



## **ACH Operations Bulletin #2-2012**

### **Third-Party Tax Payments Banking Convention: *Standardized Formatting for Remittance Information in Third-Party Tax Payment Addenda Records***

*October 25, 2012*

#### **EXECUTIVE SUMMARY**

This ACH Operations Bulletin advises financial institutions, state revenue agencies, and other parties that remit tax payments to state revenue agencies of a new “Third-Party Tax Payment” banking convention. NACHA recommends that the “TPP” convention be followed when formatting and transmitting remittance information in the addenda record of a CCD entry for certain “third-party tax payments.”<sup>1</sup>

#### **THIRD-PARTY TAX PAYMENTS (TPP) BANKING CONVENTION**

Third-party tax payments (TPP) are those payments made by a third-party to a state taxing agency. In order to properly post and account for these payments, there is a need to identify both the third-party payer as well as the taxpayer on whose behalf the payment is being made. Examples of third-party tax payments are: 1) employee tax withholdings remitted by payroll service providers on behalf of employers, and 2) payments from employers in response to tax agency orders to garnish employee wages for tax liability.

The Federation of Tax Administrators (FTA), on behalf of their members, has asked that NACHA implement a banking convention that would allow third parties (e.g., payroll companies, financial institutions, employers) to standardize ACH payment remittance information to state revenue authorities on behalf of consumers who are subject to wage garnishment due to state tax delinquency.

#### **ADDITIONAL BACKGROUND**

State revenue authorities are required to diligently pursue delinquent tax payers. The increasing volume of garnishment actions from delinquent tax payers is creating an increased volume of check payments to state revenue authorities.<sup>2</sup> Processing of the paper checks is creating a paperwork burden as the garnishments currently cannot be collected electronically and require manual processing and deposit.

The current tax payment banking convention – TXP -- does not adequately identify both the third-party payer as well as the taxpayer. The revenue authorities need this information to

---

<sup>1</sup> This ACH Operations Bulletin is for information purposes, and is not intended to provide legal advice.

<sup>2</sup> For example, the Colorado Revenue Authority estimates it receives an additional 15,000-20,000 checks per month due to garnishment actions.

accurately apply credits to taxpayer accounts and research any payment errors or posting problems. The existing convention was developed for other specific purposes (namely, business tax payments remitted by the taxpayer), and was not necessarily intended to support third-party tax payments for garnished wages or other types of tax payments made by an entity other than the taxpayer.

Lacking an industry standard for carrying necessary remittance information in an ACH credit payment, payers have resorted to writing checks, or to developing one-off electronic implementations where the remittance flows outside the ACH Network. Further, solutions developed and implemented by states individually would lead to payers having to track and use such solutions on a state-by-state basis. A standardized ACH process across all payers and all states will help employers and states reduce costs by replacing costly manual check payments, with electronic ACH payments and remittance information.

### **USE OF THE THIRD-PARTY PAYMENT (TPP) BANKING CONVENTION**

The TPP banking convention is a standard method to format the remittance information within the addenda record of a CCD entry. The *NACHA Operating Rules* state that the Payment Related Information field of a CCD Addenda Record must contain a valid X12 payment related data segment or a NACHA-endorsed banking convention.<sup>3</sup> The TPP banking convention was developed by NACHA in conjunction with the Federation of Tax Administrators and its members, and has been approved for use by NACHA's Rules and Operations Committee. The TPP banking convention has also been submitted by the FTA to X12 for approval as a valid data segment.<sup>4</sup>

Applications for the TPP include:

- payroll service providers making quarterly employment tax payments;
- income withholding payments made by pass-through entities on behalf of nonresident partners;
- garnishments; and
- other levies.

The TPP format in its entirety is included as an Appendix to this ACH Operations Bulletin.

### **IMPLEMENTATION CONSIDERATIONS AND EFFECTIVE DATE**

Under the *NACHA Operating Rules*, use of the TPP banking convention would be optional on the part of employers, third-party payers, and their ODFIs. Use of the convention, however, might be required by the state revenue agency to which payments are being made. Employers, payroll processors, and other third-party payers are advised to check with their financial institutions and the states to which they remit third-party tax payments regarding use of the convention.

---

<sup>3</sup> See 2012 NACHA Operating Rules and Guidelines, Appendix Three, Payment Related Information (Page OR116).

<sup>4</sup> As of this writing, NACHA has been informed that the TPP banking convention has been approved by X12 and will be included in version 6050, effective January 1, 2013.

Under the *NACHA Operating Rules*, an RDFI that receives a CCD Entry that contains an addenda record utilizing the TPP convention is required to provide the information, upon the request of the Receiver by the opening of business on the second banking day after the Settlement Date of the CCD. However, only RDFIs with state revenue agency customers should receive such CCD entries. State revenue agencies and their financial institutions are advised to communicate with each other regarding the receipt of CCD containing TPP-formatted remittance information. Further, NACHA advises state revenue agencies to communicate with employers and third-party payers, such as payroll providers, regarding use of the TPP convention.

The TPP will become an approved X12 data segment effective January 1, 2013, at which time it will be available for use in the addend record of a CCD by parties that are ready to do so. Further, NACHA recommends that all parties involved in third-party tax payments work towards implementation of the TPP by June 21, 2013, as ODFIs and RDFIs contacted by NACHA have indicated that implementation would take an estimated 6-12 months.

#### **NACHA CONTACTS**

Questions about this ACH Operations Bulletin should be directed to:

Priscilla Holland, AAP, CCM, Senior Director – Healthcare Payments and Industry Verticals;  
[pholland@nacha.org](mailto:pholland@nacha.org)

Robert Unger, AAP, Senior Director – E-Billing and Payments;  
[runger@nacha.org](mailto:runger@nacha.org)

#####

## APPENDIX

### TPP FORMAT

Data Element Reference Designator	Name	Content	Attributes		
			1	2	3
	Segment Identifier	TPP	M	ID	3/3
TPP01	Tax Payment Type Code	3-5 digit Tax Type	M	AN	3/5
TPP02	Reference ID	Third Party Payer	M	AN	1/10
TPP03	Date	YYYYMMDD	M	DT	8/8
TPP04	Amount	\$\$\$\$\$\$CC	M	N2	1/10
TPP05	Reference ID	Taxpayer SSN, last 4 of SSN or other state ID	M	AN	1/9
TPP06	Name	Taxpayer Name	M	AN	1/13
TPP07	Reference ID	Secondary ID	O	AN	1/15

The column headings used on the charts are as follows:

- **Data Element Reference Designator & Name** - identifies the data element
- **Content** - defines the data element
- **Attributes** - are defined as follows
  1. Field Requirement - The first column of the attributes is the field requirement for that data element. An ‘M’ denotes a mandatory element, an ‘O’ denotes an optional element, and a ‘C’ denotes a conditional element – one for which the use is dependent on the presence of another immediately preceding element.
  2. Data Type - The second column of the attributes specifies the field data type.
    - a. ‘AN’ denotes a string type data element. Contents of string data elements are a sequence of letters, digits, spaces and/or special characters (with the exception of the asterisk and backslash). The contents must be left-justified. Trailing spaces should be suppressed unless they are necessary to satisfy a minimum length requirement.
    - b. ‘DT’ denotes a date type data element. Format for the date is YYYYMMDD. YYYY is the digits of the year, MM is the numeric value of the month (1-12), and DD is the numeric value of the day (1-31).
    - c. ‘ID’ denotes an identifier data element from a pre-defined list of values (i.e, TPP).
    - d. ‘N2’ denotes a numeric type data element with two decimal places to the right of a fixed, implied decimal point. The decimal point is not transmitted. For example, the amount \$5000.00 would appear as \*500000\*. It is intended that this number will always be positive for the Third Party Tax Payment (TPP) Banking Convention when used in conjunction with an ACH credit.

3. Length - The third column of the attributes signifies the minimum/maximum use of an element. This specifies the minimum and maximum length of a particular field. For example, 1/6 indicates that this data element must be at least one character, but not more than six.

#### DATA ELEMENT CONTENT DEFINITIONS

TPP01	Tax Payment Type Code	State assigned tax type, recommended using the same code as the state use for TXP payments. <sup>5</sup> The FTA has drafted a master code table to facilitate consistency and sharing among the states.
TPP02	Reference ID	Identifies the third party that 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 a tax period end date.
TPP04	Amount	Amount of payment, should match the ACH Detail Record (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. Recommended 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, recommended 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.

---

<sup>5</sup> See <http://www.taxadmin.org/fta/edi/TXPcodes.html>

## EXAMPLES

The following examples are provided to illustrate the implementation of the Third Party Payment (TPP) Banking Convention. Refer to the Federation of Tax Administrators and Internal Revenue Service for tax code values for state and Federal tax payments, respectively.

### 1. State Implementation Using All Data Elements for a Garnishment Payment

TPP\*208\*123456789\*20121130\*100000\*1122\*SMITH JOHN\*AB123456\

Tax Payment Type Code 208 (Garnishment Payment Tax Type Assigned by State)  
Third Party Payer Identification Number 123456789 (Employer FEIN)  
(Payroll Date) Date November 30, 2012  
Payment Amount \$1000.00  
Taxpayer Identification Number 1122 (Last 4 Digits of SSN)  
Taxpayer Name SMITH JOHN  
Delinquency Case Number AB123456

### 2. State Implementation Using One Reference ID For A Wage Withholding Payment

TPP\*011\*1234567891\*20121231\*100000\*98765432\*ABC INC\

Tax Payment Type Code 011 (Wage Withholding Tax)  
Third Party Payer Identification Number 1234567891 (Tax Preparer State Registration Number)  
(Tax Period End) Date December 31, 2012  
Tax Amount \$1000.00  
Taxpayer Identification Number 98765432 (State Account Number)  
Taxpayer Name ABC INC