



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. The IRS tax transcripts are one of the most effective QC and fraud prevention and detection tools available. Lenders should have a process to ensure that a complete and accurate Form 4506-T is obtained during the origination process.

NOTE: Borrowers with income from Puerto Rico must use [Modelo SC 2907](#) (*Solicitud De Copia De Planilla, Relevo De Herencia Y De Donacion*) rather than Form 4506-T. Applicable forms or processes for eligible borrowers filing tax returns in other U.S. territories must be adhered to and obtained when required.

When a lender submits a borrower-signed 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 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;
- what to look for when reviewing the results; and
- what to do if a rejection code is received.

When the form is required

Origination

Fannie Mae does not require the lender to submit the 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, which Fannie Mae views as a best practice.

Quality Control

Fannie Mae does have requirements related to obtaining a signed Form 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* section D1-3-02: Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation, for details about lender QC requirements, and B3-3.1-06, Requirements and Uses of IRS Form 4506-T, for details about obtaining a signed Form 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 Form 4506-T to the IRS to obtain tax return transcripts in post-close QC, 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 Desktop Underwriter® (DU®) validation service.

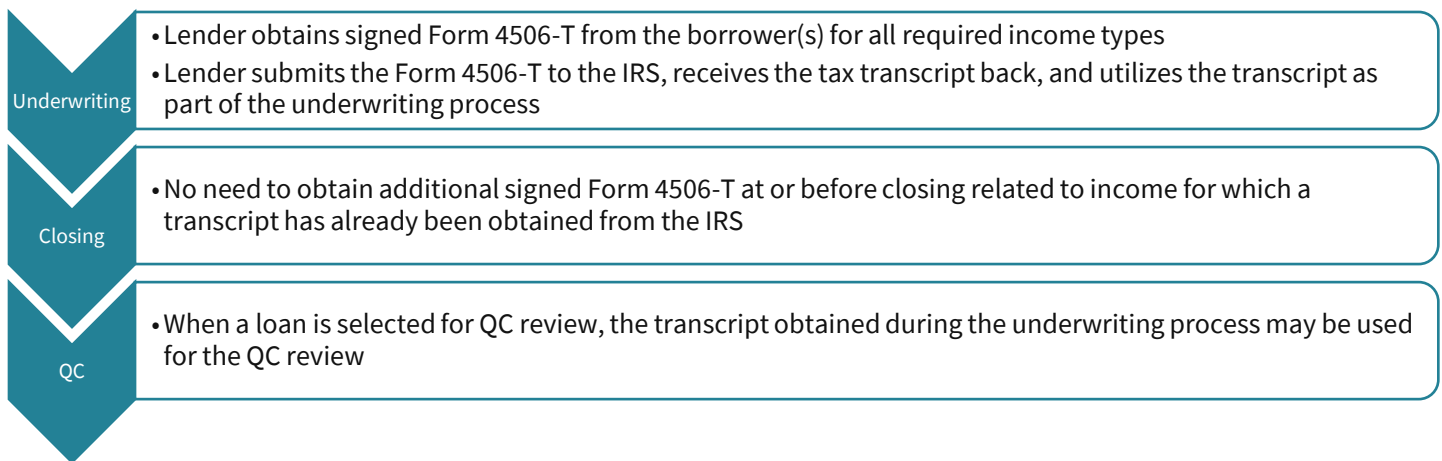
The following examples summarize these requirements based on these circumstances.

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

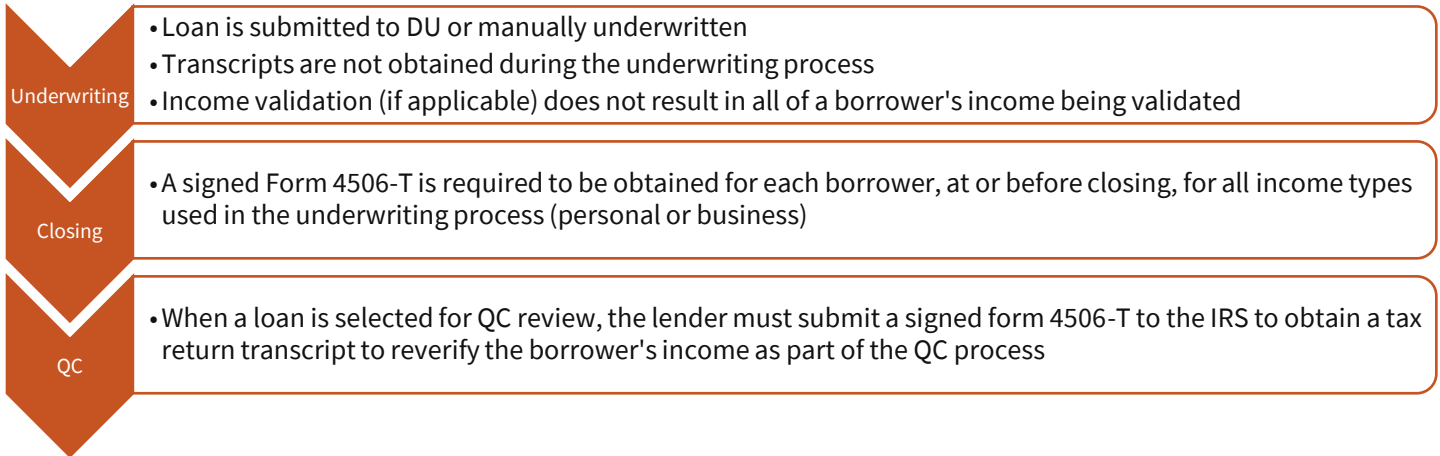


Examples 2A and 2B: tax return transcripts were NOT obtained during the underwriting process

Example 2A

Applies to:

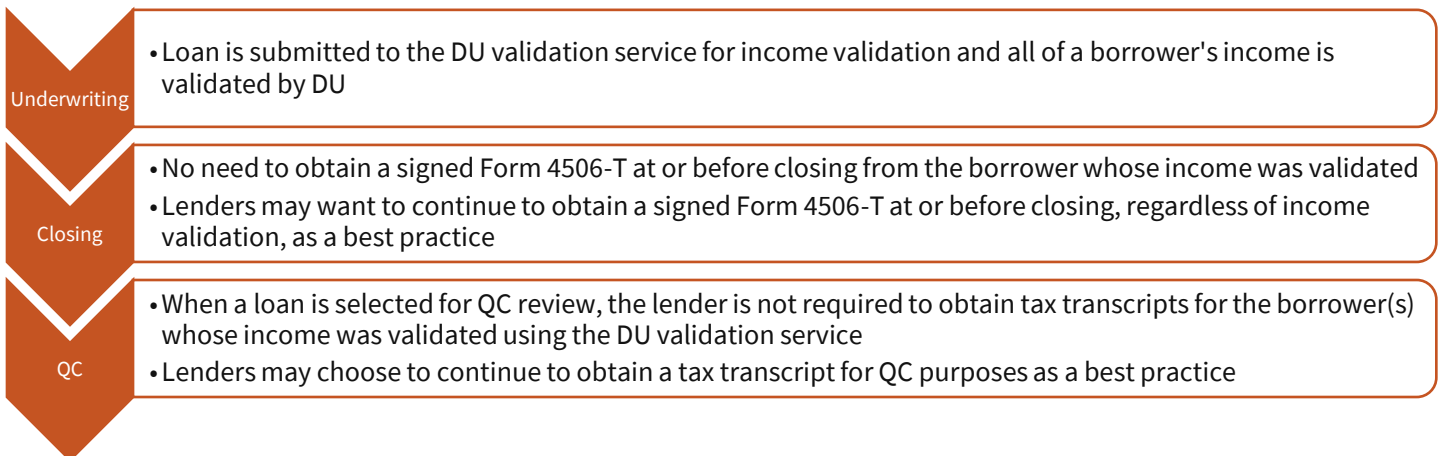
- DU underwritten loans
 - assessed through the DU validation service, but not all of a borrower's income was validated; or
 - not assessed through the DU validation service
- Manually underwritten loans



Example 2B

Applies to:

- DU underwritten loans
 - assessed through the DU validation service and all of a borrower’s income has been 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 Selling Guide or the DU® recommendation)	The IRS tax transcript must be obtained for the most recent filing of:			
	1040 (4506TEZ 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 individual returns	1 year			
Two years individual returns	2 years			
Two years individual 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 W2. 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

*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 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).



Compliance with Fannie Mae Guidelines

At times, lenders may encounter difficulties in obtaining IRS tax transcripts, such as:

1. Transcript requests being rejected by the IRS with a Code 10 indicating that *Due to Limitations, the IRS is unable to process this request*;
2. Transcript being rejected because of missing, incomplete, illegible, or altered information on the Form 4506-T (codes 1-9); or
3. Certain automated methods for obtaining tax transcripts being unavailable.

Fannie Mae *does expect lenders* to carefully review transactions and take prudent measures to investigate red flags that may indicate the presence of fraud. Lenders are expected to have fraud investigation processes and procedures in place regarding potential identity theft scenarios. Lenders should keep in mind that Code 10 is a potential indicator of fraud or identity theft, and they should exercise the appropriate level of prudence in confirming borrower identity when a Code 10 has been returned by the IRS.

Lenders who attempt to execute the Form 4506-T with the IRS and are not able to obtain a transcript due to receiving a rejection Code 10 do not need to take further steps to attempt to obtain a transcript.

For issues other than rejection Code 10, Lenders should attempt to obtain a corrected and signed Form 4506-T. If a lender chooses not to get the corrected form or is unable to obtain a corrected form, the lender must have a process to cite a moderate defect and implement a corrective action plan where appropriate.

Lenders must maintain, as a part of the QC file, documentation that evidences the applicable reject code. As in pre-funding, lenders must take care to investigate red flags that may indicate the presence of fraud and are expected to have processes and procedures in place when red flags arise in the QC process.

NOTE: *As with all reverifications, the lender must document its attempt to obtain the transcripts. Once received, the lender must add the transcripts to the file and reconcile the transcript information from the IRS with the income documentation in the loan file.*