

## Governments and Tax Payments *E-Gov Payments Heat Up Nationwide*

**W**ithin the past year, electronic payments have caught on like wildfire across the country. Rather than sign their name to paper checks—fast becoming dinosaurs in the payments industry—Americans have opted to pay electronically in a fast and furious way. But what about the government agencies who are often ridiculed for their snails-pace bureaucracy? Somewhat surprisingly, government agencies at all levels are finally realizing the benefits of both accepting and disbursing funds electronically: significant cost savings, improved cash flow and better customer service. In fact, a Government Finance Officers Association and JPMorgan Chase survey of nearly 1,000 GFOA members found that 54 percent of state and federal government agencies accept payment through automatic bank debit, while 35 percent accept payment via the Internet and the telephone.

One merchant processor who is enthusiastic about the Government e-Payments segment is Texas-based First American Payment Systems. Neil L. Randel, president and CEO of First American, describes the government sector as a “wide open and emerging opportunity for acquiring payments.” In fact, his firm just recently purchased Virginia-based Govolution, Inc., which is a provider of electronic payment technology and services to the public sector; the firm works hard to tap into the estimated \$9 trillion collected annually for taxes, tolls, citations, permits and payments for public sector organizations. Therefore, not only does First American want to be able to leverage Govolution’s expertise, experience and technology for government payments, but it also wants to utilize Govolution for other verticals such

as non-profits, colleges and universities and insurance companies.

### **Dizzying Payments Maze**

While the market potential is huge, unfortunately every city, county, state and federal government department is unique—thus presenting unique challenges. Christopher Flaesch, president and CEO of Govolution, explains that “you may be working with one government but have numerous lines of business, each with their own different system, platform and network.” Therefore, how they each handle items such as voids, credits and charge-backs creates a tangled, complex web of payments processing. Enter Govolution, who steps into this dizzying payments maze and acts as an Internet-based payment gateway—enabling their government clients to electronically process consumer credit card, debit card and ACH payments across multiple payment environments. These payments environments include the Internet, a call center, an IVR, or a kiosk or at the point of sale.

In the same vein, the U.S. Treasury Department has initiated a national campaign urging tax preparers and small business to “Simplify” the way in which they pay taxes by doing so on the Electronic Federal Tax Payment System (EFTPS). This aptly named “Simplify” campaign encourages promotion of and education about the electronic payment system, while driving down costs. According to its figures, the Treasury says that electronic payments cost 53 cents less to process than paper coupons and checks. In addition to working with 26 states, the District of Columbia and more than 2,000 local government clients across the country, the Official Payments Corporation, a subsidiary of Tier Technologies Inc., is one of only two official electronic payment service

providers for the Internal Revenue Service. Because governments are required by law to accept the exact amount of the tax payment, Official Payments charges users a convenience fee that varies by government agency for the service.

James R. Weaver, chairman and CEO of Tier Technologies, relates that “we are seeing a fundamental shift away from cash and checks by government agencies looking to be more fiscally responsible by saving on the high handling costs of these traditional payment methods.” It is truly a win-win scenario for the government, featuring perks such as lower handling costs, greater service to constituents, as well as no outlay or transaction costs. OPC makes it very simple for the government agency to work with them for online payments by offering three options—creating a link over to OPC for handling payments, co-branding the website or staying on the government website where OPC works behind the scenes. OPC also supports telephone payments via IVR systems and operates a call center for accepting payments.

It is quite obvious why the government would want to accept and encourage the use of electronic payments. However, what would motivate Americans to pay their much-dreaded taxes plus a convenience fee with their credit or debit cards?

Weaver says that “citizens using credit or debit cards with bonus rewards programs may, depending on their card’s program, earn reward points, airline frequent flyer miles or cash back for paying their taxes and fees.” Procrastination also plays a role, as does cash management. “Some taxpayers are unpleasantly surprised by the size of their payment, so their credit card acts as a built-in loan,” adds Weaver.

## Electronic Payments Bandwagon

As more agencies come onboard, Weaver sees burgeoning growth for tax payments in the form of the electronic payment acceptance bandwagon, delinquent and business taxes becoming eligible for electronic payment, and consumers becoming more aware that they can pay their taxes with their credit/debit cards. Michael Cummins, Treasury Services Sales Executive for the Public Sector at JPMorgan Chase, agrees. "Government comptrollers and treasurers need to strategically manage fiscal operations similar to corporate CFOs. Convenience, customer service and cash acceleration are a big part of that strategy," says Cummins.

Some states, such as Iowa, have even begun to mandate that employers submit their payroll taxes electronically. In 1999, Silicon Valley-based PayCycle began with a vision of helping businesses with fewer than 20 employees elec-

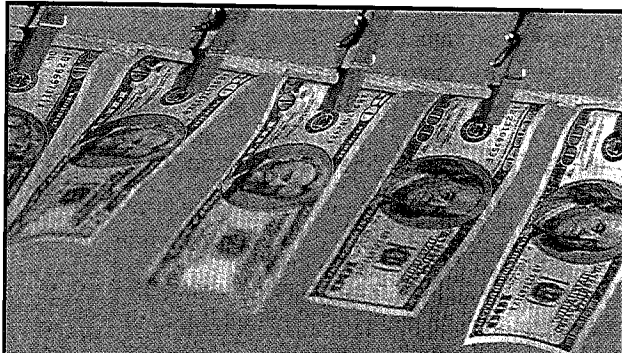
tronically calculate payroll taxes, fill out payroll forms, keep track of deadlines and comply with ever-changing tax rates. This method helped thousands of small businesses in all 50 states to electronically deposit and file taxes as well as pay employees. Karen White, vice president of Product Management at PayCycle, states that "traditional payroll services may impound funds up to 120 days in advance of when the payments are actually due, but with our on-demand Internet-based system, our clients can keep the money in their account and pay with just a click on the mouse." The firm uses a combination of ACH credits and debits depending on the individual preferences of government agencies, adds White.

With all eyes on the collections side, it would be easy to forget that governments are also starting to see the light at the end of the electronic disbursement tunnel. Aaron Bills, vice president of business development and

strategic relationships at 3Delta Systems Inc., says that "every state has a purchasing card program in place, and many times, cities and counties can tag along with these programs to pay their suppliers too." It is not just 'micro' transactions of under \$2,500 that are being paid electronically, but large \$50,000 to \$250,000 purchases are also moving away from check payments." Bills asserts that "large ticket payments with p-cards are an emerging trend. It is often in a 'post pay' manner after the agency has already received the goods and invoice."

In the technological age, a paper check, a deposit slip and a trip to the bank all seem very counterproductive. Fortunately, government agencies now recognize the efficiency and convenience integral to electronic inbound and outbound payment systems. **TT**

*Tom Wright is a freelance writer based in St. Louis.*



## How's Your Bottom Line?

- Competitive Rates
- POS Terminals
- Virtual Terminals
- Software
- Same-Day Funding
- Faxed Leases Accepted
- Verification 24/7
- Fast Approvals



Where The Customer Always Comes First

For more information see our website or call Toll-Free

**A-1Leasing.com ~ 888 222 0348 x3012**

**USAe pay**  
An eCommerce & Retail Certified Gateway

**Can Your Payment Gateway Do it All?**

**eCommerce**

- Virtual Terminal
- Recurring Billing
- Batch Uploading
- Reports & Graphs
- Fraud Stopper
- 3D Secure
- eCheck
- Free API/SDKs
- PCI Data Security Compliant

**Retail**

- PC & Mac Software
- POS Systems
- Wireless ePay

**Become a Reseller**

- Track Merchants
- Co-Branding
- No Transaction Fees

**866.USA.EPAY (872.3729)**  
**www.usaepay.com**