

# Direct Deposit of IRS Tax Refunds Resource Page

## Frequently Asked Questions

### Introduction

Direct Deposit is a safe, reliable, and convenient way to receive Federal payments. The Department of the Treasury's Bureau of the Fiscal Service and the Internal Revenue Service both encourage direct deposit of IRS tax refunds. Direct Deposit combined with IRS e-file provides taxpayers with the fastest and safest way to receive refunds.

This resource page of frequently asked questions about IRS tax refunds provides financial institutions with useful information for reference while assisting customers during the 2015 tax filing season.

### Frequently Asked Questions

#### **1. How can a Receiving Depository Financial Institution (RDFI) identify which office is originating IRS tax refund payments?**

The Treasury Bureau of the Fiscal Service's Kansas City Regional Financial Center will be disbursing all tax refund direct deposits on behalf of the IRS. Information in the ACH Batch Header Record can be used to identify an IRS tax refund, as follows:

- a) Company Name field will show IRS TREAS 310 (Note: 449 will appear instead of 310 for refunds which have been offset for delinquent debt); and
- b) Company Entry Description field will show TAX REF.

#### **2. Can an RDFI rely strictly on the account number in the ACH Entry Detail Record when posting a tax refund payment to a customer's account?**

Yes, an RDFI may post IRS tax refunds received via the Automated Clearing House (ACH) network using the account number only. Title 31 of the Code of Federal Regulations, Part 210 (31 CFR Part 210) requires Federal payments be sent to a deposit account at a financial institution in the name of the recipient. However, the RDFI is not obligated to ensure that IRS originates refunds in compliance with this requirement. Some smaller RDFIs may perform a match between the name on the payment and the name on the account; however 31 CFR 210 makes it clear that an RDFI is not required to perform a match.

#### **3. Is an RDFI liable for an IRS tax refund sent to an account that does not belong to the named or intended recipient?**

No. An RDFI is not liable for an IRS tax refund sent through the ACH network to an erroneous or fraudulent account since the IRS provided incorrect account information. The incorrect banking information may have been supplied to the IRS by the taxpayer on his/her signed tax return which

authorized Direct Deposit. In addition, and RDFI is not liable in the event IRS directed a refund to an account based on a fraudulently filed tax return. If possible, financial institutions should encourage their customers that wish to receive their tax refund by direct deposit to double check their bank account and the institution's respective routing number they enter on their return to prevent a misdirected payment.

**4. What is an RDFI's obligation when it discovers that an IRS tax refund has been sent to the wrong account?**

If the RDFI learns that an IRS tax refund has been misdirected to the wrong account, the RDFI is required under 31 CFR Part 210 to notify the Government of the error. An RDFI can satisfy this requirement by returning the original ACH credit entry to IRS with an appropriate return reason code. An RDFI should **not** originate a Notification of Change (NOR) because tax refund payments are non-recurring and the IRS will not handle them.

Although an RDFI is not liable for a misdirected IRS tax refund sent to the wrong account because of IRS or taxpayer error, the RDFI is encouraged after it becomes aware of the error to return those funds to the IRS if the funds are still available in the account.

**5. If IRS discovers that a refund was misdirected or fraudulent, can IRS require the RDFI to return the funds?**

No. IRS may request the RDFI to return any funds available in the account, but the RDFI is not legally required to do so.

**6. Is there an easier and more standard way for RDFIs to reject tax refunds based on mismatches between the account name payee information contained in the ACH Entry Detail Record or because the financial institution suspects that the refund payment is fraudulent?**

In January 2013 NACHA, The Electronic Payments Association, implemented an opt-in program at the request of IRS and Treasury Fiscal Service to allow RDFIs to more easily reject refunds if the name did not match the account number and/or if the financial institution suspected fraud. Under the opt-in program, once the refund with a mismatch or suspected fraud is identified by the program-participating RDFI, the payment is returned back to Treasury Fiscal Service which routes the payment back to IRS. RDFIs seeking more information or which are interested in program participation should contact NACHA directly at 703-561-1100 or by email at [info@nacha.org](mailto:info@nacha.org). Reference the "R17 IRS Returns Opt-In Program" in any communication with NACHA.

**7. What actions should be taken if an RDFI is contacted about a claim of non-receipt of a tax refund?**

An RDFI may be contacted by Treasury Fiscal Service through receipt of a 150.1 or 150.2 Form, notifying the RDFI that one of its accountholders is claiming they did not receive their refund. If an RDFI receives a 150.2 Form, it is only responsible for contacting the accountholder and taking any necessary measures listed on the 150.2 Form. However if a 150.1 Form is received, an RDFI must respond to Treasury Fiscal Service within 3 business days of receipt. If the payment was misdirected to the wrong account and the

funds are still available, the RDFI may be asked by Treasury Fiscal Service to return these funds to the IRS using the R06 (Request per ODFI's Request) Return Reason Code.

**8. How should an RDFI respond to a customer who asks about the status of their tax refund?**

Assuming no issues, IRS issues tax refunds in less than 21 calendar days after IRS receives the tax return. IRS has an on-line tool, "Where's My Tax Refund", at [www.irs.gov](http://www.irs.gov) that will provide the status of a tax refund using the taxpayer's SSN, filing status, and refund amount.

**9. How should an RDFI respond if the taxpayer questions or complains about an offset against their tax refund amount?**

If an individual owes money to the Federal government because of a delinquent debt, Treasury Fiscal Service can offset the individual's tax refund. The debtor is notified in advance of any offset action to be taken. Individuals may call Treasury Fiscal Service at 1-800-304-3107 with questions about their delinquent debt.

**10. Is there a limit on the number of refund payments that can be made to the same account at the RDFI?**

Yes, the number of refunds that can be electronically deposited into a single financial account or pre-paid debit card is limited to three. If you are due any additional refunds, the IRS will send you a notice informing you that the direct deposit limit has been exceeded, and that you should receive a refund check instead of the direct deposit you requested in approximately four weeks if there are no other issues with the return. This limit has been put in place to prevent fraudulent refund payments from being made to a single account.

**11. Who is responsible for monitoring how many IRS refund deposits are being made to the same account? The IRS or the RDFI?**

A. The IRS is responsible. An RDFI is not obligated to monitor accounts for number of IRS refunds to each account.

**12. Can funds be split into multiple checking and savings accounts?**

Yes. IRS does permit and has the operational capability to direct a tax refund to a single account or split into different accounts that are in the taxpayer's name, the spouse's name, or both if it is a joint account.

**13. Can taxpayers elect to use their tax refund to purchase U.S. Savings Bonds?**

Yes. The taxpayer would complete Form 8888 and submit an instruction with their tax return to authorize splitting the refund to designate all or a portion of their refund toward a savings bond purchase.

**14. In the case of a joint tax return and refund, should an RDFI be concerned that the name of the account only contains the name of one individual and does not match?**

No. An RDFI is not required to match the name on the file with the name on the account during payment processing.

**15. What happens if an RDFI returns a direct deposit tax refund? Will the taxpayer still receive the refund?**

Yes. Upon receipt, Treasury's Fiscal Service will cancel the direct deposit payment and advise IRS. IRS will research the payment and, using the taxpayer's address of record, will direct the Fiscal Service to issue a refund by paper check.

**16. Are IRS tax refunds subject to the Government's reclamation rules, similar to Federal benefit payments (e.g. Social Security benefits)?**

No. IRS refund payments sent electronically through the ACH network are not subject to reclamation. If an RDFI receives a tax refund for a deceased accountholder, it is not required to take any further action.

**17. Related to Question 16, should an RDFI review accountholder's account for other Federal payments that may be subject to reclamation?**

Yes. The RDFI does need to take action to return funds and limit its liability if it discovers that Federal benefit payments, such as Social Security payments, are also being received in the name of the deceased accountholder since recurring benefit payments are subject to reclamation.

**18. Can a taxpayer elect to have his/her tax refund deposited to a prepaid debit card account?**

Yes. However, the prepaid card provider must ensure that their card account meets the requirements of 31 CFR Part 210.5(b) (5). These requirements include the card provide pass-through Federal deposit insurance; that the card account is not attached to a line of credit upon which repayment is triggered by delivery of a Federal payment; and that the card provide the consumer protections that apply to payroll cards under Regulation E.

**19. If a customer asks about the programs that provide volunteer taxpayer assistance, is there a telephone number they can call?**

Yes. The Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs have provided free tax preparation assistance in the past. Customers can call 1-800-829-1040 to find out more about these programs for 2014.

**20. Who at IRS can a taxpayer contact with questions or issues?**

A taxpayer can contact their local IRS office or Taxpayer Advocate located in all 50 states, the District of Columbia, and Puerto Rico with questions. IRS contact information is available on the IRS website ([www.irs.gov](http://www.irs.gov)). A general telephone number for inquiries is 1-800-829-1040.

**21. If suspicious or fraudulent activity is suspected on a refund received, who should an RDFI contact?**

The RDFI could contact IRS at 1-800-829-1040 to report the questionable payment. As a general rule, when an RDFI is in doubt about depositing a refund payment, it should return any refunds to the Treasury Fiscal Service. Additionally, if the financial institution suspects that a refund payment or payments is associated with fraud, the institution could use IRS' External Leads Program by emailing information about the questionable refund to [efleads@irs.gov](mailto:efleads@irs.gov). IRS will perform additional research into the refund payment or payments.

**22. What are the IRS and the Fiscal Service doing to prevent fraudulent IRS refund payments by direct deposit?**

The IRS and Fiscal Service are currently utilizing several different programs or processes to prevent or identify fraudulent returns as early in the process as possible. First, NACHA, The Electronic Payments Association, has implemented an opt-in program at the request of IRS and Treasury Fiscal Service to allow RDFIs to use a specific return reason code (R17) to return refunds where fraud is suspected. Under the opt-in program, once the suspected fraud is identified by the program-participating RDFI, the payment is returned back to Treasury Fiscal Service which routes the payment back to IRS for additional research. RDFIs seeking more information or which are interested in program participation should contact NACHA directly at 703-561-1100 or by email at [info@nacha.org](mailto:info@nacha.org).

Secondly, the IRS has limited the number of refunds that can be electronically deposited into a single financial account or pre-paid debit card to three. This limit has been put in place to prevent fraudulent refund payments from being made to a single account.

Additionally, if a financial institution suspects that a refund payment or payments is associated with fraud, the institution could use IRS' External Leads Program by emailing information about the questionable refund to [efleads@irs.gov](mailto:efleads@irs.gov).

Lastly, the IRS, Fiscal Service, the Network Branded Prepaid Card Association, and prepaid card providers continue to meet on a recurring basis to identify ways to identify and prevent fraudulent refund payments from being made to a prepaid card account. This workgroup was responsible for developing the opt-in program using the R17 return code and the External Leads Program.

**23. If a customer who owes a debt to an RDFI receives a Federal tax refund by ACH, can the RDFI offset the refund against the debt?**

A. Yes, Federal tax refund payments are not protected against offset by a financial institution.

**24. Federal tax refund payments are not protected against offset by an RDFI. However, what if the account to which the tax refund is to be made was closed by the accountholder? Can the RDFI re-open the account and use that deposit to offset a debt?**

A. No, if the payment cannot be posted to the account specified in the entry, it should be returned. The account should not be reopened to satisfy a debt.