

BENJAMIN J. CAYETANO
GOVERNOR

MAZIE HIRONO
LT. GOVERNOR



RAY K. KAMIKAWA
DIRECTOR OF TAXATION

SUSAN K. INOUE
DEPUTY DIRECTOR

DEPARTMENT OF TAXATION

STATE OF HAWAII
P.O. Box 259
Honolulu, Hawaii 96809

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TAX INFORMATION RELEASE NO. 95-6

RE: Questions and Answers on Paying Taxes by Electronic Funds Transfer

In 1995, the Legislature passed a law that permits the Department of Taxation to require certain taxpayers to pay their taxes by electronic funds transfer (EFT) instead of by check. Generally speaking, taxpayers whose liability for a particular tax exceeds \$100,000 per year may be required to pay that tax by EFT.

This law was enacted so that the State would have access to its tax revenues in a more timely manner because funds could be transferred immediately to the state treasury without mail delays or return processing delays.

This Tax Information Release provides basic information about EFT.

1. Q. What is an Electronic Funds Transfer?

A. Electronic Funds Transfer (EFT) is an electronic method of making a payment that replaces conventional check-writing. One way that EFTs are handled is through the Automated Clearing House system (ACH), a nationwide network that electronically transfers funds. The ACH system is commonly used for direct deposits such as payroll and social security benefits, as well as automatic payments such as utility bills and life insurance premiums.

2. Q. I received a notice from the Department of Taxation saying that I was selected to participate in the EFT program. How was I selected?

A. Section 231-9.9, HRS (Act 121, SLH 1995), authorizes the Department of Taxation to require those taxpayers whose tax liability for a particular type of tax exceeded \$100,000 during the past year to pay that tax by EFT. The Department reviewed the filing records of many taxpayers and mailed notices to taxpayers who met this criterion.

3. Q. If the Department requires me to pay a tax by EFT, must I pay by EFT indefinitely?

A. No. If your liability for that tax type drops below \$100,000 in a year, you may ask the Department to excuse you from the program. Contact the Department's EFT Unit for details. (See Question and Answer 34 for telephone numbers.)

4. Q. If I want to pay my taxes by EFT but was not selected by the Department, may I still participate?

A. Yes. Contact the Department's EFT Unit for information on voluntary payment of taxes by EFT.

5. Q. What EFT methods may I use to pay my taxes?

A. The ACH Debit method is the preferred method. You may use the ACH Credit method, or any other method, if you receive advance permission from the Department to use it. Contact the Department's EFT Unit to request permission to use an alternate EFT method.

6. Q. How does the ACH Debit method work?

A. To use the ACH Debit method, you place a toll-free call to the Data Collection Center. The telephone number will be given to you when you sign up for the program. Through either the touch-tone menu or the Data Collection Center operator, you authorize the amount of the payment and the transfer. You will also furnish your tax identification number, the tax type, and the tax return filing period. Your telephone call functions as an authorization to the Department to arrange an EFT that will move the tax payment from your financial institution to the state treasury.

7. Q. If I authorize the Department to debit my account to pay my taxes as the ACH Debit method requires, will the Department be able to access my account for any other purpose?

A. No. The Department will not have access to your account. You must initiate any payments. Access codes and passwords ensure that only you can authorize the transfer of funds from your account to the state treasury, and that the funds are applied to the proper tax account.

8. Q. How does the ACH Credit method work?

A. To use the ACH Credit method, your financial institution (and not the Department) initiates the EFT. You furnish your financial institution with your tax identification number, the tax type, the tax return filing period, the amount of the payment, and the date of transfer.

Before initiating an ACH Credit transaction, you must ensure that your financial institution can perform its part of the transaction using the ACH standard CCD+TXP format. If your financial institution cannot conform to the CCD+TXP format, you must use the ACH Debit method.

9. Q. In both ACH Debit and Credit transactions, when are the funds actually withdrawn from my account?

A. Generally, on the next business day following the day that you initiate the transaction.

Some financial institutions, however, will allow you to specify the day on which the transfer of funds will be made. If you are using ACH Debit, check the detailed instructions provided to you by the Data Collection Center. If you are using ACH Credit, check with your financial institution.

10. Q. What are the advantages of the ACH Debit method?

A. ACH Debit transactions can be virtually error-free when sent through the banking system because extensive editing and data correction can be performed before the EFT is initiated. ACH Debit method transactions limit your responsibility. After you make the authorization telephone call, your responsibility is discharged, and the Department is responsible for the successful completion of the transaction, unless your financial institution rejects the transfer because of insufficient funds in your account, because your account is closed, or similar reasons.

During the authorization telephone call, an acknowledgment code will be given to you indicating that you have fulfilled your responsibility to make payment in a timely manner.

The costs of ACH Debit transactions are borne primarily by the Department.

11. Q. Which payment method does the Department recommend?

A. The Department recommends using the ACH Debit method. Experience in other states shows that there are likely to be fewer errors made in transmitting information using the ACH Debit method. Also, with the ACH Debit method, the cost of the transaction and the responsibility for completing the transaction successfully are borne primarily by the Department. With the ACH Credit method, all costs and responsibility are borne by the taxpayer.

12. Q. Will I get any written verification or acknowledgment from the Department if I make an ACH Debit or an ACH Credit transaction?

A. No. In an ACH Debit transaction, the acknowledgment code you receive over the telephone serves as your acknowledgment. In an ACH Credit transaction, you do not receive an acknowledgment from the Department, but your financial institution may provide you with verification that the transaction was completed.

13. Q. May I use any other EFT method besides the ACH Debit and ACH Credit methods?

A. Yes, if the Department approves the method in advance.

14. Q. May I change my EFT method at any time?

A. You may change your payment method only with the prior approval of the Department. You need to file a written application to request approval. Contact the Department's EFT Unit for details.

15. Q. What can I do if an emergency prevents me from making a timely EFT using the ACH Debit or ACH Credit method?

A. Contact the Department's EFT Unit immediately for instructions. You maybe permitted to make your payment by certified check or another method. If it is not established to the Department's satisfaction that an emergency exists, however, penalties may apply.

16. Q. Is it possible to change an EFT?

A. Yes, but only on or before the cut-off time on the day before the funds are to be transferred. Follow the instructions of the Data Collection Center if the transaction to be changed was an ACH Debit transaction. Follow your financial institution's instructions if the transaction to be changed was an ACH Credit transaction. Contact the Department's EFT Unit if an error in payment is discovered too late to change the EFT.

17. Q. May I pay in advance by certified check if I am supposed to pay by EFT?

A. No. Payment by certified check will not meet your obligations to pay by EFT.

18. Q. Is there a penalty for a late tax payment by EFT?

A. Yes. A late tax payment by EFT is subject to the same penalty as any other late tax payment. If payment is delayed for reasons beyond your control, you must submit proof that you exercised due diligence.

19. Q. Am I subject to penalties if the Department, the state treasury, the Data Collection Center, or my financial institution makes an error in initiating an EFT?

A. You will not be subject to penalties because of any error made by the Department, the state treasury, or the Data Collection Center.

Your responsibility for an error made by your financial institution depends on the method you use.

When you use the ACH Debit method, responsibility for the successful completion of the transaction is shifted to the Department as soon as you make the authorization telephone call.

When you use the ACH Credit method or any other method, you and your financial institution are responsible for the transaction, and you will be subject to penalties if your financial institution makes an error in initiating an EFT.

20. Q. How do I prove I made a timely ACH Debit transaction?

A. The acknowledgment code you receive over the telephone will indicate the time and date of the authorization telephone call.

21. Q. How do I prove I made a timely ACH Credit transaction?

A. You must submit documentation from your financial institution indicating that your account was debited on or before the date payment is due.

22. Q. How will I be notified of any underpayments?

A. You will receive a billing through the Department's normal billing cycle. All billings will provide contact telephone numbers for billing questions.

23. Q. Do I use EFT for all tax payments?

A. No. EFT is used only to pay the tax that you report to be due on a periodic tax return (such as a monthly return of general excise taxes or payroll withholding taxes).

Payments made with annual reconciliation returns, extension requests, and billings (such as delinquent tax notices or audit assessments) will continue to be payable in the usual manner. Cash, checks, money orders, and other forms of payment will be accepted by the Department's cashiers; checks and money orders may be mailed in.

24. Q. How will I be notified of any overpayments?

A. You will be notified in writing if you have paid more tax to the Department than the amount shown on your annual reconciliation return.

25. Q. How do I report no tax due?

A. File a signed return showing no tax due.

26. Q. Do I file tax returns at the same time that I pay my taxes by EFT?

A. Signed tax returns still must be filed on or before the due date and, if mailed, must bear a United States Postal Service cancellation mark that is dated on or before the due date. You will receive detailed instructions on how to coordinate your return filing with your EFT payment.

27. Q. If I am required to pay a particular tax by EFT, may I pay other taxes by EFT?

A. Yes, but you must first contact the EFT Unit for information on voluntary payment of taxes by EFT.

28. Q. May my paid preparer or accountant serve as my primary EFT contact person?

A. No. The primary contact person must be someone within your company who will be directly involved in all phases of the registration, systems implementation, and tax payment process.

29. Q. If I have a problem contacting the Data Collection Center for an ACH Debit transaction, whom should I call?

A. Contact the Department's EFT Unit in enough time to correct the problem.

30. Q. If, after my tax return has been filed, I discover that I have overreported or underreported a particular tax that I pay by EFT, what should I do?

A. You must file an amended return. Attach a check or money order for any additional tax due.

31. Q. How do I report changes in registration information that I entered when I initially signed up for EFT?

A. You report a change in your EFT method or financial institution information by filing an amended EFT form with the Department of Taxation, EFT Unit, P.O. Box 259, Honolulu, Hawaii 96809-0259. If the changes in registration information do not specifically relate to EFT, such as a change of address, you report the changes in the usual manner.

32. Q. When do I call my financial institution or the Data Collection Center, as the case may be, if the due date for payment falls on a weekend or Hawaii state holiday?

A. When a due date falls on a weekend or Hawaii state holiday, payment is due the first business day following the Saturday, Sunday, or holiday. You must initiate the EFT by calling either your financial institution or the Data Collection Center prior to the weekend or holiday.

33. Q. May I make multiple payments by EFT?

A. Yes. If you use the ACH Debit method, after you make the first EFT, tell the operator that you wish to make another EFT and follow the instructions of the Data Collection Center. If you use the ACH Credit method, you initiate the multiple EFTs through your originating financial institution.

34. Q. How may I contact the EFT Unit?

A. The EFT Unit may be contacted by telephone at 808-587-4242. On the Neighbor Islands, call toll-free 1-800-222-3229.



RAY K. KAMIKAWA
Director of Taxation