

One Small IRS Technology Upgrade Would Make a Major Impact.

An API for form 4506-T could improve credit access, prices, speed, and cut financial fraud.

Background: The 4506-T form allows taxpayers to give their permission to the IRS to send a summarized transcript of their tax returns to a third party. The IRS *already* accepts e-signatures (since 2011) and *already* sends 4506-T tax data to 3rd parties online. **What is needed is current technology.** “APIs” are programs that instantly transfer data. An “API” could allow the IRS to send data to lenders, **with taxpayer permission** instantly and securely, rather than waiting days or weeks for paper processing. Lenders use that data to verify that tax returns were not forged and verify financial information. If the 2-8 day delay were replaced by instant processing, tax data could also be used in making instant, verified credit decisions.

What is needed from the IRS? This upgrade would NOT require anything really new... In this case, the API would simply be used to cut out the 2-8 day delay for paper processing – the time it takes for the IRS to process the form and deliver the data using antiquated technology. Furthermore, it would save money. The current 2-8 day period is only possible by paying a private expeditor about \$16 per form. Without paying a private service, the delay may be even greater, as much as 30 days during the busy tax season. The modern credit economy moves too fast for such a system. Currently, without the API, lending platforms already do collect the form 4506-T, but AFTER making a price decision. All because of the IRS delay. Waiting until the form arrives to make the offer would mean losing the customer to another lender. Today, by the time the IRS processes the 4506-T and sends tax data, it’s too late for lenders to re-price a loan. And it’s too late to approve those who were already declined based largely on their personal credit profile. Those potential customers are gone.

How this helps small businesses. Many small business owners have weak or average personal credit. Often business owners run a large balance on credit cards to get their business going. With the 4506-T API, however, if that business applies for a loan, lenders would be able to look beyond credit score as they make credit decisions and consider detailed, verified, multi-year financial data. They could see for instance that an applicant has been growing steadily over the last 3 years, and maintaining a steady profit margin. Without the 4506-T API, certain small business borrowers can be declined by lenders offering prime rates and forced to turn to higher APR, higher cost, less transparent financing. Or they may never access credit at all to grow their business or pay off those higher rate credit cards.

State of Play. This type of technology upgrade does not necessarily require legislation. But the IRS has not been willing or able to make this a priority to date. The Obama Administration supported the change, and Rep. Patrick McHenry (R-NC) and Senator Cory Booker (D-NJ) are leading the effort this Congress to pass legislation mandating the upgrade. It may also help improve outcomes by making lenders less reliant on credit reporting agencies.