

Federal Tax Refunds Reference Guide

Help for You and Your Financial Institution



Scenarios & Recommended Guidance

It's that time of year again – tax refunds are being received and there are great questions coming into our office. UMACHA is here to help and provide you with scenarios and information to consider when processing these tax refund credits. Remember that any guidance from *The Green Book* or 31 CFR Part 210 applies only to federal payments, meaning that certain guidance may not be applicable to state or local tax refunds. For additional questions, call UMACHA at (800) 348-3692.

Scenario #1	In the normal course of business, a financial institution (FI) determines that a tax refund is posting to the account of account holder Roger Jones but contains the name "Jane Doe" in the ACH entry. Should the FI return the ACH credit entry?
Scenario #2	In the normal course of business, a financial institution (FI) determines that a tax refund is posting to the account of account holder Jim Johnson but contains the name "Susan Smith" in the ACH entry. The FI is aware that Susan & Jim used to share the account when they dated but have since broken up & Susan removed herself from the account. Should the FI return the ACH credit entry?
	<p>Subsection 3.1.2 of the <i>Nacha Operating Rules</i> states that an RDFI may rely solely on the account number contained in an ACH entry, regardless of whether the name in the entry matches the name on the account.</p> <p>However, Chapter 2-6 of <i>The Green Book</i> states "...an RDFI that becomes aware that an agency has misdirected an ACH credit entry to the wrong account must promptly notify the agency." The term "agency" meaning the IRS.</p> <p>IRS guidance indicates that a taxpayer should not have their refund directly deposited to an account that does not bear the taxpayer's name, except in cases where the return was a jointly-filled return by spouses & the refund was deposited to one of the spouses' individual account or joint account.</p> <p>Answer: In both scenarios 1 & 2, the FI may choose to allow the entry to post (based on the account number in the entry) or it may choose to return the entry timely to the IRS using R03, as the name in the entry does not match the name on the account. However, the FI is obligated to notify the IRS of the misdirected payment in both scenarios. FIs should be mindful of their policies & procedures for situations where discretion may be exercised. Failure to do so could result in UDAAP violations.</p>

If you have further questions or you have a situation that requires further clarification, please call the UMACHA office at 763-549-7000 or 1-800-348-3692.

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Scenario #3

An ACH federal tax refund credit entry is listed on an FI's exception report. The name in the entry matches the name on an account at the FI but the account number is missing a digit. Can the FI manually post the entry to an account that they believe is the intended account? Also, could the FI face liability if they post the entry to the wrong account?

The *Nacha Operating Rules* do not prohibit an RDFI from manually posting an entry to an account. However, this action may cause the RDFI to face liability if it is determined that the RDFI posted the funds to the wrong intended recipient.

Chapter 2-6 of *The Green Book* states the following: "Please note that the financial institution does this (manual posting) at its own risk and may be liable to the issuing agency if the financial institution is incorrect and there is a resulting loss by the agency..."

Chapter 2-6 of *The Green Book* also states "...an RDFI that becomes aware that an agency has misdirected an ACH credit entry to the wrong account must promptly notify the agency." The term "agency" meaning the IRS.

Answer: The FI may choose to manually post the entry to the account they believe was originally intended to receive the tax refund. However, to avoid incurring potential liability, an RDFI may instead choose to return the entry back to the IRS, as the account number found in the entry does not match an account at the FI. The IRS will re-process the tax refund as a paper check & will deliver it via U.S. mail to the last known address listed in the IRS's records.

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Scenario #4	<p>A member comes into their local branch & starts asking about multiple "missing" tax refund credits. A further conversation determines that this member does tax preparation as a side business. The member says that he uses his own account information to receive the refunds on behalf of his clients. He then remits the refunds to the appropriate taxpayer, less his tax preparation fees.</p>
	<p>The IRS states that the number of refunds that can be electronically deposited into a single FI account or pre-paid debit card is limited to three per tax season. If exceeded, the IRS will send a notice to the taxpayer & indicate that a refund check will be sent for all refunds beyond the limit. The refund check will be sent to the taxpayer's last known address in the IRS's records.</p> <p>IRS guidance also indicates that a taxpayer should not have their refund directly deposited to an account that does not bear the taxpayer's name, except in cases where the return was a jointly-filled return by spouses & the refund was deposited to one of the spouses' individual account or joint account.</p> <p>If the FI can make a timely return, the FI may choose to return these credit entries as R03. FIs should be mindful of their policies & procedures for situations where discretion may be exercised. Failure to do so could result in UDAAP violations.</p>

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