



2010 All-Electronic Treasury Initiative: Tax Payments

FMS Activities related to the Notice of Proposed Rulemaking
Revisions to 26 CFR 1, 31, 40, and 301



Evolution of Tax Collections in Today's Financial Industry

- The paper coupon system was instituted during World War I to bring in tax dollars more quickly to support the war effort. Its core functionality has not changed.
- Financial institutions accept tax payments voluntarily and industry estimates indicate that each coupon processed costs a financial institution (FIs) \$2 to \$8 in courier, teller, and back-office costs.
- As fewer businesses choose to make tax payments at financial institutions, the overhead costs for continuing to accept these transactions increases.
- Federal regulations prohibit FIs from passing these costs on to their customers and over 100 financial institutions in the past year have discontinued the acceptance of tax payments at their branch banks.
- EFTPS outreach to small employers through financial institutions and tax professionals resulted in a 23.9 percent reduction in paper coupons from FY07-09 and an 11.9 percent increase in electronic tax payment volume.



Comfort Level with Electronic Payments

- 98 percent of federal employment tax dollars already move through EFTPS
- About 9.8 million businesses and individuals have enrolled in EFTPS and EFTPS is about to process it's 1 billionth transaction
- Of the remaining businesses who still pay using coupon:
 - 82 percent of small family businesses with five or fewer employees use a computer daily and 94% of those have Internet access
 - 74% bank online
- The number of paper tax coupons processed FY2010 is down more than 25 percent from FY2009
- Businesses have the option of using EFTPS or submitting a tax payment through their tax professional, payroll service, or through their bank, via an ACH credit or same-day wire payment for a fee
- The IRS does not receive the business's banking information, only confirmation that the payment was made



Advantages of EFTPS For Businesses

- EFTPS can be used to make any federal tax payment
- EFTPS is available 24 hours a day, year-round, from anywhere there's a phone or Internet connection
- U.S.-based live operator customer support is available toll-free 24 hours a day, year-round
- Employers who use coupons are 31 times more likely than EFTPS users to make an error that results in interest or penalties, according to IRS research
- EFTPS provides an instant, printable confirmation number for every payment scheduled
- Businesses and individuals have access to their EFTPS payment history for the previous 16 months
- Payments can be scheduled up to 120 days in advance for businesses, 365 days for individuals
- EFTPS is safe and secure. Online payments require three unique pieces of information for authentication—an Employer Identification Number or Social Security Number; a Personal Identification Number; and an Internet password



Summary of Proposed Regulation Change

- The Internal Revenue Service will issue a Notice of Proposed Rulemaking (NPRM) requesting comment on a proposed revision to title 26, Code of Federal Regulations (Parts 1, 31, 40, and 301)
- The Secretary of the Treasury, on Dec. 18, 2009, approved the development of a NPRM that would seek to require businesses to pay employment taxes electronically unless they are currently allowed to send a check with their return
 - The Internal Revenue Service (IRS) proposed rule would take effect on December 31, 2010
 - Approximately 700,000 taxpayers would be notified via letter from the IRS after publication of the final rule in the late summer of 2010, and would be pre-enrolled in the Electronic Federal Tax Payment System (EFTPS), a free service of Treasury
 - Businesses need only a phone line—touchtone or rotary dial—to make a payment via EFTPS.
 - They also can use the Internet, or have a tax professional payroll service, financial institution, or other trusted third party make the payment for them.
 - Businesses that are not currently required to use coupons would have the option of enrolling in EFTPS or mailing a check with their return.



High-level Timeline

- IRS publishes the proposed rule requesting comment
- Scheduling meetings with important stakeholders to share our plans, receive their input, and gain their support as we move toward an all-electronic initiative (through October)
 - Financial institutions
 - Financial institutions association
 - Tax professional organizations
 - Payroll services
- After publication of the final rule, notify affected businesses and pre-enroll them in EFTPS (fall 2010)