A longtime partnership between the U.S. Treasury and the Federal Reserve Bank of Cleveland is expanding in scope, and the payoff could come in the form of reduced government costs.

For the first time, Debit Gateway—the Treasury’s payments processing application supported solely by the Cleveland Fed—processed tax lockbox transactions during a tax season.* Debit Gateway has been able to process tax lockbox transactions for quarterly tax payments since mid-2011, when the Cleveland Fed’s eGovernment (eGov) function enhanced the software. In fact, from April 2011 to March 2012, it processed an average of 14 million transactions worth $18 billion each month. But it wasn’t until this past April that the software enhancements were truly put to the test.

The result: More than 29 million transactions worth a record $141 billion were processed efficiently and accurately during the 2012 tax season, meeting goals for both the IRS and the Treasury. With Debit Gateway, the benefits include increased efficiency in government collection processing and reduced costs in processing received funds.

The Federal Reserve System has been acting as a fiscal agent for the federal government for almost 100 years. Today, eGov provides services that include technical solutions. Debit Gateway now enables the System to process a multitude of transactions, including anything from a passport fee to a government-funded small-business-loan payment.

The Debit Gateway process begins as the consumer writes a check or makes an electronic payment. Debit Gateway presents the payment to the bank and credits the appropriate government agency.

Picture a large funnel housed in Cleveland. This is the collection point. Payments from you or me—for anything from a student loan to a national park fee—enter the opening from three points, either over the counter (in person), mail, or online. The payments get “funneled” through the Debit Gateway application and come out as electronic transactions that are then presented to the appropriate banks. From there, the money travels to the government agencies to settle the debts. So, most likely, as consumers, we have all had a Debit Gateway encounter, without even knowing it.

New and higher-volume customers include the Office of Natural Resources, Bureau of Prisons, U.S. Postal Service, and Veterans Administration. By the end of 2012, the Debit Gateway is projected to process more than 20 million transactions per month. ■

* A lockbox is a collection and processing service provided by a third party.

A Spike at Tax Season in Debit Gateway Transactions

Source: Federal Reserve Bank of Cleveland.

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