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# Proposed Regs Would Expand Use of Electronic Payment System, Drop Use of Paper Coupons After 2010

**IR 2010-92; Preamble to Prop Reg 09/20/2010; Prop Reg § 1.1461-1, Prop Reg § 1.6302-1, Prop Reg § 1.6302-2, Prop Reg § 1.6302-3, Prop Reg § 1.6302-4, Prop Reg § 31.6302-1, Prop Reg § 31.6302-2, Prop Reg § 31.6302-4, Prop Reg § 31.6302(c)-3, Prop Reg § 40.6302(c)-1, Prop Reg § 40.6302(c)-2, Prop Reg § 40.6302(c)-3, Prop Reg § 301.6656-1**

IRS has issued proposed regs designed to expand the making of electronic tax deposits. The regs would eliminate the use of paper-based federal tax deposit (FTD) coupons after 2010. The existing rules for making electronic deposits would otherwise generally remain unchanged.

**Current rules.** Taxpayers whose aggregate annual deposits of certain taxes exceed \$200,000 are generally required to use electronic funds transfer (EFT) to make FTDs. Taxes taken into account in determining whether the \$200,000 threshold has been met include withheld income and FICA taxes, corporate income and estimated taxes, certain taxes imposed on tax-exempt organizations, taxes withheld on nonresident aliens and foreign corporations, estimated taxes of certain trusts, FUTA taxes, and excise taxes, as well as others. Once taxpayers exceed the \$200,000 threshold, they have a one-year grace period before being required to use EFT, and then they are required to use EFT in all later years even if their deposits fall below the threshold. The Electronic Federal Tax Payment System (EFTPS) is the EFT system currently used by IRS to collect FTDs.

Depositors not currently required to use EFTPS for deposits may instead use the paper-based FTD coupon system to make a deposit by presenting a check and an FTD coupon to a bank teller at one of the financial institutions authorized to be a government depository or financial agent.

**Proposed regs knock out use of paper coupons.** The proposed regs would eliminate the rules for making federal tax deposits by paper coupon after 2010 because the paper coupon system will no longer be maintained by the Treasury Department after Dec. 31, 2010. The proposed regs would require all of the following to be deposited via EFT:

- Corporate income and corporate estimated taxes;
- Unrelated business income taxes of tax-exempt organizations;
- Private foundation excise taxes;
- Taxes withheld on nonresident aliens and foreign corporations;
- Estimated taxes on certain trusts;
- FICA taxes and withheld income taxes;
- Railroad retirement taxes;
- Nonpayroll taxes, including backup withholding;
- Federal Unemployment Tax Act (FUTA) taxes; and
- Excise taxes reported on Form 720, Quarterly Federal Excise Tax Return.

Some businesses paying a minimal amount of tax could, however, continue make their payments with the related tax return, instead of using EFTPS.

Other deposit rules would generally remain unchanged. The proposed regs would, however, remove references to “banking” days and provide that, if the day an FTD would otherwise be due is a Saturday, Sunday, or legal holiday under Code Sec. 7503, the taxes will be treated as timely deposited if deposited on the next succeeding day which is not a Saturday, Sunday, or legal holiday.

IRS says that using EFTPS to make federal tax deposits provides substantial benefits to taxpayers. EFTPS users can make tax payments 24 hours a day, seven days a week from home or office. Deposits can be made on-line with a computer or by telephone. EFTPS also significantly reduces payment-related errors that could result in a penalty.

**Effective date.** The rules in the proposed regs would be effective for remittances made after the date that final regs are published, but in no case earlier than Jan. 1, 2011. The proposed regs are expected to be finalized by the end of this year.

Note: The News Release can be viewed on the IRS website at <http://www.irs.gov/newsroom/article/0,,id=226706,00.html>.

**RIA Research References:** For who must deposit taxes electronically, see FTC 2d/FIN ¶ S-5623; United States Tax Reporter ¶ 63,014; TaxDesk ¶ 559,853.

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