

NACHA Industry Briefing: Questionable IRS Refunds - *Opt-In Program for RDFIs*

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Opt-In Programs Using the ACH Network

What is an Opt-In Program?

- An Opt-In Program allows financial institutions to utilize the ACH Network, under the auspices of NACHA, when there may not be a need by all FIs, and there is no immediate need for a broad-based Rule
 - Examples of Opt-In Programs are DCT, SVP, EBIDS
 - If there appears to be sufficient benefit to all FIs to justify a Rule change, the program may move into rulemaking
- An Opt-In Program is approved by the Rules and Operations Committee
 - Participants must sign an agreement with NACHA that covers terms and program rules
- An Opt-In Program has no defined end date
 - A program can run for as long as participants benefit
 - If there appears to be sufficient benefit for all FIs, NACHA can propose a rule

Opt-In Programs Using the ACH Network

Why do Opt-In Programs require an agreement?

- Opt-In Programs have agreements because NACHA and the participants are agreeing to modify the *NACHA Operating Rules*
 - For this program, the modifications include the use, deadline and formatting of a return
- An agreement also allows NACHA to know who the participants are, and to collect and share information about the performance of the program

The IRS Refund Return Opt-In Program

The IRS and FMS requested that NACHA establish this Opt-In Program

- The program was approved by the Rules and Operations Committee in November 2012, to become effective in January 2013
- An Opt-In Program Agreement and the Program Rules are available to interested financial institutions

Improving Recovery of Questionable Tax Refunds

- Several FIs, the IRS and FMS seek to leverage ACH Network rules and formats to facilitate the recovery of questionable tax refunds sent via ACH PPD credits, improve government and processing FI operations, and prevent future fraudulent refunds
 - Focus is electronic receipt of refunds based on fraudulent returns being filed
- IRS and FMS have asked NACHA to develop an “Opt-In Program” to allow for the use of the R17 Return Reason Code
 - FIs are being recruited from the IRS’ “External Leads” Program and NACHA’s Direct Members
- The Opt-In Program will be implemented in two phases:
 - Phase 1 to begin in January 2013 (limited to returns for Name Mismatch)
 - Phase 2 to begin in July 2013 (Returns for Name Mismatch, ID Theft and Questionable Refund)

Program Objectives

- Systematically identify questionable refunds through unique return identification to help the IRS research the validity of refunds already issued, recover invalid refunds, build better pre-refund filters, and prevent future fraudulent refunds. Use of unique return identification would:
 - Protect good taxpayers and minimize any negative impact based on the reason for the returned refund entry.
 - Reduce loss of public funds.
 - Efficiently assign work to IRS employees based on the reason for the return, employing procedures, research tools and training based on accounts associated with the type of return identification in the *Addenda Information Field*.
 - As of 11/5/2012, 37 FIs had expressed interest in an Opt-In Program, including major prepaid card processing FIs:
 - These FIs used R02, R03, R06, R16 and R23 for Name Mismatch returns to IRS totaling over \$276 million in CY2012.
 - Subsequently, other External Leads participants have expressed interest.

IRS External Leads Program

- The IRS External Leads Program is responsible for receiving and processing leads and ACH credits returned by financial institutions because the funds were deemed to be questionable. There is full-time staff dedicated to processing an increased volume of returned questionable refunds from financial institutions and other external stakeholders.
- Leads may involve Treasury Checks, direct deposits/ACH, Refund Anticipation Loans or checks, Pre-paid Debit Cards, etc. Funds submitted may be remaining funds in the accounts as identified.
- External Leads Teams work to receive, screens and validate leads, and to request the recovery of refunds from financial institutions. The team works in conjunction with IRS Submission Processing (SP) to reconcile the returned refunds.
- Leads are currently sent from over 130 financial institutions (bank, state and local organizations) with over 225 individual contacts, as well as internal business units throughout the IRS.

Lead Submissions and Electronic Solutions

Lead Submissions:

1. Send secure format email with External Leads account spreadsheet to efleads@irs.gov (Spreadsheet example provided by IRS)
 - Include bank name, date and note “External Leads”
 - Include the reason for submission and point of contact information
2. Once submitted, the External Leads team will research the lead and inform the financial institution of the amount of funds to return, along with additional instructions for submitting funds via the ACH Credit Gateway.

Electronic Solution – ACH Credit Gateway:

- External Leads partnered with FMS to implement a permanent electronic method for returning funds to the IRS using the ACH Credit Gateway.
- Credit Gateway allows for a more timely, efficient and safe transfer of available funds.
- IRS provides a unique Account Locator and ABA Routing number to associate external leads deposits received through the Credit Gateway.

EXTERNAL LEADS Rediscovered Funds

[Week Ending 12/15/2012]

Volume	202,813 TIN's
Sources	130 FIs
CY 2012 Refunds Recovered	\$777,216,419
FY 2012 Refunds Recovered	\$787,986,583
FY 2013 Refunds Recovered (10/1/12-12/15/12)	\$23,266,536
Returns via Bank Cashier Checks – FY12	\$223,764,669
Returns via ACH Credits and Wire Transfers – FY12	\$564,221,915

Phase 1: Designate R17 for Name Mismatches

- Program opt-in rules would govern how the R17 Return reason Code would be used by opt-in FIs to return questionable tax refund entries for specific reasons:
 - In Phase 1, opt-in FIs may return tax refund ACH credits where the name(s) on the account and the account number as depicted in the original PPD credit entry do not match FI records (“Name Mismatch”).
 - Opt-in FIs will use the R17 Return Reason Code for this purpose
 - The IRS will rely on the “R17” code to trigger its processes for reviewing Name Mismatch ACH returns (i.e., suspending automatic issuance of a check and focused research activities).
 - Returns under the Program may be sent within 60 days of the settlement date of the original entry; FIs could return outside the 60-day period with IRS approval.
 - Opt-in FIs will make no representation or warranty that any Program return is the result of error, fraud or other unlawful activity.
 - Determination of the validity and final dispensation of a refund will remain with the IRS pursuant to its review process.

Phase 2: Expanded Use of R17

- The provisions applicable to Phase 1 will continue in Phase 2.
- Beginning July 1, 2013, three codes will be utilized in the *Addenda Information Field* (Field 7 in the addenda record accompanying an R17 return) to signify:
 1. *A Name Mismatch* [Code = '17'] as defined in Phase 1.
 2. *ID Theft* [Code = '18'] where the RDFI has been notified or discovers through internal fraud investigation that a “refund” is related to a case where a taxpayer’s identity has been stolen.
 3. *A Questionable Refund* [Code = '19'] whereby account characteristics, account history, investigation and/or other key markers identified through filters or other predetermined means indicates that a “refund” is questionable, invalid, erroneous, or obtained through fraudulent filings.
- If none of the three characters above are included in the *Addenda Information Field*, the IRS will default to its Name Mismatch review process for that return entry.

QUESTIONS?