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Internal Revenue Manual

Part 5 Collecting Process

Chapter 14 Installment Agreements

Section 10 Payroll Deduction Agreements and Direct Debit Installment Agreements

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5.14.10.1 (03-30-2002)

1.

Overview

1. *This chapter provides procedures for processing Payroll Deduction agreements and Direct Debit installment agreements. Payroll deduction agreements are those agreements where employers deduct payments from taxpayer's wages, and mail them to the Internal Revenue Service. Direct Debit Agreements allow the Service to debit taxpayer's bank accounts.*

5.14.10.2 (03-30-2002)

Payroll Deduction Agreements

1. The use of Form 2159, Payroll Deduction Agreement, should be encouraged when the taxpayer is a wage earner, particularly if the taxpayer defaulted on a previous installment agreement.
2. Private employers, states, and political subdivisions are not required to enter into payroll deduction agreements. Taxpayers should determine whether their employers will accept and process executed agreements before agreements are submitted for approval or finalized.
3. Comptroller General decision B-45105 (signed in 1955) requires Federal Agencies to deduct and pay over the amount shown on payroll deduction agreements.
4. Allow a reasonable period for the employer to complete the necessary bookkeeping and submit the first payment.
5. On balance due and ACS accounts, encourage taxpayers to hand deliver agreements to employers; otherwise mail agreements to employers. If taxpayers prefer the Service initiate this contact, it may be made if the taxpayer received Letter 3164 at least 10 days prior to mailing Form 2159 to the employer. Ensure Form 12175 is completed and forwarded to the Third Party Contact Coordinator in the area or center initiating the contact. Letter 3164 must have been mailed for each module included in the installment agreement. If Letter 3164 has not been mailed, the taxpayer may authorize a specific third party contact if the revenue officer or other contact employee completes Form 12180 and has it signed by the taxpayer(s). This form should be kept with the case file and the case file history should be documented to reflect the date that the taxpayer provided the

- authorization. In processing Payroll Deduction Agreements ensure that all Third Party Contact guidelines have been observed. See IRM 5.1.17.
6. The employer and the taxpayer should sign Form 2159 before submission to the manager for approval.
 7. On ACS accounts, direct employers responses to ACS call sites, document case files and forward them to call sites after completing telephone contact.
 8. Ensure TC 971 AC 043 is input on all modules within 24 hours of the taxpayer's request for a payroll deduction agreement.
 9. If employers must be contacted during Payroll Deduction Agreements, ensure Letter 3164 was sent previously, and Form 12175 was completed and properly routed to the Third Party Contact coordinator. (See (5) above.)
 10. To insure proper remittance and posting, instruct employers, or request taxpayers advise their employers, to show taxpayers' names and TINs, tax form(s) and period(s) on all remittances.
 11. If an employer requests formal notification from the Collection Field function that a Payroll Deduction Agreement is ended (because the liability is satisfied or for any other reason) Pattern Letter 2571C, Discontinue/Adjust Payroll Deduction, can be sent to the employer, selecting the appropriate paragraphs. (See Exhibit 5.14.10-1.) This letter may not be used to propose termination of agreements.
 12. Use agreement locator number 1109, per Exhibit 5.14.1-2 on Payroll Deduction Agreements. Service Center provides letters to employers for systemically monitored payroll deduction agreements based upon input of agreement locator number 1109.

5.14.10.3 (03-30-2002) Preparation and Distribution of Form 2159, Payroll Deduction Agreement

1. After securing taxpayer signatures on Form 2159, prepare Letter 2318C to mail or have the taxpayer deliver with Form 2159 to the employer. (See Exhibit 5.14.10-2.)
2. Input the correct address on Letter 2318C, and direct the employer to mail the *entire* completed Form 2159 to the originator, otherwise the form's instructions will direct the employer to mail only Part 1 back to the

Service Center.

3. Send or give to the taxpayer (to give or mail to the employer):
 - A. Letter 2318C;
 - B. Form 2159;
 - C. a business reply envelope addressed to the revenue officer (or other contact employee) to return the signed Form 2159; and
 - D. a business reply envelope addressed accordingly to be used to mail the first payment.

NOTE:

Notate the purpose on each envelope, so that Form 2159 is returned to the appropriate address.

4. These may be mailed directly to employers if taxpayers received Letter 3164 or it was sent at least ten days prior to mailing the 2159. (See 10.2(5) above.) (Also, see (8) below for cases involving members of the Armed Forces overseas.) Since final payment dates and amounts cannot be definitely determined, write the total amount due (on bal dues included in agreements) on installment agreements forms (including accruals to the date agreements are prepared.)
5. Request taxpayers immediately notify their employers of payroll deduction requests and the purpose of the two envelopes.
6. After taxpayers and their employers have executed the Forms 2159 and returned them to appropriate contact employees, cases should be submitted for approval. (See 9.2 above.)
7. After Form 2159 is approved, return the Employer's Copy to the taxpayer to give or mail to their employer, unless the taxpayer received Letter 3164 and at least ten days have passed since it was mailed to the taxpayer, in which case the Employer's copy of Form 2159 may be mailed directly to the employer. (See 10.2(5) above.)
8. Also, furnish taxpayers with the Taxpayer's Copy of

the assembly. A second Letter 2318C may accompany the taxpayer's copy, selecting the options regarding acceptance of the agreement (See Exhibit 5.14.10-2.). Note the balance due history that a payroll deduction agreement has been executed. Attach the approved Acknowledgment Copy to the balance due file and process the case appropriately.

9. If a payroll deduction agreement is made with a member of the Armed Forces overseas, forward the complete assembly to the taxpayer to give to his or her Commanding Officer (or mail it directly to the Commanding Officer if letter 3164 was mailed at least 10 days earlier.) (See 10.2(5) above.) In these cases, the Taxpayer's Copy of the assembly will be furnished to the taxpayer by the military establishment. Note the balance due history that a payroll deduction agreement has been executed. Upon receipt of the approved Acknowledgment Copy, attach to the balance due file and process the case appropriately.

5.14.10.4 (03-30-2002)

Direct Debit Installment Agreements

1. Direct debit installment agreements should be encouraged when a payroll deduction agreement is not practical or appropriate, and especially encouraged if taxpayers defaulted on previous installment agreement(s).
2. The Direct Debit Installment Agreement (DDIA) system is a means by which funds are automatically debited from a taxpayer's bank account for the agreed upon installment amount. Some benefits of using direct debit installment agreements are:
 - A. less chance of taxpayers forgetting to make their payment;
 - B. less chance of a missed payment because the money was spent on other expenses;
 - C. since no check is involved, there is no chance of it being lost, mishandled, misapplied, or being returned as incomplete or unsigned;
 - D. IRS personnel will not have to manually post checks;
 - E. "float" time associated with processing paper documents is eliminated; and
 - F. the installment agreement default rate is reduced.

3. Electronic Funds Transfer (EFT) is sometimes used in place of DDIA, and for the purposes of this section has the same meaning.
4. Transit/ABA Number: This is a nine digit number usually located on the bottom left hand corner of a check. This number identifies the taxpayer's bank account in the Automatic Clearing House (ACH) system.
5. Instructions for direct debit installment agreements are on the back of the Taxpayer's Copy of Form 433-D, Installment Agreement. The taxpayer must sign the Form 433-D and initial the bottom of the form when this type of agreement is secured. A blank, voided check must be attached to the IRS Copy of Form 433-D.
6. After managerial approval (see 9.2 above), forward the case-file to SCCB for input and monitoring per sections 9.5 and IRM 5.19.1.5.4.16.

5.14.10.5 (03-30-2002)

Credit (and Debit) Card Payments by Individual Taxpayers

1. Individual taxpayers may make payments -- including installment agreement payments -- with credit cards. These payments may be made on tax liabilities for tax returns that are no more than three years old (i.e. in 2002 payments can be made for tax year 1999 or after.)
2. Taxpayers may use credit cards to make installment agreement payments to the United States Treasury by calling Official Payment Corporation (OPC) at 1-800-2-PAY-TAX (1-800-272-9829) or logging onto www.officialpayments.com on the internet. Both of these payment methods include user-friendly prompts and menus.
3. A convenience fee, based on the payment amount, is charged by the service provider. Full fee information is available from the service provider.
4. To use one of these payment methods, taxpayers should be prepared to provide:
 - A. social security number;
 - B. full name and address (internet only);
 - C. tax period for which tax is owed;
 - D. amount of the payment;
 - E. credit card number (only Discover and MasterCard are accepted); and,

- F. credit card expiration date (month and year in two digit format.)
- 5. Debit cards issued by Mastercard may also be used for making payments through OPC. Funds will be withdrawn from accounts immediately when debit cards are used. Users will be charged the same fee as for credit card transactions.
- 6. If taxpayers, representatives or employees have questions about making payments utilizing credit or debit cards on the internet or using OPC they may call (toll-free) 1-877-754-4413 or IRS Customer Service.

[Exhibit 5.14.10-1 \(03-30-2002\)](#)
[Discontinue/Adjust Payroll Deduction](#)

[Exhibit 5.14.10-2 \(03-30-2002\)](#)
[Payroll Deduction Letter](#)

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