

Understanding IRS Tax Transcripts

A Comprehensive Guide by The Housing Assistant



Why Tax Transcripts Matter in Mortgage Lending

Tax transcripts are verification tools, not just paperwork. They help lenders:

- Validate income consistency
- Confirm tax filing status
- Detect undisclosed liabilities
- Identify amended returns
- Satisfy investor, agency, and QC requirements

In short:

✦ *If it touches income, assets, or compliance — transcripts matter.*

The 5 Primary IRS Tax Transcript Types

Transcript Cheat Sheet (High-Level Overview)

Transcript Type	What It Shows	Common Mortgage Use
Tax Return Transcript	Line-by-line tax return data	Income verification
Account Transcript	Filing & payment activity	Compliance & liabilities
Record of Account Transcript	Combined return + account	QC & audits
Wage & Income Transcript	Third-party income docs	Income validation
Verification of Non-Filing (VNF)	Confirms no return filed	FHA / special scenarios

1 Tax Return Transcript

“The Cliff Notes version of the 1040”

What It Includes

- Adjusted Gross Income (AGI)
- Filing status
- Dependents
- Schedule data (C, E, F, etc.)
- Taxable income

What It Does NOT Include

- ✗ Amendments
- ✗ Payments
- ✗ Refunds

Mortgage Use Cases

- ✓ Self-employed borrowers
- ✓ Rental income validation
- ✓ Complex income analysis

Underwriter Pro Tip

If the borrower amends their return, this transcript will not reflect it.

👉 Order a Record of Account Transcript instead.

2 Account Transcript

“The IRS activity log”

What It Includes

- Filing date
- Payment history
- Penalties & interest
- Amendments
- Outstanding balances

Mortgage Use Cases

- ✓ Confirm taxes are filed
- ✓ Identify IRS debt
- ✓ Detect amended returns

Red Flag Alert ▶

- “Amended return filed” with no supporting docs
 - Outstanding tax balance with no payment plan
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3 Record of Account Transcript

“The all-in-one transcript”

This transcript combines:

- Tax Return Transcript
- Account Transcript

Mortgage Use Cases

- ✓ Quality Control (QC)
- ✓ Post-Closing Audits
- ✓ High-risk or layered income files

When to Use It

- Self-employed borrowers
- Prior income discrepancies
- Loans flagged for repurchase risk

THA Tip:

If your investor allows *one transcript only*, this is the safest bet.

4 Wage & Income Transcript

“The IRS tattletale” 🗨️

What It Includes

- W-2s
- 1099s
- 1098 mortgage interest
- K-1s
- SSA income

Mortgage Use Cases

- ✓ Validate W-2 income
- ✓ Confirm 1099 income
- ✓ Identify undisclosed income

Common Issues Found

- Employer not disclosed on the 1003
- 1099 income not explained
- Rental income missing from Schedule E

5 Verification of Non-Filing (VNF)

“Proof that nothing exists”

What It Confirms

- IRS has no record of a filed return for the year requested

Mortgage Use Cases

- ✓ FHA non-tax-filing borrowers
- ✓ Recent immigrants
- ✓ Retirees with non-taxable income

Important Note

⚠ VNF ≠ proof of no income
Supporting documentation is still required.

Transcript Selection Matrix (Ops Favorite)

Borrower Type	Transcript(s) Recommended
W-2 Only	Wage & Income
Self-Employed	Tax Return + Record of Account
Rental Income	Tax Return + Wage & Income
Amended Return	Record of Account
FHA non-Filer	VNF + Supporting Docs

4506-C vs IRS Direct Access

4506-C

- Borrower authorization
- Lender orders transcripts
- Standard for most investors

IRS Direct (IVES / TDS)

- Faster
- More secure
- Preferred by GSEs

Translation:

Faster transcripts = fewer suspense conditions = happier borrowers.

Common Transcript Red Flags (Ops Radar 🚨)

Red Flag	What It Signals
AGI mismatch	Income manipulation
Missing Schedule C	Undisclosed business
1099 not on 1003	Unreported income
IRS balance due	DTI impact
Amended return	Re-underwrite required

Quick Humor Break 😄

Borrower: *"That transcript is wrong."*

IRS: *"We printed what you filed."*

Underwriter: *"...Send conditions."*

Best Practices for Mortgage Ops Teams

- ✓ Order transcripts **early**
 - ✓ Match transcript years to AUS findings
 - ✓ Always reconcile income differences
 - ✓ Flag amended returns immediately
 - ✓ Document explanations thoroughly
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THA Ops Takeaway

Tax transcripts aren't just compliance checkboxes; they're risk management tools.

If you can:

- Read them confidently
- Select the right type
- Explain discrepancies clearly

👉 You've just elevated yourself from *processor* to *trusted ops professional*.