

## **Proposal to NACHA For Third Party Payment (TPP) NACHA Banking Convention**

### **Background**

The Federation of Tax Administrators (FTA), organized in 1937, serves the tax and revenue agencies of the 50 states, as well as selected major US cities. FTA serves as a source of information and expertise for state administrators and others on the workings of state tax agencies and systems as well as issues generally affecting tax policy and administration. FTA staff regularly monitors the activities of state tax agencies and the federal government in order to serve as a clearinghouse on topics important to administrators. FTA also conducts research projects in such areas as state tax policies and structures, compliance and enforcement programs, tax technology, and federal and state court decisions.

In recent months FTA has gathered representatives of the National Automated Clearing House Association (NACHA), state revenue agencies, ASC X12 G/TG2 Tax Information Interchange e-standards committee chair and members, and the Colorado Banking Association.

This small group participated in conference calls regarding the development of a NACHA tax banking convention that would be similar to the Tax Payment "TXP" banking convention for tax payments generally, but in this case specifically devoted to the purpose of transmitting data for third party payments, where there is a need to identify both the third party payer as well as the taxpayer on whose behalf the payment is being made.

Such third party payments can be employment taxes paid by payroll service providers on behalf of employers, or, in the most urgent case which led to this action, payments from employers in response to tax agency orders to garnish employee wages for tax liability. This new addenda would be similar to the existing child support DED addenda format, which can also be used to garnish wages, but with tax-specific flexibility similar to the TXP addenda to handle garnishments and other payments unique to the tax environment.

### **Electronic Third Party Tax Payments**

State revenue agencies process large numbers (between 15,000 and 20,000 a month for a medium-sized state) paper check payments being remitted by third party payers (employers, payroll service companies, financial institutions, etc.) on behalf of delinquent taxpayers. The paper check process presents considerable paperwork burden on the remitters to create the checks and for the states to deposit and post the payments efficiently and accurately.

State revenue agencies began looking for ways to move the payments to the ACH by comparing among themselves and the large payroll service bureaus how tax garnishments were remitted in other similar situations. In particular, the Colorado Department of Revenue began discussions with the Colorado banking community on automating both the notification and payment processes associated with bank levies. While the IRS and several states support an XML format for allocating garnishments, it appeared most of the payroll

companies and large employers in Colorado had no capacity or desire to support this format. They were also not willing or able to support the multi-addenda CTX format with the embedded EDI 820 transaction. Other states faced similar constraints.

Employers and the payroll companies can typically support the single addenda CCD+ for both tax TXP and child support DED addenda formats since they must remit wage withholding payments and federally mandated electronic child support.

However, using the TXP addenda record for third party payments is not sufficient because it only has one identification field, which is not adequate to identify both the party who was making the payment and the taxpayer's account on whose behalf the payment is being made.

The DED format has more reference ID fields available, so a single addenda record can reference both the party originating the payment and provide multiple identification fields for the taxpayer. This last piece is critical to validate that payments post to the correct taxpayer's account.

The consensus from the work group's conference calls, however, was that the DED format should not be used due to a variety of Federal regulations and reporting relating to child support payments. However, there was interest in developing a third party tax payment record. The team created a draft "TPP" format record for subsequent review.

### **Preparation for Formal Proposal**

The TPP concept was well received both by NACHA representatives and by the work group of assembled states and local bank association, since it built on FTA TXP standards already in place for tax type codes and the like and followed the basic format of the DED addenda, which the group hopes will facilitate acceptance by software vendors already supporting the child support format.

In addition, the draft format has potential beyond garnishment and levy payments, as it could conceivably be used by any third party wishing to make a tax payment on behalf of a client, partner, association member, etc.

Payroll service providers making quarterly employment tax payments could utilize the new convention. This format could also be used for income withholding payments made by pass-through entities on behalf of non-resident partners. Unlike the TXP format, it identifies both the entity making the payment and provides multiple identification fields for the taxpayer to be credited, to optimize accurate posting.

FTA then convened an additional conference call open to all states, in order to establish a broad base of support for the new proposed TPP convention. The response from the states was extremely positive, as the need to accurately identify and post third party payments is a requirements shared by all revenue agencies.

FTA, acting on behalf of the consortium of state revenue agencies, now wishes to submit the proposed banking convention to NACHA for approval and use in the banking system. FTA

appreciates the advice and guidance provided by Priscilla Holland of NACHA in this process. Please provide any additional measures that must be taken, or any requests for additional information or justification, to Jonathan Lyon, Senior Manager, Tax Technology, FTA, at [jonathan.lyon@taxadmin.org](mailto:jonathan.lyon@taxadmin.org).

Thank you for your consideration of this request.

Attached:

Proposed TPP addenda record  
Existing TXP addenda example  
Proposed TPP addenda example

**PROPOSED TPP ADDENDA RECORD - NEW RECORD TYPE FOR THIRD PARTY PAYMENTS**

Field	Data Element Description	Attributes			Contents
		Pos.	Length	A/N	
1	Record Type Code	01-01	1	N	7 (constant)
2	Addenda type Code	02-03	2	N	05 (constant)
3	Segment ID	04-06	3	AN	TPP (Third Party Payment - constant)
	Separator		1		*
TPP01	Tax Payment Type Code		3/5	AN	3 - 5 digit Tax Type
	Separator		1		*
TPP02	Reference ID		1/10	AN	Third Party Payer
	Separator		1		*
TPP03	Date		8/8	N	YYYYMMDD
	Separator		1		*
TPP04	Amount		1/10	N	Amount paid, 2 decimal places
	Separator		1		*
TPP05	Reference ID		1/9	AN	Taxpayer SSN, last 4 of SSN or other state ID
	Separator		1		*
TPP06	Name		1/13	AN	Taxpayer Name
	Separator		1		*
TPP07	Reference ID		1/15	AN	Secondary ID (Optional)
	Terminator		1		\
4	Addenda Sequence #	84-87	4	N	0001 (constant)
	Entry Detail Sequence #	88-94	7	N	Same as last 7 digits of Entry Detail Trace #

- TPP01 Tax Payment Type Code: State assigned tax type, recommend using the same codes as the state uses for TXP payments. The FTA has drafted a master code table to facilitate consistency and sharing among the states.
- TPP02 Reference ID: Identifies the third party who originated the payment. The third party's identification or registration number as assigned by the state taxing authority.
- TPP03 Date: Date applicable to this payment, may be a payroll date (for wage garnishments) an account debit date (for financial institution garnishments) or tax period end date.
- TPP04 Amount: Amount of payment, should match the ACH detail (6) record amount. The amount field must always contain cents (cc). Decimal points are not included. The last two digits will be read as the "cents."
- TPP05 Reference ID: Identification number of the taxpayer on whose behalf payment is being made. Recommend using the last 4 of the SSN or the FEIN.
- TPP06 Name: First 13 characters of the taxpayer's name on whose behalf payment is being made. This is for visual reference, recommend using the first 13 characters of the last name then first name or the first 13 characters of an organization's name.

TPP07 Reference ID (Optional):

Second identification number of the taxpayer on whose behalf payment is being made, such as a state assigned account number or a case reference number. This number, along with TPP04, provides two separate reference numbers to positively identify the entity receiving credit for the payment.

## Examples

The existing TXP and proposed TPP addenda formats are shown below, with the same taxpayer example:

ADDENDA RECORD - TXP FORMAT				
Field	Data Element Description	Position	Length	Contents
1	Record Type Code	01-01	1	<b>7</b>
2	Addenda type Code	02-03	2	<b>05</b>
3	Segment ID	04-06	3	<b>TXP</b>
	Separator		1	*
TXP01	Taxpayer ID		1/15	<i>Tax Account #</i>
	Separator		1	*
TXP02	Tax Payment Type Code		1/5	<i>3 – 5 digit Tax Type</i>
	Separator		1	*
TXP03	Tax Period End Data		6	<i>YYMMDD (old standard date format)</i>
	Separator		1	*
TXP04	Amount Type (Tax)		1	<b>T</b>
	Separator		1	*
TXP05	Amount		1/10	<i>Amount of tax, 2 decimal places</i>
	Separator		1	*
TXP06	Amount Type (Penalty)		1	<b>P</b>
	Separator		1	*
TXP07	Amount		1/10	<i>Amount of penalty, 2 decimal places</i>
	Separator		1	*
TXP08	Amount Type (Interest)		1	<b>I</b>
	Separator		1	*
TXP09	Amount		1/10	<i>Amount of interest, 2 decimal places</i>
	Separator		1	*
TXP10	Taxpayer Verification		1/6	<i>Optional</i>
	Terminator (see note)		1	\
4	Addenda Sequence #	84-87	4	<b>0001</b>
	Entry Detail Sequence #	88-94	7	<i>Same as last 7 digits of Entry Detail Trace #</i>

Note 1: Data elements shown in bold are constants.  
Data elements shown in italics are from this.

Note 2: All elements after the amount are optional. If not used, place the terminator after the tax amount.

Addenda example - garnishment for John Doe, employer FEIN 123456789, SSN 111-22-3333, State Account # 0987654321, payroll date 06/04/11, \$155.00 payment amount. State has assigned tax type 208 to wage garnishment payments:

705TXP\*111223333\*208\*110604\*T\*15500\

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**Definitions:**

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- TPP06 Name: First 13 characters of the taxpayer's name on whose behalf payment is being made. This is for visual reference, recommend using the first 13 characters of the last name then first name or the first 13 characters of an organization's name.

TPP07 Reference ID:

Optional second identification number of the taxpayer on whose behalf payment is being made, such as a state assigned account number or a case reference number. This number, along with TPP04, provides two separate reference numbers to positively identify the entity receiving credit for the payment.

Addenda example - wage garnishment for John Doe, employer FEIN 123456789, SSN 111-22-3333, collection case # 0987654321ABCDE, payroll date 6/04/11, \$155.00 payment amount. State has assigned tax type 208 to wage garnishment payments:

*705TPP\*208\*123456789\*20110604\*15500\*3333\*DOE, JOHN\*0987654321ABCDE\*