

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

The IVES Request for Transcript of Tax Return (IRS Form 4506-C) provides the borrower's permission for the lender to request the borrower's tax return information directly from the IRS using the IRS Income Verification Express Service (IVES). The IRS tax transcripts are an effective QC and fraud prevention and detection tool, and lenders should have a process to ensure that a complete, legible, and accurate Form 4506-C is obtained during the origination process. Previously, IRS Form 4506-T was used for this purpose; however, effective May 1, 2021, only Form 4506-C will be accepted through IVES to provide tax transcripts to third parties. (Forms 4506-T and 4506T-EZ are used by taxpayers to request a transcript of tax return.)

NOTE: *An alternate form is also acceptable if it authorizes the release of comparable tax information from the IRS. Further, 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-C. 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-C to the IRS, the IRS provides a line-by-line transcript of most 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-C, 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-C 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-C 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 *Selling Guide* [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 IVES Request for Transcript of Tax Return Form 4506-C, for details about obtaining a signed Form 4506-C from the borrower.

When tax return transcripts must be requested from the IRS

Fannie Mae's requirements for obtaining a signed Form 4506-C from the borrower at or before closing, and submitting the signed Form 4506-C to the IRS to obtain tax return transcripts in post-closing 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.



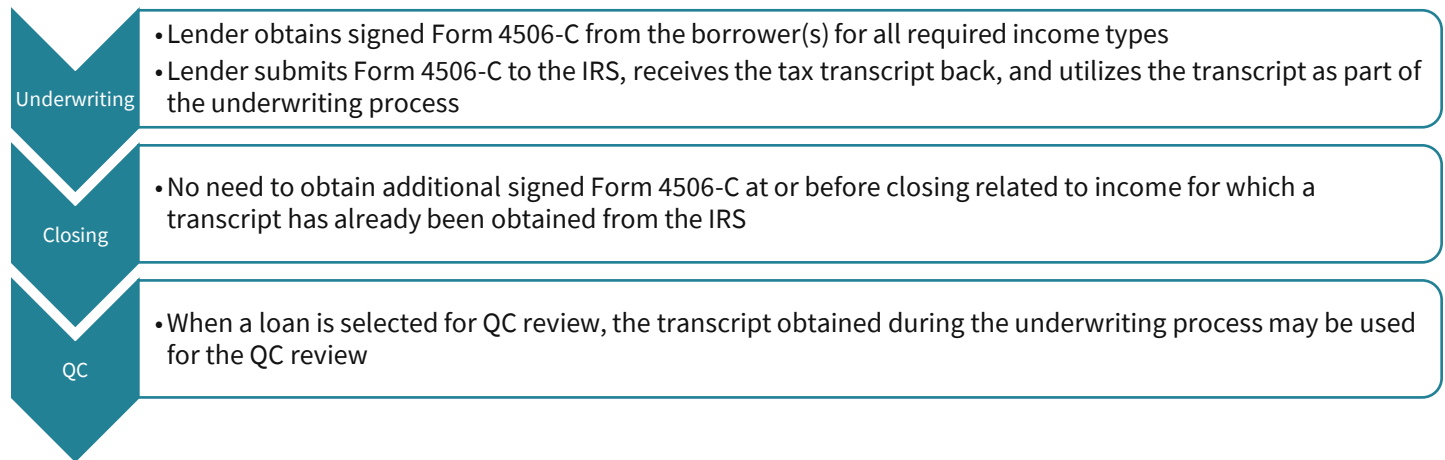
The following examples summarize these requirements based on these circumstances.

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

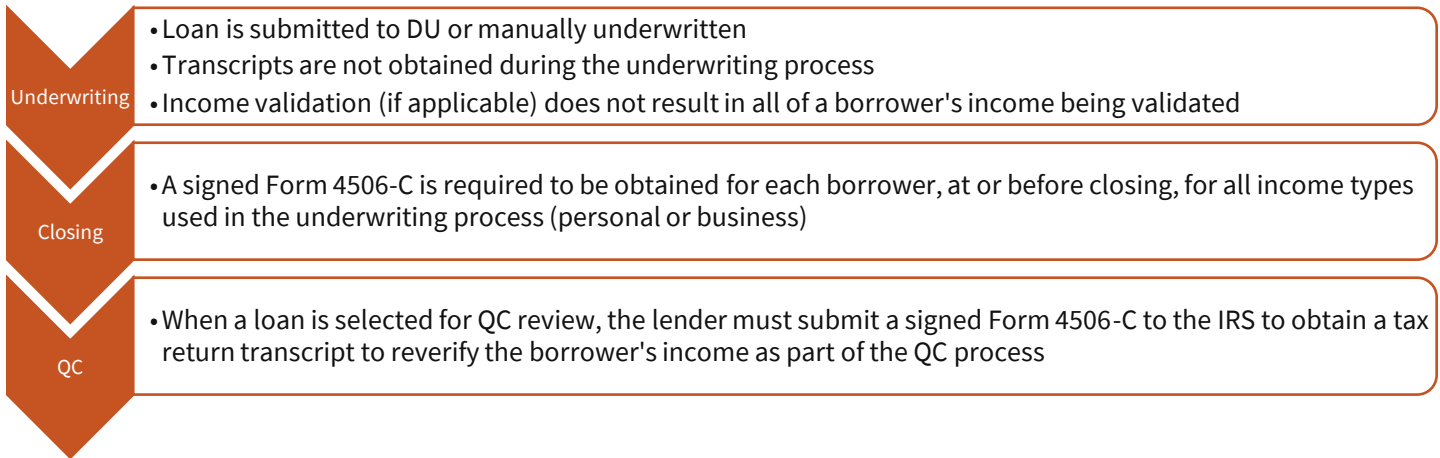


Examples 2A and 2B: tax return transcripts were NOT obtained during the underwriting process

Example 2A

Applies to:

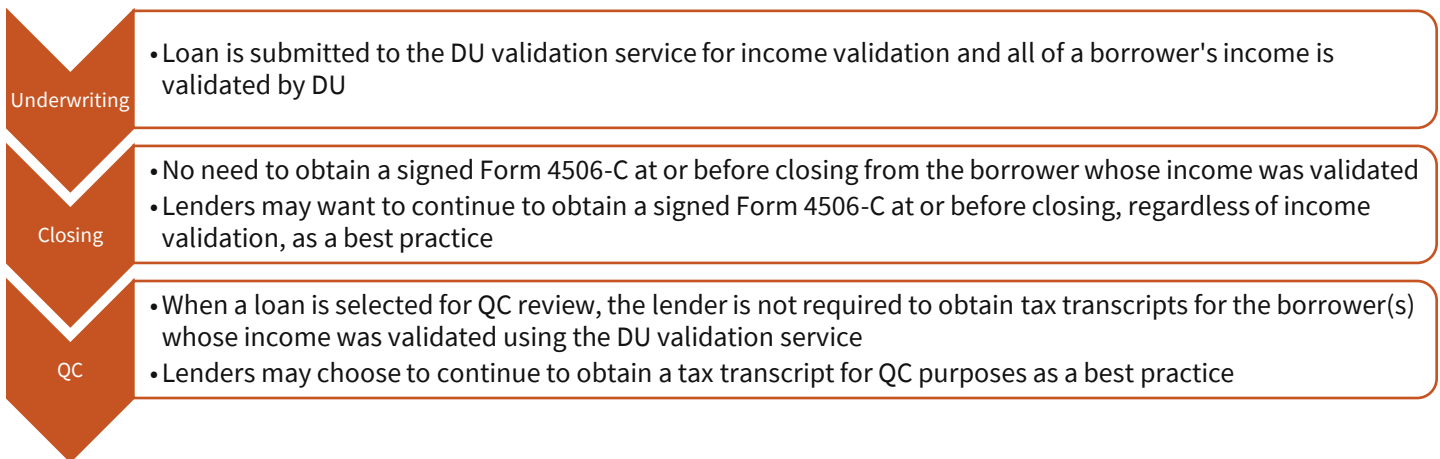
- DU underwritten loans:
 - Assessed through the DU validation service, but not all of a borrower's income was validated; or
 - Not assessed through the DU validation service.
- Manually underwritten loans.



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-C 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-A, 1120-H, and 1120-L)
- **1120S U.S. Income Tax Return for an S Corporation**
- **5498:** IRA, HSA, Archer MSA, Medicare Advantage MSA, Coverdell ESA Contributions

Only one tax form number can be requested per each IRS Form 4506-C. A self-employed borrower whose income documentation includes both individual and business returns may need to complete two IRS Form 4506-Cs. 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, etc.) and the underwriting method (DU or manual).

Income Documentation Requirements	4506-C Request to the IRS
Standard Income Documentation	
Most recent two years W-2s	Most recent two years Tax Return Transcripts (Form 1040), or Most recent two years Wage and Income Transcripts
Most recent two years individual tax returns	Most recent two years Tax Return Transcripts (Form 1040)
Most recent two years business tax returns	Two years Tax Return Transcripts (Form 1120S, 1065, or 1120)
DU Income Documentation	
Most recent year W-2	Most recent year Tax Return Transcript (Form 1040), or Most recent year Wage and Income Transcript
Most recent year individual tax return	Most recent year Tax Return Transcript (Form 1040)
Most recent year business tax return	Most recent year Tax Return Transcript (Form 1120S, 1065, or 1120)

Examples

- When manually underwriting a salaried borrower, the lender should request two years of W-2s
 - January 2021 initial request to the IRS – 2018 and 2019 W-2s
- 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 2021 request to the IRS – 2018 and 2019 Form 1040s
 - August 2021 request to the IRS – 2019 and 2020 Form 1040s

For example, W-2 information for 2020, filed in 2021, will likely not be available from the IRS until 2022. Lenders may have to obtain these documents from borrowers.

- When requesting business tax transcripts (Forms 1120, 1120S, or 1065), ensure the form is completed in the name of the company and the title of the signor is completed

Common reasons for IRS rejection of Form 4506-C

Because borrower data on the form is non-public information, the IRS aggressively reviews all lender-completed fields on the form to prevent unauthorized access to taxpayer information. Therefore, be on the lookout for these common defects during the origination cycle:

✓ Line 5A (<i>IVES participant name</i>) not completed correctly. Often caused by confusion from third-party originators over which entity to add to this line.	✓ Code 10 Rejection: Indication of possible identity theft/fraud. <i>Note:</i> This rejection code is a red flag that should trigger further review.
✓ An important signature is missing.	✓ A box is left unchecked.
✓ The tax year information was omitted.	✓ Elements of the form are filled out inconsistently.
✓ Information entered on the form isn’t legible.	✓ The form appears manually altered.
✓ Information such as name, address, mailbox, or TIN is missing.	✓ Inconsistent dates or signature date is 120 days outside of IRS request window.



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., 2020 W-2 for Borrower 1 from Employer A) is the same as the information available from the IRS (e.g., 2020 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 income to require filing a federal tax return). The lender must review the transcript information to determine the reasons for any income discrepancies (e.g., borrower provided his/her 2020 W-2, but the IRS only had 2019 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-C (codes 1-9); or
3. 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-C 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-C. 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.*