



FTA bulletin

Federation of Tax Administrators
444 N. Capitol St., N.W., #348, Washington D.C., 20001 * (202) 624-5890

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Update on NACHA International ACH Transaction (IAT) Requirement

SUMMARY

Recently FTA has made states aware of the need to implement the new International ACH Transaction (IAT) format in all programs involving electronic funds transfer through the ACH network. This new NACHA rule requires additional payment addendum data to be provided whenever the ultimate source or destination of funds is international, even if the immediate funds transfer only involves domestic financial institutions.

This Bulletin provides our best sense of how to meet this obligation and details additional resources available to assist you in meeting the IAT requirement. We also urge you to meet with your EFT provider to discuss their preparations for handling the IAT format.

To State Tax Administrators:

Recently FTA has made states aware of the need to implement the new International ACH Transaction (IAT) format in all programs involving electronic funds transfer through the National Automated Clearing House Association (NACHA) network. This new NACHA rule, implemented by request of the Office of Foreign Assets Control of the U.S. Department of Treasury, requires additional payment addendum data to be provided whenever the ultimate source or destination of funds is international, **even if the immediate funds transfer only involves domestic financial institutions.**

The official deadline for implementation of the IAT is September 18, 2009. However, FTA has learned that many states were not informed of this rule by their financial institutions or EFT service providers, and have only now become aware of the need to implement changes. In addition, we realize that changes to tax forms and programs during the middle of the tax season are extremely costly to the states.

For these reasons, FTA strongly recommends that all states, at minimum, incorporate the IAT into their end of year/new tax year form and program changes, to be implemented **no later than January 2010.** It is reasonable to expect that the period from September 18, 2009, through December 31, 2009, will be a learning curve for the financial system as a whole, and that any

potential penalties for non-compliance may be avoided if good faith effort toward compliance is being shown.

Guidance

FTA will provide guidance to the states concerning the IAT in the form of recommended best practices, FAQs and call notes, and opportunities to speak directly with NACHA officials via scheduled teleconference. A call was held on July 17, 2009 with a number of states and a NACHA representative; the slide deck and notes from that session can be found at <http://www.taxadmin.org/fta/edi/nacha/default.html>. This deck contains a number of process flow scenarios that may be helpful to you in understanding in what situations an IAT-formatted EFT transaction is necessary.

NACHA provides a useful educational page on its website that contains an IAT Survival Guide, Key Messages, FAQs, and a Tool Kit, at: http://www.nacha.org/IAT_Industry_Information/. They also maintain an electronic mailbox to which you may directly submit IAT questions, iatquestions@nacha.org.

For the benefit of multi-state taxpayers and service providers, it is desirable for the states to implement the IAT in as consistent a manner as possible, so specific technical guidance for states for implementation of the IAT, including in particular XML standards for use in Modernized e-File and other present and future XML-based electronic programs, will continue to be provided through the TIGERS e-standards working group. The State Co-Chair of TIGERS will present an educational breakout session at the upcoming FTA Technology Conference in Boise, Idaho on implementation of the IAT.

Above all, states are urged to communicate with their financial institutions and other EFT service providers as to when they are expected to be capable of receiving and transmitting the IAT format and for additional assistance.

IRS Position

Many states have asked what the IRS is planning to do regarding the IAT requirement. The Federal Government is not automatically subject to NACHA rules, since NACHA is a private association of banks and financial service providers. The Financial Management Service in the U.S. Treasury (IRS's EFT services provider) must decide to accept any requirement imposed by NACHA. They do this by a rulemaking process, issuing a Notice of Proposed Rulemaking when they have to or need to comply with ACH rules. (The Federal Rules are at 31 Code of Federal Regulations (CFR) Section 210 – and govern the use of the ACH by all federal agencies.)

There is a Notice of Proposed Rulemaking regarding the IAT out now for public comment, as well as ongoing internal FMS discussion on its potential decision. A decision is expected in about two months, or approximately when the NACHA rule will be effective (September 18, 2009). Our information indicates that the IRS will do whatever FMS determines it should or must do to comply with NACHA Rules.

Status of FTA Request to OFAC for Relief

On July 8, FTA wrote to OFAC inquiring whether there is a formal procedure for relief from this requirement through OFAC, or in the alternative what steps may be necessary for FTA on behalf of its members to pursue such relief. To date we have not received a response.

However, through discussions with the NACHA IAT representative we learned that OFAC may have the authority to provide the states an exemption from the OFAC review requirements and the mandate to comply with U.S. law, but OFAC does not have the authority to exempt the states from NACHA's requirement to comply with the IAT SEC code format for transactions that meet the definition of an IAT. The format requirements and the use of the IAT SEC code is a NACHA Rules requirement for all users of the ACH.

NACHA previously stated in a May 15 letter to the FTA that it cannot provide an exemption to the states regarding the requirements of the IAT, so state tax agencies will need to be able to originate and receive IAT transactions.

We will keep you informed of further developments as they take place. Please direct any questions concerning the IAT to Jonathan Lyon at jonathan.lyon@taxadmin.org.

Best Regards,

Jim Eads
Executive Director
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