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| <b>Section No. 20300—Cash Disbursements Accounting</b>                            | <b>TOPIC ELECTRONIC FEDERAL TAX PAYMENTS PROCESSING</b> |
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## Overview

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**Introduction to EFTPS** This topic provides compliance information for remitting certain types of Federal tax payments such as payroll, backup withholding, Federal excise, interest payments, and tax penalties to the Internal Revenue Service (IRS) through the Electronic Federal Tax Payments System (EFTPS). EFTPS is an electronic tax payment system through which tax payment remittance information and the related tax payments are transferred electronically to the IRS.

The Department of Accounts' (DOA) EFTPS process combines features in Cardinal and the Electronic Data Interchange System (EDI) to electronically transmit tax payments and the corresponding remittance information to the IRS's EFTPS system.

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**Tax Reporting Entity** An agency or group of agencies within a single federal tax identification number (TIN) is defined as a tax reporting entity. For purposes of IRS tax reporting, agencies must report tax payments and file tax returns using the appropriate TIN for their Tax Reporting Entity.

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**Policy** Effective January 1, 2011, tax-reporting entities must make electronic deposits of all depository taxes using the EFTPS or by wire transfer.

Failure to do so may result in a 10% penalty or more. See **IRS Publication 15**, *(Circular E), Employer's Tax Guide* for additional information.

Agencies are required to follow the procedures to process the tax payment types specified in this section through EFTPS. These payments must be processed and deposited within the guidelines specified by the IRS for each tax type.

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**To Enroll in EFTPS** To enroll, tax reporting entities can go to [www.eftps.gov](http://www.eftps.gov) or call 1-800-555-4477. See also **IRS Publication 966**, *Electronic Choices to Pay All Your Federal Taxes*.

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## Overview, Continued

### Tax Payment Frequency

The following tax types are identified as payment types, which must be processed through EFTPS. The tax payment frequencies for these tax types are as follows:

| <b>TAX FORM</b> | <b>TAX FORM DESCRIPTION</b>                                           | <b>FOR TAX PAYMENT SCHEDULES, SEE:</b>         |
|-----------------|-----------------------------------------------------------------------|------------------------------------------------|
| Form 941        | Employer's Quarterly Tax Return OASDI, HI, federal income taxes       | Form 941 Instructions and IRS Publication 15   |
| Form 945        | Annual Return of Withheld Federal Income Tax Backup withholding taxes | Form 945 Instructions and IRS Publication 15   |
| Form 1042       | Annual Withholding Tax for Income of Foreign Persons                  | Form 1042 Instructions and IRS Publication 515 |
| Form 720        | Federal Excise Tax                                                    | Form 720 Instructions                          |
| Form 990        | Organization Exempt Tax                                               | See Form 990 Instructions                      |
| Form 990PF      | Return of Private Foundation Tax                                      | See Form 990PF Instructions                    |
| Form 990T       | Exempt Organization Income Tax                                        | See Form 990T instructions                     |
| Form 2290       | Heavy Vehicle Use Tax                                                 | See Form 2290 Instructions                     |
| IRS Interest    | IRS Interest                                                          | Daily/Monthly                                  |
| IRS Penalties   | IRS Penalties                                                         | Daily/Monthly                                  |

### IRS Penalty

If you are required to use EFTPS and fail to do so, you may be subject to a 10% penalty or more.

### Additional Tax Types

Contact the Director of Compliance Oversight and Federal Reporting at DOA regarding configuration of Cardinal for processing of tax types not included in this topic.

**NOTE:** Under certain circumstances, agencies can use the Commonwealth's Integrated Payroll/Personnel System (CIPPS) to process payroll tax adjustments. (Refer to the sub-topic "Payment Processing Procedures-Form 941, Employer's Quarterly Tax Return - Acceptable Uses of CIPPS" for further information.)

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## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return

### Introduction

In most cases, for CIPPS employers DOA State Payroll Operations will process additional EFTPS payments required for adjustments, etc., not automatically paid through CIPPS. All agencies must use this procedure to process any other payroll tax payments not handled by DOA. Tax payments processed through Cardinal and EDI will be deposited with the IRS through EFTPS on the required due date.

Note: DOA's EFTPS procedure for processing payroll tax deposits includes payments for OASDI, HI, and federal income tax withholding. These payments are processed using Cardinal and EDI. Cardinal and EDI cannot be used to process IRS payments for the following:

- Notices of judgment
- IRS levies

### Acceptable Uses of Cardinal and EDI

Unless handled by DOA, agencies should use Cardinal/EDI for payroll tax processing.

- All prior calendar year payroll tax adjustments, or
- Penalties

### Acceptable Uses of CIPPS

Under the following circumstances, agencies should use CIPPS for processing current year payroll tax adjustments.

- Adjustments to an employee's masterfile for payments processed outside of CIPPS that are included in the amounts reported on the employee's W-2,
- Adjustments for employees who have terminated from the state payroll; where a non-paid update transaction is required to adjust the employee's taxable fields in CIPPS, and
- Tax-sensitive refunds for active employees, where a paid update transaction is required.

(Refer to CAPP Topic No. 50605, *Tax and Deduction Overrides* and No. 50705, *Employee and Tax Masterfile Updates*, for further information).

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## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return, Continued

### EFTPS Process for Form 941

EFTPS requires agencies to process certain payroll tax transactions in Cardinal. Three steps are required to create the (a) payment transactions, (b) payment to the IRS for payroll tax withholdings, and (c) the Form 941 reconciliation. For premium conversion refunds, a fourth step is required to adjust the Health Insurance Fund (HIF).

| Step | Description                                                                                                                                                                                                     |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1    | Payment transactions: <ul style="list-style-type: none"> <li>- Payment to employee</li> <li>- Payment for the employer share of payroll taxes</li> <li>- Credit for employer/employee taxes withheld</li> </ul> |
| 2    | Payment to IRS for the employer/employee payroll tax withholding                                                                                                                                                |
| 3    | Form 941 reconciliation                                                                                                                                                                                         |
| 4    | HIF adjustment                                                                                                                                                                                                  |

### Example: Form 941

Employee Joe Smith was terminated on December 9, 2014. His employee record on the HOBES screen (CIPPS) shows the employee in a Status 3 (Inactive) with a termination date of 12/09/2014. However, due to an administrative error made prior to Joe's termination, Joe is due a premium conversion refund which is not processed until February 2015. The Department of Human Resource Management (DHRM) has approved Joe's request and authorized a \$300.00 premium conversion refund. For this example, the proper coding will result in Joe Smith receiving a net payment for \$277.05 ( $300.00 * .0765 = 22.95$ ;  $300.00 - 22.95 = 277.05$ ). The net effect on expenditures is \$322.95 (300.00 refund + 22.95 employer share of OASDI/HI taxes).

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## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return, Continued

### Step 1: Processing Cardinal Payments

- Process a Voucher in Cardinal payable to the employee. The employee will need to be set up as a one-time vendor in Cardinal by the Commonwealth Vendor Group (CVG) prior to processing. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- The gross invoice amount of the Voucher will be the net amount due the employee (\$277.05 from Joe Smith's example above).
- Three distribution lines of coding will be necessary to account for the amount due to the employee, the employer share of payroll taxes, and the credit for employer/employee taxes withheld. The following table summarizes Cardinal account coding for processing Form 941 electronic payments:

| <b>Line #</b> | <b>Description</b>                               | <b>Account Codes</b> | <b>Amount (based upon above Joe Smith example)</b> |
|---------------|--------------------------------------------------|----------------------|----------------------------------------------------|
| 1             | Amount Due Employee                              | 5011210 - 5011290    | \$300.00 (Positive Value)                          |
| 2             | Employer Payroll Tax Share                       | 5011120 - 5011130    | \$22.95 (Positive Value)                           |
| 3             | Total Employer / Employee Tax Liability Withheld | 2205581              | -\$45.90 (Negative Value)                          |

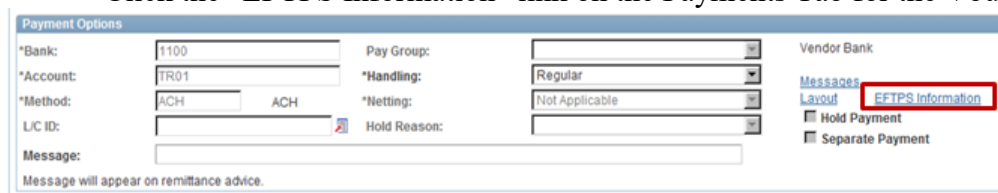
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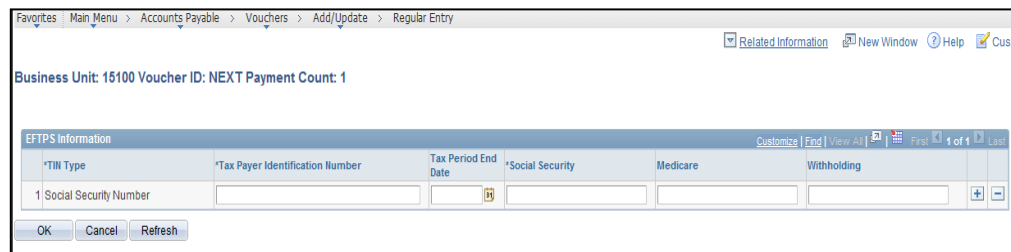
## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return, Continued

### Step 2: Processing Cardinal Payment to IRS

- Process a Voucher in Cardinal payable to the Internal Revenue Service (Vendor ID 0000050905) for the amount of the taxes due. This amount will agree to the amount coded in line 3 above and will be entered as a positive amount. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- Invoice date should be the appropriate tax period end date in the form mm01yyyy where the ‘mm’ is the two- digit tax month code (03, 06, 09 or 12) and ‘yyyy’ is the four-digit tax reporting year. For example, 12012014 for the example described above.
- Only one distribution line is allowed on each EFTPS Voucher created for the IRS.
- Account code 2205581 should be selected in the distribution line. This will notify the IRS that you are sending a 94107 payment type which is used for all adjustments made resulting in W2-Cs. Account code 220558 should be used only when making additional payments owed at the end of the calendar year resulting from adjustments made to W2s and not processed through CIPPS. These payments are sent to the IRS with payment type 94105.
- Additional information is required to be submitted with EFTPS Vouchers. Click the “EFTPS Information” link on the Payments Tab for the Voucher.



- A new screen titled “EFTPS Information” will appear. Appropriate information should be entered in the available fields.



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## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return, Continued

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Agencies must send DOA's Payroll Benefits Account Supervisor in Payroll Operations the following information to adjust the employee's masterfile record for W-2C reporting purposes:

1. Screen prints of the “Invoice Information” tab of the IRS payment voucher.
2. Copy of the original W2 with corrected amounts where necessary Cardinal Report entitled RAP611, *Report of Federal Tax Payments Made Through EFTPS* (discussed below)

---

### Step 3: Form 941 Reconciliation

Cardinal Report entitled RAP611, *Report of Federal Tax Payments Made Through EFTPS*, displays certain types of Federal tax payments such as payroll, backup withholding, Federal excise, interest payments, and tax penalties remitted to the IRS. It displays basic information about the tax payments sent to the IRS, such as:

- AP Business Unit from the transaction
- Voucher Id
- Remit Vendor ID (IRS)
- Tax Deposit Type (Form Code)
- Tax Period
- Social Security Amount
- Medical Amount
- Withholding Amount
- Tax Amount
- Payment ID
- Payment Date

This report can be used to reconcile the quarterly tax deposit information on Form 941.

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## Payment Processing Procedures--Form 941, Employer's Quarterly Tax Return, Continued

### Step 4: HIF Adjustment

This is required only for premium conversion refunds. Until all agencies have been converted to Cardinal, these entries will continue to be processed through CARS using an Inter-Agency Transaction Voucher (IAT). A corresponding 'Do Not Send to CARS' Cardinal only entry will be necessary to reconcile the systems.

- Submit the IAT to DOA to recover the agency's healthcare expenses from the HIF. Such adjustments may be prompted when the Department of Human Resource Management approves a premium conversion refund for an employee based on an agency's administrative error.
- When requesting an adjustment to the HIF, ensure that a copy of DHRM's approval letter authorizing the premium conversion refund is attached to the monthly healthcare IAT and healthcare reconciliation worksheet submitted to DOA.

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## Payment Processing Procedures--Form 945, Annual Return of Withheld Federal Income Tax

**Introduction** All agencies must use this procedure for backup withholding tax payments processed through Cardinal and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

**Acceptable Uses of Cardinal/EDI** The following are acceptable uses of Cardinal/EDI.

- Vendor fails to certify on a Form W-9, *Request for Taxpayer Identification Number*, that he/she is not subject to backup withholding taxes.
- Vendor fails to complete and return a Form W-9 to the agency within 31 days following the date the form was mailed to the taxpayer.
- Agency received a "B Notice" from the IRS instructing the agency to begin backup withholding for a specific taxpayer.

**EFTPS Process for Form 945** EFTPS processing requires agencies to process Form 945 transactions in Cardinal. Three steps are required to create the (a) Form 945 transaction records and payment to the IRS for backup withholding taxes, (b) Form 1099 reporting, and (c) Form 945 reporting.

| <b>Step</b> | <b>Description</b>                                    |
|-------------|-------------------------------------------------------|
| 1           | Vendor payment, backup withholding and payment to IRS |
| 2           | Form 1099 reporting                                   |
| 3           | Form 945 reporting                                    |

**Example: Form 945** Vendor XYZ was mailed a Form W-9 on June 15, 2018. As of July 16, 2018, the agency has not received a completed Form W-9 from the vendor. On the 31st day, the agency must begin backup withholding at the rate of 24% (effective for 2018 calendar year) of the vendor's total payment. The vendor has just invoiced the agency for \$300.00 for consulting services. For this example, the proper transaction coding will result in Vendor XYZ receiving a payment for \$228.00. The net effect on expenditures is \$300.00.

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## Payment Processing Procedures--Form 945, Annual Return of Withheld Federal Income Tax, Continued

### Step 1: Processing Cardinal Vendor Payment

- The processing of backup withholding is handled by Cardinal automatically when the vendor is paid. Ensure that the vendor has been set up in Cardinal by the CVG to indicate that backup withholding is necessary. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- Process a Voucher in Cardinal payable to the vendor.
- One distribution line of coding will be necessary for the original amount of the invoice (\$300 for Vendor XYZ in the example above).
- Once the voucher is processed, assuming the vendor has been set up to indicate backup withholding is necessary, Cardinal automatically deducts the backup withholding and sends the payment to the IRS (\$72.00 from Vendor XYZ's example) and would remit the net amount to the vendor (\$228.00 to Vendor XYZ). The coding will be automatically split in the system to properly reflect the separate payments.

### Step 2: Form 1099 Reporting

All agencies must include payments made to the IRS on behalf of the reportable vendor on the appropriate Form 1099 at calendar year-end. Such payments should be reported on Form 1099 in the box specified for backup withholding taxes along with the "gross" amount paid to the vendor for the calendar year. Refer to CAPP Topic No. 20320, *Information Returns Reporting*, for more information on 1099 Reporting.

### Step 3: Form 945 Reporting

The IRS requires those taxpayers that process backup withholding taxes report such taxes annually to the IRS on a Form 945. The IRS filing date is on or about January 31 each year for backup withholding tax deposits made during the calendar year.

Once the payment is processed, the agency can view the split of the payment between the vendor and the IRS on the "Payments" tab of the voucher. Agencies can screen print their information to document their Form 945 filing.

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## Payment Processing Procedures-Form 1042, Annual Withholding Tax for Income of Foreign Persons

**Introduction Form 1042** All agencies must use this procedure for foreign person withholding tax payments processed through Cardinal and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

**EFTPS Process for Form 1042** EFTPS processing requires agencies to process Form 1042 transactions in Cardinal. Three steps are required to create the (a) Form 1042 transaction records, (b) IRS payment, and (c) Form 1042 reporting.

| Step | Description         |
|------|---------------------|
| 1    | Payment transaction |
| 2    | IRS payment         |
| 3    | Form 1042 reporting |

**Example: Form 1042** Foreign Person XYZ is due \$500 for services rendered. Based on the services rendered and the country of residency, a 14% withholding tax is required. For this example, the proper transaction coding will result in the Foreign Person XYZ receiving a payment for \$430.

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## Payment Processing Procedures-Form 1042, Annual Withholding Tax for Income of Foreign Persons, Continued

**Step 1:  
Processing  
Cardinal  
Payment to  
Foreign  
Persons**

- Process a Voucher in Cardinal payable to the foreign person. The foreign person will need to be set up as a vendor (either one-time or regular) in Cardinal by the Commonwealth Vendor Group (CVG) prior to processing. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- The gross invoice amount of the Voucher will be the net amount due the foreign person (\$430 from foreign person XYZ’s above example).
- Two distribution lines of coding will be necessary to account for the amount due to the foreign person and the amount withheld. The following table summarizes Cardinal account coding for processing Form 1042 electronic payments:

| <b>Line #</b> | <b>Description</b>        | <b>Account Codes</b> | <b>Amount (based upon above foreign person XYZ example)</b> |
|---------------|---------------------------|----------------------|-------------------------------------------------------------|
| 1             | Amount Due Foreign Person | 5011210 - 5011290    | \$500.00 (Positive Value)                                   |
| 2             | Amount Withheld           | 220553               | -\$70.00 (Negative Value)**                                 |

\*\* Withholding tax varies based on type of services performed and country of origin.

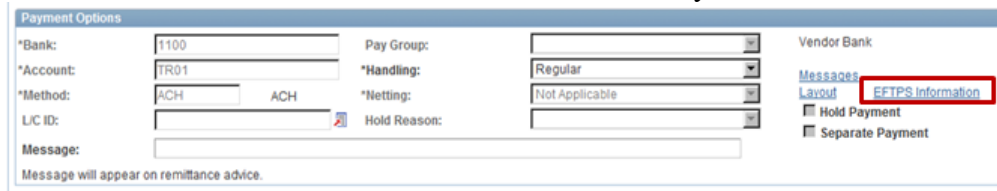
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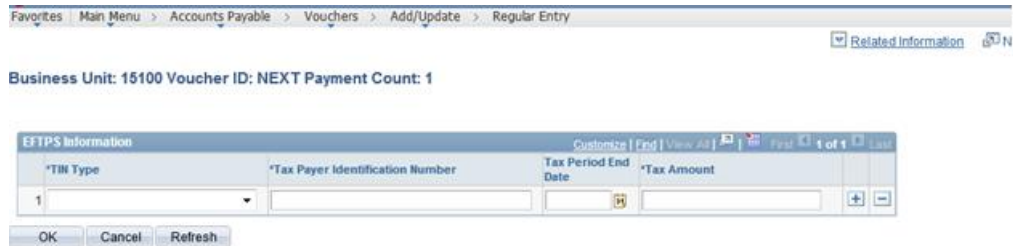
## Payment Processing Procedures-Form 1042, Annual Withholding Tax for Income of Foreign Persons, Continued

### Step 2: Processing Cardinal IRS Payment

- Process a Voucher in Cardinal payable to the Internal Revenue Service (Vendor ID 0000050905) for the amount of the taxes due. This amount will agree to the amount coded in line 2 above and will be entered as a positive amount. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- Invoice date should be in the form 1201yyyy where ‘yyyy’ is the four-digit tax reporting year.
- Only one distribution line is allowed on each EFTPS Voucher created for the IRS.
- Account code 220553 should be selected in the distribution line.
- Additional information is required to be submitted with EFTPS Vouchers. Click the “EFTPS Information” link on the Payments Tab for the Voucher.



- A new screen titled “EFTPS Information” will appear. Appropriate information should be entered in the available fields.



### Step 3: Form 1042 Reporting

Agencies must report annually all foreign person withholding tax payments to the IRS on Form 1042.

|                                                                                   |                                                         |
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## Payment Processing Procedures--Form 720 Federal Excise Tax

### Introduction

All agencies must use this procedure for Federal Excise tax payments processed through CARS and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

Cardinal is not currently configured to process Form 720 items. However Cardinal is not aware of any agency or institution that is required to process payments to the IRS related to Form 720. Contact the Cardinal Helpdesk at [vccc@vita.virginia.gov](mailto:vccc@vita.virginia.gov) if the agency/institution is required to make a payment to the IRS related to Form 720.

## Payment Processing Procedures--Forms 990, Exempt Organization Tax, 990PF, Return of Private Foundation Tax, and 990T, Exempt Organization Income Tax

### Introduction

All agencies and institutions must use this procedure for Forms 990, 990PF, and/or 990T tax payments processed through CARS and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

Cardinal is not currently configured to process Forms 990, 990PF and 990T items. However, Cardinal is not aware of any agency or institution that is required to process payments to the IRS related to these forms. Contact the Cardinal Helpdesk at [vccc@vita.virginia.gov](mailto:vccc@vita.virginia.gov) if the agency/institution is required to make a payment to the IRS related to these forms.



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## Payment Processing Procedures--Form 2290, Heavy Vehicle Use Tax

**Introduction** All agencies must use this procedure for Form 2290 *Heavy Vehicle Use Tax Return* payments processed through CARS and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

**Cardinal is not currently configured to process Form 2290 items. However, Cardinal is not aware of any agency or institution that is required to process payments to the IRS related to Form 2290. Contact the Cardinal Helpdesk at [vccc@vita.virginia.gov](mailto:vccc@vita.virginia.gov) if the agency/institution is required to make a payment to the IRS related to Form 2290.**

## Payment Processing Procedures--IRS Interest and Penalty Payments

**Introduction** All agencies must use this procedure for IRS interest and penalty payments processed through Cardinal and EDI and passed to the IRS via the Electronic Federal Tax Payments System (EFTPS).

**EFTPS Process for IRS Interest and/or Penalty Payments** EFTPS processing requires agencies to process IRS interest and penalties in Cardinal. Two steps are required to create the (a) Payment to the IRS, and (b) Reporting of interest and/or penalties.

| Step | Description                |
|------|----------------------------|
| 1    | IRS payment                |
| 2    | Interest/penalty reporting |

**Example: Interest and Penalty Payments** In June of the following year, the IRS notifies Agency XYZ that some of the payroll tax deposits for the third quarter of the previous year were made after the required deposit due date. The IRS has assessed the agency both a penalty for late filing and interest due on the amount of unpaid taxes due.

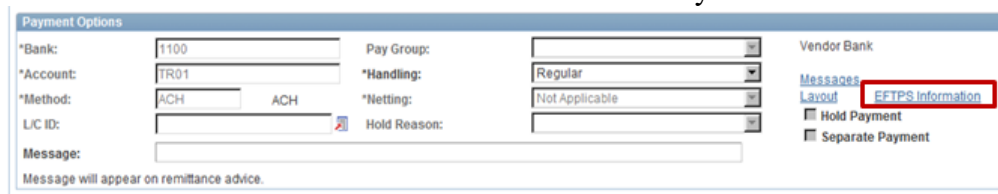
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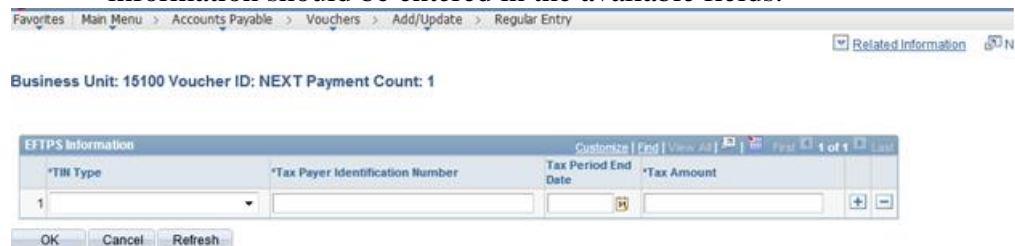
## Payment Processing Procedures--IRS Interest and Penalty Payments, Continued

### Step 1: Processing Cardinal IRS Payment

- Process a Voucher in Cardinal payable to the Internal Revenue Service (Vendor ID 0000050905) for the amount of the penalty and interest due. Refer to CAPP Topic No. 20310, *Expenditures*, for more information on voucher processing steps.
- Invoice date should be the monthly tax period end date in the form mmddyyyy where ‘mm’ is the two-digit month, ‘dd’ is the two-digit day, and ‘yyyy’ is the four-digit tax reporting year.
- Only one distribution line is allowed on each EFTPS Voucher created for the IRS. Separate vouchers are required for interest and penalty.
- Account code 50129701 should be selected in the distribution line for interest payments.
- Account code 5012970 should be selected in the distribution line for penalties.
- Additional information is required to be submitted with EFTPS Vouchers. Click the “EFTPS Information” link on the Payments Tab for the Voucher.



- A new screen titled “EFTPS Information” will appear. Appropriate information should be entered in the available fields.



### Step 2: IRS Interest and Penalty Reporting

Agencies must pay interest and penalty payments assessed by the IRS, unless otherwise abated. To avoid paying interest and penalties, agencies must receive official written IRS verification stating that the interest and penalties have been abated.

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## Miscellaneous Tax Reporting

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**Tax Reporting** Cardinal Report RAP611, *Report of Federal Tax Payments Made Through EFTPS*, displays certain types of Federal tax payments such as payroll, backup withholding, Federal excise, interest payments, and tax penalties remitted to the IRS. It displays basic information about the tax payments sent to the IRS, such as:

- AP Business Unit from the transaction
- Voucher Id
- Remit Vendor ID (IRS)
- Tax Deposit Type (Form Code)
- Tax Period
- Social Security Amount
- Medical Amount
- Withholding Amount
- Tax Amount
- Payment ID
- Payment Date

It is available in Cardinal by following the path: Accounts Payable > Reports > Payments > EFTPS Payments.

This report will be used by agencies to report tax deposit information to the IRS on the appropriate tax form.

Please provide a copy of the Invoice Information tab of the IRS payment voucher and the Cardinal Report RAP611 to the Payroll Benefits Account Supervisor for all penalty payments related to payroll transactions.

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## Records Retention

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**Maintenance** The following documents and forms must be maintained for at least five years from the date of filing a tax return with the IRS.

- Signed Form W-9, *Request for Taxpayer Identification Number*
- Original work papers, reports, or microfiche referencing the payment information and identifying the employee/vendor for whom the tax deposit was made
- IRS Forms W-2, W-2C, 720, 941, 941-C, 945, 990, 990PF, 990T, 1042, 1099, and 2290
- IRS penalty and interest notices, abatement letters, and documentation for payment.
- Any other documentation and internal procedures supporting your agency's actions

See CAPP Topic No. 21005, *Records and Retention*, for further guidance.

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## DOA Contacts

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**Form 941 Contact** State Payroll Operations  
Voice: (804) 371-8912  
FAX: (804) 225-3499  
E-mail: [payroll@doa.virginia.gov](mailto:payroll@doa.virginia.gov)

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**Other Tax Payment Inquiries Contact** Compliance Oversight and Federal Reporting  
Voice: (804) 786-1134  
E-mail: [1099@doa.virginia.gov](mailto:1099@doa.virginia.gov)

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## Subject Cross References

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|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>References</b> | <p>CAPP Topic No. 50605, <i>Tax and Deduction Overrides</i></p> <p>CAPP Topic No. 50705, <i>Employee and Tax Masterfile Updates</i></p> <p>CAPP Topic No. 20310, <i>Expenditures</i></p> <p>CAPP Topic No. 20320, <i>Information Returns Reporting</i></p> |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|