



Guidelines Related to the IRS Form 4506-T and Tax Return Transcripts

The Request for Transcript of Tax Return (IRS Form 4506-T) provides the borrower's permission for the lender to request the borrower's tax return information directly from the IRS.

When a lender submits a borrower-signed IRS Form 4506-T to the IRS, the IRS provides a line-by-line transcript of the tax return information it has received for up to the past four tax years. This has become the most efficient method for lenders to obtain a borrower's income tax information – the information is available electronically and quickly.

This document provides tips for lenders regarding use of the IRS Form 4506-T, including:

- when the form is required;
- when tax return transcripts must be requested from the IRS;
- what to request from the IRS; and
- what to look for when reviewing the results.

When the form is required

Origination

Fannie Mae does not require the lender to submit the IRS Form 4506-T to the IRS to obtain a borrower's income tax information during the loan origination process, although many lenders choose to do so.

Quality Control

Fannie Mae does have requirements related to obtaining a signed 4506-T from the borrower at or before loan closing, and the submission of that signed form to the IRS during the lender's post-closing QC process. Refer to the *Selling Guide*, Subpart D1, Lender QC Process, for details about lender QC requirements *Selling Guide*, and B3-3.1-06, Requirements and Uses of IRS Form 4506-T for details about obtaining a signed 4506-T from the borrower.

NOTE: *Request for Copy of Tax Return (IRS Form 4506) and Tax Information Authorization (IRS Form 8821) are also acceptable; however, at this time the tax information available using these forms is not available electronically. In addition, the eligible timeframes for the forms differ – Forms 4506-T and 4506 are valid for 120 days after being signed by the borrower, but Form 8821 is valid for only 60 days after borrower signing.*

When tax return transcripts must be requested from the IRS

Fannie Mae's requirements for obtaining a signed Form 4506-T from the borrower at or before closing, and submitting the signed 4506-T to the IRS to obtain tax return transcripts, have some exceptions. These exceptions are based on:

- whether or not a tax transcript was obtained during the underwriting of the loan; and
- whether or not the borrower's income was validated through the DU validation service.

The following examples summarize these requirements based on these circumstances.

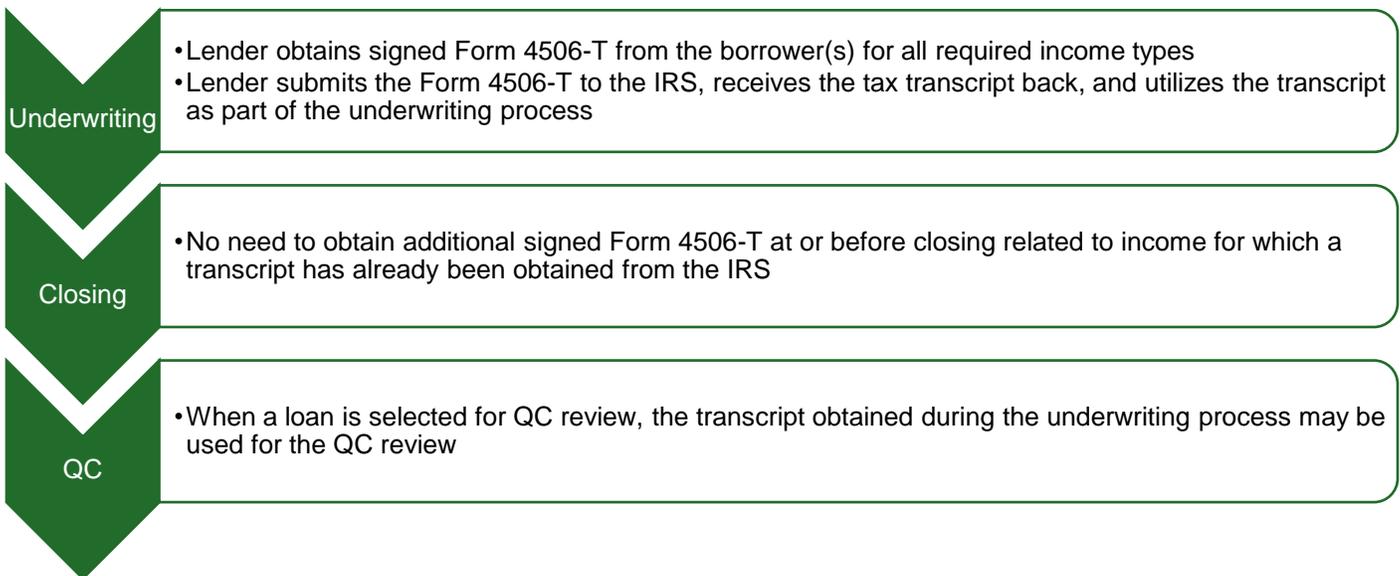


Examples

Example 1: tax return transcripts were obtained during the underwriting process

Applies to:

- DU underwritten loans
 - assessed through the DU validation service
 - not assessed through the DU validation service
- Manually underwritten loans

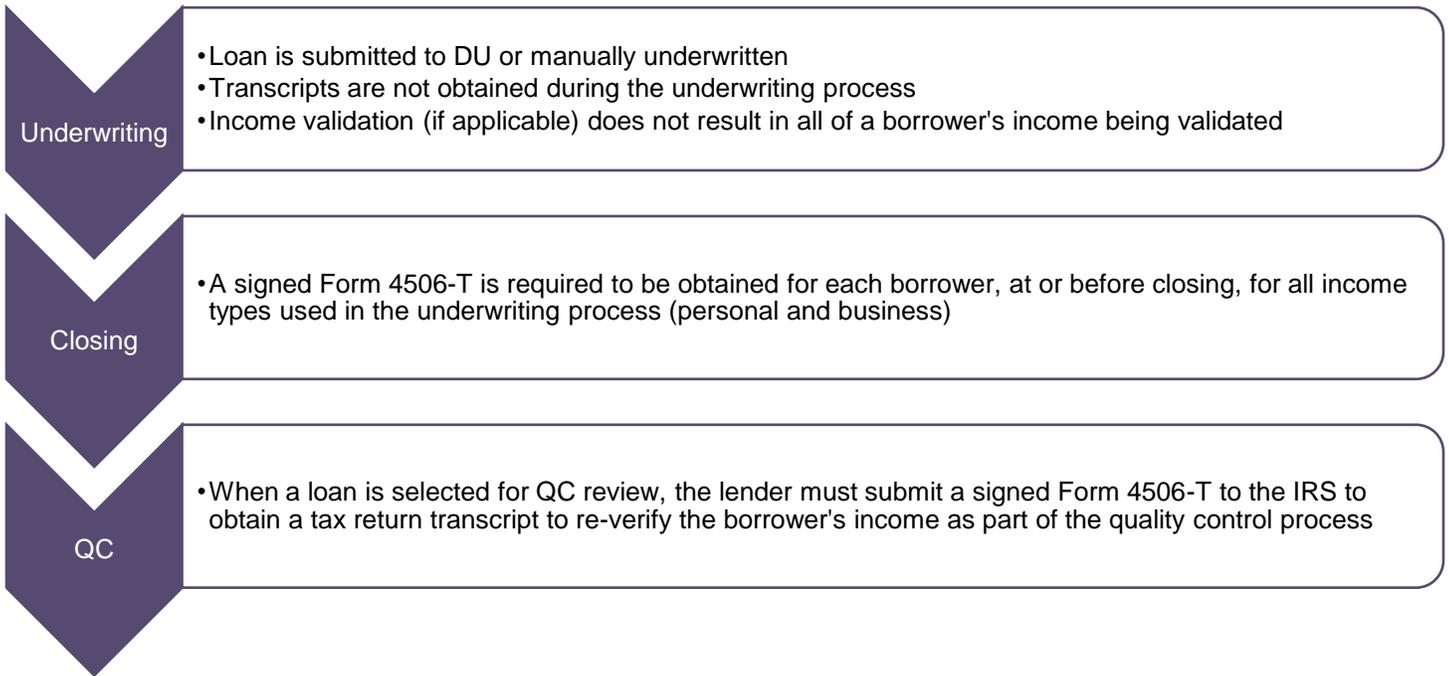


Examples 2A and 2B: tax return transcripts were NOT obtained during the underwriting process

Example 2A

Applies to:

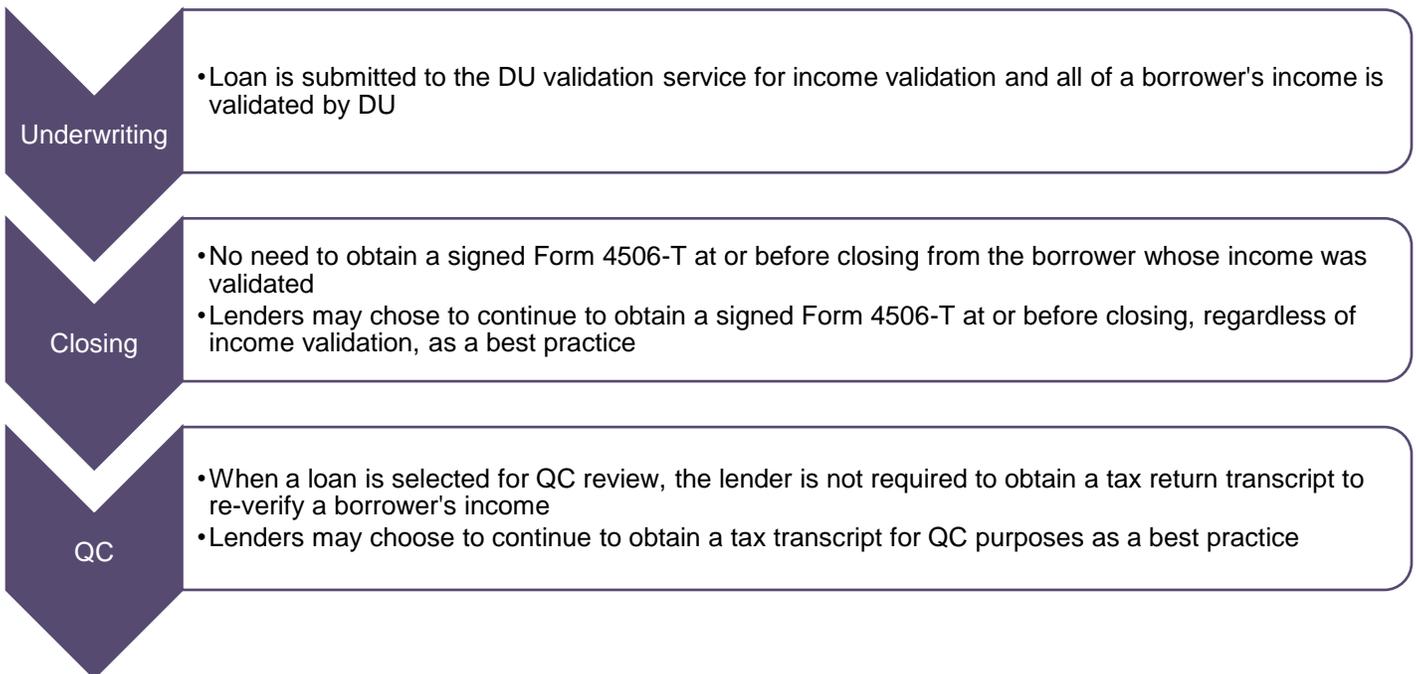
- DU underwritten loans
 - assessed through the DU validation service, but not all of a borrower's income was validated; or
 - not assessed through the DU validation service
- Manually underwritten loans



Example 2B

Applies to:

- DU underwritten loans
 - assessed through the DU validation service, and all of a borrower's income was validated





What to request from the IRS

Transcripts available through submission of IRS Form 4506-T include the following series:

- **1040:** U.S. Individual Income Tax Return
- **1065:** U.S. Return of Partnership Income
- **W-2:** Wage & Tax Statement
- **1098:** Mortgage Interest/Student Loan Interest/Tuition Statements
- **1099:** Dividends/Interest, Miscellaneous Income, Government Payments, Cancellation of Debt, etc.
- **1120:** U.S. Corporation Income Tax Return (also 1120-L and 1120-S)
- **5498:** IRA, HSA, Archer MSA, Medicare Advantage MSA, Coverdell ESA Contributions

The table below shows the documentation that should be requested from the IRS. The requested documentation must follow Fannie Mae's income documentation requirements, which depend on the type of borrower income (self-employed, salaried, commissioned, etc.) and the underwriting method (DU or manual).

If standard/DU Income documentation is... (as determined by the <i>Selling Guide</i> or the DU recommendation)	The IRS tax transcript must be obtained for the most recent filing of:			
	1040 (4506T-EZ may also be used)	1120 or 1065	1099	W-2
YTD paystub and one W-2				1 year
YTD paystub and two W-2s				2 years
YTD income information and two 1099s/1040s	2 years		2 years	
One year personal returns	1 year			
Two years personal returns	2 years			
Two years personal returns and two years business returns	2 years	2 years		

Examples

- When manually underwriting a salaried borrower, the lender should request two years of W-2s*
 - January 2016 initial request to the IRS – 2013 and 2014 W-2s
- When underwriting a salaried borrower through DU, DU may only require a recent paystub and one year's W-2. In this case, the lender should request the most recent available W-2*
 - June 2016 initial request to the IRS – 2015 W-2
- When underwriting a self-employed borrower (DU or manually), the lender should request two years of individual federal tax returns. In this case, the lender should request the most recent two years of available tax returns*
 - January 2016 request to the IRS – 2013 and 2014 Form 1040s
 - August 2016 request to the IRS – 2014 and 2015 Form 1040s



NOTE: * When requesting this information, lenders must take into consideration the documentation delays. It typically takes the IRS 6 to 8 weeks to add new filings or corrections to its database.

What to look for when reviewing the results

Tax transcripts obtained from the IRS can be used to document borrower income, however, the intent of this policy is to use the transcripts to validate the income documentation provided by the borrower and used in the underwriting process.

If the documentation used to support the borrower's income (e.g., 2012 W-2 for Borrower 1 from Employer A) is the same year as the information available from the IRS (e.g., 2012 W-2 transcript for Borrower 1 from Employer A), the information must match exactly (differences for rounding purposes are acceptable).

There are some instances, however, in which a variation between the income documentation (paystubs, W-2s, etc.) and the IRS tax return transcript is acceptable. For example, the borrower may have changed jobs in a way that changed their compensation from all salary to salary and commission (or vice versa) or from salary to hourly (or vice versa). Or, the borrower may not have earned enough to require filing a federal tax return (e.g. 2016 single filer with income less than \$10,350). The lender must review the transcript information to determine the reasons for any income discrepancies (e.g., borrower provided his/her 2014 W-2, but the IRS only had 2013 W-2 transcript information available).