

The Taxpayer First Act & How It May Affect Your Bank

On July 1, 2019, the Taxpayer First Act was signed into law. The Act is comprised of a series of amendments to the Internal Revenue Code of 1986, and also repealed several sections of the Code. One section of the new amendments is entitled Modernization of Consent-Based Income Verification System, which on its face doesn't mean much. However, this section of the new law does affect banks.

This section includes two parts. The first part instructs the Secretary of the Treasury to develop a system whereby interested third parties can verify the income of a taxpayer through an online system accessed via the internet, and in as close to real-time as possible. This will be a powerful tool for bankers who want to verify the income of potential borrowers. From what we can tell, as long as the income is verified "in the course of a loan application," this law applies. So both consumer and commercial loan applications could be affected by these rules.

The second part of the section prohibits the lender from sharing the information with third parties, without the express written consent of the taxpayer. As this requirement took effect on January 1, 2020, some form providers have already begun adding a consent form to their LOS software systems and document packages.

We recommend that all banks look closely at their most recent LOS software updates to ensure that the new form is part of your loan application packages. If you might share taxpayer information with any third party, including participants, insurance companies, title companies, just to name a few, this new form should be completed by your borrowers.