# Electronic Payments for Colorado Department of Revenue Tax Payments Using Third Party Payment (TPP) Addenda Records

## I. Purpose and Scope

The Third-Party Tax Payments (TPP) are those payments made by a third-party to a federal or state taxing agency on behalf of a delinquent taxpayer. In order for taxing authorities to properly post and account for these payments, there is a need to identify both the third-party payer as well as the taxpayer on whose behalf the payment is being made. Examples of third-party payments are 1) payments from employers or financial institutions in response to tax agency levies to garnish employee wages or accounts for tax liability and 2) employee tax withholdings remitted by payroll service providers on behalf of employers.

The Federation of Tax Administrators (FTA), on behalf of its state revenue department members, requested the National Automated Clearing House Association (NACHA) to implement a banking convention that would allow third parties (e.g., payroll companies, financial institutions and employers) to standardize ACH (Automated Clearing House) payment remittance information to federal and state revenue authorities on behalf of individuals or businesses who are subject to garnishments due to state tax delinquency.

The TPP Banking Convention provides an employer with an electronic method for sending tax payments to the taxing authority by means of ACH credit payments. These payments are originated by the employer's (or third party payroll provider's) financial institution through the ACH Network to transfer the funds and payment electronically, thereby offering the payment origination entity a more attractive alternative to the less-efficient practice of issuing a check with paper documentation for each remittance.

The convention forms the basis for remitting delinquent tax payments together with remittance detail about the payments using the NACHA Cash Concentration and Disbursement (CCD+) format. Remittance detail for a single payment is conveyed in the 80-character payment related field of the single Addenda Record of the CCD+. A banking convention typically refers to a standard format for the presentation of data within a single Addenda Record.

Benefits of remitting electronically:
- Eliminates the cost of printing paper checks and supporting documents
- Eliminates the cost of postage and delays due to lost or misdirected mail
- Reduces check handling and processing costs
- Reduces data entry errors

## II. Background

State revenue authorities are required to diligently pursue delinquent taxpayers. Several years ago, the Colorado Department of Revenue implemented a new tax system which enabled automation of our delinquency and collection processes. This significantly increased the number of garnishment actions

imposed on employers and financial institutions.  It became apparent we needed an electronic method for ending and receiving these payments.

The Department had accepted ACH tax payments for many years using the Tax Payment (TXP) addenda format to identify the taxpayer, type of tax and tax period to correctly apply electronic payments. Unfortunately, this format did not have the flexibility to support third party payments as it could not identify both the third party entity making the payment and the taxpayer's (employee or account holder) account to credit.  The Deductions (DED) addenda format, which is federally mandated for child support garnishment payments, did have this flexibility; however, it could only be used for child support.  Therefore, the TPP addenda format was developed to identify the third party payer and provide multiple fields to uniquely identify the recipient taxpayer.  The TPP format is based on a combination of the current tax payment TXP addenda and child support DED addenda to meet the needs of the revenue agencies.

The Federation of Tax Administrators, NACHA and several states developed the new TPP addenda format. It was important to have a national standard to increase acceptance of this payment methodology by employers, financial institutions and payroll service companies.  **This allows third parties to use a single format for remitting tax garnishment and levies payments to multiple revenue agencies.**

## III.    Process

An employer or financial institution is notified to withhold wages or withdraw funds from a particular employee or account holder by a levy or notice generated from a taxing authority. The order/notice provides instructions and serves as the employer's or financial institution's legal basis for taking this action.

In order to transfer the funds and data, the employer, payroll processor, or account holding financial institution provides or transmits the payment instructions and remittance information to its financial institution.  The financial institution then originates the ACH entries to transfer the payments and remittance information through the ACH Network to the financial institution of the taxing authority that initiated the order. Once received, the taxing entity's financial institution posts the funds to the taxing authority's account and provides the remittance information associated with those payments electronically.  The taxing authority in turn updates its tax system and credits the taxpayer's account.

## IV.    Contrasting the TXP with the TPP banking conventions

The Tax Payment Banking Convention contains the format, definitions and implementation suggestions for business to electronically remit tax payments and information to taxing authorities via the ACH Network using the CCD+ format.

Since its approval in 1990, TXP has been adopted by the majority of states and many local taxing authorities as the standard for businesses to electronically remit tax payment information in a CCD+ format. The addenda record layout identifies the type of addenda (TXP), an identification number, the tax type being remitted, the tax period the payment is for and the amount.  Optionally the record may also include details regarding the amounts for penalty and interest.  TXP has been very effective over the years and has streamlined the payment process for all parties involved.

The TPP banking convention also utilizes the CCD+ format but uses a different format addenda record. The addenda record layout identifies the type of addenda (TPP), identifies the third party (employer or financial institution), the date applicable to the payment, the amount, the first reference identification for the taxpayer, taxpayer's name, then a second reference identification for the taxpayer. Record layouts for both types of tax banking conventions along with an explanation of the TPP addenda record fields and examples are located in the Exhibit section of this document. (For more information on the TXP Addenda, please see Colorado Department of Revenue form DR 5782.) Also included in the Exhibit section is a sample of a Colorado garnishment letter with the taxpayer identification information locations highlighted. Please note other states may have different requirements. For successful implementation of the TPP format it is imperative that the requirements mandated by each state are incorporated into the TPP development and programming process.

For payroll processors it is critical that clear instructions are provided to any clients who are doing their own data entry for garnishment payments and your staff (if you are doing data input directly) regarding each state's requirements. We recommend a letter be created and sent to your clients and staff clearly indicating the requirements needed by each state.

V.      **NACHA Record Formats**

The *NACHA Operating Rules and Guidelines* govern the formats, specifications and exchange of ACH entries. NACHA is also responsible for developing and maintaining NACHA endorsed banking conventions. With respect to the data that are contained in the Addenda Records of ACH formats, the *NACHA Operating Rules* stipulate the type of data that may be exchanged as well as which standards and formats are permitted, but the structure of the data contents is managed outside of the *NACHA Rules.* For example, the *NACHA Operating Rules* permit the exchange of NACHA-endorsed banking conventions within the Addenda Record of the CCD+ format along with other approved conventions.

The following record formats are used to convey entries through the ACH Network:

- File Header Record
- Company/Batch Header Record
- Entry Detail Record
- Addenda Record
- Company/Batch Control Record
- File Control Record

An ACH file is enveloped by one File Header Record and one File Control Record, which serve to facilitate transmission, identification and balancing of the file. A file may be comprised of one or more batches, which are denoted by the Company/Batch Header Record and Company Batch Control Records. These records carry information specific to all of the Entry Detail Records contained within that batch. The Entry Detail Record is the record that constitutes the payment order and is used within the bank system to execute the related payment and settlement. An Addenda Record is used to supply additional information related to the payment issued in the Entry Detail Record. Each Addenda Record included an 80-position Payment Related Information Field within which the remittance detail is transmitted.

The NACHA record format for CCD+ entries flow in the following order:

File Header Record

    Company/Batch Header Record

        Entry Detail Record

            Addenda Record (1 addenda with 80-byte Payment Related Information Field)*

    Company Batch/Control Record

File Control Record

*Note a batch can contain one or more Entry Detail Records and Addenda Records

To obtain a full explanation of the rules, specifications and formats for the ACH Network refer to the *NACHA Operating Rules* or consult with your financial institution.

**How to Implement**

Getting Started

Click on the link provided below to access and complete the Third Party Payment Originator Application https://www.colorado.gov/pacific/sites/default/files/DR5778.pdf Please send the completed form to:

Colorado Department of Revenue
Research Unit, Room 108
PO Box 17087
Denver, CO 80217-0087

FAX:(303) 866-3112

Testing process

- Testing is required for implementation. Upon receipt of the TPP Originator Application, we will contact you to answer any questions you may have to assist with your development effort.  We will ask you to provide a dummy test file to our department via email for review.  Test results will be available in five (5) business days.
-  If the test is not successful, we will consult with you regarding what needs to be changed and ask for a modified test file.
- If the test is successful, we will ask you to originate two or three ACH records containing actual taxpayer data through the banking system that we will follow through our production environment. If these items are successfully read and posted, you will be approved to send all of your wage garnishments or tax levies using the TPP format.
- If the test is not successful, we will consult with you regarding what needs to be changed and ask for another small set of live items to process through ACH.

VI.    **Miscellaneous**

General Guidelines Regarding Garnishment Payments

As soon as a garnishment or levy notice is received by your organization, it must be acted upon in time for the next payroll.  Financial institutions should respond within ten (10) business days.  Payment should be received by the Department five (5) working days after the payroll date.  For example, if the pay date was July 18, 2014, the payment should have been received by the Department of Revenue by July 25, 2014. Funds should continue to be withheld from subsequent payrolls until the full amount of the garnishment is satisfied.

Page two of the notice (located in the exhibit section) provides the steps needed to determine the employee's disposable income.  If you have any questions regarding the calculation steps or any other aspects about the garnishment notice, please send an e-mail to DOR_Collections@state.co.us.

Common Errors

The TPP format was created with as much flexibility as possible so that each state could determine what information is needed in order for the transactions to post electronically. In the national standard format, the TPP07 field is an optional field; however, in Colorado, it is **mandatory**.  In the TPP07 field, we need either the taxpayer's Colorado Account Number (8 digits) or the Letter ID (11 digits).  Both forms of identification are in the garnishment or levy letter, please see the example in Exhibit 5.  By having two forms of identification, the Social Security Number (SSN) or last 4 digits of the SSN in TPP05, and a second identification number in TPP07, we are assured of crediting the correct taxpayer in our system. The employee or account holder's name provides a visual reference if the payment does not post correctly.

The following are examples of errors we have encountered resulting in the payments suspending in our system:

- It is common for the TPP07 field to contain the SSN of the taxpayer.  This must be a second type of ID, similar to the way the case number works in the Child Support DED format
- There is no TPP07 field in the addenda record
- There are extra digits in the TPP07 field
- The information in TPP07 is unrelated to either the Colorado Account Number or the Letter ID
- The addenda terminator symbol (\) is missing
- Additional information follows the terminator symbol

These types of errors keep the payments from processing automatically, defeating the purpose of receiving electronic payments.   Upon implementation, we will work with your organization to identify and prevent these types of errors on future transactions. **If the problem persists we will return all rejected items back to you unprocessed.**  If that does not rectify the errors we will be forced to block TPP payments from your organization and convert you back to paper checks.

For more information you may contact:

DOR_CDP_Research_Unit@state.co.us
http://www.taxadmin.org
http://www.nacha.org

## Exhibit 1 – Record Layout

| | TPP ADDENDA RECORD - FOR THIRD PARTY PAYMENTS | | | | |
|---|---|---|---|---|---|
| | Wage Garnishment Values | | | | |
| | | **Attributes** | | | |
| **Field** | **Data Element Description** | **Pos.** | **Length** | **A/N** | **Contents** |
| 1 | Record Type Code | 01-01 | 1 | N | **7** (constant) |
| 2 | Addenda Type Code | 02-03 | 2 | N | **05** (constant) |
| 3 | Segment ID | 04-06 | 3 | AN | **TPP** (Third Party Payment - constant) |
| | Separator | | 1 | | * |
| TPP01 | Tax Payment Type Code | | 3/5 | AN | *3 - 5 digit Tax Type (**209** for wage garnishments)* |
| | Separator | | 1 | | * |
| TPP02 | Reference ID | | 1/10 | AN | *Third Party Payer Identification Number* |
| | Separator | | 1 | | * |
| TPP03 | Date | | 8/8 | N | *YYYYMMDD* |
| | Separator | | 1 | | * |
| TPP04 | Amount | | 1/10 | N | *Amount paid,  2 decimal places* |
| | Separator | | 1 | | * |
| TPP05 | Reference ID | | 1/9 | AN | *Taxpayer SSN, last 4 of SSN or other state Identification Number* |
| | Separator | | 1 | | * |
| TPP06 | Name | | 1/13 | AN | *Taxpayer Name* |
| | Separator | | 1 | | * |
| TPP07 | Reference ID | | 1/14 | AN | *Secondary Taxpayer Identification Number* |
| | Terminator | | 1 | | \ |
| 4 | Addenda Sequence # | 84-87 | 4 | N | **0001** (constant) |
| | Entry Detail Sequence # | 88-94 | 7 | N | *Same as last 7 digits of Entry Detail Trace #* |

Note:   Data elements shown in bold are constants.
        Data elements shown in italics are from taxpayer records.

**Exhibit 2 - Field Definitions for the TPP Addenda**

| | | |
|---|---|---|
| TPP01 | Tax Payment Type Code: | State assigned tax type, recommend using the same codes as the state uses for TXP payments.  The FTA has drafted a master code table to facilitate consistency and sharing among the states. **For wage garnishments in Colorado, this value is 209.** |
| TPP02 | Reference ID: | Identifies the third party who originated the payment.  The third party's identification or registration number as assigned by the state taxing authority. **For wage garnishments in Colorado, use the employer's FEIN or Colorado Account Number (CAN).** |
| TPP03 | Date: | Date applicable to this payment, may be a payroll date (for wage garnishments) an account debit date (for financial institution garnishments) or tax period end date. **For wage garnishments in Colorado, use the payroll date.** |
| TPP04 | Amount: | Amount of payment, should match the ACH detail (6) record amount. The amount field must always contain cents (cc). Decimal points are not included. The last two digits will be read as the "cents." |
| TPP05 | Reference ID: | Identification number of the taxpayer on whose behalf payment is being made. **For wage garnishments in Colorado, use either last 4 digits of the Social Security Number (SSN) or the full SSN.** |
| TPP06 | Name: | First 13 characters of the taxpayer's name on whose behalf payment is being made. **This is for visual reference; recommend using the 1st 13 characters of the last name, then the first name.** |
| TPP07 | Reference ID: | Second identification number of the taxpayer on whose behalf payment is being made, such as a state assigned account number or a collection case number.  This number, along with TPP05, provides two separate reference numbers to positively identify the entity receiving credit for the payment. **For wage garnishments in Colorado, use the Letter ID associated with the garnishment notice (preferred) or the employee's Colorado Account Number (CAN).** |

## Exhibit 3 – Examples of TPP Addenda Records

Addenda format examples –

Wage garnishment for John Doe,
Employer FEIN 123456789,
SSN 111-22-3333,
Letter ID # L1234567890,
Employee's CAN 98765432,
Payroll date 06/07/14,
$155.00 payment amount:


705TPP*209*123456789*20140607*15500*3333*DOE, JOHN*L1234567890\
(Showing last 4 digits of the employee's SSN plus the Letter ID)

Or

705TPP*209*123456789*20140607*15500*111223333*DOE, JOHN*L1234567890\
(Showing the employee's full SSN plus the Letter ID)

Or

705TPP*209*123456789*20140607*15500*3333*DOE, JOHN*98765432\
(Showing last 4 digits of the employee's SSN plus the CAN)

Or

705TPP*209*123456789*20140607*15500*111223333*DOE, JOHN*98765432\
(Showing the employee's full SSN plus the CAN)

# Exhibit 4 – Record Layout

| Field | Data Element Description | Position | Length | Contents |
|---|---|---|---|---|
| | **TXP ADDENDA RECORD - FOR TAX PAYMENTS** | | | |
| 1 | Record Type Code | 01-01 | 1 | **7** |
| 2 | Addenda type Code | 02-03 | 2 | **05** |
| 3 | Segment ID | 04-06 | 3 | **TXP** |
| | Separator | | 1 | * |
| TXP01 | Taxpayer ID | | 1/15 | *10 digit  Colorado DOR assigned EFT #* |
| | Separator | | 1 | * |
| TXP02 | Tax Type Code | | 1/5 | *Tax Type from DOR table* |
| | Separator | | 1 | * |
| TXP03 | Tax Period End Data | | 6 | *YYMMDD* |
| | Separator | | 1 | * |
| TXP04 | Amount Type (Tax) | | 1 | **T** |
| | Separator | | 1 | * |
| TXP05 | Amount | | 1/10 | *Amount of tax,  2 decimal places* |
| | Separator | | 1 | * |
| TXP06 | Amount Type (Penalty) | | 1 | **P** |
| | Separator | | 1 | * |
| TXP07 | Amount | | 1/10 | *Amount of penalty, 2 decimal places* |
| | Separator | | 1 | * |
| TXP08 | Amount Type (Interest) | | 1 | **I** |
| | Separator | | 1 | * |
| TXP09 | Amount | | 1/10 | *Amount of interest, 2 decimal places* |
| | Terminator | | 1 | \ |
| 4 | Addenda Sequence # | 84-87 | 4 | **0001** |
| | Entry Detail Sequence # | 88-94 | 7 | *Same as last 7 digits of Entry Detail Trace #* |

Note:    Data elements shown in bold are constants.
          Data elements shown in italics are from taxpayer records.
For more information on electronic tax payments, please see the Colorado Department of Revenue Form DR 5782:
https://www.colorado.gov/pacific/sites/default/files/DR5782.pdf .

**Exhibit 5 – Sample Garnishment Letter**

# STATE OF COLORADO

Colorado Department of Revenue
1375 Sherman St
Denver, CO 80261-0004

⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂⑂

Dec 03, 2014

*Alternative: TPP07*

**Letter:** L1234567890

**Source:** COL

## NOTICE OF LIEN & GARNISHMENT UNDER DISTRAINT ON WAGES, SALARY AND OTHER INCOME FOR COLLECTION OF DELINQUENT STATE TAXES

| **GARNISHEE** | **GARNISHEE: Return the remittance with the enclosed payment processing document** |
|---|---|
| HORTONS' WHO<br>ATTN: Tax P Ayer<br>999 CLOVER SPECK COURT<br>WHOVILLE US  99999 | **PAY THIS**<br>**AMOUNT OF TAX: $_____**<br><br>**TYPE OF TAX:**  Individual Income Tax<br><br>**LETTER ID:**  L1234567890 |

Note:  Garnishee is directed to answer the questions on the back of this form within twenty (20) days from the date of service of this order unless garnishee has delivered to the proper officer holding distraint warrant, any property in his possession belonging to, or paying to such officer any monies due to taxpayer, or by mailing same to the Colorado Department of Revenue, 1375 Sherman Street, Room 504, Denver, Colorado 80261.

As the garnishee, you are hereby notified that the State of Colorado, through the Executive Director, Department of Revenue, hereby gives notice that a lien is asserted for the amount that is owed.  Although notice and demand that are required by Colorado statutes have been made, the amount owed has not been paid.  This garnishment requires you to turn over to the Colorado Department of Revenue (1) this taxpayer's wages and salary which have been earned but not paid yet, as well as wages and salary earned in the future, and (2) this taxpayer's other income that you have now or for which you are obligated.

**Taxpayer:**    Tax P Ayer

**Customer SSN/FEIN:**    555-55-5555 —*TPP05*

**Customer CO Acct #:**    12345678 —*TPP07: Preferred field for TPP07. Equivalent to child support payment case number*

You are instructed to withhold and forward to my attention 50 percent of all monies you pay to, or that is owned by, the above named taxpayer until the full amount of the garnishment is paid.

*I certify that this instrument was served this  03  day of Dec ,  2014 .*

*Jennifer Ferguson*
Authorized State Revenue Agent

**COMPLETE QUESTIONS ON BACK UNLESS AMOUNT OF TAX HAS BEEN PAID.**

# STATE OF COLORADO

Page 2

**Letter: L**1234567890
**Source:** COL

**The following questions must be answered within twenty (20) days from the date of service of this order:**

Are you in any way indebted to the Taxpayer named herein?       ☐ YES       ☐ NO
If yes, state nature, amount, when due, etc.

Is the Taxpayer named herein employed by you?       ☐ YES       ☐ NO

If you have any questions, please call 303-205-8291.

```
141021     19998
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**Calculation of Disposable Income:**

(1)     Gross Monies Due to Taxpayer       $_____

(2)     Less Federal Withholding       $_____

(3)     Less State Withholding       $_____

(4)     Less FICA Taxes       $_____

(5)     Less Health Insurance Provided
         by Individual       $_____

(6)     Total Lines 2, 3, 4 & 5       $_____

(7)     Line 1 minus Line 6       $_____

        Line 7 is Disposable Income