

## ArkTRECS Debt Setoff Guiding Policies and Processes

### What are the principle requirements needed to participate in the ArkTRECS debt setoff program?

All participating local agencies must adhere to the statutory requirements found in Arkansas Annotated Code 26-36-301 and 16-13-709. The ArkTRECS MOU requires an attestation of statutory compliance. Of particular importance is adherence to the written debtor notification and appeal process. (ArkTRECS offers a letter preparation and mailing service to participating local agencies for a nominal fee.)

All participating local agencies must develop and submit a debt file in conformance with the ArkTRECS Debt Setoff File Layout Requirements no later than January 15<sup>th</sup> each year. The file layout and its definitions may be accessed at the ArkTRECS website at [arcounties.org](http://arcounties.org).

Participating local agencies can supply their debt files with the debtor's SSN contained in the debt record and the clearinghouse will attempt to validate the SSNs. If an SSN is not provided, the clearinghouse will procure this information and append it to the record for DFA submittal. The clearinghouse procured SSN cannot be returned to the agency.

Participating local agencies can update agency and contact information through the "Local Agency Info" tab found at the ArkTRECS secure upload website.

### When are local agency debt files to be submitted initially for the new tax year?

To maximize debt setoff opportunities, local agencies must submit their debt files no later than the first week of January and finalize their debt files with any new debts and updated debt amounts by January 15<sup>th</sup>. Program history has shown that those taxpayers due refunds file early in the tax filing season.

Local agencies **not using** ArkTRECS letter service for debtor notification cannot submit their debt files until the debtor notification process has been completed and the 30-day contest period has expired.

Local agencies **using** ArkTRECS letter service for debtor notification should submit their debt files as soon as possible to initiate the debtor notification process and 30-day contest period. File upload is available on or after November 15<sup>th</sup>. Local agencies using the letter service must refresh their initial files by January 15<sup>th</sup> to ensure accurate clearinghouse submission to DFA. These files will not be sent for offset until the refresh occurs.

### How often should initial debt files be refreshed and how are debt changes recorded?

Once the initial file has been finalized, no new debts or increases in initial debts can be submitted. Thereafter, local agencies must update their finalized files as frequently as needed to report full debtor payments. **Debt amount changes or releases need to be submitted via a reupload file to the ArkTRECS web portal by 5pm CT on the 24<sup>th</sup> of each month.**

A full file refresh should be transmitted during the refresh process and must contain all debt records that have been initially and subsequently submitted. Debt records should not be erased and an error message will be generated during file upload attempts in a debt record has been erased/deleted.

A local agency must zero out the debt amount debt if a debtor repays the debt in full or if the local agency no longer wishes to pursue the debt through offset.

ArkTRECS transmits daily a refreshed master file to DFA to ensure that debt records are as current as possible.

Invalid offsets due to out-of-date debt files will require the local agency to refund the debtor for all offset amounts, including state and ArkTRECS collection assistance fees.

## **What is the minimum amount for an individual debt and how should multiple debts owed by the same debtor be handled?**

DFA has set the minimum debt amount at \$20. All debts must be in whole dollars and for debts including cents, the clearinghouse will round down the amount to the nearest whole dollar.

Agencies having multiple debts of \$20 or more owed by the same debtor must submit each debt individually to the clearinghouse. Agencies can combine multiple debts less than \$20 owed by the same debtor into a single record to equal or exceed the \$20 minimum. This combination must be done prior to clearinghouse submission.

The clearinghouse system will ignore debts less than \$20 and will not forward these to DFA for potential offset.

## **How are local debts prioritized for offset payments?**

Multiple agencies pursuing debts against the same debtor for all local debts will have their debts satisfied in the order received—first in, first paid out.

The initial upload date establishes the “first in” date.

## **What is a refund “match”?**

DFA continuously processes master clearinghouse debt files against its personal income tax refund files to “match” available taxpayer refunds against any outstanding debts owed by an individual taxpayer. DFA’s algorithm uses the debtor’s social security number and the first four digits of the debtor’s last name to match against pending refunds. DFA will upload a file to the clearinghouse of all offset payments with a monthly summary.

ArkTRECS will post offset payment reports to the ArkTRECS web portal as they are received from DFA to notify each participating local agency of offsets of debtors. The local agency should reaffirm that these debts are still owed and in the amount of the pending offset.

If there is a match on a joint return’s refund, DFA will notify the individuals and allow a 30-day contest window. DFA may contact the submitting agency in the event of a contestation.

## **When do matches become actual offsets?**

The actual offset occurs around the 25th day of each month, with the final offset payment report being posted to your secure web portal account.

For joint returns, the actual offset occurs around the 25th day of the subsequent month, if there is no contestation.

Once the monthly offset payment report is posted their ArkTRECS portal account, the local agency can expect to see the funds deposited via ACH within 2 weeks.

## **How can a matched refund be immediately released?**

On rare occasions, an incorrect debtor match may be processed whereby the wrong taxpayer’s refund is being held. The clearinghouse has a procedure in place to immediately release the pending matched refund before it goes to offset. If a debtor’s record needs to be released to prevent a pending offset, a release action must occur by 5 p.m. CT on the 24th of each month. Please contact Danielle Steinhart ( [dsteinhart@naco.org](mailto:dsteinhart@naco.org) ) or Josh Curtis ( [jcurtis@arcountries.org](mailto:jcurtis@arcountries.org) ) for immediate release.

## **How are the DFA offset fee and the local collection assistance fee assessed against the participating agency and can the debtor be charged for these fees?**

DFA imposes a fee equal to 5% of the refund offset (no minimum) on all debt and deducts its fee prior to allocating the offset funds to the local agency.

ArkTRECS imposes a \$25 flat fee on each successful offset for refunds of \$30 or more, exclusive of the DFA fee, and will invoice the receiving agency in the month following the successful offset.

For matched refunds less than \$30, no local collection assistance fee is charged.

For multiple offsets against the same debtor, the local collection assistance fee is imposed on each successful offset of \$30 or more.

No statutory authority exists to charge the debtor for the DFA or clearinghouse fees and the debtor must be credited with the full amount of the offset (inclusive of the monies received, the DFA 5% collection fee, and the \$25 ArkTRECS fee).

### **How does the local agency notify the clearinghouse that an individual debt or an entire debt file should no longer be pursued through offset?**

Individual debts remain in effect throughout the tax calendar year until satisfied by offset action or by a cancel action by the submitting local agency.

To remove a debt record from debt setoff consideration, the local agency must cancel the debt by changing the debt amount to zero. Debt records should not be deleted. To cancel all debts within the debt file, all debt amounts must be changed to zero.

### **When does the clearinghouse offset process end for the current tax calendar year?**

ArkTRECS expunges all debt files on November 1<sup>st</sup> of each year, to prepare its files and processes for the next tax calendar year. Local agencies may resubmit any unsatisfied debt in the next tax year.

All records matched prior to the expungement action will continue through the offset process. The submitting local agency continues to be responsible for refreshing files for matched debtor candidates to reflect any payments or other reductions in the debt amount.

Offset processing on all matched records occurring prior to November 1<sup>st</sup> will conclude by December 25<sup>th</sup>. No refreshed files will be accepted after this date.

Participating local agencies are encouraged to download their clearinghouse reports for archive and audit purposes. These documents available in each agency's portal throughout the tax calendar year will be archived for future viewing and download in early January.