



Department of Taxation

Richard A. Levin, Tax Commissioner

Announcement of Direct Deposit Options for Ohio Income Tax Refunds

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The purpose of this information release is to announce new direct deposit options for Ohio individual income tax refunds. This document also describes how the Department of Taxation will handle situations where the total refund requested by a taxpayer on his or her return does not match the amount ultimately issued after further review.

New direct deposit options

Recent changes to Ohio law (contained in Senate Bill 155 and Senate Bill 194) allow taxpayers who file an Ohio income tax return electronically¹ to also deposit their refund electronically into any of four different types of pre-existing accounts:

- checking accounts
- savings accounts
- individual retirement accounts or annuities ("IRAs")
- CollegeAdvantage 529 Savings Accounts administered by the Ohio Tuition Trust Authority ("CollegeAdvantage 529 accounts").

Previously, taxpayers were only permitted to make direct deposits of individual income tax refunds to checking or savings accounts.

These recent changes to Ohio law also permit taxpayers to split their refund into up to three separate amounts for separate deposits into the types of accounts described above. These deposits may be made in any combination of checking accounts, savings accounts, IRAs or CollegeAdvantage 529 accounts.

These expanded direct deposit options first become available for taxable years beginning Jan. 1, 2010 and later, meaning they will be first available on returns filed starting in early 2011. Also, these options are only available to those who

1. "Electronically," refers to returns submitted to the Department of Taxation through the I-File or e-Forms applications available at tax.Ohio.gov, as well as to returns submitted through the federal/state e-file program. The department's TeleFile telephone filing system will only support a single direct deposit into a checking or savings account, not multiple deposits or deposits into an IRA or CollegeAdvantage 529 account.

choose direct deposit; taxpayers may not split their refund into a paper check and one or more electronic deposits.

To ensure accurate deposits, taxpayers (or their designee) must provide certain information on their individual income tax return for each account listed:

- Deposits into a checking, savings, or IRA account require a valid routing and account number.
- Deposits into a CollegeAdvantage 529 account require the beneficiary's name, Social Security number and account number.

Taxpayers are also expected to list accounts for direct deposit in order of their importance. This decision could come into play in cases where the size of the refund requested by the taxpayer is adjusted upward or downward after further review.

Adjustments to the size of refunds: Before a refund is issued

There are times when a Department of Taxation review of a tax return will result in an increase or decrease in the size of the refund to be issued to the taxpayer when compared to the amount initially requested on the return. In such cases, the department will change the size of the refund issued in the following manner.²

When the size of a refund is **decreased** by the department, the size of direct deposits will be decreased starting with the **last** checking or savings account listed on a return. Also, the department will not decrease the size of deposits into an IRA or CollegeAdvantage 529 account unless there are no other accounts listed by the taxpayer or unless the deposits requested for checking or savings accounts are not enough to cover the reduction necessary.

When the overall size of a refund is **increased** by the department, the additional amount will be deposited in the checking or savings account listed **first** (thus deemed most important) by the taxpayer. The department will not increase the size of a deposit to an IRA or a CollegeAdvantage 529 account – even if they are listed first – in order to minimize the risk of subjecting owners of such accounts to penalties for excessive contributions.

For this same reason, in cases where a department review increases the size of a refund to be issued to the taxpayer and the only accounts listed are IRAs or

² The department tries to avoid allowing an adjustment in the size of a refund to change the amount of money credited toward the following year's tax liability or the size of donations made through "check off" programs such as for military injury relief or wildlife protection. The department will only consider changes to these elements of a tax return when a department review causes a refund to be reduced by more than the total amount that a taxpayer has requested to be issued as a refund through direct deposit or by paper check.

CollegeAdvantage 529 accounts, the department will issue a paper check to the taxpayer for the additional amount.

For more detail on how these principles will be applied, see the examples listed in the appendix of this document.

Adjustments to the size of refunds: After a refund is issued

Sometimes, the Department of Taxation only learns that an adjustment to the size of a refund is necessary after the taxpayer has already been issued the refund in the amount originally requested on a tax return.

In cases where a department review leads to a *decrease* in the size of a refund after a refund has already been issued to the taxpayer, the department will issue a billing notice to the taxpayer for the amount that must be repaid.

In cases where the department determines that the size of a refund due a taxpayer should *increase*, the department will credit (by direct deposit) the first account listed by the taxpayer that is not an IRA or a CollegeAdvantage 529 account. If the taxpayer has only listed IRAs or CollegeAdvantage 529 accounts for direct deposit, the department will issue the taxpayer a paper check – again, in order to minimize the risk of subjecting owners of such accounts to penalties for excessive contributions.

For more detail on how these principles will be applied, see the examples listed in the appendix of this document.

IRA deposits: Possible tax consequences

Taxpayers should be aware that the timing of deposits made by the Department of Taxation into their IRA may have tax consequences. This is because taxpayers are normally only permitted to deduct an IRA contribution from income for a taxable year if it is made by the filing deadline of the following year, normally April 15.

This means that, in cases where the department deposits a portion of a taxpayers' refund into an IRA after the filing deadline, taxpayers will need to contact the financial institution where their IRA is held in order to make certain of which taxable year the contribution will be applied.

For example, if the department makes a \$300 direct deposit to an IRA on April 20, and the financial institution indicates that the funds *will be applied to the current year* because it was deposited after the filing deadline, the taxpayer may have to amend their federal and state returns for the previous taxable year in order to

remove any portion of the deposit claimed as a deduction on page 1 of the federal return.

On the other hand, if the department makes the same \$300 direct deposit to an IRA on April 20 and the financial institution indicates to the taxpayer that the funds were ***applied to the previous year***, the taxpayer will not have to amend a federal or state return that deducts this contribution, since the funds were deposited as requested.

Business rules for CollegeAdvantage 529 deposits

Taxpayers may deposit their refund into up to three CollegeAdvantage 529 accounts. According to the Ohio Tuition Trust Authority, if the account only has the Guaranteed Savings Fund option within the CollegeAdvantage program, a Vanguard Money Market option will be created to accept the tax refund deposit as the Guaranteed Savings Fund is closed to new contributions. If the account only has a Fifth Third Certificate of Deposit option within the CollegeAdvantage program the tax refund will be deposited into the savings account that was established when the Certificate of Deposit was opened. The deposit will be applied to the investment options within an account on a pro-rata basis with any rounded amount applied to the fund with the higher value at the time of deposit.

Department notices to taxpayers

In order to keep taxpayers informed in the scenarios described above, taxpayers will receive notices from the Department of Taxation in the following situations:

- When the department adjusts an income tax return in a way that changes the overall size of a refund or the size of a deposit into any account.
- When a direct deposit requested by the taxpayer is rejected by a financial institution.
- When the taxpayer omits some or all of the information required for direct deposit, as described in this information release.
- When the department deposits a refund into an IRA account after the filing deadline, normally April 15.

Each notice from the department will identify the last two digits of the account number, the account type, and the amount associated with the deposit.

Other notices to taxpayers

Financial institutions should notify the owner of an IRA (not necessarily the taxpayer) when funds are distributed into that account. Questions regarding deposits should be directed to the financial institution where the IRA is held.

The Ohio Tuition Trust Authority will notify the owner of an account (not necessarily the taxpayer) after funds have been deposited into the CollegeAdvantage 529 account. Questions regarding completed deposits should be directed to the Ohio Tuition Trust Authority at (800) 233-6734. The Authority will work directly with the owner of the account to resolve any issues.

Further information

Taxpayers with further questions about the direct deposit options available to individual income taxpayers may contact the department through the email system available at tax.Ohio.gov or by calling the department's individual taxpayer hotline: (800) 282-1780.

Important disclosures

The Ohio Department of Taxation is not responsible for the misapplication of a direct deposit refund into a checking, savings or IRA that is caused by error, negligence or malfeasance on the part of the taxpayer, electronic filer, financial institution, or any of their agents.

Also, by depositing into a CollegeAdvantage 529 Savings account, taxpayers are agreeing to the terms and conditions stated within the Ohio Tuition Trust Authority's most recent Offering Statement and Participation Agreement which prospective investors should read prior to investing. The document is available at the authority's Web site, which is CollegeAdvantage.com.

Investments in 529 college savings plans involve investment risk. Although plans are established and maintained by states, the states do not provide guarantees against investment loss. As with any investment in a mutual fund or other equity security, an investment in a 529 college savings plan may decrease in value. Furthermore, although the past performance of available investment options in a 529 college savings plan may be one of several appropriate factors to consider in choosing an investment, such past performance is not necessarily indicative of how a particular investment will perform in the future.

Participation in the CollegeAdvantage 529 savings program does not guarantee that contributions and the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a

beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Returns on contributors' investments in the College Advantage 529 savings program are not guaranteed by the state and the contributors to the College Advantage 529 savings program assume all investment risk, including the potential loss of principal and liability for penalties such as those levied for non-educational withdrawals. The state shall have no debt or obligation to any contributor, beneficiary, or any other person as a result of the establishment of the program, and the state assumes no risk or liability for funds invested in the College Advantage 529 savings program.

The Department of Taxation is not responsible for refunds that are misapplied, or changes to the taxpayer's College Advantage 529 deposits due to taxpayer, preparer, practitioner or software errors.

Appendix to Information Release IT 2010-01

The following examples are intended to illustrate how the principles described above will work in practice.

Adjustments before any refund is issued

Example one (decrease):

A taxpayer submits a return and requests that a \$500 refund be distributed in the following order:

- \$100 to a checking account.
- \$300 to an IRA.
- \$100 to a CollegeAdvantage 529 account.

If, after a review, the refund issued to the taxpayer must be *decreased* by \$300, the \$200 that remains will be deposited as follows:

- \$0 to checking (the reduction is first applied to this proposed deposit since it is the only account listed that is neither an IRA nor a college savings account).
- \$200 to the IRA (because it is the first IRA or college savings account listed).
- \$0 to the CollegeAdvantage 529 account (since it was listed last and no refund remains to be deposited into this account).

Example two (increase):

A taxpayer submits a return and requests that a \$500 refund be distributed in the following order:

- \$300 to an IRA.
- \$100 to a checking account.
- \$100 to a CollegeAdvantage 529 account.

If, after a review, the size of the refund is increased by \$250, the \$750 refund will be direct deposited as follows:

- \$300 to the IRA (because the department will not increase the size of a contribution to an IRA or a college savings account).
- \$350 to the checking account (because it is the first checking or savings account listed).
- \$100 to the CollegeAdvantage 529 account.

Example three (increase):

A taxpayer submits a return and requests that all \$700 of a refund be distributed to an IRA account.

If, after a review, the size of the refund is increased by \$300, \$700 will be direct deposited to the IRA and the remaining \$300 will be issued to the taxpayer as a paper check.

Adjustments after an initial refund is issued

Example one (decrease):

A taxpayer filed a return in March and requests that a \$500 refund be deposited in the following accounts:

- \$300 to an IRA
- \$100 to a checking account
- \$100 to a CollegeAdvantage 529 account

The deposits are made. Later, in August, the department reviews the return and finds an error that decreases the size of the original refund by \$100.

The department will not adjust the direct deposits it has already made, as described above. Instead the department will issue the taxpayer a billing notice for \$100.

Example two (increase):

A taxpayer submits a return in March and requests that a \$500 refund be deposited in the following accounts:

- \$300 to an IRA
- \$100 to a checking account.
- \$100 to a CollegeAdvantage 529 account.

The deposits are made. Later, in August, the department reviews the return and detects an error in the taxpayer's favor that increases the size of the refund by \$250.

The department will deposit the additional \$250 in the checking account, even though it isn't listed first. The department will not make an additional deposit in an IRA or a CollegeAdvantage 529 account in order to avoid subjecting the owner to penalties for excessive contributions.

Example three (increase):

A taxpayer submitted a return in February and requests that a \$500 refund be deposited in the following accounts:

- \$400 to an IRA
- \$100 to a CollegeAdvantage 529 account

The deposits are made. Later, in July, the department reviews the return and discovers an error in the taxpayer's favor that increases the size of the refund by \$125.

The department will issue the taxpayer a paper check for the \$125 because the return only includes information on a IRA and a CollegeAdvantage 529 account. The department will not made additional direct deposits into either of these kinds of accounts, as this may subject the owner to penalties if they over-contribute.

Example four (increase):

A taxpayer submits a return in January and requests that a \$700 refund be deposited in the following accounts:

- \$300 to a CollegeAdvantage 529 account
- \$400 to an IRA

The deposits are made. Later, the taxpayer submits documentation to the department that increases the size of the refund by \$250. The taxpayer will receive a paper check for the additional \$250.

Future tax liability and checkoffs

The department tries to avoid allowing reviews of tax returns to lead to adjustments in the amount of money credited toward the following year's tax liability or the size of donations made through "check off" programs such as for military injury relief or wildlife protection. The department will only consider changes to these elements of a tax return when a department review causes a refund to be reduced by more than the total amount that a taxpayer has requested to be issued as a refund through direct deposit or by paper check.

Example:

A taxpayer calculates a \$900 overpayment in tax and requests that it be allocated as follows:

- \$100 credited toward the following year's tax liability
- \$100 donated to Military Injury Relief

- \$100 donated to Ohio wildlife protection.
- \$100 donated to nature preserves.
- \$100 refund issued by direct deposit to a checking account.
- \$300 refund issued by direct deposit to an IRA account.
- \$100 refund issued by direct deposit to a CollegeAdvantage 529 account.

If, before any refunds are issued, a department review of the return leads to a reduction in the size of the overpayment, to \$600, the amounts credited to the next year's tax liability and donations made to funds will not be reduced until all deposits are zeroed out. In this example, the remaining \$600 overpayment will be deposited as follows;

- \$100 credited toward the following year's tax liability
- \$100 donated to Military Injury Relief
- \$100 donated to Ohio wildlife protection.
- \$100 donated to nature preserves.
- \$ 0 to the checking account (because it is not an IRA account or a CollegeAdvantage 529 account).
- \$ 200 to the IRA (because all other deposits have already been reduced to zero)
- \$ 0 to the CollegeAdvantage 529 account (because it is listed last and the checking account deposit has already been reduced to zero.)

Timing of IRA deposits

The department will notify taxpayers when funds are deposited into an IRA after the filing deadline, which is normally April 15. In such cases, taxpayers will have to contact the financial institution where the IRA is held to determine the taxable year to which the IRA will be applied.

Example one:

A taxpayer submits a return to the department on April 15 and requests that a \$400 refund be distributed in the following manner:

- \$300 to an IRA account.
- \$100 to a checking account.

The department deposits \$300 of the refund in the taxpayer's IRA account on April 20. The financial institution informs the taxpayer that the funds were applied to the previous year.

The result: The taxpayer does not have to amend his or her federal or state return, because the funds were deposited as requested and \$300 could be properly deducted on page one of the federal return.

Example two:

A taxpayer submits a return on April 15 and requests that a \$400 refund be distributed in the following order:

- \$300 to an IRA account.
- \$100 to a checking

The refund is deposited into the taxpayer's IRA account on April 20. The financial institution informs the taxpayer that the funds will be applied to the current year because it was deposited after the filing deadline. This means the taxpayer will have to amend his or her federal and state return to remove any portion of the \$300 deposit claimed as a deduction on page 1 of the federal return.