

## **Annual Report**

### **Internal Revenue Service Income Verification Express Service (IVES) Working Group**

The Internal Revenue Service Income Verification Express Service (IVES) Working Group (the Working Group) is comprised of the leading companies providing IVES processing to the lending industry. Roughly 5 percent of IVES participants make up roughly 90% of overall annual IVES volume. The members of this group play a critical role as an intermediary between the IRS and lenders in the mortgage and other fields, who are attempting to confirm loan applicants' incomes to ensure quality loan underwriting. We are pleased that the IRS has worked cooperatively with the industry to achieve smooth processing, allowing for efficiency in the home lending and other processes.

The Working Group met in person on May 2, 2018, September 19, 2018 and May 22, 2019 in IRS offices in Covington, KY. The meetings were attended by leading IVES user companies and IRS officials. A conference line was open as well and representatives from trade associations participated through the calls. The next meeting date is expected in August or September 2019.

The Working Group is designed to provide a forum for participants of all sizes and business models to provide input and opinions to the IRS to help them better serve taxpayers. Working group members can designate other individuals to attend meetings in their place, but the IRS limits companies to one representative at each in-person meeting to ensure the level of discussion is balanced. Questions are posed to the group by IRS staff, who then listen to the group on behalf of the industry.

The Working Group is reporting here to the National Director of Submission Processing located in the Wage and Investment Division of the IRS. This report is intended for informational purposes only. This report is not intended to provide consensus advice or recommendations to the National Director of Submission Processing.

#### **SECURITY OF TAX TRANSCRIPTS**

To reduce identify theft and strengthen efforts to protect taxpayer data, the IRS explored masking Personally identifiable information (PII) on all transcript products. The IRS successfully implemented the new IRS Form 4506-T with PII redacted in 2018. In discussing this change, the IRS examined different elements of the proposed redaction which included transcript fields and the various rules and explained how the mechanics of the redaction would work. IRS solicited feedback on the redaction proposal, including Form and program changes and the possibility of rounding Adjusted Gross Income (AGI) on the products. Working group members explained that the AGI may have a very narrow tolerance with respect to how much it can be rounded due to underwriting polices and verification checks in place.

Although Working Group members understood and agreed with IRS's proposed redaction, several questions and concerns were raised, including the implementation timeline and communication plan, and efforts to reduce human transposition errors or keystroke mistakes which may hinder participants' ability to reconcile requests. The IRS worked with

the IVES Participants and delayed the implementation of transcript redaction until January 1, 2019. That timeline extension calmed concerns the Industry had with making any systems or software changes on such short notice.

IRS requested feedback in May 2019 from Working Group members on the implementation of redaction. The Working Group expressed positive sentiments on implantation, though members anecdotally noted several instances where Customer File Numbers (CFNs) were either erroneously entered or omitted on final products (CFN is a manual entry field, which inherently carries error risk). Error and reject rates for IVES products is historically low, so these recent errors are worth noting and it was suggested that IRS would benefit from a deeper analysis of the errors' root causes.

### **RETURN AND INCOME VERIFICATION SERVICES (RAIVS) AND IVES FORM SPLIT**

The Working Group received an update from IRS on a change to the RAIVS program that would disallow the option for third-party mailings. This change presents a unique opportunity to create an exclusive Form 4506-T/EZ for both RAIVS and IVES.

Members will consider any formatting or content changes that could arise from the opportunity of having an IVES exclusive form, but preliminary thoughts were on leaving the Form unchanged. It was noted that underwriters and other loan processing systems may parse out information from loan packages and auto-populate transcript requests, possibly creating problems if the information does not currently exist inside loan packages. The IRS acknowledged concerns about the timing of the new form version and expressed that enough lead time would be provided to participants (prior version would be accepted in the interim) before the implementation date.

### **IRS ISSUANCE OF AUTO IDs**

IRS provided a brief update on the issuance of Auto IDs which will allow IVES participants to continue back-end Secure Online Repository (SOR) scripting uninhibited from BOT detection. Working Group Members expressed serious concern with the IRS's implementation timeframe of less than a month from the date IRS announced its change. Working Group members suggested a rushed rollout would be determinantal to the success of IRS's implementation and participant's operations. Working Group members reiterated that when IRS proposes changes impacting their operations (such as systems, work processes, customers/clients, etc.), the ideal implementation lead time is 6+ months to ensure proper implementation of requested changes.

### **NEW FEDERAL LAW MANDATES IVES MODERNIZATION**

The Working Group notes that on July 01, 2019, President Donald J. Trump signed the Taxpayer First Act, which includes a new mandate for the IRS to implement a fully automated real-time income verification system within two and a half years. The Working Group, together with the lending industry, looks forward to working actively with the IRS to successfully implement the relevant provisions of the new law. The combined vendor and lender industries strongly support an API, which would be a significant improvement over the existing fax-based system that has been in place since October 2006.

The Working Group had consensus that the potential API structure should retain elements of the existing process. Working Group members noted that the consent piece of an API will be difficult to conduct in real time if no human interaction is made. IRS will have to rethink its approach to this issue.

The May 22, 2019 meeting discussed a solution for the consent-based disclosure could work much like how the Social Security Administration (SSA) manages the SSN Verification Program. SSA allows vendors to retain the S-89 Form when submitting an API request for the SSN to be instantly verified. SSA has a stringent Annual Audit process in place for vendors using that service. This process solution could be modified and to work for the IRS IVES Program when the Modernized API Solution is deployed for IVES Participants.

The Working Group has requested that the IRS vet them to the maximum extent possible so IVES Participants can become “Trusted Third Parties” working with the IRS and IVES Program.

### **OTHER ISSUES DISCUSSED**

Other issues were discussed during Working Group meetings and were subsequently successfully implemented. These topics of discussion include:

- IRS conducted a number of in-person security reviews and was generally pleased with the industry security efforts;
- eSignature process for the Form 4506-T;
- the challenges the IRS faces when required to implement provisions of new law, especially in the context of partial government shutdowns and furloughs;
- IRS successfully implemented a new eServices User Agreement in 2018 which IVES users had to sign when they accessed eServices after implementation;
- IRS successfully replaced their IRS RAIVS Alert process with IVES Communications News that IVES Users registered for. The Working Group supported the improvements in communication and urged further refinement to enhance communication with more descriptive information about system outages and other issues;
- IRS should consider creating a Spanish transcript version for IVES which may help alleviate customer inquiries and service a need in the IVES community;
- At the May 2019 meeting it was noted that IVES volumes were steadily declining due to bank statement alternatives and industry factors and trends, but industry analysts and experts were projecting an upswing in the housing market leading into the spring and summer home-buying season. Since the meeting mortgage applications, as reported by the Mortgage Bankers Association in its Weekly Application Survey, have surged; and
- IRS should consider having a representative from Fannie Mae and Freddie Mac attend Working Group meetings, as they have valuable insight into industry standards.

Submitted by: Francis Creighton, Consumer Data Industry Association  
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*on behalf of the Internal Revenue Service Income Verification Express  
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