



Last Reviewed: 03/18/2024

Tax Return, W-2, & P&L Requirements for Current & Prior Year

Note:

Current Filing Year: 2023

Prior Filing Year: 2022

W-2 Requirements

2023 W-2's will be required with all applicable file submissions, effective February 1st of the current year (2024).

Tax Return Requirements

For self-employed borrowers who have not filed the current filing year's (2023) tax return, the following are required:

- Most recent tax filings (Individual and Business), and
- Current filing year's (2023) Tax Transcript showing "No Record Found," and
- If applicable, for applications after April 15th* (or other date as set by the IRS): Verification of an extension for the current filing year (2023) is required as described in Extension Requirements below.

IRS Taxes Due on Personal Income Tax Returns (Current Year)

The Agencies pay close attention to taxes due shown on personal income tax returns to determine the following:

- Will the Borrower have adequate funds to close from an allowable source? And,
- Will the Borrower incur a monthly obligation with the IRS as a result of a repayment arrangement?

To ensure compliance with all Agency due diligence requirements, UHM requires:

- When tax returns reflect an amount equal to or less than \$5,000 in taxes owed, documentation of payment is not required.
- When tax returns reflect an amount owed greater than \$5,000 and the loan **will close prior to the tax filing deadline**:
 - Verify sufficient assets to cover the amount due OR
 - Provide evidence that the taxes have been paid.
- When tax returns reflect an amount owed and the **loan closes on or after the tax filing deadline**:
 - Verify the taxes have been paid (i.e.: wire, cancelled check), OR
 - Provide an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and the amount due.

Additional Due Diligence and Documentation Requirements

- Bank statements must be reviewed for any additional debt or IRS payments.
- Loan officers are obligated to ask, and borrowers are obligated to disclose in section 5b.h. of the URLA, that there is an installment agreement on a federal debt.
- If any document in the loan indicates a payment plan has been established, the agreement must be provided, and the amount included in the DTI.

Additional guidance can be found in Ask UHM by asking "Do outstanding IRS tax balances for previous years need to be paid off prior to closing?"

Federal Income Tax Installment Agreements

Each agency has unique requirements for IRS payment agreements; refer to the Ask UHM question, "What are the requirements when the borrower has entered into an IRS payment agreement for delinquent taxes owed?"



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Profit and Loss (P&L) and Balance Sheet Requirements for Self-Employed Borrowers

Conventional

- A Profit & Loss Statement is only required per Underwriter discretion.
- P&L **cannot** be used for calculation of stable monthly income. The information is only used to support the business income is stable.
- A YTD Balance sheet is not always required with the P&L, although it is required in certain cases.
 - Partnerships, S. Corps, and Corporations require evidence of assets and liabilities to calculate and pass the liquidity test. This can be done with one of the following:
 - The most recent business return with Schedule L (Balance Sheet) completed, or
 - Balance Sheet for most recent tax year (2023), provided by the owner, or
 - Three month's business bank statements.

FHA

- A YTD P&L and Balance Sheet are required if more than 1 calendar quarter has elapsed since the date of the most recent calendar/fiscal year-end Tax Return filed by the borrower, at the time of Application.
- A Balance Sheet is not required for Borrowers who file Schedule C Income (P&L still required).
- If the most recent year (2023) has not been filed, a full year P&L (2023) as well as YTD (2024) P&L are required.

VA

- P&L and Balance sheet are required after one-half of the tax-year has passed to verify current income and stability of the income per VA guidelines.
- If the most recent tax year (2023) has not been filed, a full year P&L (2023) as well as YTD (2024) P&L are required.

USDA/RD

- A YTD P&L is required for all self-employed Borrowers along with copies of the most recent 2 years' (2022 & 2023) Personal and Business Tax Returns (where applicable).
- The provided P&L is not required to be audited.
- If the most recent year (2023) has not been filed, a full year P&L (2023) as well as YTD (2024) P&L are required.
- Earnings reported on the Profit & Loss statement may not be included in the Repayment Income (Qualifying Income) calculation. However, any earnings reported on the P&L should be evaluated when determining the Eligibility Income/Annual Income (for program income limit purposes).

Extension Requirements

Beginning with loans with an application date on or after April 15th*, or other date as set by the IRS, UHM must provide the prior year's (2022) Tax Return Transcripts to be eligible for purchase.

If a Borrower has filed an extension, we require:

1. Evidence in the file that the extension was filed, and a Tax Transcript for the current filing year (2023) showing "No record of return filed*," and
2. Evidence of IRS acceptance of the extension request (i.e.: electronic acknowledgement sent from IRS). Verify payment of any amount due that must be paid with the extension request.

*Note: Freddie Mac permits alternative documentation in lieu of the Internal Revenue Service (IRS) confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows:

- Confirmation business tax returns were filed after the IRS filing due date for the prior year(s) or documentation from third-party tax return preparer confirming 2023 business return has not yet been filed; and,
- Documented evidence of continued income stability using at least one of the examples listed in Section 5304.1(d) under "Business and/or individual tax return(s) – most recent calendar year not yet available."



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Freddie Mac: Extensions are not accepted for note dates on or after November 1st of the current year (2024).

Fannie Mae: Extensions are not accepted for note dates on or after October 15th of the current year (2024).

For Retired Borrowers

In cases where the Borrower is not required to file, transcripts are still required. If “No Results” feedback is received, provide a copy of the feedback.

Amendment Requirements

- Evidence the amended return was filed.
- Information from the preparer to explain why the amendment was filed.
- The preparer's explanation is consistent and reasonable with the type of changes made on the return.

*Note: 2023 tax returns are not due until April 17th, 2024, for residents of Maine and Massachusetts, due to state holidays.