payment into IAT and non-IAT files. Individual employer Withholding payments directly from the employer may in fact be IATs.** What is the specific rule imposing this requirement? **There is no rule concerning the address of the taxpayer. Due diligence is required to verify source of funds. An acceptable approach is to use address as an indicator, but be aware that some transactions may be rejected.**

2. Suppose a taxpayer has a physical address in the state but has either a mailing address or alternate address outside the U.S. Would an ACH debit method tax payment initiated through the online system by this taxpayer be an IAT? **Could possibly be. Requirement for IAT is governed by the source of the funds; this could be an indication that a foreign source is likely.**

3. Our bank representatives indicated that the department could contact the taxpayers with a foreign address to determine if their transactions are funded domestically. If a taxpayer gives the department assurance in writing that their payments are funded domestically, can we then process ACH debit method payments from that taxpayer as domestic transactions? What specific documentation or information would the department need from the taxpayer? Would it be necessary for the taxpayer to periodically re-confirm? **If they only sign up once – a negative answer to the question is due diligence. If they provide banking information with each monthly payment, have them answer it each month.**

Thanks again,  
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**New Jersey**

Will the IAT include refunds electronically pushed by a state to a filer if it meets one of the scenarios discussed? **Yes.**

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