

**MEMO# 6230**

October 5, 1994

## **DEPOSITING TAXES VIA ELECTRONIC FUND TRANSFERS**

October 5, 1994 TO: ACCOUNTING/TREASURERS MEMBERS NO. 29-94 TAX MEMBERS NO. 41-94 TRANSFER AGENT ADVISORY COMMITTEE NO. 41-94 RE: DEPOSITING TAXES VIA ELECTRONIC FUND TRANSFERS

As you may know, legislation adopted in 1993 to implement the North American Free Trade Agreement requires most taxpayers to deposit taxes they withhold via electronic fund transfers ("EFT"). The requirement, which is to be phased in over several years, will apply to payroll taxes and taxes withheld under the backup withholding rules and the rules governing withholding on payments to non-resident aliens (Non-payroll Income Taxes). The requirement will apply to the very largest taxpayers beginning January 1, 1994, and will apply to all but the smallest taxpayers by the year 2000. The Institute recently became aware that the current system for processing electronic tax remittances, TAXLINK, may make it difficult for taxpayers, including mutual funds, to deposit their taxes on a timely basis using EFTs. Most mutual funds determine the amount of non-payroll income tax to be withheld as a result of each day's transactions late in the evening, after all the day's transactions have been processed. Withheld amounts generally are deposited the next business day. TAXLINK presently requires taxpayers to provide notice the day before a deposit is to be made of the amount to be deposited. Because funds do not know how much they will be depositing the next day until after normal business hours, they typically cannot provide the prior-day's notice TAXLINK requires. Attached is an Institute letter to the IRS commenting on the regulations that implement the EFT deposit rules. The letter outlines the problems with the TAXLINK system and requests that they be corrected. We understand that the IRS is attempting to improve the system before large numbers of taxpayers are required to use it. We will keep you informed of developments. Peter J. Cinquegrani  
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