Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420

Circular 26-16-10
April 7, 2016

Policy Clarification for Unreimbursed Employee Business Expenses

1. Purpose. The purpose of this Circular is to clarify the Department of Veterans Affairs (VA) underwriting guidelines [VA Pamphlet 26-7, Chapter 4, Topic 2 i – "Income from Commissions"] with regard to unreimbursed employee business expenses reported on Internal Revenue Service (IRS) Form 2106.

2. Background. Current VA underwriting standards require all non-reimbursed business expenses to be listed in Section D, Debts and Obligation, on VA Form 26-6393, *Loan Analysis*. In order to be consistent with industry standards for the treatment of unreimbursed business expenses reported on IRS Form 2106, VA is clarifying its policy to more accurately reflect income derived from commissioned employees.

3. Clarified VA policy. The following policy will be effective for all loan applications dated on, or after June 1, 2016:

a. For a borrower who qualified using commission income of less than 25% of the total annual employment income:

(1) IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106 and are not required to be added as a monthly liability.

(2) Tax returns are not required to document the source of income and deductions.

b. For a borrower earning commission income that is 25% or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.

(1) One exception to the policy clarification concerns an automobile lease or loan payment. Automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debt obligations in Section D on the VA Form 26-6393.

(2) Tax returns are required to document the source of income and deductions.

c. If the borrower reports an automobile allowance as part of the monthly qualifying income, the lender must determine if the automobile expenses reported on IRS Form 2106 should be deducted from income or treated as a liability.

(1) If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on the VA Form 26-6393.

(2) If the reported expense is less than the automobile allowance, the amount must be treated as net income and added to the Veteran's monthly income.

4. <u>Rescission</u>: This Circular is rescinded April 1, 2018.

By Direction of the Under Secretary for Benefits

Michael J. Frueh, Director
Loan Guaranty Service

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