

NEW WI DOR Opt-In Program to help Reduce Fraud

EXECUTIVE SUMMARY

In order to help reduce fraudulent use of the ACH Network by individuals filing false tax returns with a fraudulent refund claim, NACHA has partnered with the national Security Summit Financial Services Work Group, which includes members from the Internal Revenue Service (IRS) and state revenue agencies to create a new Opt-In Program for RDFIs. RDFIs that volunteer to sign up with NACHA to participate in the new State Tax Refund Opt-In Program would return these questionable refund ACH credits using the R17 return code, resulting in a unique identification of these ACH returns by the Participating States. This unique identification is intended to result in better recovery of questionable refunds and improved procedures to prevent future fraudulent refunds.

UMACHA and WACHA have partnered with Wisconsin Department of Revenue and NACHA to launch this program. If you have any questions contact the following at WI DOR

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ADDITIONAL INFORMATION

State revenue agencies, as well as the Financial Services Work Group, have requested NACHA establish a voluntary Opt-In Program for RDFIs that would begin March 31, 2016. Opt-in rules have been developed that will define how Return Reason Code R17 can be used by participating RDFIs to return questionable tax refund ACH credit entries originated by the participating states through their respective ODFIs. The new Opt-In Program allows RDFIs to complete one participation agreement and be able to return questionable returns to any state, through its ODFI, that has also signed up to participate in this Opt-In Program. A current list of participating states and associated ODFIs is maintained on the program page, along with the RDFI participation agreements.

These returns will use the Return Reason Code R17, along with three specific “subcodes” that would be used within the Addenda Information Field of an R17 to further specify the nature of the return. These additional reasons would be:

1. **Name Mismatch** between the name on the forward PPD credit entry and the name(s) associated with the Receiver’s account at the RDFI;
2. **ID Theft**, where the RDFI has been notified or believes, as a result of internal fraud investigation, that a PPD credit entry is related to a case where a taxpayer’s identity has been stolen; or
3. **Questionable Refund**, whereby account characteristics, account history, investigation and/or other key markers identified through filters or other means implemented by the RDFI indicate that a forward PPD credit entry deposited to an account(s) is questionable, invalid, erroneous, or obtained through fraudulent filings.

RDFIs will be allowed to transmit these R17 return entries for up to 60 days from the Settlement Date of the original PPD credit entry. Participating RDFIs will not be required to check for name mismatch when posting.

Additionally, it should be noted that the Financial Services Work Group has created an optional file standard for state tax refund credits. The below fields will be formatted as illustrated for the ease of RDFI recognition of these payments. While the adoption of this standard is at the option of the states, those states wishing to participate in the R17 Opt-In Program are strongly encouraged to utilize the standard for maximum effectiveness of their participation. For more information on the states participating in the file standard, you may contact the financial services team.

- Company Entry Description – list the IRS assigned four (4) digit MEF code and the phrase TAXRFD.
 - State Example - NYSTTAXRFD
 - City Example - NYCTTAXRFD
- Individual Name – Last Name, First Name, Middle Initial (if provided) and joint First Name, and Middle initial. Display the first 22 characters of name.
 - Example – Jones, Steven E & Deborah L = JONES, STEVEN E & DEBO
- Individual Identification Number - List the full social security number or the last four (4) digits of the social security number without the dashes
 - Full SSN Example – 123456789
 - Last 4 SSN Example – XXXXX6789

State External Leads Program: The Security Summit Financial Services Work Group is also working to assist states with the creation of an external leads program, which would complement the R17 Opt-In Program, allowing for states to receive external communications about the questionable tax refunds. These refunds are identified by financial institutions, state and local agencies, tax product groups, brokerage firms, government and law enforcement agencies, and various other sources. These leads may involve refund checks, direct deposits/ACH, refund anticipation loans or checks, and pre-paid debit cards.

A **lead** is traditionally defined as personally identifiable information related to suspicious refunds including taxpayer name or account number, and is provided by a participating institution on a lead spreadsheet. After researching the lead, the state will work with the submitting financial institution to determine whether the associated funds should be returned to the state.

More information about the State External Leads Program is included on the State Tax Refund Opt-In Program webpage noted below.

RESOURCES

Additional information on the State Tax Refund Opt-In Program, including Participating States, please visit the program webpage at: <https://www.nacha.org/programs/state-tax-refund-return-opt-program>

RDFIs wishing to participate can access the agreement via the program page, along with instructions for submission to NACHA.

It is important to note that this is a separate program from the existing IRS R17 Refund Return Opt-In Program and participation in one program does not facilitate participation in the other.