

# Bulletin

TO: Freddie Mac Sellers

January 15, 2021 | 2021-2

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## SUBJECT: AGE OF TAX RETURN REQUIREMENTS AND GUIDANCE

To provide Sellers with additional specificity, this Guide Bulletin announces:

- [Age of tax return date and documentation requirements](#)
- [Self-employed income guidance](#) when tax returns from the most recent calendar year are not yet available

The *Single-Family Seller/Service Guide* will be updated with a future Bulletin to reflect the updates shown below.

### AGE OF TAX RETURN REQUIREMENTS

**Effective immediately and based on the Mortgage Application Received Dates and Note Dates as shown in the chart below**

The Guide requires the Seller to obtain the most recent federal income tax return(s) filed with the Internal Revenue Service (IRS) for certain types of income and/or employment characteristics if using the income to qualify the Borrower. To help ensure that the most recently filed tax returns are obtained and analyzed when determining Borrower's stable monthly income, we are adding specificity to these requirements in the form of date and documentation requirements.

#### Age of tax return requirements

The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the Borrower and, if applicable, the Borrower's business. Sellers are encouraged to always confirm with the Borrower that the tax returns provided are the tax returns most recently filed with the IRS.

At a minimum, the following date and documentation requirements must be met, based on the Application Received Date and the Note Date of the Mortgage.

Application Received Date	Note Date	Age of tax returns and other documentation requirements
<b>Before:</b> April 15, 2021	<b>Before:</b> May 31, 2021	<ul style="list-style-type: none"> <li>• Most recent federal income tax return(s) filed with the IRS</li> <li>• The most recent tax return(s) must be no older than 2019</li> </ul>
<b>On or after:</b> April 15, 2021	<b>Before:</b> May 31, 2021	<p>If the Borrower has filed 2020 tax return(s) with the IRS:</p> <ul style="list-style-type: none"> <li>• 2020, or 2020 and 2019, federal income tax return(s), as applicable, in accordance with Guide Topic 5300</li> </ul>
<b>All</b>	<p><b>On or after:</b> May 31, 2021</p> <p><b>Before:</b> November 1, 2021</p>	<p>If the Borrower has not filed 2020 tax return(s) with the IRS:</p> <ul style="list-style-type: none"> <li>• Evidence of completed IRS tax filing extension(s) for the 2020 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable);</li> <li>• IRS confirmation verifying transcripts are not yet available for the 2020 tax year; and</li> <li>• 2019, or 2019 and 2018, federal income tax returns, as applicable, in accordance with Topic 5300</li> </ul>
<b>All</b>	<b>On or after:</b> November 1, 2021	<ul style="list-style-type: none"> <li>• 2020, or 2020 and 2019, federal income tax returns, as applicable, in accordance with Topic 5300. Use of a tax filing extension for the 2020 tax year is not permitted.</li> </ul>

The Seller must determine the stable monthly income, which may require additional documentation and analysis. Refer to Guide Section 5304.1(d), *Business and income analysis*, for additional requirements and guidance for self-employed income.

### Tax transcripts

IRS confirmation verifying transcripts are not yet available for the prior calendar year are always recommended and, in certain instances, are required, as shown above.

Sections 5102.4 and 5302.4 will be updated with a future Bulletin to reflect these changes.

## SELF-EMPLOYED INCOME STABILITY WHEN TAX RETURNS ARE OLDER - GUIDANCE

### Effective immediately

The Guide requires the Seller to determine stable monthly income with a reasonable expectation of continuance. We are providing expanded guidance to assist in determining continued income stability when the most recent calendar year of business and/or individual tax return(s) is not yet available, as follows.

### Business and/or individual tax return(s) - most recent calendar year not yet available

If the Borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., Borrower and/or Borrower's business filed an IRS extension or tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:

- Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s)
- Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements
- Signed IRS Form 941, *Employer's Quarterly Federal Tax Return*, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return

- Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s)
- Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available

If the continued stability of the income cannot be determined, then the Borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.

**Note:** *The information above is guidance only; it does not contain new requirements. The existing requirement to determine income stability has not changed. The expanded guidance consists of potential steps that may be helpful to ensure continued income stability when the tax returns are older.*

*This guidance does not replace the COVID-19 temporary requirements in Bulletin 2020-44; the requirements and guidance in Bulletin 2020-44 remain in effect until further notice.*

Section 5304.1 will be updated with a future Bulletin to reflect these changes.

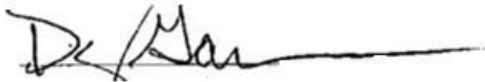
## Reminder

Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, income stability when tax returns are on extension, evaluation of a newer business and the impact of business fund withdrawals.

## CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,



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