

IRM PROCEDURAL UPDATE

DATE: 02/12/2026

NUMBER: ts-21-0226-0234

SUBJECT: Refund Research Direct Deposit

AFFECTED IRM(s)/SUBSECTION(s): 21.4.1

CHANGE(s):

IRM 21.4.1.4(2) - For clarity and to incorporate new information about the Executive Order 14247, Modernizing Payments to and From America's Bank Account, added information about directing taxpayers to their IOLA when bank account information is incorrect on a file return.

(2) Probe to determine if the caller e-filed the return more than 21 days prior to the call or mailed the return more than six weeks prior to the call.

If the taxpayer or their authorized third party designee indicates the bank account information is incorrect on the account, other than RAC/RAL, advise the caller they will be given the opportunity to update the banking information through their online account after the refund has generated and is rejected by the bank. Encourage the taxpayer to access or create their online account and monitor for the link to add bank account information. Explain the refund, when returned, will be reissued to the updated account. For more information refer to IRM 21.2.1.62, Individual Online Account (IOLA). Use AMS Category Refund Inquiry and select issue REFUND (Direct Deposit) to update AMS history with information given to the taxpayer.

Reminder: If more than 21 days have passed since the taxpayer e-filed, see IRM 21.4.1.4.1.2.2, Researching Rejected IMF E-filed Returns, to ensure the return was accepted by the IRS prior to beginning research for the missing return.

Note: If taxpayers indicate they called the financial institution and were advised the refund was returned through the External Lead Process or a Bank Lead, check for External Lead indicators. Refer to IRM 25.25.8-2 , External Lead Involvement Indicators, and IRM 21.4.1.4.6, External Leads Program or Other Questionable Refund Inquiries, for more information.

Reminder: Some e-filed returns are accepted before the **publicly announced start date** for accepting and processing electronically filed returns. This is done for testing the system. However, no returns are processed until the announced date, therefore no time frame calculation should start before the publicly announced start date for those early returns. All other time frame calculations should start on the date of the acknowledgement for the e-filed return. This **publicly announced start date** is also valid for paper filed tax

returns. Do not conduct any required research on the account prior to the official filing date. Review time frames in paragraph (3) below.

- For current and prior two tax year inquiries, continue to paragraph (4) below:
- For all other prior tax year inquiries, determine if the time frame has been met per paragraph (3) below. If time frame is **met**, authenticate the taxpayer's identity and conduct account research to assist the taxpayer. See IRM 21.4.1.4.1, Locating the Taxpayer's Return, for additional information. For authentication procedures, see IRM 21.1.3, Operational Guidelines Overview. If time frame is **not met**, advise taxpayer to allow the appropriate processing time frame.

Caution: It is extremely important to consider the refund statute expiration date (RSED) prior to responding to the taxpayer. Refer to IRM 25.6.1.5, Basic Guide for Processing Cases with Statute of Limitations Issues, for additional information.

- For inquiries about Economic Impact Payments, see IRM 21.6.3.4.2.13.2, Economic Impact Payments - Refund Inquiries.

IRM 21.4.1.4(4) - For IMF: perfected information about AMS category and issue to select when answering questions about the Executive Order 14247; removed the bypass conditions; added information to identify the CP53E on IDRS; added that taxpayers can take immediate action in their IOLA; expanded on waiver criteria and gave MISC code definitions; added information about what happens if no action is taken to update the direct deposit account information or request a waiver online. For BMF: added notice information and advised what will happen if direct deposit is rejected.

(4) Beginning January 2026, the following direct deposit changes will be implemented due to the Executive Order 14247, Modernizing Payments to and From America's Bank Account. These changes will apply to returns filed in 2026 and direct deposit rejects beginning in January 2026:

- When addressing CP53E inquires, use AMS Category Refund Inquiry and select issue REFUND (Direct Deposit) to update AMS history.
- Individual REFUND Form 1040 series tax returns filed with no direct deposit account information will be processed but the refund will be frozen with a 1- freeze (new numeric freeze).
- All direct deposits that are rejected back to IRS (except for reject codes 07, 17, 18, 19 & 23) will be posted to the account with a P- freeze with TC 841 DLN block and serial number 77716 (IMF) or 77777 (BMF).

- For individual REFUND Form 1040 series tax returns for which the taxpayers refund was frozen or rejected, a CP 53E notice will be issued to the taxpayer requesting they provide a new or updated direct deposit account using their IRS online account (IOLA). The letter provides the taxpayer a 30-day time frame to add the bank account information.

Note: If the taxpayer has general questions about the CP53E, a toll-free information only line has been established which will contain different prompts explaining CP53E conditions and what actions to take. As this line will only explain the new direct deposit process and is not staffed by live assistors; it will not allow transfers to other lines or any account actions. Give the taxpayer the informational toll-free number 866-325-4066, then transfer the caller to the CP53E information line using the Telephone Transfer Guide (TTG).

- IDRS will show a TC 971 AC 804 MISC CP53E.
- Taxpayers will see the CP53E within their online account and can take immediate action if the CP53E has been issued. The notice date will be received sooner than the notice date in most cases to allow taxpayers the 30 days to update their direct deposit information online.
- The CP53E notice will only be issued once, ex. if TP updates bank account and that refund gets rejected, they will not receive a second chance to update the bank account and a paper refund check will be issued.
- When the taxpayer accesses IOLA and inputs the direct deposit information it will go through verification, and if it is successfully verified, the TP will receive a message advising the update was successful. The direct deposit update will then post to their account as TC 970 AC 001 MISC direct deposit account type code with a subsequent direct deposit TC 846 DD: 9. For Married Filing Joint accounts, the TC 970 AC 001 with bank account field showing RTN/Bank account # will post on primary and secondary accounts.
- The valid values for direct deposit will be:
 “C” for checking account
 “S” for Saving account
 “D” for Debit Bank card (IMF only)
 “M” for Mobile account (IMF only)
- Under limited circumstances taxpayers may be allowed to receive a paper check. When the taxpayer accesses IOLA, if they have no direct deposit information to provide, they will select the appropriate reason from the waiver list. Once they successfully submit the waiver request online, a TC 971 AC 850 with source code 1 or 3 and MISC 1-9 (will show waiver reason number) will post on the tax module and a paper check will generate. For Married Filing Joint accounts, the TC 971 AC 850

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The waiver list is as follows:

- 1- Taxpayer has a disability
- 2- Taxpayer does not have a bank account due to the costs associated with an account
- 3- Taxpayer does not have a bank account due to religious beliefs
- 4- Taxpayer has limited or no access to a bank account
- 5- Taxpayer does not have a bank account due to taxpayer's age
- 6- Taxpayer does not have a digital or mobile payment application
- 7- Taxpayer has an ITIN
- 8- Taxpayer has an international bank account
- 9- Taxpayer is incarcerated

- If the taxpayer states they are unable to access IOLA or meets one of the waiver conditions above, follow procedures in IRM 21.5.6.4.31, P- Freeze, or IRM 21.5.6.4.53, 1- Freeze, to release the refund as a paper check.
- If no action is taken to update the direct deposit account information or request a waiver online, the 1- and P- freeze will auto-release at 6 weeks and a paper check will be issued.
- For Business accounts:
 - Direct deposits are encouraged and allowed for all BMF MFTs.
 - BMF taxpayers do not have access to an IOLA account, therefore, rejected direct deposit refunds will be issued as a paper check without additional intervention.
 - CP 153 will be sent to BMF taxpayers if their direct deposit refund is rejected and a paper check is being mailed.
 - Business tax returns filed without direct deposit account information are not frozen, the refund will be generated as a paper check.

IRM 21.4.1.5.7(2) - For IMF: perfected information about AMS category and issue to select when answering questions about the Executive Order 14247; removed the bypass conditions; added information to identify the CP53E on IDRS; added that taxpayers can take immediate action in their IOLA; expanded on waiver criteria and gave MISC code definitions; added information about what happens if no action is taken to update the direct deposit account information or request a waiver online. For BMF: added notice information and advised what will happen if direct deposit is rejected.

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- The CP53E notice will only be issued once, ex. if TP updates bank account and that refund gets rejected, they will not receive a second chance to update the bank account and a paper refund check will be issued.
- When the taxpayer accesses IOLA and inputs the direct deposit information it will go through verification, and if it is successfully verified, the TP will receive a message advising the update was successful. The direct deposit update will then post to their account as TC 970 AC 001 MISC direct deposit account type code with a subsequent direct deposit TC 846 DD: 9. For Married Filing Joint accounts, the TC 970 AC 001 with bank account field showing RTN/Bank account # will post on primary and secondary accounts.
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- If no action is taken to update the direct deposit account information or request a waiver online, the 1- and P- freeze will auto-release at 6 weeks and a paper check will be issued.
- For Business accounts:
 - Direct deposits are encouraged and allowed for all BMF MFTs.
 - BMF taxpayers do not have access to an IOLA account, therefore, rejected direct deposit refunds will be issued as a paper check without additional intervention.
 - CP 153 will be sent to BMF taxpayers if their direct deposit refund is rejected and a paper check is being mailed.
 - Business tax returns filed with out direct deposit account information are not frozen, the refund will be generated as a paper check.

IRM 21.4.1.5.7(4) - For ease of research moved information to paragraph 2. Subsequent paragraphs have been renumbered.

(4) The Refund Product Code indicators, which include other Refund Advance Products (RAL/RAL), can be found on MeF Return Request Display (RRD) under Code and Edit values titled REF Anticipation Loan Ind. They can also be found on CC TRDBV under the attribute of **Refund Anticipation Loan Code**. Treat Refund Product Codes 1-4 as a Refund Advance Product (RAL/RAC) and refer taxpayers to their tax return preparer or the financial institution. If there is **no** RAL/RAC code 1-4 present on CC TRDBV, the refund **should not** be considered a Refund Advance Product.

Refund Anticipation Loan Code	DEFINITION
0	NO FINANCIAL PRODUCT
1	PRE-REFUND ADVANCE PRODUCT - TAXPAYER CHARGED AN ADVANCE FEE - Refund Anticipation Loan (RAL)
2	POST-REFUND FINANCIAL PRODUCT (REFUND TRANSFER) - Refund Anticipation Check (RAC)
3	PRE-REFUND ADVANCE PRODUCT - TAXPAYER NOT CHARGED AN ADVANCE FEE
4	OTHER/NEW PRODUCT - Not meeting any of the above criteria
5	TEXT FIELD TO EXPLAIN OTHER/NEW PRODUCT #4

Note: Refund Product Elect Indicator: Identifies whether the taxpayer elected a Refund Product or not. Refund Product refers to a Refund Transfer or an Early Access Product that is obtained through the tax return provider at the time of tax preparation or filing.

Caution: #



IRM 21.4.1.5.7(6) - For clarity and to incorporate new information about the Executive Order 14247, Modernizing Payments to and From America's Bank Account, added information about directing taxpayers to their IOLA when bank account information is incorrect on a file return.

(6) Beginning in 2010 and continuing until January 1, 2025, taxpayers could elect to get their tax refund in the form of Series I U.S. Savings Bonds. Beginning January 1, 2025, the program of purchasing savings bonds with a refund on a Form 8888 has been discontinued by the Bureau of the Fiscal Services (BFS). Direct taxpayers inquiring about purchasing savings bonds to the Treasury Direct website.

Note: The RTN for savings bonds is always **043736881**. The account number is always identified by the word "**BONDS**". If either of these is entered incorrectly, or there is a math error on the return, the savings bond purchase request will be rejected, and the refund will be issued as a paper check.

- Form 8888, Allocation of Refund (Including Savings Bond Purchases), gave the taxpayer the option to designate up to three unique savings bond elections: one for the taxpayer themselves, and two designations can be as gift bonds to someone other than the taxpayer and/or as a purchase for a beneficiary.
- If the amount of the refund was increased because of a math error, the savings bond was issued, and the additional amount was refunded in the form of a paper check or direct deposit if designated on the Form 8888.
- The purchase request must have been in increments of \$50 and was not to exceed \$5,000. If either of these conditions were not met, or if there was a math error on the return that reduced the amount of refund, or invalid information was on the Form 8888, per IRM 21.4.1.5.7.1 (1), Direct Deposit of Refunds, the refund was issued as a paper check.
- Except in the case of a math error reduction, any amount over and above the \$50 increment was direct deposited into a savings, checking or IRA account, or refunded as a paper check.

Example: For example, if the refund is \$275, the taxpayer chose to get paper I Series savings bonds in the amount of up to \$250, and the remaining \$25 was direct deposited into a savings, checking or IRA account or refunded in the form of a paper check.

Note: Savings bonds cannot be purchased on late filed or amended prior year tax returns.

IRM 21.4.1.5.7.1(5) - For clarity and to incorporate new information about the Executive Order 14247, Modernizing Payments to and From America's Bank Account, added information about directing taxpayers to their IOLA when bank account information is incorrect on a file return.

(5) If the taxpayer or their authorized third party designee indicates the RTN or account number is incorrect on the account, if the TC 846 has generated, research the account for the posting of a TC 971 AC 804 MISC CP53E, if present encourage the taxpayer to access their online account and update the bank account information, we will reissued the refund to the updated account. If the TC 846 has not posted input TC 971 AC 850 the refund will then be issued as a paper check to the most current address on the taxpayer's account. Use AMS Category Refund Inquiry and select issue REFUND (Paper Check) to update AMS history with the reason taxpayer gave for requesting a paper check be issued. See IRM 21.1.3.3.1, Third Party Designee Authentication, for additional information about third party designees.

IRM 21.4.1.5.7.6(3) b - For clarity added link to IRM 21.1.1.4.1 Communication skills - Outbound Calls to provide instructions for making outbound calls to financial institution.

(3) If either the RTN, account number, and/or taxpayer name of the deposited refund does not match the information found in TCIS, IDRS or the tax return information, or if TCIS does not match IDRS and the IRS caused the error, complete the following:

- a. Issue a manual refund to the correct taxpayer as soon as possible to make the taxpayer whole and limit credit interest.

Exception: For issues arising from Economic Impact Payments (EIP) or Advance Child Tax Credit (AdvCTC) payments, do not issue a manual refund. After completing procedures in 3b and 3c below, follow procedures in paragraph 4, 5 or 6 as appropriate.

Note: IRS employees are not permitted to contact the bank to request the identity of the account owner who received the erroneous refund. Use CC IMFOBN to confirm the identity of the account owner who received the erroneous refund as indicated on FS Form 150.1, see IRM 2.3.51-32, Command Code IMFOB Output Display — Direct Deposits.

- b. Follow procedures in IRM 21.1.1.4.1, Communication skills- Outbound Calls, and contact the financial institution (FI) by telephone to request their assistance in recovering the funds. You may provide the taxpayer's name, refund amount, the date, the routing transit number and the account number to the financial institution. If the bank recovers the direct deposit refund, request they return it to BFS through normal procedures. If the bank does not respond within 15 calendar days, contact

the bank again. Allow an additional 15 calendar days for the bank to respond. If the bank does not respond, follow erroneous refund procedures in IRM 21.4.5, Erroneous Refunds.

- c. If the financial institution requests a letter from IRS before returning the funds, Refund Inquiry should send the letter in Exhibit 21.4.1-4, Bank Letter to Recover Direct Deposits, that has been approved by Chief Counsel for use by Accounts Management. It is not a "letter of indemnity", so if the bank will not accept it, follow the guidance above to complete your case. If the bank does not respond within 15 calendar days of the letter, contact the bank by phone to determine the status of the request.

Note: IRS employees are not permitted to contact the bank to request the identity of the account owner who received the erroneous refund.