

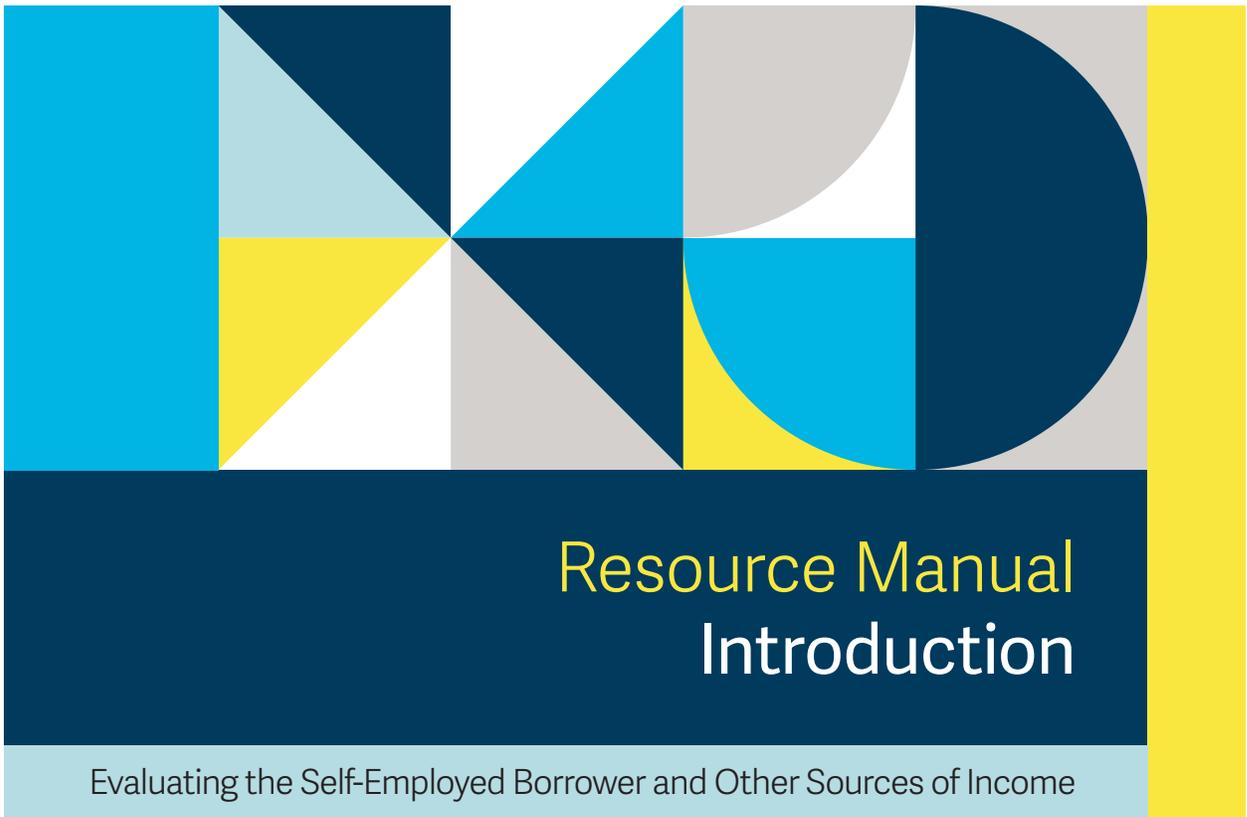
The MGIC logo is positioned in the top right corner of the cover. It consists of the letters "MGIC" in a bold, dark blue, sans-serif font, set against a light blue rectangular background. The overall cover design features a complex geometric pattern of overlapping shapes, lines, and colors including various shades of blue, yellow, and grey.

# Evaluating the Self-Employed Borrower

and other sources of income

## 2018 TAX YEAR





This Resource Manual, updated with 2018 IRS forms, provides line-by-line explanations for personal and business tax returns.

**We have additional tools to help you with your income analysis:**

- Interactive, auto-calculating worksheets are hyperlinked to this resource manual, so help is only a click away
- SAM Cash Flow Analysis Worksheet expands for multiple businesses
- Liquidity Worksheet helps support use of K-1 income
- Comparative Income Analysis Worksheet automatically calculates the % of change from one year to the next
- Rental Income Worksheet also expands for multiple properties

[Access these materials at mgic.com/seb](https://mgic.com/seb)



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# Introduction

Analytical skills and sound judgment are necessary when evaluating self-employed borrowers. Determining whether they can and will repay a loan is difficult because obtaining an estimate of their earnings from tax returns can be confusing.

The challenge for self-employed borrowers is, while their accountants or tax preparers are experts at reducing tax liabilities by minimizing taxable income, we underwriters start with that same taxable income as a gauge of their earnings. The tax return reveals the borrower's taxable income. But what you are really looking for is the borrower's **cash flow** – funds the borrower is going to use to repay the mortgage.

This manual will guide you through determining qualifying income and calculating cash flow for:

- Self-employed borrowers
- Borrowers owning rental property

Throughout this manual, we may use the term "borrowers" to refer to multiple borrowers or a single borrower.

## Risk Factors

Consider these factors when you evaluate self-employed borrowers:

- **Is the local industry structure stable, diversified and competitive?** In other words, how healthy is this business?
- **Is there evidence of sufficient cash reserves to meet personal and business obligations?** A poor personal credit history could indicate a cash flow problem in the business and prevent the business owner from obtaining financing for additional capital if needed
- **Is the property securing the mortgage marketable?** If the business fails, this property becomes the source for repaying the loan

## Why use tax returns?

You can get a good snapshot of a typical borrower's income from a paystub, W-2 form or written Verification of Employment.

But a self-employed borrower is not typical. There is no independent third party to verify employment and income. The most credible sources to verify income are the tax returns they've submitted to the IRS. Unfortunately, tax returns are not designed to provide a clear picture of cash flow. Instead, they report taxable income and deductible expenses.

## Schedule Analysis Method

The Schedule Analysis Method, or SAM, is used to calculate self-employed borrowers' cashflow.

By carefully analyzing the individual tax schedules and applying key concepts, SAM helps you determine whether the self-employed borrower is an acceptable risk.

## Key Concepts

Tax returns are a starting point for analyzing cash flow.

However, before you can dive into analysis, it's important to know what to consider as **income, expense or loss**. Once you understand these basic concepts, you'll have a good foundation for conducting a meaningful analysis.

**Three key income/expense components appear throughout the cash flow analysis:**

- Noncash expenses
- Expenses limited by the IRS
- Recurring vs. nonrecurring income, expense or loss

### Noncash Expenses

The most common types of noncash expenses are depreciation, depletion and amortization. The borrower deducts them from the business's earnings just like cash expenses such as rent, supplies and wages. These write-offs are a way for the business to spread out these costs.

Because these items do not involve a payment to anyone, add them to the borrower's cash flow.

#### Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset. The "expense" reflects a reasonable allowance for wear and tear of an asset. The depreciated asset wears out, becomes obsolete or gets used-up and eventually needs to be replaced.

"Real" depreciation typically refers to real estate; either a rental home or commercial property.

"Chattel" depreciation typically refers to assets that have a short life span, such as furniture, cars and office equipment.

#### Depletion

Depletion is the exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. The IRS allows a business that exhausts a natural resource in the course of normal operation to allocate the total costs of that natural resource over a given period of time.

This allocation capability enables the borrower to gather sufficient capital to start over once the natural resource is depleted.

#### Amortization

Amortization is the write-off of initial costs incurred by the borrower prior to the beginning of formal business operations. Examples of initial costs include survey fees, goodwill, trademarks, patents, copyrights, customer lists, non-compete agreements and prepayments. Borrowers can expense these one-time costs over a period of time.

### Expenses Limited by the IRS

In certain situations, the IRS limits the amount of expense borrowers can declare to reduce taxable income.

For example, borrowers often treat clients to **meals**. In general, borrowers deduct 50% of these out-of-pocket costs on the tax return – sometimes more, depending upon their occupation. However, since the borrower paid 100% of the expense; subtract the difference from cash flow.

### Recurring vs. Nonrecurring Income, Expense or Loss

#### Recurring Income

Recurring income is ongoing income you can expect to continue for at least the next 3 years in order to consider it as qualifying income for cash flow. The more the borrowers have to rely on that income to repay the mortgage, the more important it is for that income to continue long into the future.

## Introduction

Examples of recurring income include earnings from the operation of a business, interest from long-term investments or even lottery winnings paid out over a number of years.

### Nonrecurring Income

Nonrecurring income is income from one-time events. Since you can't expect it to continue, you can't consider it as qualifying income toward cash flow. Examples include the sale of an asset or a prize or other windfall.

### Recurring Expense

Recurring expenses are ongoing expenses associated with the day-to-day operation of a business. Examples include wages, insurance, car and truck expenses, etc.

### Nonrecurring Expense

A nonrecurring expense or loss is a one-time expense or loss. For example, a casualty loss is a one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane.

If you can document an expense as a true, one-time occurrence related to business, add back the amount to cash flow.

## Tax Forms & Schedules

Borrowers may use a variety of tax forms and schedules to document their income and deductions. This manual will discuss the following:

### Personal Income

- **Form 1040:** U.S. Individual Income Tax Return
- **Schedule 1:** Additional Income and Adjustments to Income
- **Schedule A:** Itemized Deductions
- **Schedule B:** Interest and Ordinary Dividends
- **Schedule C:** Profit or Loss From Business
- **Form 4562:** Depreciation and Amortization
- **Schedule D:** Capital Gains and Losses
- **Form 8949:** Sales and Other Dispositions of Capital Assets
- **Schedule E:** Supplemental Income and Loss
- **Form 8582:** Passive Activity Loss Limitations
- **Schedule F:** Profit or Loss From Farming

The IRS has simplified versions of some of these schedules.

Using an EZ version will limit deductions for the borrower.

#### For example:

##### Schedule C-EZ: Net Profit from Business

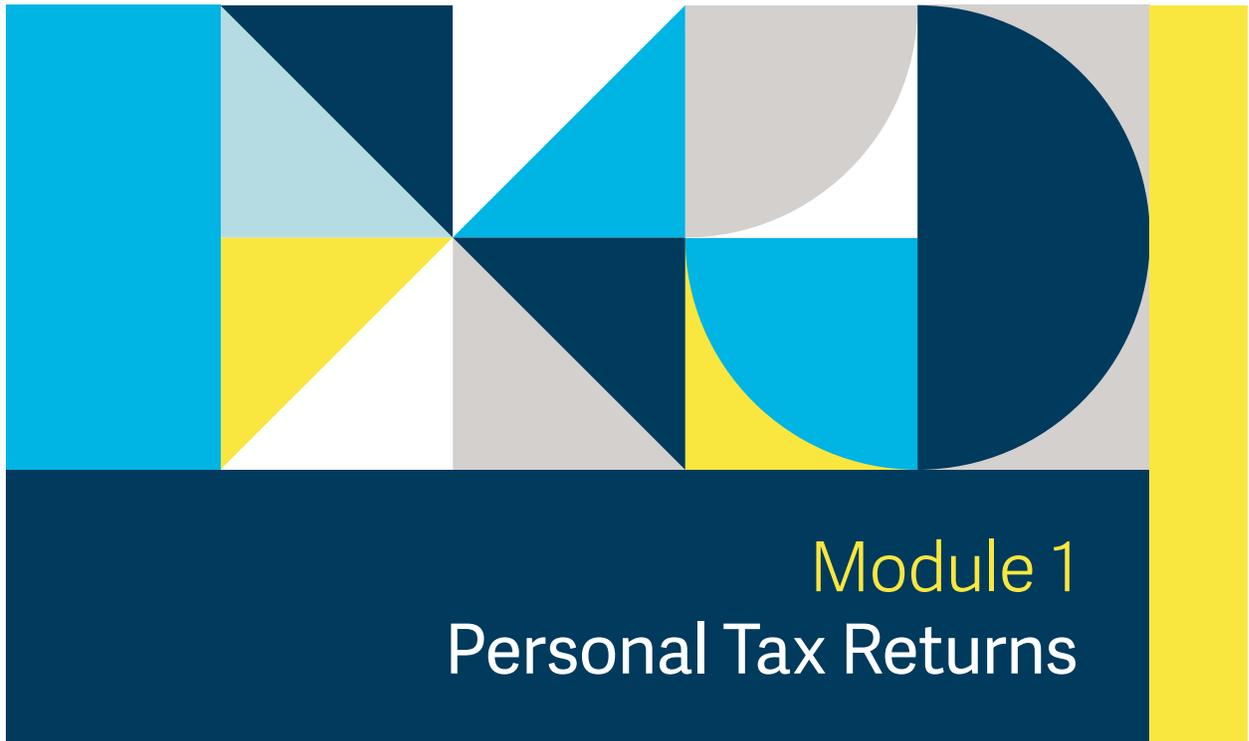
A small number of businesses are eligible to file Schedule C-EZ. This alternative to Schedule C limits business expenses to \$5,000 and does not allow for depreciation or amortization.

We don't provide samples of these EZ schedules and forms in this manual, but you should be aware of them.

### Business Income

- **Schedule K-1 (FORM 1065):** Partner's Share of Income, Deductions, Credits, etc., from Partnership Schedule
- **Form 1065:** U.S. Return of Partnership Income
- **Schedule K-1 (FORM 1120S):** Shareholder's Share of Income, Deductions, Credits, etc., from S Corporation
- **Form 1120S:** U.S. Income Tax Return for an S Corporation
- **Form 8825:** Rental Real Estate Income and Expenses of a Partnership or an S Corporation
- **Form 1120:** U.S. Corporation Income Tax Return
- **Form 1125-E:** Compensation of Officers





Before we get started, here are some housekeeping items regarding how we've organized this module.

Even-numbered pages contain a sample tax form. Odd-numbered pages explain the effect of the applicable line items from the tax form on the borrower's cash flow based on SAM.

When you see the heading, **Effect On Cash Flow Analysis Worksheet** or **Effect On Rental Income Worksheet**, you'll find guidance as to whether you should add/deduct the amount of a line item to/from the borrower's cash flow.

Form 1040 U.S. Individual Income Tax Return 2018

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)
Your first name and initial Last name Your social security number
Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind
If joint return, spouse's first name and initial Last name Spouse's social security number
Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954
Full-year health care coverage or exempt (see inst.)
Spouse is blind Spouse itemizes on a separate return or you were dual-status alien
Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign (see inst.) You Spouse
City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. If more than four dependents, see inst. and check here

Table with 4 columns: (1) First name, Last name, (2) Social security number, (3) Relationship to you, (4) Child tax credit, Credit for other dependents

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature Date Your occupation
Spouse's signature, If a joint return, both must sign. Date Spouse's occupation
If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only Preparer's name Preparer's signature PTIN Firm's EIN Check if: 3rd Party Designee Self-employed
Firm's name Phone no.
Firm's address

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2018)

1 Wages, salaries, tips, etc. Attach Form(s) W-2
2a Tax-exempt interest 2a Taxable interest
3a Qualified dividends 3b Ordinary dividends
4a IRAs, pensions, and annuities 4b Taxable amount
5a Social security benefits 5b Taxable amount
6 Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22
7 Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6
8 Standard deduction or itemized deductions (from Schedule A)
9 Qualified business income deduction (see instructions)
10 Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-
11 a Tax (see inst.) (check if any from: 1 Form(s) 8814 2 Form 4972 3 )
b Add any amount from Schedule 2 and check here
12 a Child tax credit/credit for other dependents b Add any amount from Schedule 3 and check here
13 Subtract line 12 from line 11. If zero or less, enter -0-
14 Other taxes. Attach Schedule 4
15 Total tax. Add lines 13 and 14
16 Federal income tax withheld from Forms W-2 and 1099
17 Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863
Add any amount from Schedule 5
18 Add lines 16 and 17. These are your total payments
19 If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid
20a Amount of line 19 you want refunded to you. If Form 8888 is attached, check here
b Routing number c Type: Checking Savings
d Account number
21 Amount of line 19 you want applied to your 2019 estimated tax
22 Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions
23 Estimated tax penalty (see instructions)

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2018)

# Form 1040: U.S. Individual Income Tax Return (Pages 1 and 2)

## Line 1: Wages, salaries, tips, etc. Attach Form(s) W-2

Reports taxable wages from all sources.

Identify W-2s that reflect wages paid to the borrower from the borrower's business. However, before you include any W-2 income from the business, you must consider the financial health of it.

In general, use Box 5 to locate wages from self-employment. However, in certain cases, after evaluating the source of income reported in Box 1, it may be appropriate to use the amount in Box 1. Follow investor guidelines.

### Effect on Cash Flow Analysis Worksheet

- Add self-employed wages

## Lines 2a, 4a and 5a

**Page 2 of the 1040 identifies additional income sources.**

Line 2a: Tax-exempt interest

Line 4a: IRAs, pensions and annuities

- Nontaxable income – Line 4a minus Line 4b

Line 5a: Social security benefits

- Nontaxable income – Line 5a minus Line 5b

If using these additional sources of income to qualify the borrower, refer to investor guidelines for documentation and calculation.

### Effect on Cash Flow Analysis Worksheet

- None; there is no effect on cash flow

**SCHEDULE 1**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

Name(s) shown on Form 1040

**Additional Income and Adjustments to Income**

▶ **Attach to Form 1040.**

▶ **Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **01**

Your social security number

<b>Additional Income</b>	<b>1-9b</b>	Reserved . . . . .	<b>1-9b</b>		
	<b>10</b>	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	<b>10</b>		
	<b>11</b>	Alimony received . . . . .	<b>11</b>		
	<b>12</b>	Business income or (loss). Attach Schedule C or C-EZ . . . . .	<b>12</b>		
	<b>13</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	<b>13</b>		
	<b>14</b>	Other gains or (losses). Attach Form 4797 . . . . .	<b>14</b>		
	<b>15a</b>	Reserved . . . . .	<b>15b</b>		
	<b>16a</b>	Reserved . . . . .	<b>16b</b>		
	<b>17</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	<b>17</b>		
	<b>18</b>	Farm income or (loss). Attach Schedule F . . . . .	<b>18</b>		
	<b>19</b>	Unemployment compensation . . . . .	<b>19</b>		
	<b>20a</b>	Reserved . . . . .	<b>20b</b>		
<b>21</b>	Other income. List type and amount ▶ _____	<b>21</b>			
<b>22</b>	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23 . . . . .	<b>22</b>			
<b>Adjustments to Income</b>	<b>23</b>	Educator expenses . . . . .	<b>23</b>		
	<b>24</b>	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 . . . . .	<b>24</b>		
	<b>25</b>	Health savings account deduction. Attach Form 8889 . . . . .	<b>25</b>		
	<b>26</b>	Moving expenses for members of the Armed Forces. Attach Form 3903 . . . . .	<b>26</b>		
	<b>27</b>	Deductible part of self-employment tax. Attach Schedule SE	<b>27</b>		
	<b>28</b>	Self-employed SEP, SIMPLE, and qualified plans . . . . .	<b>28</b>		
	<b>29</b>	Self-employed health insurance deduction . . . . .	<b>29</b>		
	<b>30</b>	Penalty on early withdrawal of savings . . . . .	<b>30</b>		
	<b>31a</b>	Alimony paid <b>b</b> Recipient's SSN ▶ _____	<b>31a</b>		
	<b>32</b>	IRA deduction . . . . .	<b>32</b>		
	<b>33</b>	Student loan interest deduction . . . . .	<b>33</b>		
	<b>34</b>	Reserved . . . . .	<b>34</b>		
<b>35</b>	Reserved . . . . .	<b>35</b>			
<b>36</b>	Add lines 23 through 35 . . . . .	<b>36</b>			

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2018

## Schedule 1: Additional Income and Adjustments to Income

Reports income from additional sources, i.e., Alimony received, Unemployment compensation or Other income.

If using these additional sources of income to qualify the borrower, refer to investor guidelines for documentation and calculation.

### **Effect on Cash Flow Analysis Worksheet**

- None; no line items on this page affect cash flow

Use Schedules C (page 23), D (page 31), E (page 37) and F (page 45) to make adjustments.

<b>Schedule 2</b>	<b>SCHEDULE 2</b> (Form 1040)	<b>Tax</b>		OMB No. 1545-0074
	Department of the Treasury Internal Revenue Service	▶ Attach to Form 1040. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2018</b> Attachment Sequence No. <b>02</b>
Name(s) shown on Form 1040			Your social security number	
<b>Tax</b>	<b>38-44</b>	Reserved . . . . .	<b>38-44</b>	
	<b>45</b>	Alternative minimum tax. Attach Form 6251 . . . . .	<b>45</b>	
	<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .	<b>46</b>	
	<b>47</b>	Add the amounts in the far right column. Enter here and include on Form 1040, line 11 . . . . .	<b>47</b>	
For Paperwork Reduction Act Notice, see your tax return instructions. <span style="float: right;">Cat. No. 71478U <b>Schedule 2 (Form 1040) 2018</b></span>				

<b>Schedule 3</b>	<b>SCHEDULE 3</b> (Form 1040)	<b>Nonrefundable Credits</b>		OMB No. 1545-0074
	Department of the Treasury Internal Revenue Service	▶ Attach to Form 1040. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2018</b> Attachment Sequence No. <b>03</b>
Name(s) shown on Form 1040			Your social security number	
<b>Nonrefundable Credits</b>	<b>48</b>	Foreign tax credit. Attach Form 1116 if required . . . . .	<b>48</b>	
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441 . . . . .	<b>49</b>	
	<b>50</b>	Education credits from Form 8863, line 19 . . . . .	<b>50</b>	
	<b>51</b>	Retirement savings contributions credit. Attach Form 8880 . . . . .	<b>51</b>	
	<b>52</b>	Reserved . . . . .	<b>52</b>	
	<b>53</b>	Residential energy credit. Attach Form 5695 . . . . .	<b>53</b>	
	<b>54</b>	Other credits from Form <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/> . . . . .	<b>54</b>	
	<b>55</b>	Add the amounts in the far right column. Enter here and include on Form 1040, line 12 . . . . .	<b>55</b>	
For Paperwork Reduction Act Notice, see your tax return instructions. <span style="float: right;">Cat. No. 71480G <b>Schedule 3 (Form 1040) 2018</b></span>				

<b>Schedule 4</b>	<b>SCHEDULE 4</b> (Form 1040)	<b>Other Taxes</b>		OMB No. 1545-0074
	Department of the Treasury Internal Revenue Service	▶ Attach to Form 1040. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2018</b> Attachment Sequence No. <b>04</b>
Name(s) shown on Form 1040			Your social security number	
<b>Other Taxes</b>	<b>57</b>	Self-employment tax. Attach Schedule SE . . . . .	<b>57</b>	
	<b>58</b>	Unreported social security and Medicare tax from: Form <b>a</b> <input type="checkbox"/> 4137 <b>b</b> <input type="checkbox"/> 8919 . . . . .	<b>58</b>	
	<b>59</b>	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required . . . . .	<b>59</b>	
	<b>60a</b>	Household employment taxes. Attach Schedule H . . . . .	<b>60a</b>	
	<b>b</b>	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required . . . . .	<b>60b</b>	
	<b>61</b>	Health care: individual responsibility (see instructions) . . . . .	<b>61</b>	
	<b>62</b>	Taxes from: <b>a</b> <input type="checkbox"/> Form 8959 <b>b</b> <input type="checkbox"/> Form 8960 <b>c</b> <input type="checkbox"/> Instructions; enter code(s) . . . . .	<b>62</b>	
	<b>63</b>	Section 965 net tax liability installment from Form 965-A . . . . .	<b>63</b>	
	<b>64</b>	Add the amounts in the far right column. These are your <b>total other taxes</b> . Enter here and on Form 1040, line 14 . . . . .	<b>64</b>	
For Paperwork Reduction Act Notice, see your tax return instructions. <span style="float: right;">Cat. No. 71481R <b>Schedule 4 (Form 1040) 2018</b></span>				

<b>Schedule 5</b>	<b>SCHEDULE 5</b> (Form 1040)	<b>Other Payments and Refundable Credits</b>		OMB No. 1545-0074
	Department of the Treasury Internal Revenue Service	▶ Attach to Form 1040. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2018</b> Attachment Sequence No. <b>05</b>
Name(s) shown on Form 1040			Your social security number	
<b>Other Payments and Refundable Credits</b>	<b>65</b>	Reserved . . . . .	<b>65</b>	
	<b>66</b>	2018 estimated tax payments and amount applied from 2017 return . . . . .	<b>66</b>	
	<b>67a</b>	Reserved . . . . .	<b>67a</b>	
	<b>b</b>	Reserved . . . . .	<b>67b</b>	
	<b>68-69</b>	Reserved . . . . .	<b>68-69</b>	
	<b>70</b>	Net premium tax credit. Attach Form 8962 . . . . .	<b>70</b>	
	<b>71</b>	Amount paid with request for extension to file (see instructions) . . . . .	<b>71</b>	
	<b>72</b>	Excess social security and tier 1 RRTA tax withheld . . . . .	<b>72</b>	
	<b>73</b>	Credit for federal tax on fuels. Attach Form 4136 . . . . .	<b>73</b>	
	<b>74</b>	Credits from Form: <b>a</b> <input type="checkbox"/> 2439 <b>b</b> <input type="checkbox"/> Reserved <b>c</b> <input type="checkbox"/> 8885 <b>d</b> <input type="checkbox"/> . . . . .	<b>74</b>	
	<b>75</b>	Add the amounts in the far right column. These are your <b>total other payments and refundable credits</b> . Enter here and include on Form 1040, line 17 . . . . .	<b>75</b>	
For Paperwork Reduction Act Notice, see your tax return instructions. <span style="float: right;">Cat. No. 71482C <b>Schedule 5 (Form 1040) 2018</b></span>				

<b>Schedule 6</b>	<b>SCHEDULE 6</b> (Form 1040)	<b>Foreign Address and Third Party Designee</b>		OMB No. 1545-0074
	Department of the Treasury Internal Revenue Service	▶ Attach to Form 1040. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2018</b> Attachment Sequence No. <b>05A</b>
Name(s) shown on Form 1040			Your social security number	
<b>Foreign Address</b>	Foreign country name	Foreign province/county	Foreign postal code	
<b>Third Party Designee</b>	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
	Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶	
For Paperwork Reduction Act Notice, see your tax return instructions. <span style="float: right;">Cat. No. 71483N <b>Schedule 6 (Form 1040) 2018</b></span>				

## Schedules 2 – 6

### **Effect on Cash Flow Analysis Worksheet**

- None; no line items on these pages affect cash flow

**SCHEDULE A  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on Form 1040

**Itemized Deductions**

▶ Go to [www.irs.gov/ScheduleA](http://www.irs.gov/ScheduleA) for instructions and the latest information.  
▶ Attach to Form 1040.

**Caution:** If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

**2018**

Attachment  
Sequence No. **07**

Your social security number

<b>Medical and Dental Expenses</b>	<b>Caution:</b> Do not include expenses reimbursed or paid by others.			
	<b>1</b> Medical and dental expenses (see instructions) . . . . .	<b>1</b>		
	<b>2</b> Enter amount from Form 1040, line 7 <b>2</b> . . . . .	<b>2</b>		
	<b>3</b> Multiply line 2 by 7.5% (0.075) . . . . .	<b>3</b>		
	<b>4</b> Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- . . . . .	<b>4</b>		
<b>Taxes You Paid</b>	<b>5</b> State and local taxes.			
	<b>a</b> State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input type="checkbox"/> . . . . .	<b>5a</b>		
	<b>b</b> State and local real estate taxes (see instructions) . . . . .	<b>5b</b>		
	<b>c</b> State and local personal property taxes . . . . .	<b>5c</b>		
	<b>d</b> Add lines 5a through 5c . . . . .	<b>5d</b>		
	<b>e</b> Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing separately) . . . . .	<b>5e</b>		
	<b>6</b> Other taxes. List type and amount ▶ . . . . .	<b>6</b>		
	<b>7</b> Add lines 5e and 6 . . . . .	<b>7</b>		
<b>Interest You Paid</b> <b>Caution:</b> Your mortgage interest deduction may be limited (see instructions).	<b>8</b> Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/> . . . . .			
	<b>a</b> Home mortgage interest and points reported to you on Form 1098 . . . . .	<b>8a</b>		
	<b>b</b> Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶ . . . . .	<b>8b</b>		
	<b>c</b> Points not reported to you on Form 1098. See instructions for special rules . . . . .	<b>8c</b>		
	<b>d</b> Reserved . . . . .	<b>8d</b>		
	<b>e</b> Add lines 8a through 8c . . . . .	<b>8e</b>		
	<b>9</b> Investment interest. Attach Form 4952 if required. See instructions . . . . .	<b>9</b>		
	<b>10</b> Add lines 8e and 9 . . . . .	<b>10</b>		
<b>Gifts to Charity</b>  If you made a gift and got a benefit for it, see instructions.	<b>11</b> Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . .	<b>11</b>		
	<b>12</b> Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500 . . . . .	<b>12</b>		
	<b>13</b> Carryover from prior year . . . . .	<b>13</b>		
	<b>14</b> Add lines 11 through 13 . . . . .	<b>14</b>		
<b>Casualty and Theft Losses</b>	<b>15</b> Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions . . . . .	<b>15</b>		
<b>Other Itemized Deductions</b>	<b>16</b> Other—from list in instructions. List type and amount ▶ . . . . .	<b>16</b>		
<b>Total Itemized Deductions</b>	<b>17</b> Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040, line 8 . . . . .	<b>17</b>		
	<b>18</b> If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/> . . . . .			

For Paperwork Reduction Act Notice, see the Instructions for Form 1040.

Cat. No. 17145C

Schedule A (Form 1040) 2018

## Schedule A: Itemized Deductions

Borrowers may choose to itemize deductions instead of taking the standard deduction in order to save on taxes. Borrowers must complete Schedule A to support their itemized expenses.

Review the following line items on this schedule:

### Line 5b: Real Estate Taxes

If borrowers have indicated on the Residential Loan Application (1003) they own real estate (owner-occupied), they will report a deduction for real estate taxes they paid on this line. If they own investment property, they will use Schedule E to report investment property real estate taxes they paid.

### Lines 8a and 8b: Home Mortgage Interest

If the borrower is a current homeowner, and there is a lien on the property, the borrower will report a deduction for mortgage interest here.

### Effect on Cash Flow Analysis Worksheet

- None; no line items on this page affect cash flow

**SCHEDULE B**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on return

**Interest and Ordinary Dividends**

► Go to [www.irs.gov/ScheduleB](http://www.irs.gov/ScheduleB) for instructions and the latest information.  
► Attach to Form 1040.

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **08**

Your social security number

<b>Part I</b>		<b>Amount</b>			
<b>Interest</b>  (See instructions and the instructions for Form 1040, line 2b.)  <b>Note:</b> If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.	<b>1</b> List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address ► ..... ..... ..... ..... ..... ..... ..... ..... ..... .....	<b>1</b>			
	<b>2</b> Add the amounts on line 1 . . . . .		<b>2</b>		
	<b>3</b> Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 . . . . .		<b>3</b>		
	<b>4</b> Subtract line 3 from line 2. Enter the result here and on Form 1040, line 2b . . . ►		<b>4</b>		
	<b>Note:</b> If line 4 is over \$1,500, you must complete Part III.		<b>Amount</b>		
	<b>Part II</b> <b>Ordinary Dividends</b>  (See instructions and the instructions for Form 1040, line 3b.)  <b>Note:</b> If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.		<b>5</b> List name of payer ► ..... ..... ..... ..... ..... ..... ..... ..... ..... .....	<b>5</b>	
			<b>6</b> Add the amounts on line 5. Enter the total here and on Form 1040, line 3b . . . ►		<b>6</b>

<b>Part III</b>		<b>Yes</b>	<b>No</b>
You must complete this part if you <b>(a)</b> had over \$1,500 of taxable interest or ordinary dividends; <b>(b)</b> had a foreign account; or <b>(c)</b> received a distribution from, or were a grantor of, or a transferor to, a foreign trust.			
<b>Foreign Accounts and Trusts</b>  (See instructions.)	<b>7a</b> At any time during 2018, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions . . . . . If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements . . . . .		
	<b>b</b> If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ► .....		
	<b>8</b> During 2018, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions . . . . .		

For Paperwork Reduction Act Notice, see your tax return instructions.      Cat. No. 17146N      Schedule B (Form 1040) 2018

## Schedule B: Interest and Ordinary Dividends from Self-Employment

Schedule B provides the supporting detail for the taxable interest and dividend income the borrower reported on page 2 of Form 1040.

**Note:** The borrower needs to complete Schedule B only if interest or dividend income is greater than \$1,500.

**Important:** Schedule B reports interest and dividends from all sources, including personal and self-employed.

If using personal interest and dividends to qualify the borrower, refer to investor guidelines for documentation and calculation.

### Part I – Interest

#### Line 1: List Name of Payer

##### Interest Income

Identify interest income paid to the borrower from the borrower's business. Review Schedule B, Part I and/or IRS Schedule K-1 or Form 1099-INT to confirm that the payer is the borrower's business.

##### **Effect on Cash Flow Analysis Worksheet**

- Add recurring interest income from self-employment

### Part II – Ordinary Dividends

#### Line 5: List Name of Payer

##### Dividend Income

Identify dividend income paid to the borrower from the borrower's business. Review Schedule B, Part II and/or IRS Schedule K-1 or Form 1099-DIV to confirm that the payer is the borrower's business.

##### **Effect on Cash Flow Analysis Worksheet**

- Add recurring dividend income from self-employment

**SCHEDULE C  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business**  
(Sole Proprietorship)

► Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.  
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **09**

Name of proprietor	Social security number (SSN)
<b>A</b> Principal business or profession, including product or service (see instructions)	<b>B</b> Enter code from instructions ▶
<b>C</b> Business name. If no separate business name, leave blank.	<b>D</b> Employer ID number (EIN) (see instr.) 
<b>E</b> Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code	
<b>F</b> Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶	
<b>G</b> Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>H</b> If you started or acquired this business during 2018, check here . . . . . <input type="checkbox"/>	
<b>I</b> Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>J</b> If "Yes," did you or will you file required Forms 1099? . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No	

**Part I Income**

<b>1</b> Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . . <input type="checkbox"/>	<b>1</b>		
<b>2</b> Returns and allowances . . . . .	<b>2</b>		
<b>3</b> Subtract line 2 from line 1 . . . . .	<b>3</b>		
<b>4</b> Cost of goods sold (from line 42) . . . . .	<b>4</b>		
<b>5</b> <b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	<b>5</b>		
<b>6</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	<b>6</b>		
<b>7</b> <b>Gross income.</b> Add lines 5 and 6 . . . . . ▶	<b>7</b>		

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

<b>8</b> Advertising . . . . .	<b>8</b>		<b>18</b> Office expense (see instructions)	<b>18</b>	
<b>9</b> Car and truck expenses (see instructions). . . . .	<b>9</b>		<b>19</b> Pension and profit-sharing plans . . . . .	<b>19</b>	
<b>10</b> Commissions and fees . . . . .	<b>10</b>		<b>20</b> Rent or lease (see instructions):	<b>20a</b>	
<b>11</b> Contract labor (see instructions)	<b>11</b>		<b>a</b> Vehicles, machinery, and equipment	<b>20b</b>	
<b>12</b> Depletion . . . . .	<b>12</b>		<b>b</b> Other business property . . . . .	<b>21</b>	
<b>13</b> Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .	<b>13</b>		<b>21</b> Repairs and maintenance . . . . .	<b>21</b>	
<b>14</b> Employee benefit programs (other than on line 19) . . . . .	<b>14</b>		<b>22</b> Supplies (not included in Part III) . . . . .	<b>22</b>	
<b>15</b> Insurance (other than health)	<b>15</b>		<b>23</b> Taxes and licenses . . . . .	<b>23</b>	
<b>16</b> Interest (see instructions):			<b>24</b> Travel and meals:		
<b>a</b> Mortgage (paid to banks, etc.)	<b>16a</b>		<b>a</b> Travel . . . . .	<b>24a</b>	
<b>b</b> Other . . . . .	<b>16b</b>		<b>b</b> Deductible meals (see instructions) . . . . .	<b>24b</b>	
<b>17</b> Legal and professional services	<b>17</b>		<b>25</b> Utilities . . . . .	<b>25</b>	
<b>28</b> <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . . . . ▶			<b>26</b> Wages (less employment credits) . . . . .	<b>26</b>	
<b>29</b> Tentative profit or (loss). Subtract line 28 from line 7 . . . . .			<b>27a</b> Other expenses (from line 48) . . . . .	<b>27a</b>	
<b>30</b> Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .			<b>27b</b> <b>Reserved for future use</b> . . . . .	<b>27b</b>	
<b>31</b> <b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Schedule 1 (Form 1040), line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2.</b> (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3.</b> • If a loss, you <b>must</b> go to line 32.					
<b>32</b> If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both <b>Schedule 1 (Form 1040), line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2.</b> (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3.</b> • If you checked 32b, you <b>must</b> attach <b>Form 6198.</b> Your loss may be limited.					

**32a**  All investment is at risk.  
**32b**  Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2018

## Schedule C: Profit or Loss From Business (Sole Proprietorship)

A sole proprietorship is a business with a single owner. Sole proprietorships report profit and loss on Schedule C. All profits from a sole proprietorship flow directly to the owner. The owner pays taxes on these profits.

Schedule C provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

### Lines A and C: Principal Business and Business Name

Compare the entries for principal business and business name to the Residential Loan Application (1003). Double-check that the borrower is currently in the same line of work as reported on the tax returns.

### Line F: Accounting Method

It's important to identify the accounting method that the borrower is using because it affects the interpretation of the income figures.

For example, if the borrower uses the **Accrual Basis** of accounting, cash flow may appear distorted because the business didn't actually receive cash nor did it pay bills on the transaction dates indicated in the business's ledgers. Instead, the actual income the business received and expenses it paid are allocated to the time period in which the business actually earned and incurred them.

If borrowers use the **Cash Basis** of accounting, they report cash the day the business receives it and report bills the day it pays them. The cash method might overstate the income if invoices are held and not paid until after year-end and understate income if the business hasn't received cash it's owed – to the borrower's disadvantage.

### Line 31: Net Profit or (Loss)

The amount the borrower has reported on this line is income or loss generated from business operations.

### Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

## Part I – Income

This section discloses the revenue of a sole proprietorship.

### Line 6: Other Income

This amount represents money the business received that was not obtained by the profits of the business, e.g., interest income from notes or accounts receivable, or income from miscellaneous receipts. Analyze this income to determine whether it's stable and recurring.

### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss or expense

**SCHEDULE C  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business**  
(Sole Proprietorship)

► Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.  
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **09**

Name of proprietor	Social security number (SSN)																				
<b>A</b> Principal business or profession, including product or service (see instructions)	<b>B</b> Enter code from instructions ▶ <table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td style="width:15px; height:15px;"></td><td style="width:15px; height:15px;"></td></tr></table>																				
<b>C</b> Business name. If no separate business name, leave blank.	<b>D</b> Employer ID number (EIN) (see instr.) <table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td style="width:15px; height:15px;"></td><td style="width:15px; height:15px;"></td></tr></table>																				
<b>E</b> Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code																					
<b>F</b> Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶																					
<b>G</b> Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No																					
<b>H</b> If you started or acquired this business during 2018, check here <input type="checkbox"/>																					
<b>I</b> Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No																					
<b>J</b> If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No																					

**Part I Income**

<b>1</b> Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	<b>1</b>		
<b>2</b> Returns and allowances	<b>2</b>		
<b>3</b> Subtract line 2 from line 1	<b>3</b>		
<b>4</b> Cost of goods sold (from line 42)	<b>4</b>		
<b>5</b> <b>Gross profit.</b> Subtract line 4 from line 3	<b>5</b>		
<b>6</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	<b>6</b>		
<b>7</b> <b>Gross income.</b> Add lines 5 and 6	<b>7</b>		

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

<b>8</b> Advertising	<b>8</b>			<b>18</b> Office expense (see instructions)	<b>18</b>	
<b>9</b> Car and truck expenses (see instructions)	<b>9</b>			<b>19</b> Pension and profit-sharing plans	<b>19</b>	
<b>10</b> Commissions and fees	<b>10</b>			<b>20</b> Rent or lease (see instructions):	<b>20</b>	
<b>11</b> Contract labor (see instructions)	<b>11</b>			<b>a</b> Vehicles, machinery, and equipment	<b>20a</b>	
<b>12</b> Depletion	<b>12</b>			<b>b</b> Other business property	<b>20b</b>	
<b>13</b> Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>			<b>21</b> Repairs and maintenance	<b>21</b>	
<b>14</b> Employee benefit programs (other than on line 19)	<b>14</b>			<b>22</b> Supplies (not included in Part III)	<b>22</b>	
<b>15</b> Insurance (other than health)	<b>15</b>			<b>23</b> Taxes and licenses	<b>23</b>	
<b>16</b> Interest (see instructions):				<b>24</b> Travel and meals:	<b>24</b>	
<b>a</b> Mortgage (paid to banks, etc.)	<b>16a</b>			<b>a</b> Travel	<b>24a</b>	
<b>b</b> Other	<b>16b</b>			<b>b</b> Deductible meals (see instructions)	<b>24b</b>	
<b>17</b> Legal and professional services	<b>17</b>			<b>25</b> Utilities	<b>25</b>	
<b>28</b> <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a				<b>26</b> Wages (less employment credits)	<b>26</b>	
<b>29</b> Tentative profit or (loss). Subtract line 28 from line 7				<b>27a</b> Other expenses (from line 48)	<b>27a</b>	
<b>30</b> Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30				<b>27b</b> <b>Reserved for future use</b>	<b>27b</b>	
<b>31</b> <b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Schedule 1 (Form 1040), line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2.</b> (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3.</b> • If a loss, you <b>must</b> go to line 32.						
<b>32</b> If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both <b>Schedule 1 (Form 1040), line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2.</b> (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3.</b> • If you checked 32b, you <b>must</b> attach <b>Form 6198.</b> Your loss may be limited.						<b>32a</b> <input type="checkbox"/> All investment is at risk. <b>32b</b> <input type="checkbox"/> Some investment is not at risk.

## Part II – Expenses

This section discloses the cash and noncash expenses of a sole proprietorship. In general, you'll add back noncash expenses to cash flow.

### Line 9: Car and Truck Expenses

In most cases, this number represents actual cash expenditures for oil, maintenance and repairs to vehicles.

However, if borrowers elect to claim the standard mileage deduction on their vehicle, they will report that amount on Line 9. See pages 27 (Schedule C, page 2) and 29 (Form 4562) for discussion on potential depreciation add-backs.

#### Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustments

### Line 12: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Line 13: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Line 24b: Deductible Meals

These cash expenses relate to the cost of business-related meals.

#### Effect on Cash Flow Analysis Worksheet

- Deduct the amount on line 24b, which commonly reflects only 50% of expenses paid

Refer to Expenses Limited by the IRS (page 7).

### Line 30: Expenses for Business Use of Your Home

An individual may operate a business out of the home for which tax deductions for a portion of rent, utilities or maintenance may be available.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount



# Schedule C: Profit or Loss From Business (Page 2)

## Part IV – Information on Your Vehicle

A sole proprietor who uses the standard mileage deduction to estimate vehicle expenses will calculate that expense either here or on Form 4562. The standard deduction includes an estimate for depreciation. Depreciation factors for the 3 most recent years are:

Year	Standard Deduction	Depreciation
2016	54.0¢	24¢
2017	53.5¢	25¢
2018	54.5¢	25¢

### Line 44a: Business Miles Driven

#### Effect on Cash Flow Analysis Worksheet

- Multiply the number of miles on Line 44a by the depreciation factor for the appropriate year. Add back the amount

## Part V – Other Expenses

The borrower may list certain expenses here that are either noncash expenses or nonrecurring in nature.

### Look for the following items:

#### Amortization

Amortization is the write-off of initial costs incurred prior to the beginning of formal business operations.

Borrowers can expense these one-time costs over a period of time.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

#### Casualty Loss

Casualty loss is a one-time, extraordinary expense due to damage or destruction of property.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

**Form 4562** **Depreciation and Amortization**  
**(Including Information on Listed Property)**

OMB No. 1545-0172  
**2018**  
 Attachment Sequence No. **179**

Department of the Treasury  
 Internal Revenue Service (99)

► Attach to your tax return.  
 ► Go to [www.irs.gov/Form4562](http://www.irs.gov/Form4562) for instructions and the latest information.

Name(s) shown on return \_\_\_\_\_ Business or activity to which this form relates \_\_\_\_\_ Identifying number \_\_\_\_\_

**Part I Election To Expense Certain Property Under Section 179**  
**Note:** If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions) . . . . . **1**

2 Total cost of section 179 property placed in service (see instructions) . . . . . **2**

3 Threshold cost of section 179 property before reduction in limitation (see instructions) . . . . . **3**

4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . . **4**

5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions . . . . . **5**

6 (a) Description of property (b) Cost (business use only) (c) Elected cost

7 Listed property. Enter the amount from line 29 . . . . . **7**

8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 . . . . . **8**

9 Tentative deduction. Enter the smaller of line 5 or line 8 . . . . . **9**

10 Carryover of disallowed deduction from line 13 of your 2017 Form 4562 . . . . . **10**

11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions . . . . . **11**

12 Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 . . . . . **12**

13 Carryover of disallowed deduction to 2019. Add lines 9 and 10, less line 12 . . . . . **13**

**Note:** Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)**

14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions. . . . . **14**

15 Property subject to section 168(f)(1) election . . . . . **15**

16 Other depreciation (including ACRS) . . . . . **16**

**Part III MACRS Depreciation (Don't include listed property. See instructions.)**

**Section A**

17 MACRS deductions for assets placed in service in tax years beginning before 2018 . . . . . **17**

18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here  **18**

**Section B—Assets Placed in Service During 2018 Tax Year Using the** (Form 4562 (2018))

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention
19a 3-year property				
b 5-year property				
c 7-year property				
d 10-year property				
e 15-year property				
f 20-year property				
g 25-year property			25 yrs.	
h Residential rental property			27.5 yrs.	MM
i Nonresidential real property			39 yrs.	MM

**Section C—Assets Placed in Service During 2018 Tax Year Using the A**

(a) Class life	(b) Recovery period	(c) Convention
20a 12-year	12 yrs.	
b 30-year	30 yrs.	MM
c 40-year	40 yrs.	MM

**Part IV Summary (See instructions.)**

21 Listed property. Enter amount from line 28 . . . . . **21**

22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (e) here and on the appropriate lines of your return. Partnerships and S corporations—

23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs . . . . . **23**

**Part V Listed Property (Include automobiles, certain other vehicles, certain aircraft, and property used for entertainment, recreation, or amusement.)**

**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

**Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)**

24a Do you have evidence to support the business/investment use claimed?  Yes  No **24b** If "Yes," is the evidence written?  Yes  No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use. See instructions . . . . . <b>25</b>								
26 Property used more than 50% in a qualified business use:								
27 Property used 50% or less in a qualified business use:								
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 . . . . . <b>28</b>								
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 . . . . . <b>29</b>								

**Section B—Information on Use of Vehicles**

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
	Yes	No										
30 Total business/investment miles driven during the year (don't include commuting miles) . . . . .												
31 Total commuting miles driven during the year . . . . .												
32 Total other personal (noncommuting) miles driven . . . . .												
33 Total miles driven during the year. Add lines 30 through 32 . . . . .												
34 Was the vehicle available for personal use during off-duty hours? . . . . .												
35 Was the vehicle used primarily by a more than 5% owner or related person? . . . . .												
36 Is another vehicle available for personal use? . . . . .												

**Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees**

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who aren't more than 5% owners or related persons. See instructions.

	Yes	No
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? . . . . .		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners . . . . .		
39 Do you treat all use of vehicles by employees as personal use? . . . . .		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received? . . . . .		
41 Do you meet the requirements concerning qualified automobile demonstration use? See instructions. . . . .		

**Note:** If your answer to 37, 38, 39, 40, or 41 is "Yes," don't complete Section B for the covered vehicles.

**Part VI Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2018 tax year (see instructions):					
43 Amortization of costs that began before your 2018 tax year . . . . . <b>43</b>					
44 Total. Add amounts in column (f). See the instructions for where to report . . . . . <b>44</b>					

## Form 4562: Depreciation and Amortization

In general, borrowers calculate total depreciation on Form 4562 and transfer the amount to Schedule C, E or F of their tax return. A corporate or partnership tax return includes the deduction in the calculation of taxable income from operations.

The time span over which the IRS allows borrowers to deduct depreciation, depletion or amortization varies greatly. It does not necessarily correspond to the economic life expectancy of the asset.

**Note:** The IRS doesn't require borrowers to submit Form 4562 unless:

- They are taking an immediate deduction
- They are taking a depreciation deduction for property placed in service in the current year or
- They are depreciating listed property

For these reasons, borrowers may not include Form 4562 in their tax returns.

### Effect on Cash Flow Analysis Worksheet

- No line items on this page affect cash flow
- Use Schedules C (page 25), E (pages 37 and 39) or F (page 45) to make adjustments

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Capital Gains and Losses**

▶ **Attach to Form 1040 or Form 1040NR.**  
▶ **Go to [www.irs.gov/ScheduleD](http://www.irs.gov/ScheduleD) for instructions and the latest information.**  
▶ **Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.**

OMB No. 1545-0074

**2018**

Attachment  
Sequence No. **12**

Name(s) shown on return

Your social security number

**Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less** (see instructions)

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>1a</b> Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b . . . . .				
<b>1b</b> Totals for all transactions reported on Form(s) 8949 with <b>Box A</b> checked . . . . .				
<b>2</b> Totals for all transactions reported on Form(s) 8949 with <b>Box B</b> checked . . . . .				
<b>3</b> Totals for all transactions reported on Form(s) 8949 with <b>Box C</b> checked . . . . .				
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .				<b>4</b>
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .				<b>5</b>
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .				<b>6</b> ( )
<b>7</b> <b>Net short-term capital gain or (loss).</b> Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back . . . . .				<b>7</b>

**Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year** (see instructions)

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>8a</b> Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b . . . . .				
<b>8b</b> Totals for all transactions reported on Form(s) 8949 with <b>Box D</b> checked . . . . .				
<b>9</b> Totals for all transactions reported on Form(s) 8949 with <b>Box E</b> checked . . . . .				
<b>10</b> Totals for all transactions reported on Form(s) 8949 with <b>Box F</b> checked. . . . .				
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .				<b>11</b>
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .				<b>12</b>
<b>13</b> Capital gain distributions. See the instructions . . . . .				<b>13</b>
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .				<b>14</b> ( )
<b>15</b> <b>Net long-term capital gain or (loss).</b> Combine lines 8a through 14 in column (h). Then go to Part III on the back . . . . .				<b>15</b>

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2018

# Schedule D: Capital Gains and Losses

Schedule D is typically used for reporting capital gains and losses. In most cases, a capital gain or loss is a nonrecurring event. You will not use it to qualify your borrower.

## Short-Term Versus Long-Term Assets

The difference between short- and long-term assets is the amount of time the assets were held before they were sold. The distinction has no bearing on our analysis.

## Lines 4 and 11: Gains from Form 6252 (Installment Sale Income)

If there is an entry on either of these lines, look for Form 6252, used to report the principal received as part of installment payments on a loan owed to the borrower. (Although Lines 4 and 11 refer to several tax forms, Form 6252 is the only one with potential for additions to income.)

If using installment sale payments to qualify the borrower, refer to investor guidelines for documentation and calculation.

### **Effect on Cash Flow Analysis Worksheet**

- None, there is no effect on cash flow

## Lines 6 and 14: Short-term and Long-term Capital Loss Carryovers

These losses occurred in prior tax year(s) and the borrower carries them forward to later years.

### **Effect on Cash Flow Analysis Worksheet**

- In general, add back these losses. Follow investor guidelines

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result . . . . .</p> <ul style="list-style-type: none"> <li>• If line 16 is a <b>gain</b>, enter the amount from line 16 on Schedule 1 (Form 1040), line 13, or Form 1040NR, line 14. Then go to line 17 below.</li> <li>• If line 16 is a <b>loss</b>, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> <li>• If line 16 is <b>zero</b>, skip lines 17 through 21 below and enter -0- on Schedule 1 (Form 1040), line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul> <p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p> <p><b>18</b> If you are required to complete the <b>28% Rate Gain Worksheet</b> (see instructions), enter the amount, if any, from line 7 of that worksheet . . . . . ►</p> <p><b>19</b> If you are required to complete the <b>Unrecaptured Section 1250 Gain Worksheet</b> (see instructions), enter the amount, if any, from line 18 of that worksheet . . . . . ►</p> <p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 11a (or in the instructions for Form 1040NR, line 42). <b>Don't</b> complete lines 21 and 22 below.   <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Don't</b> complete lines 21 and 22 below.</p> <p><b>21</b> If line 16 is a loss, enter here and on Schedule 1 (Form 1040), line 13, or Form 1040NR, line 14, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16; or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> </p> <p><b>Note:</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p><b>22</b> Do you have qualified dividends on Form 1040, line 3a, or Form 1040NR, line 10b?  <input type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 11a (or in the instructions for Form 1040NR, line 42).   <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040 or Form 1040NR.</p>	<p><b>16</b></p> <p><b>18</b></p> <p><b>19</b></p> <p><b>21</b> ( )</p>	
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# Schedule D: Capital Gains and Losses (Page 2)

## Line 16: Capital Gains and Losses

The borrower reports total gains and losses on Line 16 of Schedule D. Review the itemized list of short- and long-term gains (Form 8949 on page 35) and compare one year's Schedule D to another to determine whether the income or loss is recurring or not.

### Capital Gains

Before using capital gains as qualifying income:

- Document the income with a minimum of 2 years' tax returns
- Verify evidence that the borrower will continue to acquire assets to generate capital gains

### **Effect on Cash Flow Analysis Worksheet**

- Add recurring capital gains

### Capital Losses

Treatment of capital losses varies among investors.

### **Effect on Cash Flow Analysis Worksheet**

- Follow investor guidelines

**Note:** Don't include pass-through income from the Schedule(s) K-1 that the borrower reported on Schedule D, Line 5 and Line 12.



## Form 8949: Sales and Other Dispositions of Capital Assets (Pages 1-2)

Form 8949 provides detail for the amounts the borrower reported on Schedule D. Page 1 of the form lists short-term gains and losses; page 2, long-term gains and losses.

The form provides descriptions for capital asset dispositions (e.g., stocks, bonds, etc.).

Review the itemized lists and compare one year's schedule to another to determine whether the income or loss the borrower reported on Schedule D is recurring or not.

### **Effect on Cash Flow Analysis Worksheet**

- No line items on these pages affect cash flow

**SCHEDULE E  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on return

**Supplemental Income and Loss**  
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
▶ Attach to Form 1040, 1040NR, or Form 1041.  
▶ Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

OMB No. 1545-0074

**2018**

Attachment  
Sequence No. **13**

Your social security number

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) . . . . .  Yes  No  
**B** If "Yes," did you or will you file required Forms 1099? . . . . .  Yes  No

<b>1a</b>	Physical address of each property (street, city, state, ZIP code)				
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b>	Type of Property (from list below)	<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
<b>A</b>			<b>A</b>		<input type="checkbox"/>
<b>B</b>			<b>B</b>		<input type="checkbox"/>
<b>C</b>			<b>C</b>		<input type="checkbox"/>

- Type of Property:**  
 1 Single Family Residence      3 Vacation/Short-Term Rental      5 Land      7 Self-Rental  
 2 Multi-Family Residence      4 Commercial      6 Royalties      8 Other (describe)

Income:	Properties:	A	B	C
<b>3</b> Rents received . . . . .	<b>3</b>			
<b>4</b> Royalties received . . . . .	<b>4</b>			
<b>Expenses:</b>				
<b>5</b> Advertising . . . . .	<b>5</b>			
<b>6</b> Auto and travel (see instructions) . . . . .	<b>6</b>			
<b>7</b> Cleaning and maintenance . . . . .	<b>7</b>			
<b>8</b> Commissions. . . . .	<b>8</b>			
<b>9</b> Insurance . . . . .	<b>9</b>			
<b>10</b> Legal and other professional fees . . . . .	<b>10</b>			
<b>11</b> Management fees . . . . .	<b>11</b>			
<b>12</b> Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>			
<b>13</b> Other interest. . . . .	<b>13</b>			
<b>14</b> Repairs. . . . .	<b>14</b>			
<b>15</b> Supplies . . . . .	<b>15</b>			
<b>16</b> Taxes . . . . .	<b>16</b>			
<b>17</b> Utilities. . . . .	<b>17</b>			
<b>18</b> Depreciation expense or depletion . . . . .	<b>18</b>			
<b>19</b> Other (list) ▶ . . . . .	<b>19</b>			
<b>20</b> Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>			
<b>21</b> Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 . . . . .	<b>21</b>			
<b>22</b> Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) . . . . .	<b>22</b> ( ) ( ) ( )			
<b>23a</b> Total of all amounts reported on line 3 for all rental properties . . . . .	<b>23a</b>			
<b>b</b> Total of all amounts reported on line 4 for all royalty properties . . . . .	<b>23b</b>			
<b>c</b> Total of all amounts reported on line 12 for all properties . . . . .	<b>23c</b>			
<b>d</b> Total of all amounts reported on line 18 for all properties . . . . .	<b>23d</b>			
<b>e</b> Total of all amounts reported on line 20 for all properties . . . . .	<b>23e</b>			
<b>24</b> <b>Income.</b> Add positive amounts shown on line 21. Do not include any losses . . . . .	<b>24</b>			
<b>25</b> <b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here . . . . .	<b>25</b> ( )			
<b>26</b> <b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2. . . . .	<b>26</b>			

# Schedule E: Supplemental Income and Loss

## Part I – Income or Loss from Rental Real Estate and Royalties

If your borrower earns royalty income, look for the following line items.

### Line 4: Royalties Received

Royalties are compensation paid for the use of another's property, based on a percentage of profit or production. The "property" is typically copyrighted material or natural resources. If the borrower has listed royalty income, verify whether it's ongoing and consistent before you use it as qualifying income.

#### Effect on Cash Flow Analysis Worksheet

- Add recurring royalty income/deduct loss

### Line 20: Total Expenses

Line 20 represents the sum of Lines 5-19, expenses for royalties.

#### Effect on Cash Flow Analysis Worksheet

- Deduct royalty expenses

### Line 18: Depreciation Expense or Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

**SCHEDULE E  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on return

**Supplemental Income and Loss**  
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
▶ Attach to Form 1040, 1040NR, or Form 1041.  
▶ Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

OMB No. 1545-0074

**2018**

Attachment  
Sequence No. **13**

Your social security number

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

- A** Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) . . . . .  Yes  No  
**B** If "Yes," did you or will you file required Forms 1099? . . . . .  Yes  No

<b>1a</b>	Physical address of each property (street, city, state, ZIP code)				
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b>	Type of Property (from list below)	<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
<b>A</b>			<b>A</b>		<input type="checkbox"/>
<b>B</b>			<b>B</b>		<input type="checkbox"/>
<b>C</b>			<b>C</b>		<input type="checkbox"/>

**Type of Property:**

- 1 Single Family Residence      3 Vacation/Short-Term Rental      5 Land      7 Self-Rental  
2 Multi-Family Residence      4 Commercial      6 Royalties      8 Other (describe)

Income:	Properties:	A	B	C
<b>3</b> Rents received . . . . .	<b>3</b>			
<b>4</b> Royalties received . . . . .	<b>4</b>			
<b>Expenses:</b>				
<b>5</b> Advertising . . . . .	<b>5</b>			
<b>6</b> Auto and travel (see instructions) . . . . .	<b>6</b>			
<b>7</b> Cleaning and maintenance . . . . .	<b>7</b>			
<b>8</b> Commissions. . . . .	<b>8</b>			
<b>9</b> Insurance . . . . .	<b>9</b>			
<b>10</b> Legal and other professional fees . . . . .	<b>10</b>			
<b>11</b> Management fees . . . . .	<b>11</b>			
<b>12</b> Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>			
<b>13</b> Other interest. . . . .	<b>13</b>			
<b>14</b> Repairs. . . . .	<b>14</b>			
<b>15</b> Supplies . . . . .	<b>15</b>			
<b>16</b> Taxes . . . . .	<b>16</b>			
<b>17</b> Utilities. . . . .	<b>17</b>			
<b>18</b> Depreciation expense or depletion . . . . .	<b>18</b>			
<b>19</b> Other (list) ▶ . . . . .	<b>19</b>			
<b>20</b> Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>			
<b>21</b> Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 . . . . .	<b>21</b>			
<b>22</b> Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) . . . . .	<b>22</b> ( ) ( ) ( )			
<b>23a</b> Total of all amounts reported on line 3 for all rental properties . . . . .	<b>23a</b>			
<b>b</b> Total of all amounts reported on line 4 for all royalty properties . . . . .	<b>23b</b>			
<b>c</b> Total of all amounts reported on line 12 for all properties . . . . .	<b>23c</b>			
<b>d</b> Total of all amounts reported on line 18 for all properties . . . . .	<b>23d</b>			
<b>e</b> Total of all amounts reported on line 20 for all properties . . . . .	<b>23e</b>			
<b>24</b> <b>Income.</b> Add positive amounts shown on line 21. Do not include any losses . . . . .	<b>24</b>			
<b>25</b> <b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here . . . . .	<b>25</b> ( )			
<b>26</b> <b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2. . . . .	<b>26</b>			

## Part I – Income or Loss from Rental Real Estate and Royalties

If your borrower earns rental income, look for the following line items.

**Note:** Be sure to check each property listed on Schedule E against the borrower's Schedule of Real Estate Owned on the Residential Loan Application (1003). If the borrower no longer owns the property, exclude the income (loss) from that property from your analysis.

In general, you only need to analyze the most recent tax year for net rental income.

### Schedule E – PITIA Calculation

Use the current PITIA (Principal, Interest, Taxes, Insurance and All other) payment for each rental property to calculate qualifying ratios. Review Schedule E for numerous line item add-backs.

Follow investor guidelines.

### Schedule E – Traditional Calculation

Do not use the current PITIA payment for each rental property in calculating qualifying ratios. Review Schedule E for limited line item add-backs.

Follow investor guidelines.

### Line 21: Rental Income (Loss)

The amount the borrower reports on this line is income or loss generated from rental real estate after all expenses.

#### **Effect on Rental Income Worksheet**

- **PITIA or Traditional Calculation** – Add recurring rental income/deduct loss

### Line 18: Depreciation Expense or Depletion

Depreciation is a noncash expense allocated over the useful life of a declared asset. Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Schedule E.

#### **Effect on Rental Income Worksheet**

- **PITIA or Traditional Calculation** – Add back the amount

### Lines 9, 12, 13 and 16: Insurance, Mortgage Interest, Other Interest and Taxes

The borrower reports insurance, mortgage interest and tax expenses on these lines.

#### **Effect on Rental Income Worksheet**

- **PITIA Calculation** – Add back the amounts, regardless of whether the items are escrowed
- **Traditional Calculation** – There is no effect; make no adjustment

### Line 19: Other

The borrower may list certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be listed here.

#### **Effect on Rental Income Worksheet**

- **PITIA Calculation** – Add back the amount included in the current PITIA payment and any amortization and/or casualty loss
- **Traditional Calculation** – Add back only amortization and/or casualty loss

Name(s) shown on return. Do not enter name and social security number if shown on other side. Your social security number

**Caution:** The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

**Part II Income or Loss From Partnerships and S Corporations – Note:** If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198** (see instructions).

**27** Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered “Yes,” see instructions before completing this section. . . .  **Yes**  **No**

<b>28</b>	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
<b>A</b>			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
<b>B</b>			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
<b>C</b>			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
<b>D</b>			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss			Nonpassive Income and Loss		
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss from Schedule K-1	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1	
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>D</b>					
<b>29a</b>	Totals				
<b>b</b>	Totals				
<b>30</b>	Add columns (h) and (k) of line 29a. . . . .				<b>30</b>
<b>31</b>	Add columns (g), (i), and (j) of line 29b. . . . .				<b>31</b> ( )
<b>32</b>	<b>Total partnership and S corporation income or (loss).</b> Combine lines 30 and 31 . . . . .				<b>32</b>

**Part III Income or Loss From Estates and Trusts**

<b>33</b>	(a) Name	(b) Employer identification number
<b>A</b>		
<b>B</b>		

Passive Income and Loss			Nonpassive Income and Loss		
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1		
<b>A</b>					
<b>B</b>					
<b>34a</b>	Totals				
<b>b</b>	Totals				
<b>35</b>	Add columns (d) and (f) of line 34a . . . . .				<b>35</b>
<b>36</b>	Add columns (c) and (e) of line 34b . . . . .				<b>36</b> ( )
<b>37</b>	<b>Total estate and trust income or (loss).</b> Combine lines 35 and 36 . . . . .				<b>37</b>

**Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder**

<b>38</b>	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
<b>39</b>	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below				<b>39</b>

**Part V Summary**

<b>40</b>	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below . . . . .	<b>40</b>	
<b>41</b>	<b>Total income or (loss).</b> Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 17, or Form 1040NR, line 18 ▶	<b>41</b>	
<b>42</b>	<b>Reconciliation of farming and fishing income.</b> Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code AC; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . . . . .	<b>42</b>	
<b>43</b>	<b>Reconciliation for real estate professionals.</b> If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . . . . .	<b>43</b>	

## Schedule E: Supplemental Income and Loss (Page 2)

### Part II – Income or Loss From Partnerships and S Corporations

In general, don't include this income or loss in the borrower's cash flow. These figures are transferred from the applicable Schedule K-1 (Form 1065 for partnerships and Form 1120S for S Corporations).

#### **Effect on Cash Flow Analysis Worksheet**

- In general, no line items on this page affect cash flow
- Use Schedule K-1s to make adjustments. See pages 53-57 or 65-67

**Passive Activity Loss Limitations**

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1041.

▶ Go to [www.irs.gov/Form8582](http://www.irs.gov/Form8582) for instructions and the latest information.

OMB No. 1545-1008

**2018**  
 Attachment  
 Sequence No. **88**

Name(s) shown on return

Identifying number

**Part I 2018 Passive Activity Loss**

**Caution:** Complete Worksheets 1, 2, and 3 before completing Part I.

**Rental Real Estate Activities With Active Participation** (For the definition of active participation, see **Special Allowance for Rental Real Estate Activities** in the instructions.)

<b>1a</b> Activities with net income (enter the amount from Worksheet 1, column (a)) . . . . .	<b>1a</b>			
<b>b</b> Activities with net loss (enter the amount from Worksheet 1, column (b)) . . . . .	<b>1b</b>	(		)
<b>c</b> Prior years' unallowed losses (enter the amount from Worksheet 1, column (c)) . . . . .	<b>1c</b>	(		)
<b>d</b> Combine lines 1a, 1b, and 1c . . . . .	<b>1d</b>			

**Commercial Revitalization Deductions From Rental Real Estate Activities**

<b>2a</b> Commercial revitalization deductions from Worksheet 2, column (a) . . . . .	<b>2a</b>	(		)
<b>b</b> Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b) . . . . .	<b>2b</b>	(		)
<b>c</b> Add lines 2a and 2b . . . . .	<b>2c</b>	(		)

**All Other Passive Activities**

<b>3a</b> Activities with net income (enter the amount from Worksheet 3, column (a)) . . . . .	<b>3a</b>			
<b>b</b> Activities with net loss (enter the amount from Worksheet 3, column (b)) . . . . .	<b>3b</b>	(		)
<b>c</b> Prior years' unallowed losses (enter the amount from Worksheet 3, column (c)) . . . . .	<b>3c</b>	(		)
<b>d</b> Combine lines 3a, 3b, and 3c . . . . .	<b>3d</b>			

<b>4</b> Combine lines 1d, 2c, and 3d. If this line is zero or more, stop here and include this form with your return; all losses are allowed, including any prior year unallowed losses entered on line 1c, 2b, or 3c. Report the losses on the forms and schedules normally used . . . . .	<b>4</b>			
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- If line 4 is a loss and:
- Line 1d is a loss, go to **Part II**.
  - Line 2c is a loss (and line 1d is zero or more), skip **Part II** and go to **Part III**.
  - Line 3d is a loss (and lines 1d and 2c are zero or more), skip **Parts II** and **III** and go to line 15.

**Caution:** If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete **Part II** or **Part III**. Instead, go to line 15.

**Part II Special Allowance for Rental Real Estate Activities With Active Participation**

**Note:** Enter all numbers in Part II as positive amounts. See instructions for an example.

<b>5</b> Enter the <b>smaller</b> of the loss on line 1d or the loss on line 4 . . . . .	<b>5</b>			
<b>6</b> Enter \$150,000. If married filing separately, see instructions . . . . .	<b>6</b>			
<b>7</b> Enter modified adjusted gross income, but not less than zero (see instructions)	<b>7</b>			
<b>Note:</b> If line 7 is greater than or equal to line 6, skip lines 8 and 9, enter -0- on line 10. Otherwise, go to line 8.				
<b>8</b> Subtract line 7 from line 6 . . . . .	<b>8</b>			
<b>9</b> Multiply line 8 by 50% (0.50). <b>Do not</b> enter more than \$25,000. If married filing separately, see instructions	<b>9</b>			
<b>10</b> Enter the <b>smaller</b> of line 5 or line 9 . . . . .	<b>10</b>			

If line 2c is a loss, go to **Part III**. Otherwise, go to line 15.

**Part III Special Allowance for Commercial Revitalization Deductions From Rental Real Estate Activities**

**Note:** Enter all numbers in Part III as positive amounts. See the example for Part II in the instructions.

<b>11</b> Enter \$25,000 reduced by the amount, if any, on line 10. If married filing separately, see instructions	<b>11</b>			
<b>12</b> Enter the loss from line 4 . . . . .	<b>12</b>			
<b>13</b> Reduce line 12 by the amount on line 10 . . . . .	<b>13</b>			
<b>14</b> Enter the <b>smallest</b> of line 2c (treated as a positive amount), line 11, or line 13 . . . . .	<b>14</b>			

**Part IV Total Losses Allowed**

<b>15</b> Add the income, if any, on lines 1a and 3a and enter the total . . . . .	<b>15</b>			
<b>16</b> <b>Total losses allowed from all passive activities for 2018.</b> Add lines 10, 14, and 15. See instructions to find out how to report the losses on your tax return . . . . .	<b>16</b>			

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 63704F

Form **8582** (2018)

## Form 8582: Passive Activity Loss Limitations

The borrower uses Form 8582 to calculate losses from real estate owned or partnership or S Corporation investments that may not be fully tax deductible. SAM procedures calculate actual losses prior to any limitations imposed by the IRS; therefore no analysis of Form 8582 is necessary.

**Note:** This is a 3-page form. Pages 2 and 3 are worksheets the IRS requires to be filed. We have not included samples of these pages in this manual.

### Effect on Cash Flow Analysis Worksheet

- No line items on this page affect cash flow

**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Farming**

▶ Attach to Form 1040, Form 1040NR, Form 1041, or Form 1065.  
▶ Go to [www.irs.gov/ScheduleF](http://www.irs.gov/ScheduleF) for instructions and the latest information.

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **14**

Name of proprietor \_\_\_\_\_ Social security number (SSN) \_\_\_\_\_

**A** Principal crop or activity \_\_\_\_\_ **B** Enter code from Part IV  Cash  Accrual **C** Accounting method: \_\_\_\_\_ **D** Employer ID number (EIN), (see instr) \_\_\_\_\_

**E** Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on passive losses  Yes  No

**F** Did you make any payments in 2018 that would require you to file Form(s) 1099 (see instructions)?  Yes  No

**G** If "Yes," did you or will you file required Forms 1099?  Yes  No

**Part I Farm Income—Cash Method.** Complete Parts I and II (Accrual method, complete Parts II and III, and Part I, line 9.)

<b>1a</b> Sales of livestock and other resale items (see instructions) . . . . .	<b>1a</b>			
<b>b</b> Cost or other basis of livestock or other items reported on line 1a . . . . .	<b>1b</b>			
<b>c</b> Subtract line 1b from line 1a . . . . .				<b>1c</b>
<b>2</b> Sales of livestock, produce, grains, and other products you raised . . . . .				<b>2</b>
<b>3a</b> Cooperative distributions (Form(s) 1099-PATR) . . . . .	<b>3a</b>		<b>3b</b> Taxable amount	<b>3b</b>
<b>4a</b> Agricultural program payments (see instructions) . . . . .	<b>4a</b>		<b>4b</b> Taxable amount	<b>4b</b>
<b>5a</b> Commodity Credit Corporation (CCC) loans reported under election . . . . .				<b>5a</b>
<b>b</b> CCC loans forfeited . . . . .	<b>5b</b>		<b>5c</b> Taxable amount	<b>5c</b>
<b>6</b> Crop insurance proceeds and federal crop disaster payments (see instructions)				
<b>a</b> Amount received in 2018 . . . . .	<b>6a</b>		<b>6b</b> Taxable amount	<b>6b</b>
<b>c</b> If election to defer to 2019 is attached, check here <input type="checkbox"/> <b>6d</b> Amount deferred from 2017				<b>6d</b>
<b>7</b> Custom hire (machine work) income . . . . .				<b>7</b>
<b>8</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .				<b>8</b>
<b>9</b> <b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions . . . . .				<b>9</b>

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses. See instructions.

<b>10</b> Car and truck expenses (see instructions). Also attach Form 4562 . . . . .	<b>10</b>		<b>23</b> Pension and profit-sharing plans	<b>23</b>
<b>11</b> Chemicals . . . . .	<b>11</b>		<b>24</b> Rent or lease (see instructions):	
<b>12</b> Conservation expenses (see instructions) . . . . .	<b>12</b>		<b>a</b> Vehicles, machinery, equipment	<b>24a</b>
<b>13</b> Custom hire (machine work) . . . . .	<b>13</b>		<b>b</b> Other (land, animals, etc.) . . . . .	<b>24b</b>
<b>14</b> Depreciation and section 179 expense (see instructions) . . . . .	<b>14</b>		<b>25</b> Repairs and maintenance . . . . .	<b>25</b>
<b>15</b> Employee benefit programs other than on line 23 . . . . .	<b>15</b>		<b>26</b> Seeds and plants . . . . .	<b>26</b>
<b>16</b> Feed . . . . .	<b>16</b>		<b>27</b> Storage and warehousing . . . . .	<b>27</b>
<b>17</b> Fertilizers and lime . . . . .	<b>17</b>		<b>28</b> Supplies . . . . .	<b>28</b>
<b>18</b> Freight and trucking . . . . .	<b>18</b>		<b>29</b> Taxes . . . . .	<b>29</b>
<b>19</b> Gasoline, fuel, and oil . . . . .	<b>19</b>		<b>30</b> Utilities . . . . .	<b>30</b>
<b>20</b> Insurance (other than health) . . . . .	<b>20</b>		<b>31</b> Veterinary, breeding, and medicine	<b>31</b>
<b>21</b> Interest (see instructions)			<b>32</b> Other expenses (specify):	
<b>a</b> Mortgage (paid to banks, etc.)	<b>21a</b>		<b>a</b> -----	<b>32a</b>
<b>b</b> Other . . . . .	<b>21b</b>		<b>b</b> -----	<b>32b</b>
<b>22</b> Labor hired (less employment credits)	<b>22</b>		<b>c</b> -----	<b>32c</b>
			<b>d</b> -----	<b>32d</b>
			<b>e</b> -----	<b>32e</b>
			<b>f</b> -----	<b>32f</b>

**33** **Total expenses.** Add lines 10 through 32f. If line 32f is negative, see instructions . . . . . ▶ **33**

**34** **Net farm profit or (loss).** Subtract line 33 from line 9 . . . . . **34**

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

**35** Reserved for future use.

**36** Check the box that describes your investment in this activity and see instructions for where to report your loss.

**a**  All investment is at risk. **b**  Some investment is not at risk.

## Schedule F: Profit or Loss From Farming

Borrowers with small farming operations typically file Schedule F.

### Line 34: Net Farm Profit or (Loss)

The amount the borrower has reported on this line is income or loss generated from farm operations.

#### Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

### Lines 3a through 6

These lines represent sources of cash flow that may or may not be continuous and ongoing. Don't include any of these items if they represent one-time occurrences. If you can document the income is likely to continue, include the nontaxable portion of this income in the borrower's cash flow.

**Note:** There may be rare instances where it would make sense to allow a nonrecurring item to remain in cash flow. Review these exceptions on a case-by-case basis.

#### Effect on Cash Flow Analysis Worksheet

- Deduct income that is not consistent and nonrecurring (lines 3b, 4b, 5a, 5c, 6b, 6d); add back the nontaxable portion of recurring income (lines 3a minus 3b, 4a minus 4b, 5b minus 5c, 6a minus 6b)

### Line 8: Other Income

The borrower reports income not earned through farm operations here.

#### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

### Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Line 32: Other Expenses

The borrower reports amortization, business use of home, casualty loss and depletion here.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount of amortization, business use of home, casualty losses or depletion

### Request for Copy of Tax Return

- ▶ **Do not sign this form unless all applicable lines have been completed.**
- ▶ **Request may be rejected if the form is incomplete or illegible.**
- ▶ **For more information about Form 4506, visit [www.irs.gov/form4506](http://www.irs.gov/form4506).**

**Tip.** You may be able to get your tax return or return information from other sources. If you had your tax return completed by a paid preparer, they should be able to provide you a copy of the return. The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return and usually contains the information that a third party (such as a mortgage company) requires. See **Form 4506-T, Request for Transcript of Tax Return**, or you can quickly request transcripts by using our automated self-help service tools. Please visit us at [IRS.gov](http://IRS.gov) and click on "Get a Tax Transcript..." or call 1-800-908-9946.

<b>1a</b> Name shown on tax return. If a joint return, enter the name shown first.	<b>1b</b> First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
<b>2a</b> If a joint return, enter spouse's name shown on tax return.	<b>2b</b> Second social security number or individual taxpayer identification number if joint tax return
<b>3</b> Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
<b>4</b> Previous address shown on the last return filed if different from line 3 (see instructions)	
<b>5</b> If the tax return is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	

**Caution:** If the tax return is being mailed to a third party, ensure that you have filled in lines 6 and 7 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax return to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your return information, you can specify this limitation in your written agreement with the third party.

**6 Tax return requested.** Form 1040, 1120, 941, etc. and all attachments as originally submitted to the IRS, including Form(s) W-2, schedules, or amended returns. Copies of Forms 1040, 1040A, and 1040EZ are generally available for 7 years from filing before they are destroyed by law. Other returns may be available for a longer period of time. Enter only one return number. If you need more than one type of return, you must complete another Form 4506. ▶ \_\_\_\_\_

**Note:** If the copies must be certified for court or administrative proceedings, check here

**7 Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than eight years or periods, you must attach another Form 4506.

\_\_\_\_\_

\_\_\_\_\_

<b>8 Fee.</b> There is a \$50 fee for each return requested. <b>Full payment must be included with your request or it will be rejected. Make your check or money order payable to "United States Treasury." Enter your SSN, ITIN, or EIN and "Form 4506 request" on your check or money order.</b>	
<b>a</b> Cost for each return . . . . .	<b>\$ 50.00</b>
<b>b</b> Number of returns requested on line 7 . . . . .	
<b>c</b> Total cost. Multiply line 8a by line 8b . . . . .	<b>\$</b>

**9** If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here

**Caution:** Do not sign this form unless all applicable lines have been completed.

**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax return requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer. **Note:** This form must be received by IRS within 120 days of the signature date.

**Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506.** See instructions.

Phone number of taxpayer on line 1a or 2a

**Sign Here**

▶ \_\_\_\_\_ Date \_\_\_\_\_

▶ **Title** (if line 1a above is a corporation, partnership, estate, or trust)

▶ \_\_\_\_\_ Date \_\_\_\_\_

▶ **Spouse's signature** \_\_\_\_\_ Date \_\_\_\_\_

## Form 4506: Request for Copy of Tax Return

If you are unsure whether a borrower's tax returns are accurate, ask the borrower to sign Form 4506, which provides you a way to obtain filed IRS copies of the tax returns for audit purposes.

This form is not intended to be used as an underwriting tool. There is a fee involved, and it will take approximately 6 to 8 weeks to receive the copies.

**Request for Transcript of Tax Return**

▶ **Do not sign this form unless all applicable lines have been completed.**  
 ▶ **Request may be rejected if the form is incomplete or illegible.**  
 ▶ **For more information about Form 4506-T, visit [www.irs.gov/form4506t](http://www.irs.gov/form4506t).**

OMB No. 1545-1872

**Tip.** Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can quickly request transcripts by using our automated self-help service tools. Please visit us at [IRS.gov](http://IRS.gov) and click on "Get a Tax Transcript..." under "Tools" or call 1-800-908-9946. If you need a copy of your return, use **Form 4506, Request for Copy of Tax Return**. There is a fee to get a copy of your return.

<b>1a</b> Name shown on tax return. If a joint return, enter the name shown first.	<b>1b</b> First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
<b>2a</b> If a joint return, enter spouse's name shown on tax return.	<b>2b</b> Second social security number or individual taxpayer identification number if joint tax return
<b>3</b> Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
<b>4</b> Previous address shown on the last return filed if different from line 3 (see instructions)	
<b>5a</b> If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	
<b>5b</b> Customer file number (if applicable) (see instructions)	

**Caution:** If the tax transcript is being mailed to a third party, ensure that you have filled in lines 6 through 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax transcript to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your transcript information, you can specify this limitation in your written agreement with the third party.

**6 Transcript requested.** Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request. ▶ \_\_\_\_\_

**a Return Transcript,** which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120-A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days . . . . .

**b Account Transcript,** which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 10 business days . . . . .

**c Record of Account,** which provides the most detailed information as it is a combination of the Return Transcript and the Account Transcript. Available for current year and 3 prior tax years. Most requests will be processed within 10 business days . . . . .

**7 Verification of Nonfiling,** which is proof from the IRS that you **did not** file a return for the year. Current year requests are only available after June 15th. There are no availability restrictions on prior year requests. Most requests will be processed within 10 business days . . . . .

**8 Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript.** The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2011, filed in 2012, will likely not be available from the IRS until 2013. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 10 business days . . . . .

**Caution:** If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.

**9 Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

| / / | / / | / / | / / | / /

**Caution:** Do not sign this form unless all applicable lines have been completed.

**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer. **Note:** This form must be received by IRS within 120 days of the signature date.

**Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506-T.** See instructions.

Phone number of taxpayer on line 1a or 2a

**Sign Here**

▶ Signature (see instructions)	Date
▶ Title (if line 1a above is a corporation, partnership, estate, or trust)	
▶ Spouse's signature	Date

## Form 4506-T: Request for Transcript of Tax Return

The transcript of the tax return includes most of the line items of a tax return filed with the IRS. Return transcripts are available for the current year and for returns processed during the prior 3 years.





As with Module 1, even-numbered pages in this module contain a sample tax form. Odd-numbered pages explain the effect of the applicable line items from the tax form on the borrower's cash flow based on SAM.

When you see the heading, **Effect On Cash Flow Analysis Worksheet** or **Effect On Rental Income Worksheet**, you'll find guidance as to whether you should add/deduct the amount of a line item to/from the borrower's cash flow.

For self-employed borrowers who are a partner or a shareholder in a corporation, once you've analyzed their personal tax returns, the next step in determining cash flow is to analyze their business tax returns.

### Using Income From Partnerships, S Corporations and Corporations

If you're using self-employed income from a partnership, S Corporation or corporation to qualify the borrower, conduct an analysis of the business tax returns to confirm:

- The stability and liquidity of the borrower's business
- The business is financially capable to generate future earnings

The information contained in this module and Module 3, will help you conduct your analysis.

### Key Concept

In general, add business income to the borrower's cash flow if:

- The business has positive sales and earnings trends AND
- The borrower has accessed the income OR
- The business has adequate liquidity to support the withdrawal

These factors help demonstrate income will likely be recurring and, therefore, is an acceptable source of qualifying income you can add to your borrower's cash flow.

On the other hand, deduct any loss resulting from your analysis from cash flow as it represents a drain on the borrower's income. Follow investor guidelines.

**Schedule K-1  
(Form 1065)**

Department of the Treasury  
Internal Revenue Service

**2018**

For calendar year 2018, or tax year

beginning  /  / 2018 ending  /  /

**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

651118

Final K-1  Amended K-1

OMB No. 1545-0123

<b>Part I Information About the Partnership</b>	
<b>A</b>	Partnership's employer identification number
<b>B</b>	Partnership's name, address, city, state, and ZIP code
<b>C</b>	IRS Center where partnership filed return
<b>D</b>	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)
<b>Part II Information About the Partner</b>	
<b>E</b>	Partner's identifying number
<b>F</b>	Partner's name, address, city, state, and ZIP code
<b>G</b>	<input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member
<b>H</b>	<input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner
<b>I1</b>	What type of entity is this partner? _____
<b>I2</b>	If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>
<b>J</b>	Partner's share of profit, loss, and capital (see instructions):
	<b>Beginning</b> <b>Ending</b>
Profit	%   %
Loss	%   %
Capital	%   %
<b>K</b>	Partner's share of liabilities:
	<b>Beginning</b> <b>Ending</b>
Nonrecourse . . . \$	\$
Qualified nonrecourse financing . . . \$	\$
Recourse . . . \$	\$
<b>L</b>	Partner's capital account analysis:
Beginning capital account . . . \$	
Capital contributed during the year . . \$	
Current year increase (decrease) . . \$	
Withdrawals & distributions . . . \$( )	
Ending capital account . . . \$	
<input type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book	
<input type="checkbox"/> Other (explain)	
<b>M</b>	Did the partner contribute property with a built-in gain or loss?
<input type="checkbox"/> Yes <input type="checkbox"/> No	
	If "Yes," attach statement (see instructions)

<b>Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items</b>			
<b>1</b>	Ordinary business income (loss)	<b>15</b>	Credits
<b>2</b>	Net rental real estate income (loss)		
<b>3</b>	Other net rental income (loss)	<b>16</b>	Foreign transactions
<b>4</b>	Guaranteed payments		
<b>5</b>	Interest income		
<b>6a</b>	Ordinary dividends		
<b>6b</b>	Qualified dividends		
<b>6c</b>	Dividend equivalents		
<b>7</b>	Royalties		
<b>8</b>	Net short-term capital gain (loss)	<b>17</b>	Alternative minimum tax (AMT) items
<b>9a</b>	Net long-term capital gain (loss)		
<b>9b</b>	Collectibles (28%) gain (loss)		
<b>9c</b>	Unrecaptured section 1250 gain	<b>18</b>	Tax-exempt income and nondeductible expenses
<b>10</b>	Net section 1231 gain (loss)		
<b>11</b>	Other income (loss)		
		<b>19</b>	Distributions
<b>12</b>	Section 179 deduction		
<b>13</b>	Other deductions	<b>20</b>	Other information
<b>14</b>	Self-employment earnings (loss)		
*See attached statement for additional information.			
<b>For IRS Use Only</b>			

# Schedule K-1 (Form 1065): Partner's Share of Income, Deductions, Credits, etc.

A partnership is an arrangement between 2 or more individuals, generally governed by a partnership agreement.

The partnership prepares Schedule K-1 (Form 1065) to inform the individual partners of their share of income (loss), deductions and credits.

Underwriting cash flow for a borrower who is a partner may consist of the following items:

- The borrower's share of:
  - Ordinary business income (loss)
  - Net rental real estate income (loss)
  - Other net rental income (loss)
- Guaranteed payments

## PART II – Information About the Partner

### Line J: Partner's Share of Profit, Loss, and Capital

This line indicates the borrower's percentage of ownership of profit, loss and capital.

Use Ending Capital percentage to determine the self-employed ownership percentage.

### Line L: Partner's Capital Account Analysis

This analysis provides an idea of what the borrower has received from or paid into the partnership.

Partnerships are a pass-through entity. Borrowers report income (loss) passed through the business on their personal returns, regardless of whether the partnership received or distributed money.

### Beginning Capital Account

This amount represents money that the borrower had in the account at the beginning of the year.

### Capital Contributed During Year

This amount represents the value of the contributions that the borrower made to the partnership during the year.

### Current Year Increase (Decrease)

This amount represents the results of the information the borrower reported on Schedule M-2 of Form 1065, which shows what caused the changes in the borrower's capital accounts during the tax year:

- The borrower's share of net income (loss) per books (Line 3)
- Other increases in the capital account (Line 4) and
- Other decreases in the capital account (Line 7)

### Ending Capital Account

This amount is the balance the borrower had in the account at the end of the year.

If the amount indicated is a negative figure, the partnership may require the partners to contribute additional capital.

### FYI: Final K-1 Box

If this box is checked, this is the final K-1 issued, indicating:

- The borrower's ownership was transferred or sold to another entity, OR
- The partnership itself was dissolved

**Schedule K-1  
(Form 1065)**

Department of the Treasury  
Internal Revenue Service

**2018**

For calendar year 2018, or tax year

beginning  /  / 2018 ending  /  /

**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

651118  
OMB No. 1545-0123

Final K-1  Amended K-1

**Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items**

**Part I Information About the Partnership**

**A** Partnership's employer identification number

**B** Partnership's name, address, city, state, and ZIP code

**C** IRS Center where partnership filed return

**D**  Check if this is a publicly traded partnership (PTP)

**Part II Information About the Partner**

**E** Partner's identifying number

**F** Partner's name, address, city, state, and ZIP code

**G**  General partner or LLC member-manager  Limited partner or other LLC member

**H**  Domestic partner  Foreign partner

**I1** What type of entity is this partner? \_\_\_\_\_

**I2** If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

**J** Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

**K** Partner's share of liabilities:

	Beginning	Ending
Nonrecourse . . . \$		\$
Qualified nonrecourse financing . . . \$		\$
Recourse . . . \$		\$

**L** Partner's capital account analysis:

Beginning capital account . . . \$ \_\_\_\_\_

Capital contributed during the year . . . \$ \_\_\_\_\_

Current year increase (decrease) . . . \$ \_\_\_\_\_

Withdrawals & distributions . . . \$( \_\_\_\_\_ )

Ending capital account . . . \$ \_\_\_\_\_

Tax basis  GAAP  Section 704(b) book

Other (explain)

**M** Did the partner contribute property with a built-in gain or loss?

Yes  No

If "Yes," attach statement (see instructions)

<b>1</b>	Ordinary business income (loss)	<b>15</b>	Credits
<b>2</b>	Net rental real estate income (loss)		
<b>3</b>	Other net rental income (loss)	<b>16</b>	Foreign transactions
<b>4</b>	Guaranteed payments		
<b>5</b>	Interest income		
<b>6a</b>	Ordinary dividends		
<b>6b</b>	Qualified dividends		
<b>6c</b>	Dividend equivalents		
<b>7</b>	Royalties		
<b>8</b>	Net short-term capital gain (loss)	<b>17</b>	Alternative minimum tax (AMT) items
<b>9a</b>	Net long-term capital gain (loss)		
<b>9b</b>	Collectibles (28%) gain (loss)		
<b>9c</b>	Unrecaptured section 1250 gain	<b>18</b>	Tax-exempt income and nondeductible expenses
<b>10</b>	Net section 1231 gain (loss)		
<b>11</b>	Other income (loss)		
		<b>19</b>	Distributions
<b>12</b>	Section 179 deduction		
<b>13</b>	Other deductions	<b>20</b>	Other information
<b>14</b>	Self-employment earnings (loss)		

\*See attached statement for additional information.

For IRS Use Only

## Part III – Partner’s Share of Current Year Income, Deductions, Credits, and Other Items

### Line 1: Ordinary Business Income (Loss)

This represents the partner’s allocated share of ordinary income or loss from the partnership. The partnership allocates portions of income, loss, deductions and credits earned by the business to its partners. Partners pay tax or take deductions on their personal returns for these “pass-through” items.

Because partners pay tax on income earned by the partnership, they are able to take distributions and withdrawals free of income tax consequences.

#### Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the partnership has positive sales and earnings trends, AND:
  - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 19, Distributions, for Code A cash distributions); OR
  - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
    - But you can document adequate liquidity to support the withdrawal of earnings; OR
    - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss from cash flow. Follow investor guidelines

### Line 2: Net Rental Real Estate Income (Loss)

If the borrower has reported income or loss from rental real estate activity on this line, the Partnership Return will, in general, include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation (see page 77).

#### Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing net rental real estate income if conditions from Line 1, Ordinary business income, are met. In general, deduct any loss. Follow investor guidelines

### Line 3: Other Net Rental Income (Loss)

This line represents income (loss) from all other net rental activity.

#### Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing other net rental income if conditions from Line 1, Ordinary business income, are met. In general, deduct any loss. Follow investor guidelines

### Line 4: Guaranteed Payments

This line displays payments made to the partner for services rendered or for the use of capital. These payments are made without regard to the partnership’s profits and are subject to self-employment tax.

In general, document with 2 years’ tax returns.

#### Effect on Cash Flow Analysis Worksheet

- Add guaranteed payments

**Schedule K-1  
(Form 1065)**

Department of the Treasury  
Internal Revenue Service

**2018**

For calendar year 2018, or tax year

beginning  /  / 2018 ending  /  /

**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

651118  
OMB No. 1545-0123

Final K-1  Amended K-1

**Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items**

**Part I Information About the Partnership**

**A** Partnership's employer identification number

**B** Partnership's name, address, city, state, and ZIP code

**C** IRS Center where partnership filed return

**D**  Check if this is a publicly traded partnership (PTP)

**Part II Information About the Partner**

**E** Partner's identifying number

**F** Partner's name, address, city, state, and ZIP code

**G**  General partner or LLC member-manager  Limited partner or other LLC member

**H**  Domestic partner  Foreign partner

**I1** What type of entity is this partner? \_\_\_\_\_

**I2** If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

**J** Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

**K** Partner's share of liabilities:

	Beginning	Ending
Nonrecourse . . . \$		\$
Qualified nonrecourse financing . . . \$		\$
Recourse . . . \$		\$

**L** Partner's capital account analysis:

Beginning capital account . . . \$ \_\_\_\_\_

Capital contributed during the year . . . \$ \_\_\_\_\_

Current year increase (decrease) . . . \$ \_\_\_\_\_

Withdrawals & distributions . . . \$( \_\_\_\_\_ )

Ending capital account . . . \$ \_\_\_\_\_

Tax basis  GAAP  Section 704(b) book

Other (explain)

**M** Did the partner contribute property with a built-in gain or loss?

Yes  No

If "Yes," attach statement (see instructions)

<b>1</b>	Ordinary business income (loss)	<b>15</b>	Credits
<b>2</b>	Net rental real estate income (loss)		
<b>3</b>	Other net rental income (loss)	<b>16</b>	Foreign transactions
<b>4</b>	Guaranteed payments		
<b>5</b>	Interest income		
<b>6a</b>	Ordinary dividends		
<b>6b</b>	Qualified dividends		
<b>6c</b>	Dividend equivalents		
<b>7</b>	Royalties		
<b>8</b>	Net short-term capital gain (loss)	<b>17</b>	Alternative minimum tax (AMT) items
<b>9a</b>	Net long-term capital gain (loss)		
<b>9b</b>	Collectibles (28%) gain (loss)		
<b>9c</b>	Unrecaptured section 1250 gain	<b>18</b>	Tax-exempt income and nondeductible expenses
<b>10</b>	Net section 1231 gain (loss)		
<b>11</b>	Other income (loss)		
		<b>19</b>	Distributions
<b>12</b>	Section 179 deduction		
<b>13</b>	Other deductions	<b>20</b>	Other information
<b>14</b>	Self-employment earnings (loss)		

\*See attached statement for additional information.

For IRS Use Only

**Lines 5-9c: Portfolio Income (Loss)**

The borrower reported these items elsewhere on Form 1040; therefore, they are already included in cash flow.

**Effect on Cash Flow Analysis Worksheet**

- There is no effect on cash flow; make no adjustment

**Line 19: Distributions**

This amount represents the fair market value of property distributed by the partnership to the borrower.

Typically, this will be cash coded as "A", but other items may be included, such as a forgiven loan to the borrower from the partnership.

**Effect on Cash Flow Analysis Worksheet**

- There is no effect on cash flow; make no adjustment. Use Code A cash distributions reported on Line 19 to support whether the borrower accessed the business income

See page 103 to learn how to use liquidity ratios to measure the financial health of the business.

Use liquidity ratios when:

- There is no history of the borrower receiving cash distributions or
- Distributions are not consistent with ordinary income

**U.S. Return of Partnership Income**

For calendar year 2018, or tax year beginning \_\_\_\_\_, 2018, ending \_\_\_\_\_, 20\_\_\_\_\_.  
▶ Go to [www.irs.gov/Form1065](http://www.irs.gov/Form1065) for instructions and the latest information.

OMB No. 1545-0123

**2018**

<b>A</b> Principal business activity	<b>Type or Print</b>	Name of partnership	<b>D</b> Employer identification number
<b>B</b> Principal product or service		Number, street, and room or suite no. If a P.O. box, see instructions.	<b>E</b> Date business started
<b>C</b> Business code number		City or town, state or province, country, and ZIP or foreign postal code	<b>F</b> Total assets (see instructions) \$ _____

- G** Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return  
**H** Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ▶ \_\_\_\_\_  
**I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. ▶ \_\_\_\_\_  
**J** Check if Schedules C and M-3 are attached. . . . .

**Caution:** Include **only** trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

<b>Income</b>	<b>1a</b> Gross receipts or sales . . . . .	<b>1a</b>		
	<b>b</b> Returns and allowances . . . . .	<b>1b</b>		
	<b>c</b> Balance. Subtract line 1b from line 1a . . . . .			<b>1c</b>
	<b>2</b> Cost of goods sold (attach Form 1125-A) . . . . .			<b>2</b>
	<b>3</b> Gross profit. Subtract line 2 from line 1c . . . . .			<b>3</b>
	<b>4</b> Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) . . . . .			<b>4</b>
	<b>5</b> Net farm profit (loss) (attach Schedule F (Form 1040)) . . . . .			<b>5</b>
	<b>6</b> Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) . . . . .			<b>6</b>
<b>7</b> Other income (loss) (attach statement) . . . . .			<b>7</b>	
<b>8</b> <b>Total income (loss).</b> Combine lines 3 through 7 . . . . .			<b>8</b>	
<b>Deductions</b> <small>(see instructions for limitations)</small>	<b>9</b> Salaries and wages (other than to partners) (less employment credits) . . . . .			<b>9</b>
	<b>10</b> Guaranteed payments to partners . . . . .			<b>10</b>
	<b>11</b> Repairs and maintenance . . . . .			<b>11</b>
	<b>12</b> Bad debts . . . . .			<b>12</b>
	<b>13</b> Rent . . . . .			<b>13</b>
	<b>14</b> Taxes and licenses . . . . .			<b>14</b>
	<b>15</b> Interest (see instructions) . . . . .			<b>15</b>
	<b>16a</b> Depreciation (if required, attach Form 4562) . . . . .	<b>16a</b>		
	<b>b</b> Less depreciation reported on Form 1125-A and elsewhere on return . . . . .	<b>16b</b>		<b>16c</b>
	<b>17</b> Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .			<b>17</b>
	<b>18</b> Retirement plans, etc. . . . .			<b>18</b>
<b>19</b> Employee benefit programs . . . . .			<b>19</b>	
<b>20</b> Other deductions (attach statement) . . . . .			<b>20</b>	
<b>21</b> <b>Total deductions.</b> Add the amounts shown in the far right column for lines 9 through 20 . . . . .			<b>21</b>	
<b>22</b> <b>Ordinary business income (loss).</b> Subtract line 21 from line 8 . . . . .			<b>22</b>	
<b>Tax and Payment</b>	<b>23</b> Interest due under the look-back method—completed long-term contracts (attach Form 8697) . . . . .			<b>23</b>
	<b>24</b> Interest due under the look-back method—income forecast method (attach Form 8866) . . . . .			<b>24</b>
	<b>25</b> BBA AAR imputed underpayment (see instructions) . . . . .			<b>25</b>
	<b>26</b> Other taxes (see instructions) . . . . .			<b>26</b>
	<b>27</b> <b>Total balance due.</b> Add lines 23 through 27 . . . . .			<b>27</b>
	<b>28</b> Payment (see instructions) . . . . .			<b>28</b>
	<b>29</b> <b>Amount owed.</b> If line 28 is smaller than line 27, enter amount owed . . . . .			<b>29</b>
	<b>30</b> <b>Overpayment.</b> If line 28 is larger than line 27, enter overpayment. . . . .			<b>30</b>

**Sign Here**  
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ \_\_\_\_\_ ▶ \_\_\_\_\_  
Signature of partner or limited liability company member Date

May the IRS discuss this return with the preparer shown below? See instructions.  Yes  No

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

# Form 1065: U.S. Return of Partnership Income

Partnerships report profit or loss on Form 1065. The partnership itself does not pay tax. Partnership profit (loss) is passed to individual partners via Schedule K-1 (Form 1065). The partners pay tax on their proportionate share.

As you analyze cash flow from Form 1065, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1065).

Using income from Form 1065 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1065 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

## Line 4: Ordinary Income (Loss) from Other Partnerships, Estates, and Trusts

Partnerships can be partners in other partnerships. Income earned by a partnership waterfalls to its partners.

### Effect on Cash Flow Analysis Worksheet

- To avoid double-counting this income, deduct the income/add back the loss

## Lines 5-7: Income (Loss) from Other Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

## Line 10: Guaranteed Payments to Partners

The borrower's payment is reported on Line 4 of Schedule K-1 (Form 1065).

### Effect on Cash Flow Analysis Worksheet

- None; there is no effect on cash flow

## Line 16c: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Line 17: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Line 20: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

### Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

## Line 22: Ordinary Business Income (Loss)

The partnership divides ordinary income (loss) among its partners. The borrower's share is reported on Line 1 of Schedule K-1 (Form 1065).

### Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment

Form 1065 (2018) Page **2**

**Schedule B Other Information**

1 What type of entity is filing this return? Check the applicable box:

a <input type="checkbox"/> Domestic general partnership	b <input type="checkbox"/> Domestic limited partnership
c <input type="checkbox"/> Domestic limited liability company	d <input type="checkbox"/> Domestic limited liability partnership
e <input type="checkbox"/> Foreign partnership	f <input type="checkbox"/> Other ▶

2 At the end of the tax year:

a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .

b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .

3 At the end of the tax year, did the partnership:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below . . . . .

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
-------------------------	--	--------------------------------	---------------------------------------

Form 1065 (2018) Page **3**

**Schedule B Other Information (continued)**

b Own directly an interest of 20% or more, or own or capital in any foreign or domestic partnership interest of a trust? For rules of constructive ownership, see instructions. If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions . . . . .

(i) Name of Entity

4 Does the partnership satisfy all four of the following:

a The partnership's total receipts for the tax year

b The partnership's total assets at the end of the tax year

c Schedules K-1 are filed with the return and full extensions for the partnership return.

d The partnership is not filing and is not required to file Form 1065-B, Information on Partners Owning 50% or More of the Partnership, if "Yes," the partnership is not required to complete L on Schedule K-1.

5 Is this partnership a publicly traded partnership?

6 During the tax year, did the partnership have a so as to reduce the principal amount of the debt?

7 Has this partnership filed, or is it required to file information on any reportable transaction?

8 At any time during calendar year 2018, did the partnership have a financial account in a foreign country (such as a bank, securities, or other financial account)? See instructions for exceptions and filing requirements. If "Yes," enter the name of the account . . . . .

9 At any time during the tax year, did the partnership transfer to, a foreign trust? If "Yes," the partnership must file Form 706-B, Information on Foreign Trusts and Receipts, with this return. See instructions for details regarding a foreign trust. If "Yes," the partnership must complete a statement showing the computation of the partnership's net worth. If "No," complete and attach Form 706-B . . . . .

10a Is the partnership making, or had it previously made, a distribution to a partner? If "Yes," the partnership must complete a statement showing the computation of the partner's share of the distribution. If "No," complete and attach Form 706-B . . . . .

Form 1065 (2018) Page **4**

**Schedule K Partners' Distributive Share Items**

	Total amount
1 Ordinary business income (loss) (page 1, line 22)	1
2 Net rental real estate income (loss) (attach Form 8825)	2
3a Other gross rental income (loss)	3a
3b Expenses from other rental activities (attach statement)	3b
3c Other net rental income (loss). Subtract line 3b from line 3a	3c
4 Guaranteed payments	4
5 Interest income	5
6 Dividends and dividend equivalents: a Ordinary dividends	6a
b Qualified dividends	6b
c Dividend equivalents	6c
7 Royalties	7
8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a
b Collectibles (28%) gain (loss)	9b
c Unrecaptured section 1250 gain (attach statement)	9c
10 Net section 1231 gain (loss) (attach Form 4797)	10
11 Other income (loss) (see instructions) Type ▶	11
12 Section 179 deduction (attach Form 4562)	12
13a Contributions	13a
b Investment interest expense	13b
c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)
d Other deductions (see instructions) Type ▶	13d
14a Net earnings (loss) from self-employment	14a
b Gross farming or fishing income	14b
c Gross nonfarm income	14c
15a Low-income housing credit (section 42(b)(5))	15a
b Low-income housing credit (other)	15b
c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c
d Other rental real estate credits (see instructions) Type ▶	15d
e Other rental credits (see instructions) Type ▶	15e
f Other credits (see instructions) Type ▶	15f
16a Name of country or U.S. possession	16a
b Gross income from all sources	16b
c Gross income sourced at partner level	16c
Foreign gross income sourced at partnership level	
d Section 951A category ▶ e Foreign branch category ▶	16e
f Passive category ▶ g General category ▶ h Other (attach statement) ▶	16f
i Deductions allocated and apportioned at partner level	16g
j Interest expense ▶ k Other ▶	16j
l Deductions allocated and apportioned at partnership level to foreign source income	16k
m Section 951A category ▶ n Foreign branch category ▶	16l
o Passive category ▶ p General category ▶ q Other (attach statement) ▶	16o
r Total foreign taxes (check one): Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	16p
q Reduction in taxes available for credit (attach statement)	16q
r Other foreign tax information (attach statement)	16r
17a Post-1986 depreciation adjustment	17a
b Adjusted gain or loss	17b
c Depletion (other than oil and gas)	17c
d Oil, gas, and geothermal properties—gross income	17d
e Oil, gas, and geothermal properties—deductions	17e
f Other AMT items (attach statement)	17f
18a Tax-exempt interest income	18a
b Other tax-exempt income	18b
c Nondeductible expenses	18c
19a Distributions of cash and marketable securities	19a
b Distributions of other property	19b
20a Investment income	20a
b Investment expenses	20b
c Other items and amounts (attach statement)	20c

Form 1065 (2018) Page **4**

**Schedule K Partners' Distributive Share Items**

23 Did the partnership have an election in effect during the tax year?

24 Does the partnership satisfy one of the following:

a The partnership's aggregate average preceding the current tax year do not exceed 100 full-time employees.

b The partnership only has business electing farming business, or (3) electing a business other than farming business. If "No," complete and attach Form 1042-S . . . . .

25 Is the partnership electing out of the partnership election? If "Yes," the partnership must complete Form 1042-S . . . . .

If "No," complete Designation of Partnership Representative (s)

Designation of Partnership Representative (s)

Enter below the information for the partnership:

Name of PR

U.S. address of PR ▶

If the PR is an entity, name of the designated individual for the PR

U.S. address of designated individual ▶

26 Is the partnership attaching Form 8871, Information on Foreign Partners Owning 50% or More of the Partnership, with this return? If "Yes," enter the amount from Form 8871 . . . . .

Form 1065 (2018) Page **4**

**Schedule K Partners' Distributive Share Items**

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24 Does the partnership satisfy one of the following:

a The partnership's aggregate average preceding the current tax year do not exceed 100 full-time employees.

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Designation of Partnership Representative (s)

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Name of PR

U.S. address of PR ▶

If the PR is an entity, name of the designated individual for the PR

U.S. address of designated individual ▶

26 Is the partnership attaching Form 8871, Information on Foreign Partners Owning 50% or More of the Partnership, with this return? If "Yes," enter the amount from Form 8871 . . . . .

# Form 1065: U.S. Return of Partnership Income (Pages 2-4)

## **Effect on Cash Flow Analysis Worksheet**

- No line items on these pages affect cash flow

**Analysis of Net Income (Loss)**

<b>1</b>	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16p . . . . .					<b>1</b>	
<b>2</b>	Analysis by partner type:						
	<b>(i)</b> Corporate	<b>(ii)</b> Individual (active)	<b>(iii)</b> Individual (passive)	<b>(iv)</b> Partnership	<b>(v)</b> Exempt Organization	<b>(vi)</b> Nominee/Other	
<b>a</b>	General partners						
<b>b</b>	Limited partners						

<b>Schedule L</b>	<b>Balance Sheets per Books</b>	Beginning of tax year		End of tax year	
		<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
	<b>Assets</b>				
<b>1</b>	Cash . . . . .				
<b>2a</b>	Trade notes and accounts receivable . . . . .				
<b>b</b>	Less allowance for bad debts . . . . .				
<b>3</b>	Inventories . . . . .				
<b>4</b>	U.S. government obligations . . . . .				
<b>5</b>	Tax-exempt securities . . . . .				
<b>6</b>	Other current assets (attach statement) . . . . .				
<b>7a</b>	Loans to partners (or persons related to partners)				
<b>b</b>	Mortgage and real estate loans . . . . .				
<b>8</b>	Other investments (attach statement) . . . . .				
<b>9a</b>	Buildings and other depreciable assets . . . . .				
<b>b</b>	Less accumulated depreciation . . . . .				
<b>10a</b>	Depletable assets . . . . .				
<b>b</b>	Less accumulated depletion . . . . .				
<b>11</b>	Land (net of any amortization) . . . . .				
<b>12a</b>	Intangible assets (amortizable only) . . . . .				
<b>b</b>	Less accumulated amortization . . . . .				
<b>13</b>	Other assets (attach statement) . . . . .				
<b>14</b>	<b>Total assets</b> . . . . .				
	<b>Liabilities and Capital</b>				
<b>15</b>	Accounts payable . . . . .				
<b>16</b>	Mortgages, notes, bonds payable in less than 1 year				
<b>17</b>	Other current liabilities (attach statement) . . . . .				
<b>18</b>	All nonrecourse loans . . . . .				
<b>19a</b>	Loans from partners (or persons related to partners)				
<b>b</b>	Mortgages, notes, bonds payable in 1 year or more				
<b>20</b>	Other liabilities (attach statement) . . . . .				
<b>21</b>	Partners' capital accounts . . . . .				
<b>22</b>	<b>Total liabilities and capital</b> . . . . .				

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

**Note:** The partnership may be required to file Schedule M-3. See instructions.

<b>1</b>	Net income (loss) per books . . . . .	<b>6</b>	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):
<b>2</b>	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize): _____	<b>a</b>	Tax-exempt interest \$ _____
<b>3</b>	Guaranteed payments (other than health insurance) . . . . .	<b>7</b>	Deductions included on Schedule K, lines 1 through 13d, and 16p, not charged against book income this year (itemize):
<b>4</b>	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16p (itemize):	<b>a</b>	Depreciation \$ _____
<b>a</b>	Depreciation \$ _____	<b>8</b>	Add lines 6 and 7 . . . . .
<b>b</b>	Travel and entertainment \$ _____	<b>9</b>	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5 .
<b>5</b>	Add lines 1 through 4 . . . . .		

**Schedule M-2 Analysis of Partners' Capital Accounts**

<b>1</b>	Balance at beginning of year . . . . .	<b>6</b>	Distributions: <b>a</b> Cash . . . . .
<b>2</b>	Capital contributed: <b>a</b> Cash . . . . .	<b>b</b> Property . . . . .	
	<b>b</b> Property . . . . .	<b>7</b>	Other decreases (itemize): _____
<b>3</b>	Net income (loss) per books . . . . .	<b>8</b>	Add lines 6 and 7 . . . . .
<b>4</b>	Other increases (itemize): _____	<b>9</b>	Balance at end of year. Subtract line 8 from line 5
<b>5</b>	Add lines 1 through 4 . . . . .		

# Form 1065: U.S. Return of Partnership Income (Page 5)

## Schedule L – Balance Sheets per Books

This section of Form 1065 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

**Note:** IRS guidelines do not require every business to complete Schedule L.

### Line 16: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations that are payable in less than 1 year may have a negative impact on cash flow.

#### Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause or there are ample liquid assets to cover these obligations, a deduction may not be necessary

## Schedule M-1 – Reconciliation of Income (Loss) per Books With Income (Loss) per Return

### Line 4b: Travel and Entertainment

Business related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income. Identify the expense type(s), determine the amount(s) and deduct from cash flow as applicable.

#### Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 4b, which reflects nondeductible expenses paid. Follow investor guidelines

Refer to Expenses Limited by the IRS (page 7).



## Schedule K-1 (Form 1120S): Shareholder's Share of Income, Deductions, Credits, etc.

An S Corporation is a legal entity with a limited number of shareholders.

S Corporations prepare Schedule K-1 (Form 1120S) to inform individual shareholders of their share of income (loss), deductions and credits.

Underwriting cash flow for a borrower who is a shareholder may consist of the following items:

- The borrower's share of:
  - Ordinary business income (loss)
  - Net rental real estate income (loss)
  - Other net rental income (loss)
- Salaries paid to the borrower in an employer-employee relationship
- Dividends paid by the S Corporation to its shareholders

### PART II – Information About the Shareholder

#### Line F: Shareholder's Percentage of Stock Ownership for Tax Year

This line indicates the shareholder's percentage of ownership in the S Corporation.

#### **FYI: Final K-1 Box**

If this box is checked, this is the final K-1 issued, indicating:

- The borrower's ownership was transferred or sold to another entity, OR
- The S Corporation itself was dissolved

### Part III – Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

#### Line 1: Ordinary Business Income (Loss)

This represents the shareholder's allocated share of ordinary income (loss) from the S Corporation. The business allocates S Corporation shareholders portions of income, loss, deductions and credits earned. Shareholders pay tax or take deductions on their personal returns for these "pass-through" items.

Because shareholders pay tax on income earned by the S Corporation, they are able to take distributions and withdrawals free of income tax consequences.

#### Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the S Corporation has positive sales and earnings trends, AND:
  - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 16, Items affecting shareholder basis, for Code D cash distributions); OR
  - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
    - But you can document adequate liquidity to support the withdrawal of earnings; OR
    - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss. Follow investor guidelines

**Schedule K-1  
(Form 1120S)**

Department of the Treasury  
Internal Revenue Service

**2018**

For calendar year 2018, or tax year

beginning  /  / 2018 ending  /  /

**Shareholder's Share of Income, Deductions, Credits, etc.**  
▶ See back of form and separate instructions.

<b>Part I Information About the Corporation</b>	
<b>A</b> Corporation's employer identification number	
<b>B</b> Corporation's name, address, city, state, and ZIP code	
<b>C</b> IRS Center where corporation filed return	
<b>Part II Information About the Shareholder</b>	
<b>D</b> Shareholder's identifying number	
<b>E</b> Shareholder's name, address, city, state, and ZIP code	
<b>F</b> Shareholder's percentage of stock ownership for tax year . . . . . %	
For IRS Use Only	

<b>Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items</b>			
<b>1</b>	Ordinary business income (loss)	<b>13</b>	Credits
<b>2</b>	Net rental real estate income (loss)		
<b>3</b>	Other net rental income (loss)		
<b>4</b>	Interest income		
<b>5a</b>	Ordinary dividends		
<b>5b</b>	Qualified dividends	<b>14</b>	Foreign transactions
<b>6</b>	Royalties		
<b>7</b>	Net short-term capital gain (loss)		
<b>8a</b>	Net long-term capital gain (loss)		
<b>8b</b>	Collectibles (28%) gain (loss)		
<b>8c</b>	Unrecaptured section 1250 gain		
<b>9</b>	Net section 1231 gain (loss)		
<b>10</b>	Other income (loss)	<b>15</b>	Alternative minimum tax (AMT) items
<b>11</b>	Section 179 deduction	<b>16</b>	Items affecting shareholder basis
<b>12</b>	Other deductions		
		<b>17</b>	Other information
* See attached statement for additional information.			

**Line 2: Net Rental Real Estate Income (Loss)**

If the borrower has reported income or loss from net rental real estate activity on this line, the S Corporation Return will generally include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation (see page 77).

**Effect on Cash Flow Analysis Worksheet**

- Add continuous and ongoing net rental real estate income if conditions from Line 1, Ordinary business income, are met. In general, deduct any loss. Follow investor guidelines

**Line 3: Other Net Rental Income (Loss)**

This line represents income or loss from all other net rental activity.

**Effect on Cash Flow Analysis Worksheet**

- Add continuous and ongoing other net rental income if conditions from Line 1, Ordinary business income are met. In general, deduct any loss. Follow investor guidelines

**Lines 4-8c: Portfolio Income (Loss)**

The borrower reported these items elsewhere on the 1040; therefore, they are already included.

**Effect on Cash Flow Analysis Worksheet**

- There is no effect on cash flow; make no adjustment

**Line 16: Items Affecting Shareholder Basis**

This amount represents the fair market value of items distributed by the S Corporation to the borrower. Typically, this will be cash, coded as "D," but other items may be included.

**Effect on Cash Flow Analysis Worksheet**

- There is no effect on cash flow; make no adjustment. Use Code D cash distributions, reported on Line 16, to support whether the borrower accessed the business income

See page 103 to learn how to use liquidity ratios to measure the financial health of the business.

Use liquidity ratios when:

- There is no history of the borrower receiving cash distributions or
- Distributions are not consistent with ordinary income

**U.S. Income Tax Return for an S Corporation**

Department of the Treasury  
Internal Revenue Service

▶ **Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.**  
▶ **Go to [www.irs.gov/Form1120S](http://www.irs.gov/Form1120S) for instructions and the latest information.**

**2018**

For calendar year 2018 or tax year beginning \_\_\_\_\_, 2018, ending \_\_\_\_\_, 20

<b>A</b> S election effective date	<b>TYPE OR PRINT</b>	Name	<b>D</b> Employer identification number
		Number, street, and room or suite no. If a P.O. box, see instructions.	<b>E</b> Date incorporated
		City or town, state or province, country, and ZIP or foreign postal code	<b>F</b> Total assets (see instructions)
<b>C</b> Check if Sch. M-3 attached <input type="checkbox"/>			\$

**G** Is the corporation electing to be an S corporation beginning with this tax year?  Yes  No If "Yes," attach Form 2553 if not already filed

**H** Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return (5)  S election termination or revocation

**I** Enter the number of shareholders who were shareholders during any part of the tax year \_\_\_\_\_ ▶

**Caution:** Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

<b>Income</b>	<b>1a</b> Gross receipts or sales . . . . .	<b>1a</b>		
	<b>b</b> Returns and allowances . . . . .	<b>1b</b>		
	<b>c</b> Balance. Subtract line 1b from line 1a . . . . .			<b>1c</b>
	<b>2</b> Cost of goods sold (attach Form 1125-A) . . . . .			<b>2</b>
	<b>3</b> Gross profit. Subtract line 2 from line 1c . . . . .			<b>3</b>
	<b>4</b> Net gain (loss) from Form 4797, line 17 (attach Form 4797) . . . . .			<b>4</b>
<b>5</b> Other income (loss) (see instructions—attach statement) . . . . .			<b>5</b>	
<b>6</b> <b>Total income (loss).</b> Add lines 3 through 5 . . . . . ▶			<b>6</b>	
<b>Deductions</b> (see instructions for limitations)	<b>7</b> Compensation of officers (see instructions—attach Form 1125-E) . . . . .			<b>7</b>
	<b>8</b> Salaries and wages (less employment credits) . . . . .			<b>8</b>
	<b>9</b> Repairs and maintenance . . . . .			<b>9</b>
	<b>10</b> Bad debts . . . . .			<b>10</b>
	<b>11</b> Rents . . . . .			<b>11</b>
	<b>12</b> Taxes and licenses . . . . .			<b>12</b>
	<b>13</b> Interest (see instructions) . . . . .			<b>13</b>
	<b>14</b> Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562) . . . . .			<b>14</b>
	<b>15</b> Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .			<b>15</b>
	<b>16</b> Advertising . . . . .			<b>16</b>
	<b>17</b> Pension, profit-sharing, etc., plans . . . . .			<b>17</b>
<b>18</b> Employee benefit programs . . . . .			<b>18</b>	
<b>19</b> Other deductions (attach statement) . . . . .			<b>19</b>	
<b>20</b> <b>Total deductions.</b> Add lines 7 through 19 . . . . . ▶			<b>20</b>	
<b>21</b> <b>Ordinary business income (loss).</b> Subtract line 20 from line 6 . . . . .			<b>21</b>	
<b>Tax and Payments</b>	<b>22a</b> Excess net passive income or LIFO recapture tax (see instructions) . . . . .	<b>22a</b>		
	<b>b</b> Tax from Schedule D (Form 1120S) . . . . .	<b>22b</b>		
	<b>c</b> Add lines 22a and 22b (see instructions for additional taxes) . . . . .			<b>22c</b>
	<b>23a</b> 2018 estimated tax payments and 2017 overpayment credited to 2018 . . . . .	<b>23a</b>		
	<b>b</b> Tax deposited with Form 7004 . . . . .	<b>23b</b>		
	<b>c</b> Credit for federal tax paid on fuels (attach Form 4136) . . . . .	<b>23c</b>		
	<b>d</b> Refundable credit from Form 8827, line 8c . . . . .	<b>23d</b>		
	<b>e</b> Add lines 23a through 23d . . . . .			<b>23e</b>
	<b>24</b> Estimated tax penalty (see instructions). Check if Form 2220 is attached . . . . . ▶ <input type="checkbox"/>			<b>24</b>
	<b>25</b> <b>Amount owed.</b> If line 23e is smaller than the total of lines 22c and 24, enter amount owed . . . . .			<b>25</b>
<b>26</b> <b>Overpayment.</b> If line 23e is larger than the total of lines 22c and 24, enter amount overpaid . . . . .			<b>26</b>	
<b>27</b> Enter amount from line 26: <b>Credited to 2019 estimated tax</b> ▶ <b>Refunded</b> ▶			<b>27</b>	

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer \_\_\_\_\_ Date \_\_\_\_\_ Title \_\_\_\_\_

May the IRS discuss this return with the preparer shown below (see instructions)?  Yes  No

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

# Form 1120S: U.S. Income Tax Return for an S Corporation

S Corporations report profit or loss on Form 1120S. The S Corporation itself does not pay tax. S Corporation profit (loss) is passed to individual shareholders via Schedule K-1 1120S. The shareholders pay tax on their proportionate share.

As you analyze cash flow from Form 1120S, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1120S).

Using income from Form 1120S to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120S provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

## Lines 4-5: Income (Loss) From Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

## Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Line 15: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Line 19: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

### Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

## Line 21: Ordinary Business Income (Loss)

The S Corporation divides ordinary income (loss) among its shareholders. The borrower's share is reported on Schedule K-1 (Form 1120S).

### Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment



# Form 1120S: U.S. Income Tax Return for an S Corporation (Pages 2-3)

## **Effect on Cash Flow Analysis Worksheet**

- No line items on these pages affect cash flow

<b>Schedule K Shareholders' Pro Rata Share Items</b> (continued)		<b>Total amount</b>	
<b>Alternative Minimum Tax (AMT) Items</b>	<b>15a</b> Post-1986 depreciation adjustment . . . . .	<b>15a</b>	
	<b>b</b> Adjusted gain or loss . . . . .	<b>15b</b>	
	<b>c</b> Depletion (other than oil and gas) . . . . .	<b>15c</b>	
	<b>d</b> Oil, gas, and geothermal properties—gross income . . . . .	<b>15d</b>	
	<b>e</b> Oil, gas, and geothermal properties—deductions . . . . .	<b>15e</b>	
	<b>f</b> Other AMT items (attach statement) . . . . .	<b>15f</b>	
<b>Items Affecting Shareholder Basis</b>	<b>16a</b> Tax-exempt interest income . . . . .	<b>16a</b>	
	<b>b</b> Other tax-exempt income . . . . .	<b>16b</b>	
	<b>c</b> Nondeductible expenses . . . . .	<b>16c</b>	
	<b>d</b> Distributions (attach statement if required) (see instructions) . . . . .	<b>16d</b>	
	<b>e</b> Repayment of loans from shareholders . . . . .	<b>16e</b>	
<b>Other Information</b>	<b>17a</b> Investment income . . . . .	<b>17a</b>	
	<b>b</b> Investment expenses . . . . .	<b>17b</b>	
	<b>c</b> Dividend distributions paid from accumulated earnings and profits . . . . .	<b>17c</b>	
	<b>d</b> Other items and amounts (attach statement)		
<b>Reconciliation</b>	<b>18</b> <b>Income/loss reconciliation.</b> Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14p	<b>18</b>	

<b>Schedule L Balance Sheets per Books</b>		Beginning of tax year		End of tax year	
<b>Assets</b>		(a)	(b)	(c)	(d)
<b>1</b>	Cash . . . . .				
<b>2a</b>	Trade notes and accounts receivable . . . . .				
<b>b</b>	Less allowance for bad debts . . . . .	( )		( )	
<b>3</b>	Inventories . . . . .				
<b>4</b>	U.S. government obligations . . . . .				
<b>5</b>	Tax-exempt securities (see instructions)				
<b>6</b>	Other current assets (attach statement) . . . . .				
<b>7</b>	Loans to shareholders . . . . .				
<b>8</b>	Mortgage and real estate loans . . . . .				
<b>9</b>	Other investments (attach statement) . . . . .				
<b>10a</b>	Buildings and other depreciable assets . . . . .				
<b>b</b>	Less accumulated depreciation . . . . .	( )		( )	
<b>11a</b>	Depletable assets . . . . .				
<b>b</b>	Less accumulated depletion . . . . .	( )		( )	
<b>12</b>	Land (net of any amortization) . . . . .				
<b>13a</b>	Intangible assets (amortizable only) . . . . .				
<b>b</b>	Less accumulated amortization . . . . .	( )		( )	
<b>14</b>	Other assets (attach statement) . . . . .				
<b>15</b>	<b>Total assets</b> . . . . .				
<b>Liabilities and Shareholders' Equity</b>					
<b>16</b>	Accounts payable . . . . .				
<b>17</b>	Mortgages, notes, bonds payable in less than 1 year				
<b>18</b>	Other current liabilities (attach statement) . . . . .				
<b>19</b>	Loans from shareholders . . . . .				
<b>20</b>	Mortgages, notes, bonds payable in 1 year or more				
<b>21</b>	Other liabilities (attach statement) . . . . .				
<b>22</b>	Capital stock . . . . .				
<b>23</b>	Additional paid-in capital . . . . .				
<b>24</b>	Retained earnings . . . . .				
<b>25</b>	Adjustments to shareholders' equity (attach statement)				
<b>26</b>	Less cost of treasury stock . . . . .		( )		( )
<b>27</b>	<b>Total liabilities and shareholders' equity</b> . . . . .				

# Form 1120S: U.S. Income Tax Return for an S Corporation (Page 4)

## Schedule L – Balance Sheets per Books

This section of Form 1120S provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

**Note:** IRS guidelines do not require every business to complete Schedule L.

### Line 17: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

#### Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

**Note:** The corporation may be required to file Schedule M-3 (see instructions)

<p><b>1</b> Net income (loss) per books . . . . .</p> <p><b>2</b> Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize) -----</p> <p>-----</p> <p><b>3</b> Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14p (itemize):</p> <p><b>a</b> Depreciation \$ -----</p> <p>-----</p> <p><b>b</b> Travel and entertainment \$ -----</p> <p>-----</p> <p><b>4</b> Add lines 1 through 3 . . . . .</p>		<p><b>5</b> Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):</p> <p><b>a</b> Tax-exempt interest \$ -----</p> <p>-----</p> <p><b>6</b> Deductions included on Schedule K, lines 1 through 12 and 14p, not charged against book income this year (itemize):</p> <p><b>a</b> Depreciation \$ -----</p> <p>-----</p> <p><b>7</b> Add lines 5 and 6 . . . . .</p> <p><b>8</b> Income (loss) (Schedule K, line 18). Line 4 less line 7 . . . . .</p>	
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**Schedule M-2 Analysis of Accumulated Adjustments Account, Shareholders' Undistributed Taxable Income Previously Taxed, Accumulated Earnings and Profits, and Other Adjustments Account**

(see instructions)

	(a) Accumulated adjustments account	(b) Shareholders' undistributed taxable income previously taxed	(c) Accumulated earnings and profits	(d) Other adjustments account
<b>1</b> Balance at beginning of tax year . . . . .				
<b>2</b> Ordinary income from page 1, line 21 . . . . .				
<b>3</b> Other additions . . . . .				
<b>4</b> Loss from page 1, line 21 . . . . .	( )			
<b>5</b> Other reductions . . . . .	( )			( )
<b>6</b> Combine lines 1 through 5 . . . . .				
<b>7</b> Distributions . . . . .				
<b>8</b> Balance at end of tax year. Subtract line 7 from line 6 . . . . .				

## Form 1120S: U.S. Income Tax Return for an S Corporation (Page 5)

### Schedule M-1 – Reconciliation of Income (Loss) per Books With Income (Loss) per Return

#### Line 3b: Travel and Entertainment

Business related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income. Identify the expense type(s), determine the amount(s) and deduct from cash flow as applicable.

#### Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 3b, which reflects nondeductible expenses paid. Follow investor guidelines

Refer to Expenses Limited by the IRS (page 7).

**Rental Real Estate Income and Expenses of a Partnership or an S Corporation**

▶ Attach to Form 1065 or Form 1120S.  
 ▶ Go to [www.irs.gov/Form8825](http://www.irs.gov/Form8825) for the latest information.

OMB No. 1545-0123

Name	Employer identification number
------	--------------------------------

<b>1</b>	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1–8; see page 2 for list	Fair Rental Days	Personal Use Days
<b>A</b>	.....			
<b>B</b>	.....			
<b>C</b>	.....			
<b>D</b>	.....			

		Properties			
		A	B	C	D
<b>Rental Real Estate Income</b>					
<b>2</b>	Gross rents . . . . .				
<b>Rental Real Estate Expenses</b>					
<b>3</b>	Advertising . . . . .				
<b>4</b>	Auto and travel . . . . .				
<b>5</b>	Cleaning and maintenance . . . . .				
<b>6</b>	Commissions . . . . .				
<b>7</b>	Insurance . . . . .				
<b>8</b>	Legal and other professional fees . . . . .				
<b>9</b>	Interest (see instructions) . . . . .				
<b>10</b>	Repairs . . . . .				
<b>11</b>	Taxes . . . . .				
<b>12</b>	Utilities . . . . .				
<b>13</b>	Wages and salaries . . . . .				
<b>14</b>	Depreciation (see instructions) . . . . .				
<b>15</b>	Other (list) ▶ ..... .....				
<b>16</b>	Total expenses for each property. Add lines 3 through 15 . . . . .				
<b>17</b>	Income or (loss) from each property. Subtract line 16 from line 2 . . . . .				
<b>18a</b>	Total gross rents. Add gross rents from line 2, columns A through H . . . . .				<b>18a</b>
<b>18b</b>	Total expenses. Add total expenses from line 16, columns A through H . . . . .				<b>18b</b> ( )
<b>19</b>	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities . . . . .				<b>19</b>
<b>20a</b>	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1) . . . . .				<b>20a</b>
<b>20b</b>	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed.  (1) Name (2) Employer identification number ..... ..... .....				
<b>21</b>	Net rental real estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2				<b>21</b>

# Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Partnerships and S Corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including taxable income (loss), which flow to the partner/shareholder through Schedule K-1.

When the borrower is personally obligated for related mortgage debt – as evidenced on a credit report – analyze Form 8825 using the Principal, Interest, Taxes, Insurance and All other (PITIA) method on the Rental Income Worksheet to offset the mortgage debt. Follow investor guidelines.

## FYI: Rental Income & Cash Flow Analysis Worksheets

Line items reported on Form 8825 affect the borrower's rental income and cash flow.

- Use our Rental Income Worksheet to analyze reported income
- Use the Cash Flow Analysis Worksheet to add back depreciation the borrower reported

## Line 17: Income or (Loss) from Each Property

The amount indicated on this line is income or loss generated from rental real estate after all expenses.

### Effect on Rental Income Worksheet

- PITIA Calculation - Add recurring rental income/ deduct loss

## Line 14: Depreciation

Depreciation is a noncash business expense allocated over the useful life of a declared asset.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Form 8825.

### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Lines 7, 9, 11: Insurance, Interest and Taxes

### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amounts, regardless of whether items are escrowed or not

## Line 15: Other

The borrower may report certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be reported here.

### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount included in the current PITIA and any amortization and/or casualty loss

<b>A Check if:</b> <b>1a</b> Consolidated return (attach Form 851) <input type="checkbox"/> <b>b</b> Life/nonlife consolidated return <input type="checkbox"/> <b>2</b> Personal holding co. (attach Sch. PH) <input type="checkbox"/> <b>3</b> Personal service corp. (see instructions) <input type="checkbox"/> <b>4</b> Schedule M-3 attached <input type="checkbox"/>	<b>TYPE OR PRINT</b>	Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state or province, country, and ZIP or foreign postal code _____	<b>B Employer identification number</b> _____  <b>C Date incorporated</b> _____  <b>D Total assets (see instructions)</b> \$ _____
<b>E Check if:</b> (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

<b>Income</b>	<b>1a</b>	Gross receipts or sales			
	<b>b</b>	Returns and allowances	<b>1a</b>		
	<b>c</b>	Balance. Subtract line 1b from line 1a	<b>1b</b>		
	<b>2</b>	Cost of goods sold (attach Form 1125-A)	<b>1c</b>		
	<b>3</b>	Gross profit. Subtract line 2 from line 1c	<b>2</b>		
	<b>4</b>	Dividends and inclusions (Schedule C, line 23, column (a))	<b>3</b>		
	<b>5</b>	Interest	<b>4</b>		
	<b>6</b>	Gross rents	<b>5</b>		
	<b>7</b>	Gross royalties	<b>6</b>		
	<b>8</b>	Capital gain net income (attach Schedule D (Form 1120))	<b>7</b>		
	<b>9</b>	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>8</b>		
<b>10</b>	Other income (see instructions—attach statement)	<b>9</b>			
<b>11</b>	<b>Total income.</b> Add lines 3 through 10	<b>10</b>			

<b>Deductions (See instructions for limitations on deductions.)</b>	<b>12</b>	Compensation of officers (see instructions—attach Form 1125-E)			
	<b>13</b>	Salaries and wages (less employment credits)	<b>12</b>		
	<b>14</b>	Repairs and maintenance	<b>13</b>		
	<b>15</b>	Bad debts	<b>14</b>		
	<b>16</b>	Rents	<b>15</b>		
	<b>17</b>	Taxes and licenses	<b>16</b>		
	<b>18</b>	Interest (see instructions)	<b>17</b>		
	<b>19</b>	Charitable contributions	<b>18</b>		
	<b>20</b>	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	<b>19</b>		
	<b>21</b>	Depletion	<b>20</b>		
	<b>22</b>	Advertising	<b>21</b>		
	<b>23</b>	Pension, profit-sharing, etc., plans	<b>22</b>		
	<b>24</b>	Employee benefit programs	<b>23</b>		
	<b>25</b>	Reserved for future use	<b>24</b>		
	<b>26</b>	Other deductions (attach statement)	<b>25</b>		
	<b>27</b>	<b>Total deductions.</b> Add lines 12 through 26	<b>26</b>		
	<b>28</b>	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	<b>27</b>		
	<b>29a</b>	Net operating loss deduction (see instructions)	<b>28</b>		
<b>b</b>	Special deductions (Schedule C, line 24, column (c))	<b>29a</b>			
<b>c</b>	Add lines 29a and 29b	<b>29b</b>			
		<b>29c</b>			

<b>Tax, Refundable Credits, and Payments</b>	<b>30</b>	Taxable income. Subtract line 29c from line 28. See instructions			
	<b>31</b>	Total tax (Schedule J, Part I, line 11)	<b>30</b>		
	<b>32</b>	2018 net 965 tax liability paid (Schedule J, Part II, line 12)	<b>31</b>		
	<b>33</b>	Total payments, credits, and section 965 net tax liability (Schedule J, Part III, line 23)	<b>32</b>		
	<b>34</b>	Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	<b>33</b>		
	<b>35</b>	<b>Amount owed.</b> If line 33 is smaller than the total of lines 31, 32, and 34, enter amount owed	<b>34</b>		
	<b>36</b>	<b>Overpayment.</b> If line 33 is larger than the total of lines 31, 32, and 34, enter amount overpaid	<b>35</b>		
<b>37</b>	Enter amount from line 36 you want: <b>Credited to 2019 estimated tax</b> ▶	<b>36</b>			
		<b>Refunded</b> ▶	<b>37</b>		

**Sign Here** ▶ Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer _____	Date _____	Title _____	May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No
----------------------------	------------	-------------	---

<b>Paid Preparer Use Only</b>	Print/Type preparer's name _____	Preparer's signature _____	Date _____	Check <input type="checkbox"/> if self-employed	PTIN _____
	Firm's name ▶ _____	Firm's EIN ▶ _____			
	Firm's address ▶ _____	Phone no. _____			

# Form 1120: U.S. Corporation Income Tax Return

A corporation is a legal entity, separate and distinct from its shareholders.

Corporations report profit (loss) on Form 1120. They are taxed on their profits. Corporate profit (loss) is distributed to shareholders in the form of dividends.

As you analyze cash flow from Form 1120, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is usually on Form 1125-E (see page 87).

Using income from the 1120 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

**Note:** In order for corporate earnings to be eligible as qualifying income, investors generally require that the borrower is a 100% owner of the business.

## Line 30: Taxable Income

The amount on this line represents the corporation's income after deductions, but before income tax. This is the starting point of the analysis.

### Effect on Cash Flow Analysis Worksheet

- Add taxable income

## Line 31: Total Tax

Unlike partnerships and S Corporations, regular corporations pay income tax. Deduct taxes before determining cash flow.

### Effect on Cash Flow Analysis Worksheet

- Deduct the tax liability

## Lines 8-9: Capital and Net Gains

Examine any capital and net gains (losses) listed on page 1 of Form 1120, details of which are reported on Schedule D and Form 4797.

### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring gains/add nonrecurring losses

## Line 10: Other Income

Analyze this income to determine whether it's stable and recurring.

### Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

## Line 20: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

## Line 21: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

### Effect on Cash Flow Analysis Worksheet

- Add back the amount

<b>A Check if:</b> <b>1a</b> Consolidated return (attach Form 851) <input type="checkbox"/> <b>b</b> Life/nonlife consolidated return <input type="checkbox"/> <b>2</b> Personal holding co. (attach Sch. PH) <input type="checkbox"/> <b>3</b> Personal service corp. (see instructions) <input type="checkbox"/> <b>4</b> Schedule M-3 attached <input type="checkbox"/>	<b>TYPE OR PRINT</b>	Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state or province, country, and ZIP or foreign postal code _____	<b>B Employer identification number</b> _____  <b>C Date incorporated</b> _____  <b>D Total assets (see instructions)</b> \$ _____
<b>E Check if:</b> (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

<b>Income</b>	<b>1a</b>	Gross receipts or sales			
	<b>b</b>	Returns and allowances	<b>1a</b>		
	<b>c</b>	Balance. Subtract line 1b from line 1a	<b>1b</b>		
	<b>2</b>	Cost of goods sold (attach Form 1125-A)	<b>1c</b>		
	<b>3</b>	Gross profit. Subtract line 2 from line 1c	<b>2</b>		
	<b>4</b>	Dividends and inclusions (Schedule C, line 23, column (a))	<b>3</b>		
	<b>5</b>	Interest	<b>4</b>		
	<b>6</b>	Gross rents	<b>5</b>		
	<b>7</b>	Gross royalties	<b>6</b>		
	<b>8</b>	Capital gain net income (attach Schedule D (Form 1120))	<b>7</b>		
	<b>9</b>	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>8</b>		
<b>10</b>	Other income (see instructions—attach statement)	<b>9</b>			
<b>11</b>	<b>Total income.</b> Add lines 3 through 10	<b>10</b>			

<b>Deductions (See instructions for limitations on deductions.)</b>	<b>12</b>	Compensation of officers (see instructions—attach Form 1125-E)			
	<b>13</b>	Salaries and wages (less employment credits)	<b>12</b>		
	<b>14</b>	Repairs and maintenance	<b>13</b>		
	<b>15</b>	Bad debts	<b>14</b>		
	<b>16</b>	Rents	<b>15</b>		
	<b>17</b>	Taxes and licenses	<b>16</b>		
	<b>18</b>	Interest (see instructions)	<b>17</b>		
	<b>19</b>	Charitable contributions	<b>18</b>		
	<b>20</b>	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	<b>19</b>		
	<b>21</b>	Depletion	<b>20</b>		
	<b>22</b>	Advertising	<b>21</b>		
	<b>23</b>	Pension, profit-sharing, etc., plans	<b>22</b>		
	<b>24</b>	Employee benefit programs	<b>23</b>		
	<b>25</b>	Reserved for future use	<b>24</b>		
	<b>26</b>	Other deductions (attach statement)	<b>25</b>		
	<b>27</b>	<b>Total deductions.</b> Add lines 12 through 26	<b>26</b>		
	<b>28</b>	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	<b>27</b>		
<b>29a</b>	Net operating loss deduction (see instructions)	<b>28</b>			
<b>b</b>	Special deductions (Schedule C, line 24, column (c))	<b>29a</b>			
<b>c</b>	Add lines 29a and 29b	<b>29b</b>			
		<b>29c</b>			

<b>Tax, Refundable Credits, and Payments</b>	<b>30</b>	Taxable income. Subtract line 29c from line 28. See instructions			
	<b>31</b>	Total tax (Schedule J, Part I, line 11)	<b>30</b>		
	<b>32</b>	2018 net 965 tax liability paid (Schedule J, Part II, line 12)	<b>31</b>		
	<b>33</b>	Total payments, credits, and section 965 net tax liability (Schedule J, Part III, line 23)	<b>32</b>		
	<b>34</b>	Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	<b>33</b>		
	<b>35</b>	<b>Amount owed.</b> If line 33 is smaller than the total of lines 31, 32, and 34, enter amount owed	<b>34</b>		
	<b>36</b>	<b>Overpayment.</b> If line 33 is larger than the total of lines 31, 32, and 34, enter amount overpaid	<b>35</b>		
<b>37</b>	Enter amount from line 36 you want: <b>Credited to 2019 estimated tax</b> ▶	<b>36</b>			
		<b>Refunded</b> ▶	<b>37</b>		

**Sign Here** ▶ Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer _____	Date _____	Title _____	May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No
----------------------------	------------	-------------	---

<b>Paid Preparer Use Only</b>	Print/Type preparer's name _____	Preparer's signature _____	Date _____	Check <input type="checkbox"/> if self-employed	PTIN _____
	Firm's name ▶ _____	Firm's EIN ▶ _____			
	Firm's address ▶ _____	Phone no. _____			

### Line 25: Reserved For Future Use/Domestic Production Activities Deduction

Previous IRS guidelines allowed a corporation to deduct the expense of certain qualified domestic production activities. This deduction was a noncash expense.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Line 26: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

#### Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

### Line 29a: Net Operating Loss Deduction

When a corporation sustains a loss in one year, it has the ability to offset income earned in future years.

In ensuing years, the corporation may include a previous year's loss on its corporate tax return, even though it might not have experienced the loss that year.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Line 29b: Special Deductions

A corporation that receives dividend income may be able to take a deduction for a certain percentage of the amount it received. This deduction is a noncash expense.

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

Form 1120 (2018) Page 2

Schedule C Dividends, Inclusions, and Special Deductions (see instructions)	(a) Dividends and inclusions	(b) %	(c) Special deductions (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		50	
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		65	
3 Dividends on certain debt-financed stock of domestic and foreign corporations		see instructions	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		23.3	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		26.7	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs		50	

Form 1120 (2018) Page 3

Schedule J Tax Computation and Payment (see instructions)	
<b>Part I—Tax Computation</b>	
1 Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions <input type="checkbox"/>	
2 Income tax. See instructions	2
3 Base erosion minimum tax (attach Form 8991)	3
4 Add lines 2 and 3	4
5a Foreign tax credit (attach Form 1118)	5a
b Credit from Form 8834 (see instructions)	5b
c General business credit (attach Form 3800)	5c
d Credit for prior year minimum tax (attach Form 8827)	5d
e Bond credits from Form 8912	5e
6 Total credits. Add lines 5a through 5e	6
7 Subtract line 6 from line 4	7
8 Personal holding company tax (attach Schedule PH (Form 1120))	8

Form 1120 (2018) Page 4

Schedule K Other Information (see instructions)	Yes	No
1 Check accounting method: a <input type="checkbox"/> Cash b <input type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶		
2 See the instructions and enter the: a Business activity code no. ▶ b Business activity ▶ c Product or service ▶		
3 Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation ▶		
4 At the end of the tax year: a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G) . . . . . b Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's . . . . .		
5 At the end of the tax year, did a Own directly 20% or more, or any foreign or domestic corp If "Yes," complete (i) through (j) Name (i) Name (j) Name		
6 During this tax year, did the excess of the corporation's If "Yes," file Form 5452. Co If this is a consolidated retu At any time during the tax classes of the corporation's For rules of attribution, see (a) Percentage owned ▶ (c) The corporation may ha Corporation Engaged in a U Check this box if the corp If checked, the corporation Enter the amount of tax-exe Enter the number of share If the corporation has an NG If the corporation is filing a or the election will not be v Enter the available NOL ca page 1, line 29a.) . . . . .		

Form 1120 (2018) Page 5

Schedule K Other Information (continued from page 4)	Yes	No
13 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ \$		
14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions . . . . . If "Yes," complete and attach Schedule UTP.		
15a Did the corporation make any payments in 2018 that would require it to file Form(s) 1099? . . . . . b If "Yes," did or will the corporation file required Forms 1099? . . . . .		
16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? . . . . .		
17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? . . . . .		
18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million? . . . . .		
19 During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code? . . . . .		
20 Is the corporation operating on a cooperative basis? . . . . .		
21 During the tax year, did the corporation pay or accrue any interest or royalty for which the deduction is not allowed under section 267A? See instructions . . . . . If "Yes," enter the total amount of the disallowed deductions ▶ \$		
22 Does the corporation have gross receipts of at least \$500 million in any of the 3 preceding tax years? (See sections 59A(e)(2) and (3)) . . . . . If "Yes," complete and attach Form 8991.		
23 Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions . . . . .		
24 Does the corporation satisfy one of the following conditions and the corporation does not own a pass-through entity with current year, or prior year carryover, excess business interest expense? See instructions . . . . . a The corporation's aggregate average annual gross receipts (determined under section 448(c)) for the 3 tax years preceding the current tax year do not exceed \$25 million, and the corporation is not a tax shelter, or b The corporation only has business interest expense from (1) an electing real property trade or business, (2) an electing farming business, or (3) certain utility businesses under section 163(j)(7). If "No," complete and attach Form 8990.		
25 Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund? . . . . . If "Yes," enter amount from Form 8996, line 13 . . . . . ▶ \$		

# Form 1120: U.S. Corporation Income Tax Return (Pages 2-5)

## **Effect on Cash Flow Analysis Worksheet**

- No line items on these pages affect cash flow

<b>Schedule L Balance Sheets per Books</b>		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
<b>Assets</b>					
1	Cash . . . . .				
2a	Trade notes and accounts receivable . . . . .				
b	Less allowance for bad debts . . . . .	( )		( )	
3	Inventories . . . . .				
4	U.S. government obligations . . . . .				
5	Tax-exempt securities (see instructions) . . . . .				
6	Other current assets (attach statement) . . . . .				
7	Loans to shareholders . . . . .				
8	Mortgage and real estate loans . . . . .				
9	Other investments (attach statement) . . . . .				
10a	Buildings and other depreciable assets . . . . .				
b	Less accumulated depreciation . . . . .	( )		( )	
11a	Depletable assets . . . . .				
b	Less accumulated depletion . . . . .	( )		( )	
12	Land (net of any amortization) . . . . .				
13a	Intangible assets (amortizable only) . . . . .				
b	Less accumulated amortization . . . . .	( )		( )	
14	Other assets (attach statement) . . . . .				
15	<b>Total assets</b> . . . . .				
<b>Liabilities and Shareholders' Equity</b>					
16	Accounts payable . . . . .				
17	Mortgages, notes, bonds payable in less than 1 year . . . . .				
18	Other current liabilities (attach statement) . . . . .				
19	Loans from shareholders . . . . .				
20	Mortgages, notes, bonds payable in 1 year or more . . . . .				
21	Other liabilities (attach statement) . . . . .				
22	Capital stock: a Preferred stock . . . . .				
	b Common stock . . . . .				
23	Additional paid-in capital . . . . .				
24	Retained earnings—Appropriated (attach statement) . . . . .				
25	Retained earnings—Unappropriated . . . . .				
26	Adjustments to shareholders' equity (attach statement) . . . . .				
27	Less cost of treasury stock . . . . .	( )		( )	
28	<b>Total liabilities and shareholders' equity</b> . . . . .				

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books . . . . .		7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books . . . . .			Tax-exempt interest \$ _____	
3	Excess of capital losses over capital gains . . . . .			_____	
4	Income subject to tax not recorded on books this year (itemize): _____			_____	
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation . . . . \$ _____		a	Depreciation . . . \$ _____	
b	Charitable contributions . . \$ _____		b	Charitable contributions \$ _____	
c	Travel and entertainment . . \$ _____			_____	
6	Add lines 1 through 5 . . . . .		9	Add lines 7 and 8 . . . . .	
			10	Income (page 1, line 28)—line 6 less line 9	

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

1	Balance at beginning of year . . . . .		5	Distributions: a Cash . . . . .	
2	Net income (loss) per books . . . . .			b Stock . . . . .	
3	Other increases (itemize): _____			c Property . . . . .	
	_____		6	Other decreases (itemize):	
	_____		7	Add lines 5 and 6 . . . . .	
4	Add lines 1, 2, and 3 . . . . .		8	Balance at end of year (line 4 less line 7)	

## Form 1120: U.S. Corporation Income Tax Return (Page 6)

### Schedule L – Balance Sheets per Books

This section of Form 1120 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

**Note:** IRS guidelines do not require every business to complete Schedule L.

#### Line 17: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

#### Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

### Schedule M-1 – Reconciliation of Income (Loss) per Books With Income per Return

#### Line 5c: Travel and Entertainment

Business related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income. Identify the expense type(s), determine the amount(s) and deduct from cash flow as applicable.

#### Effect on Cash Flow Analysis Worksheet

- Deduct the amount from Line 5c, which reflects nondeductible expenses paid. Follow investor guidelines

Refer to Expenses Limited by the IRS (page 7).

### Schedule M-2 – Analysis of Unappropriated Retained Earnings per Books

This schedule identifies the causes behind the changes in retained earnings from the beginning to the end of the tax year. Line 5, "distributions," is important. Schedule B of the borrower's personal Form 1040 will reflect the borrower's share of these distributions. This amount is also included in the corporation's taxable income. Be mindful not to double-count these dividends.

#### Effect on Cash Flow Analysis Worksheet

- Deduct dividend income paid by the business that the borrower reported on Form 1040, Schedule B



## Form 1125-E: Compensation of Officers

If the entity has total receipts of \$500,000 or more and deducts compensation of officers, Form 1125-E must be completed and attached to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC or 1120S. The borrower's ownership percentage and amount of compensation is usually reported on this form. The ownership percentage will determine the borrower's share of income or losses from Form 1120.





## Module 3

# Analyzing Income Statements and Balance Sheets

Income statements and balance sheets are financial statements that represent a formal record of the business's financial activities and provide a financial snapshot over a given period of time.

Annual financial statements can cover the span of a calendar year, for example, Jan. 1 through Dec. 31; or a fiscal year, for example, May 1 through April 30.

Financial statements can also cover a portion of a year in the form of a quarterly or a year-to-date statement.

If a loan application is dated more than 120 days after the end of the business's tax year, or if tax returns are on extension, you may choose to request financial statements as additional support of self-employed income.

Borrowers can prepare their own financial statements or hire an accountant or tax professional to prepare them.

**Note:** In general, use financial statements as supporting documentation; don't use them for qualifying income, unless they're audited. Follow investor guidelines.

**Digital Network Systems  
Income Statement  
January 1 - December 31**

	2018		2017
<b>Sales</b>	\$ 276,000		\$ 264,000
Discounts & allowances	1,000		1,000
Net sales	275,000		263,000
Cost of Goods Sold	146,000		141,000
<b>Gross Profit</b>	129,000		122,000
 <b>Other income</b>			
Interest income	2,400		2,400
Income from Maddox	10,000		5,000
	12,400		7,400
 <b>Expenses</b>			
Salaries	26,000		26,000
Employee benefits	11,400		11,000
Licenses	2,100		-
Travel and entertainment	2,000		-
Insurance	7,500		7,200
Maintenance	8,000		6,000
Interest	2,900		3,000
Depreciation	15,000		16,000
<b>Total Expenses</b>	74,900		69,200
 <b>Net income</b>	\$ 66,500		\$ 60,200

# Income Statement

An income statement – also known as a profit and loss (P&L) statement – summarizes a business's revenues, costs and expenses over a period of time.

The statement follows a general format. It begins with revenue and deducts expenses (the costs of doing business, including cost of goods sold and operating, tax and interest expenses). The difference – or bottom line – is the business's net profit (net income).

You can find variations of income statements right in tax returns. Schedule C, and the first pages of forms 1065, 1120S and 1120 all contain the necessary components of an income statement.

## Main Income Statement Categories

### Revenue

Revenue is capital flowing into the business.

**There are 2 types of revenue accounts:**

#### Sales

Sales are the primary source of revenue a business receives for goods sold or services offered.

#### Other Sources of Income

Other sources of income is income the business receives that is not generated from normal business operations.

### Expenses

Expenses are the costs incurred in order for a business to operate.

There are typically 5 categories of expense accounts:

#### Selling Expenses

Selling expenses are costs the business incurs in the process of selling and marketing its goods and/or services.

#### General Administrative Expenses

General administrative expenses are costs of doing business not directly related to the selling process.

#### Other Expenses

Other expenses are miscellaneous costs not directly related to the main operation of the business.

#### Federal Income Tax

Federal income taxes are the amount the business owes in federal income taxes.

#### Cost of Goods Sold, Cost of Sales

Cost of goods sold is the cost of the inventory used to produce the business's goods.

Cost of sales are the costs the business incurs to provide its services.

### Net Profit

Net profit is the difference between revenue (capital flowing into the business) and expenses (capital flowing out of the business).

Net profit is not the same as cash flow. Cash flow is net profit plus any noncash expenses. It's cash available to repay debt.

**Digital Network Systems**  
**Income Statement**  
**For the Six Months Ending June 30, 2019**

<b>Sales</b>	\$ 151,750	
Discounts & allowances	500	
Net sales	151,250	
Cost of Goods Sold	80,300	
<b>Gross Profit</b>		70,950
<b>Other income</b>		
Interest income	1,300	
		1,300
<b>Expenses</b>		
Salaries	14,300	
Employee benefits	6,270	
Licenses	1,155	
Travel and entertainment	1,100	
Insurance	4,125	
Maintenance	4,400	
Interest	1,595	
Depreciation	7,500	
<b>Total Expenses</b>		40,445
<b>Net income</b>		\$ 31,805

## Year-to-Date (YTD) Income Statement

A YTD income statement is also known as a YTD P&L statement.

For loan applications originated later in the year, even though the borrower has provided tax returns, you may choose to request more recent financial information. For example, borrowers who applied for a loan on July 13, 2019, will have likely submitted their 2018 tax documents. You may wish to request a YTD income statement dated through June 30, 2019, from them to show the business's current income and expenses.

**Digital Network Systems**  
**Income Statement**  
**January 1 - December 31**

	2018		2017
<b>Sales</b>	\$ 276,000		\$ 264,000
Discounts & allowances	1,000		1,000
Net sales	275,000		263,000
Cost of Goods Sold	146,000		141,000
<b>Gross Profit</b>	129,000		122,000
 <b>Other income</b>			
Interest income	2,400		2,400
Income from Maddox	10,000		5,000
	12,400		7,400
 <b>Expenses</b>			
Salaries	26,000		26,000
Employee benefits	11,400		11,000
Licenses	2,100		-
Travel and entertainment	2,000		-
Insurance	7,500		7,200
Maintenance	8,000		6,000
Interest	2,900		3,000
Depreciation	15,000		16,000
<b>Total Expenses</b>	74,900		69,200
 <b>Net income</b>	\$ 66,500		\$ 60,200

# Income Statement

By calculating the business's gross profit margin, net profit margin and operating ratio, you will learn a lot about its profitability.

## Techniques for Analyzing an Income Statement

### Gross Profit Margin

Percentage of gross profit as compared to net sales

$$\frac{\text{Gross Profit}}{\text{Net Sales}} = \text{Gross Profit Margin}$$

#### Example:

$$\frac{\$129,000}{\$275,000} = .47$$

This means for every \$1 of goods sold after paying production costs, the business's gross profit was \$.47.

By tracking changes to its gross profit margin, a business can see the impacts of price competition or increases to its costs of goods sold relative to the level of its sales revenue.

### Net Profit Margin

Percentage of net profit compared to revenue

One of the most important indicators of a business's financial health, as it reports how profitable the business is.

$$\frac{\text{Net Income (After Tax)}}{\text{Revenue}} = \text{Net Profit Margin}$$

#### Example:

$$\frac{\$66,500}{\$287,400} = .23$$

This means for every \$1 the business collects after paying all of its expenses, its net profit is \$.23.

By tracking increases and decreases in its net profit margin, a business can predict whether a change to the current rate of sales will yield a similar change to future profitability.

### Operating Ratio

Percentage of operating expenses (actual cash expenses, except taxes and interest) to net sales

A business's operating ratio is an indicator of profitability because it shows how efficiently it's managing day-to-day operations.

$$\frac{\text{Operating Expenses}^*}{\text{Net Sales}} = \text{Operating Ratio}$$

#### Example:

$$\frac{\$57,000^*}{\$275,000} = .21$$

Total Expenses	\$74,900
– Depreciation	15,000
– Interest	2,900
*Operating Expenses	\$57,000

So, for every \$1 in sales, the business spent \$.21 in daily operations. When operating ratios are increasing, inefficiencies could possibly exist and may warrant that the business implement cost control efforts.

**Digital Network Systems**  
**Income Statement**  
**January 1 - December 31**

	2018		2017
<b>Sales</b>	\$ 276,000		\$ 264,000
Discounts & allowances	1,000		1,000
Net sales	275,000		263,000
Cost of Goods Sold	146,000		141,000
<b>Gross Profit</b>	129,000		122,000
 <b>Other income</b>			
Interest income	2,400		2,400
Income from Maddox	10,000		5,000
	12,400		7,400
 <b>Expenses</b>			
Salaries	26,000		26,000
Employee benefits	11,400		11,000
Licenses	2,100		-
Travel and entertainment	2,000		-
Insurance	7,500		7,200
Maintenance	8,000		6,000
Interest	2,900		3,000
Depreciation	15,000		16,000
<b>Total Expenses</b>	74,900		69,200
 <b>Net income</b>	\$ 66,500		\$ 60,200

## Trend Ratios

An effective way to measure and compare a business's profitability/growth is to calculate trend ratios using its income statement.

A trend ratio compares income statement accounts from one year to the next. Calculate trend ratios by calculating the difference between years and dividing it by the previous year.

Let's start with sales: Take the sales figures from the income statement on page 96 for the past 2 years.

### Example:

	2018	2017
Sales	\$276,000	\$264,000

1. Calculate the difference:  
 $\$276,000 - \$264,000 = +\$12,000$
2. Divide the difference by the earlier year:  
 $\$12,000 \div \$264,000 = + 4.55\%$

### Exercise: Determine the trends

Account	2018	2017	\$ Difference	% Change	Increasing/Decreasing
Sales	\$276,000	\$264,000	+\$12,000	+4.55%	Increasing
Cost of Goods Sold	146,000	141,000			
Gross Profit	129,000	122,000			
Expenses	74,900	69,200			
Net Income	66,500	60,200			

**Note:** Actual account names will vary based on whether you use tax returns or income statements.

If several years of income statements are available, expand your analysis to include additional years.

**Digital Network Systems  
Balance Sheet  
December 31, 2018**

	2018		2017
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash	\$16,100		\$15,400
California State municipal bond	6,000		6,000
Accounts receivable	39,800		27,600
Less allowance for bad debt	(3,980)		(2,760)
US Bank Certificate of Deposit	17,400		15,000
Inventory	52,160		30,000
<b>Total Current Assets</b>	<b>127,480</b>		<b>91,240</b>
<b>Fixed Assets</b>			
Building	190,000		190,000
Less accumulated depreciation	(47,900)		(32,900)
<b>Total Fixed Assets</b>	<b>142,100</b>		<b>157,100</b>
<b>Other Assets</b>			
Investment in Maddox	125,800		95,400
US Treasury Bill	5,000		5,000
<b>Total Other Assets</b>	<b>130,800</b>		<b>100,400</b>
<b>Total Assets</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	19,200		18,800
Mortgage payable	21,900		22,000
Credit card payable	3,000		1,780
<b>Total Current Liabilities</b>	<b>44,100</b>		<b>42,580</b>
<b>Other Liabilities</b>			
Mortgage payable	105,820		119,100
Profit-sharing liability	10,000		13,100
<b>Total Other Liabilities</b>	<b>115,820</b>		<b>132,200</b>
<b>Total Liabilities</b>	<b>159,920</b>		<b>174,780</b>
<b><u>Equity</u></b>			
<b>Equity</b>			
Capital stock	2,000		2,000
Additional paid-in capital	50,000		50,000
Retained earnings	188,460		121,960
<b>Total Equity</b>	<b>240,460</b>		<b>173,960</b>
<b>Total Liabilities and Equity</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>

# Balance Sheet

A balance sheet provides a snapshot of a business's financial well-being. It summarizes its assets, liabilities and owners' equity as of the date it was prepared.

The balance sheet adheres to the following formula:  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$ . These 3 segments show what the business owns and owes and how much its owners have invested in it.

## Main Balance Sheet Categories

### Assets

Assets are items of value that are owned and are measurable in terms of money.

**There are 3 types of assets:**

#### Current Assets

Current assets can reasonably be expected to convert to cash within 1 year from the date of the balance sheet.

#### Fixed Assets

Fixed assets are long-term assets not intended for sale or easily convertible to cash.

Fixed asset examples include buildings and equipment.

#### Other Assets

Other assets are either intangible assets or assets acquired for long-term rights and privileges.

Intangible assets have no physical existence. Goodwill is a common example of an intangible asset.

### Liabilities

Liabilities are obligations owed by the business.

**There are 2 types of liabilities:**

#### Current Liabilities

Current liabilities are debts that are due within 1 year or less from the date of the balance sheet.

This would include the portion of long-term debt (e.g., mortgage debt) that is payable within 1 year.

#### Long-Term Liabilities

Long-term liabilities are debts that are due more than 1 year from the date of the balance sheet.

### Owners' Equity

Owners' equity is the net worth or book value of the business.

$\text{Net Worth} = \text{Assets} - \text{Liabilities}$

There are 3 major classifications to owners' equity:

#### Capital Stock

Capital stock is an account showing the interest or ownership in a business by its stockholders.

#### Capital Surplus

Capital surplus is the amount paid for stock above its par value.

For example:

- Par value of stock: \$1.00/share
- Additional stock purchased at \$4.00/share
- Capital surplus: \$3.00/share

#### Accumulated Retained Earnings

Accumulated retained earnings are the after-tax earnings not distributed by the corporation to its stockholders.

This money is put back into the business to conduct ongoing operations.

**Digital Network Systems**  
**Balance Sheet**  
**June 30, 2019**

**Assets**

**Current Assets**

Cash	\$ 23,650	
California State municipal bond	6,000	
Accounts receivable	45,900	
Less allowance for bad debt	(4,590)	
US Bank Certificate of Deposit	17,400	
Inventory	73,195	
<b>Total Current Assets</b>		161,555

**Fixed Assets**

Building	190,000	
Less accumulated depreciation	(55,400)	
<b>Total Fixed Assets</b>		134,600

**Other Assets**

Investment in Maddox	128,500	
US Treasury Bill	5,000	
<b>Total Other Assets</b>		133,500

<b>Total Assets</b>		\$ 429,655
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**Liabilities**

**Current Liabilities**

Accounts payable	19,300	
Mortgage payable	21,850	
Credit card payable	3,610	
<b>Total Current Liabilities</b>		44,760

**Other Liabilities**

Mortgage payable	104,180	
Profit-sharing liability	8,450	
<b>Total Other Liabilities</b>		112,630

<b>Total Liabilities</b>		157,390
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**Equity**

**Equity**

Capital stock	2,000	
Additional paid-in capital	50,000	
Retained earnings	220,265	
<b>Total Equity</b>		272,265

<b>Total Liabilities and Equity</b>		\$ 429,655
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## Interim Balance Sheet

For loan applications originated later in the year, even though the borrower has provided tax returns, you may choose to request more recent financial information. For example, borrowers who applied for a loan on July 13, 2019 will have likely submitted their 2018 tax returns. You may wish to request an interim balance sheet dated through June 30, 2019 to show:

- The business's current assets and liabilities or
- The Schedule L included in the borrower's tax return did not require completion due to the business's gross receipts and/or assets being less than the minimum required

**Note:** In general, use the interim balance sheet as supporting documentation; don't use it for qualifying, unless it's reported through audited financial statements. Follow investor guidelines.

**Digital Network Systems  
Balance Sheet  
December 31, 2018**

	2018		2017
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash	\$16,100		\$15,400
California State municipal bond	6,000		6,000
Accounts receivable	39,800		27,600
Less allowance for bad debt	(3,980)		(2,760)
US Bank Certificate of Deposit	17,400		15,000
Inventory	52,160		30,000
<b>Total Current Assets</b>	<b>127,480</b>		<b>91,240</b>
<b>Fixed Assets</b>			
Building	190,000		190,000
Less accumulated depreciation	(47,900)		(32,900)
<b>Total Fixed Assets</b>	<b>142,100</b>		<b>157,100</b>
<b>Other Assets</b>			
Investment in Maddox	125,800		95,400
US Treasury Bill	5,000		5,000
<b>Total Other Assets</b>	<b>130,800</b>		<b>100,400</b>
<b>Total Assets</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	19,200		18,800
Mortgage payable	21,900		22,000
Credit card payable	3,000		1,780
<b>Total Current Liabilities</b>	<b>44,100</b>		<b>42,580</b>
<b>Other Liabilities</b>			
Mortgage payable	105,820		119,100
Profit-sharing liability	10,000		13,100
<b>Total Other Liabilities</b>	<b>115,820</b>		<b>132,200</b>
<b>Total Liabilities</b>	<b>159,920</b>		<b>174,780</b>
<b><u>Equity</u></b>			
<b>Equity</b>			
Capital stock	2,000		2,000
Additional paid-in capital	50,000		50,000
Retained earnings	188,460		121,960
<b>Total Equity</b>	<b>240,460</b>		<b>173,960</b>
<b>Total Liabilities and Equity</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>

## Techniques for Analyzing the Balance Sheet

By calculating the current ratio or the quick ratio, you will learn a lot more about the solvency/liquidity of the business.

- Use the most appropriate ratio, based on how the business operates, to determine the business has adequate liquidity
- Analyze liquidity based on the norms of the industry the business operates within
- What is considered the norm in one industry, may be different in another
- Generally, a result of 1 or greater for either ratio demonstrates adequate business liquidity

### Current Ratio

The current ratio – also known as the working capital ratio – measures the business's ability to pay its current liabilities (debt that is due within 1 year of the date of the balance sheet) with its current assets (assets that can reasonably be converted into cash within 1 year of the date of the balance sheet).

The current ratio is an indicator of a business's financial health: The higher the current ratio, the more capable the business is of paying its obligations because it has a larger proportion of asset value relative to its liabilities.

$$\frac{\begin{array}{l} \text{Current Assets} \\ \text{[Cash \& Equivalents + Marketable} \\ \text{Securities + Accounts Receivable} \\ \text{(Less Bad Debt) + Inventory]} \end{array}}{\text{Current Liabilities}} = \text{Current Ratio}$$

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \text{Current Ratio}$$

#### Example:

$$\frac{\begin{array}{l} \$16,100 + \$6,000 + \$35,820 + \$17,400 \\ + \$52,160 = \$127,480 \end{array}}{\$44,100} = 2.89$$

This means for every \$1 of current debt, the business has \$2.89 in current assets. So, after it pays its current debt, it has \$1.89 in current assets left over.

The current ratio is appropriate for businesses that don't rely on inventory to generate income, such as an airline or a pest control business.

### Quick Ratio

The quick ratio – also known as the acid test ratio – measures the business's ability to meet immediate needs for cash. It is an indicator of a business's ability to pay back its current liabilities with its most liquid assets (assets that can be converted to cash quickly). Since inventories, in general, take a longer time to convert to cash, they're excluded from the quick ratio.

$$\frac{\begin{array}{l} \text{Quick Assets} \\ \text{[Cash and Equivalents + Marketable} \\ \text{Securities + Accounts Receivable} \\ \text{(Less Bad Debt) - Inventory]} \end{array}}{\text{Current Liabilities}} = \text{Quick Ratio}$$

$$\frac{\begin{array}{l} \text{Quick Assets} \\ \text{(Current Assets - Inventory)} \end{array}}{\text{Current Liabilities}} = \text{Quick Ratio}$$

#### Example:

$$\frac{\$16,100 + \$6,000 + \$35,820 + \$17,400}{\$44,100} = 1.71$$

For every \$1 of current debt, the business has \$1.71 in liquid assets. So, after it pays its current debt, it has \$.71 in liquid assets left over.

The quick ratio is appropriate for companies that rely heavily on inventory to generate income, such as a sportswear or footwear retailer or a home improvement store.

**Digital Network Systems  
Balance Sheet  
December 31, 2018**

	2018		2017
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash	\$16,100		\$15,400
California State municipal bond	6,000		6,000
Accounts receivable	39,800		27,600
Less allowance for bad debt	(3,980)		(2,760)
US Bank Certificate of Deposit	17,400		15,000
Inventory	52,160		30,000
<b>Total Current Assets</b>	<b>127,480</b>		<b>91,240</b>
<b>Fixed Assets</b>			
Building	190,000		190,000
Less accumulated depreciation	(47,900)		(32,900)
<b>Total Fixed Assets</b>	<b>142,100</b>		<b>157,100</b>
<b>Other Assets</b>			
Investment in Maddox	125,800		95,400
US Treasury Bill	5,000		5,000
<b>Total Other Assets</b>	<b>130,800</b>		<b>100,400</b>
<b>Total Assets</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	19,200		18,800
Mortgage payable	21,900		22,000
Credit card payable	3,000		1,780
<b>Total Current Liabilities</b>	<b>44,100</b>		<b>42,580</b>
<b>Other Liabilities</b>			
Mortgage payable	105,820		119,100
Profit-sharing liability	10,000		13,100
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<b>Total Liabilities</b>	<b>159,920</b>		<b>174,780</b>
<b><u>Equity</u></b>			
<b>Equity</b>			
Capital stock	2,000		2,000
Additional paid-in capital	50,000		50,000
Retained earnings	188,460		121,960
<b>Total Equity</b>	<b>240,460</b>		<b>173,960</b>
<b>Total Liabilities and Equity</b>	<b>\$ 400,380</b>		<b>\$ 348,740</b>

## Trend Ratios

An effective way to measure and compare a business's well-being is to calculate trend ratios using its balance sheet.

A trend ratio compares balance sheet accounts from one year to the next. Calculate trend ratios by calculating the difference between years and dividing it by the previous year.

Begin with cash: Take the cash figures from the balance sheet on page 104 for the past 2 years.

### Example:

	2018	2017
Cash	\$16,100	\$15,400

1. Calculate the difference:  
 $\$16,100 - \$15,400 = +\$700$
2. Divide the difference by the earlier year:  
 $\$700 \div \$15,400 = + 4.55\%$

### Exercise: Determine the trends

Account	2018	2017	\$ Difference	% Change	Increasing/Decreasing
Cash	\$16,100	\$15,400	+\$700	+4.55%	Increasing
Accounts Receivable (less Bad Debt)	35,820	24,840			
Current Assets	127,480	91,240			
Total Assets	400,380	348,740			
Accounts Payable	19,200	18,800			
Current Liabilities	44,100	42,580			
Total Liabilities	159,920	174,780			

**Note:** Account names will vary based on whether you use tax returns or balance sheets.

If several years of balance sheets are available, expand your analysis to include additional years.





Use the resources in this module to make your analysis easier.

The **Documentation Matrix** provides a list of the documents you need from a self-employed borrower in order to conduct your analysis.

The **K-1 Income Flowchart** illustrates the “pass-through” nature of this income.

The **Tax Return Red Flag Review** quickly guides you through a tax return, noting where to look for inconsistencies.

The **Glossary of Terms and Definitions** – from Accounts Payable to Trademark – may help you develop a better understanding of the elements involved in business ownership.



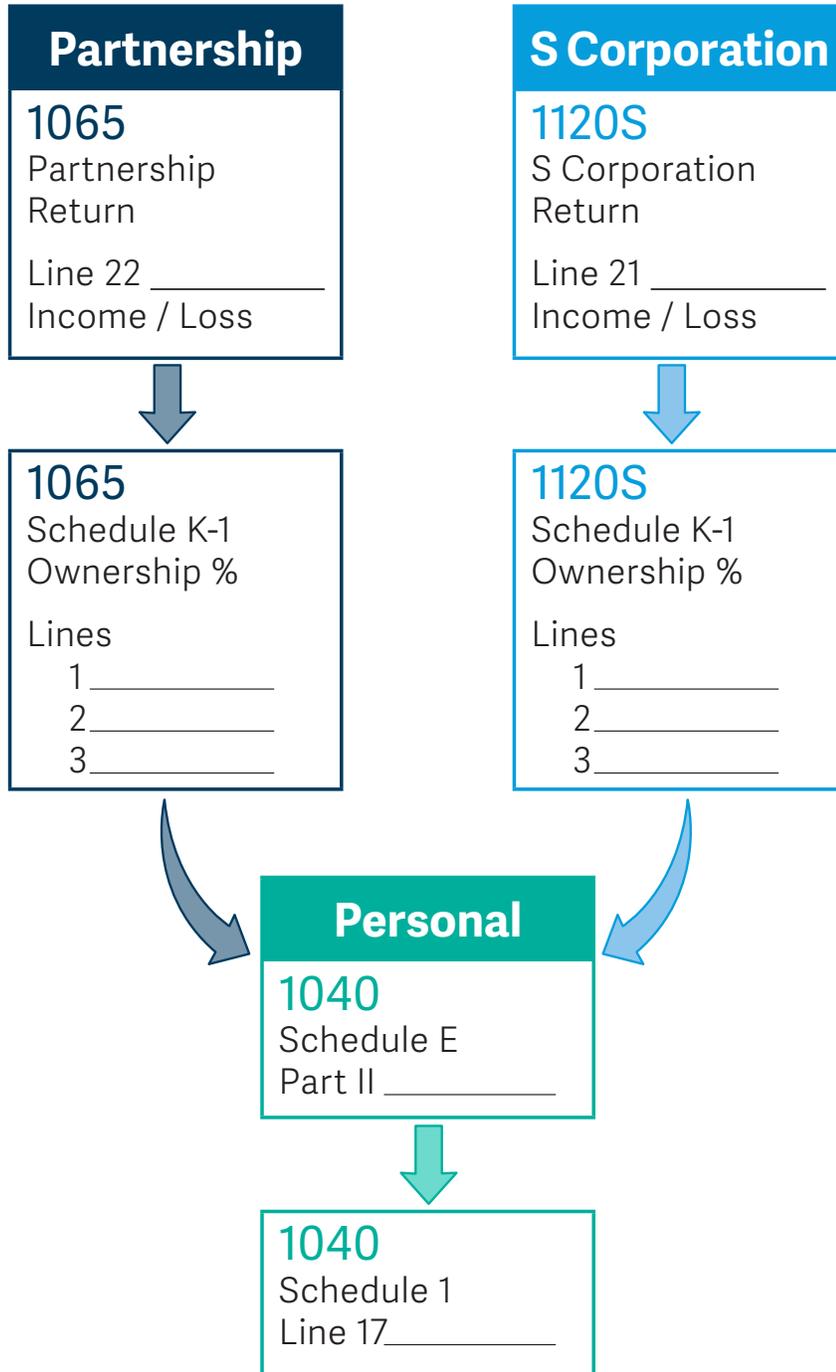
## Documentation Matrix

The following matrix identifies the documentation you need from self-employed borrowers to substantiate the various types of income they may receive from different business structures.

**NOTE:** All documents must be from the most recent 2-year period. The borrower must sign all tax returns and year-to-date information. Request business tax returns when the borrower has 25% or greater ownership interest in a business.

	Sole Proprietorship	Partnership (General, Limited or LLC)	S Corporation	Corporation
<b>Form 1040:</b> U.S. Individual Income Tax Return) with all applicable schedules and W-2s	▼	▼	▼	▼
<b>Schedule C:</b> Profit or Loss from Business	▼			
<b>Schedule E, Part II:</b> Income or Loss From Partnerships or S Corporations		▼	▼	
<b>Schedule K-1 (Form 1065):</b> Partner's Share of Income, Deductions, Credits, etc.		▼		
<b>Form 1065:</b> U.S. Return of Partnership Income with all applicable schedules		▼		
<b>Schedule K-1 (Form 1120S):</b> Shareholder's Share of Income, Deductions, Credits, etc.			▼	
<b>Form 1120S:</b> U.S. Income Tax Return for an S Corporation with all applicable schedules			▼	
<b>Form 1120:</b> U.S. Corporate Income Tax Return with all applicable schedules				▼
<b>Year-to-Date Profit &amp; Loss Statement/ Interim Balance Sheet:</b> as applicable	▼	▼	▼	▼
<b>Partnership Agreement:</b> may be required		▼		
<b>Corporate Resolution:</b> may be required			▼	▼

# K-1 Income Flowchart



# Tax Return Red Flag Review

## Form 1040 – U.S. Individual Income Tax Return

- Personal information does not agree with the information in the loan file
- W-2 information does not match the figures reported on the 1040
- High-income borrower with few or no deductions
- Even dollar amounts for income or deductions
- Borrower indicates self-employed, owner of a sole proprietorship, yet the 1040 discloses wages, salaries, tips, etc.
- Self-employed borrower who does not reflect self-employment tax
- Evidence of whiteout or strikeovers, alterations or varied handwriting within return
- Tax returns are not signed/dated by borrower
- Paid tax preparer does not disclose tax ID
- Handwritten tax returns prepared by a professional tax preparer

## Schedule A

- Real estate taxes or mortgage interest reported, but no real estate owned
- Real estate owned, but no deductions taken for real estate taxes or mortgage interest paid

## Schedule B

- Interest income reported is not consistent with cash assets in the bank
- Stock owned, but no dividend income reported
- Source and/or amount of income are inconsistent with the Residential Loan Application (1003)

## Schedule C

- Gross receipts or sales do not agree with total income on Form 1099(s)
- No “cost of goods sold” on retail type of business
- No deduction for depreciation (usually some type of equipment qualifies)
- Depreciation deduction for real estate is taken, but ownership of real estate is not disclosed (vice versa) on the Residential Loan Application (1003)
- Interest expense, but borrower does not disclose a related loan
- Net profit is significantly higher/lower than the previous year

## Schedule E

- Properties listed are not disclosed on the Residential Loan Application (1003)
- Mortgage interest deduction is taken, but debt is not disclosed on the Residential Loan Application (1003)
- Partnership(s) and/or S Corporation(s) are listed on Part II, and there is no reference listed on the Residential Loan Application (1003)
- Income/loss is inconsistent or not disclosed on the Residential Loan Application (1003)

## Schedule K-1 (Form 1065) – Partner’s Share of Income, Deductions, Credits, etc.

- Final K-1 Box is checked
- Capital contributed during the year is excessive compared to personal assets

### Form 1065 – U.S. Return of Partnership Income

- Income calculation for a fiscal year vs. a calendar year
- May be a partner in another partnership if ordinary income (loss) from other partnerships, etc., is reported

### Schedule K-1 (Form 1120S) – Shareholder’s Share of Income, Deductions, Credits, etc.

- Distributions are significantly higher than ordinary income
- The amount shown for ordinary business income (loss) differs from the amount shown for this S Corporation on Form 1040, Schedule E, Part II

### Form 1120S – U.S. Income Tax Return for an S Corporation

- Date incorporated differs from years reported on the Residential Loan Application (1003)
- Employer identification number differs from the employer identification number shown on Form 1040 Schedule E, Part II

### Form 1120 – U.S. Corporation Income Tax Return

- Final return box is selected on the return
- Compensation of officers doesn’t support borrower’s reported W-2 income from the corporation

# Glossary of Terms and Definitions

**Accounts Payable** – Amounts owed to creditors for items or services purchased from them

**Accounts Receivable** – Amounts due from customers for goods sold

**Accrual Basis of Accounting** – An accounting method that matches revenues and expenses incurred whether cash has been received or paid, i.e., revenues are recognized when sales are made or services performed even though cash has not yet been received. Expenses are recognized as incurred whether cash has been paid or not

**Accrued Expenses Payable** – Debts incurred but not yet paid, such as federal income tax or the current portion of long-term debt

**Accumulated Retained Earnings** – The after-tax earnings not distributed by the corporation to its stockholders. This money is put back into the business to conduct ongoing operations

**Administrative Expenses** – Overhead expenses incurred in the overall management of a business, including executive salaries, rent on administrative buildings and insurance

**Amortization** – The write-off of initial costs incurred by the borrower prior to the beginning of formal business operations. Examples of initial costs include survey fees, goodwill, trademarks, patents, copyrights, customer lists, non-compete agreements and prepayments. Borrowers can expense these one-time costs over a period of time

**Assets** – Items of value, owned and are measured in terms of money

**Balance Sheet** – Summarizes a business's assets, liabilities and owners' equity as of a specific date

**Capital** – Funds belonging to the owners of a business, invested with the expressed intention of remaining permanently in the business. Another source of capital is earnings retained by the business

**Capital Gains and Losses** – Gains and losses not related to the normal business activity; usually nonrecurring. For example, if a business sells some stock and loses money in the transaction, this would be considered a capital loss

**Capitalization Expense** – An accounting method that recognizes expenses as intangible assets to be annually expensed, such as organization expenses and research and development

**Capital Stock** – An account showing the interest or ownership in a business by its stockholders

**Capital Surplus** – The amount paid for stock over its par value

**Cash** – Money on hand, demand deposits, undeposited checks, drafts and money orders

**Cash Basis of Accounting** – An accounting method that recognizes revenues when cash is received and expenses when cash is paid

**Cash Flow** – Funds the borrower is going to use to repay the mortgage

**Casualty Loss** – A one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane

**Chattel Property** – Assets that have a short life span, such as furniture, cars and office equipment

**Common Stock** – Stock representing residual equity in a corporation. Common stockholders rank behind preferred stockholders for dividend payment and claims against assets in event of liquidation. If only 1 class of stock is issued, it is common stock

**Corporation** – A legal entity, separate and distinct from its shareholders. It can sue, be sued, hold/convey and receive property and enter into contracts under its own name

**Cost of Goods Sold** – The cost of the inventory used to produce the goods of the business

**Cost of Sales** – The costs the business incurs to provide its services

## Glossary of Terms and Definitions

**Current Assets** – Assets that can be reasonably expected to convert to cash within 1 year of the date of the balance sheet

**Current Liabilities** – Debts due within 1 year from the date on the balance sheet

**Current Portion of Long-term Debt** – The portion of long-term debt (e.g., mortgage debt) due within 1 year from the date of the balance sheet

**Deferred Charge** – Debt incurred that will be paid in the future

**Deferred Expenses** – Expenses incurred that will be paid in the future

**Depletion** – The exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. The IRS allows a business that exhausts a natural resource in the course of normal operation to allocate the total costs of that natural resource over a given period of time

**Depreciation** – A noncash expense allocated over the useful life of a declared asset. The “expense” reflects a reasonable allowance for wear and tear of an asset. The depreciated asset wears out, becomes obsolete or gets used-up and eventually needs to be replaced

**Dividend and Interest Income** – Dividend and interest income is income earned from investments

**Expenses** – Costs incurred during a period of time from delivering or producing goods, rendering services, or carrying out other activities that constitute a business’s ongoing operations

**Federal Income Tax Payable** – Debt due to the Internal Revenue Service

**Fixed Assets** – Long-term assets not intended for sale or easily converted to cash, e.g., buildings and equipment.

**General Administrative Expenses** – Costs of doing business not directly related to the selling process

**General Partnership** – A business where at least 2 partners conduct business jointly and have unlimited liability (meaning their personal assets are liable for the partnership’s debts). The partners pay tax on their proportionate share of the partnership income/loss

**Goodwill** – An intangible asset in a business balance sheet representing a premium paid at time of purchase for the business’s management skill, know-how and favorable reputation with customers

**Gross Income** – Income derived from all sources before taxes

**Income from Operations** – Income a business receives as a result of ongoing business operations

**Income Statement** – Summarizes a business’s revenues, costs and expenses over a period of time

**Intangible Assets** – Noncurrent, nonphysical assets of a business, such as goodwill, patents and trademarks

**Intangible Drilling Costs** – Costs incurred for the labor and equipment used in drilling; in general, discretionary expenses

**Inventories** – Items of tangible property that are (1) held for sale in the ordinary course of business, (2) in process of production for such sale or (3) to be used for producing goods or services that will be available for sale

**Land** – Ground upon which the buildings of an enterprise are located

**Liabilities** – Debts or obligations that usually have a known or determinable amount, maturity date and party to whom payment is to be made

**Limited Liability Company (LLC)** – A business that has the characteristics of both a partnership and a corporation. Its members participate in the management of the company without being personally liable for the debts of the company. The members pay tax on their proportionate share of the company income/loss. In some cases, an LLC may elect to be treated as a corporation and file Form 1120

**Limited Partnership** – A business where at least 1 general and 1 limited partner conduct business. The general partner typically controls daily operations and makes business decisions; the limited partner is silent but has a financial stake. The liability of the general partner is unlimited, whereas the liability of the limited partner is limited to their investment. The partners pay tax on their proportionate share of the partnership income/loss

**Liquid Assets** – Cash or those assets that are easily converted into cash, such as marketable securities

**Long-Term Liabilities** – Debts due more than 1 year from the date of the balance sheet

**Machinery** – Heavy equipment used in manufacturing a product or performing a service for a customer

**Marketable Securities** – Readily salable securities easily converted to cash

**Modified Accelerated Cost Recovery System (MACRS)** – A method of calculating depreciation with a larger portion of the asset expensed in the early years of its estimated useful life

**Net Income After Taxes** – Income remaining after provision for or payment of taxes

**Net Income Before Taxes** – Income before provision for taxes

**Net Profit** – Profit remaining after all expenses and charges have been deducted

**Nonrecurring Expense** – A one-time expense or loss. For example, a casualty loss is a one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane

**Nonrecurring Income** – Income from one-time events. Since you can't expect it to continue, you can't consider it as qualifying income toward cash flow. Examples include the sale of an asset or a prize or other windfall

**Notes Payable** – Written promises to pay sums of money at a future date, usually with interest at a specified rate

**Other Assets** – Assets that are intangible or are acquired for long-term rights and privileges

**Other sources of income** – Income the business receives not generated from normal business operations

**Owners' Equity** – The corporation's net worth (book value of the business) after subtracting liabilities from assets. It is the owners' interest in a corporation, consisting of capital and retained earnings

**Preferred Stock** – Stock that has certain preference rights over common stock as to dividends and claims against assets in the event of liquidation

**Prepayments** – Expenses paid before they are used or incurred, such as taxes and rent

**Provision for Taxes** – The expense provision for state and federal taxes

**Real Property** – Land and any property attached to land which cannot be moved, e.g., a rental home or commercial property

**Recurring Expense** – Ongoing expense associated with the day-to-day operation of a business. Examples include wages, insurance, car and truck expenses, etc.

**Recurring Income** – Ongoing income you can expect to continue for at least the next 3 years in order to consider it as qualifying income for cash flow. Examples of recurring income include earnings from the operation of a business, interest from long-term investments or even lottery winnings paid out over a number of years

**Research and Development Costs** – Costs of research and development, usually expensed at the time they are incurred

**Retained Earnings** – Net earnings not distributed by the corporation to its shareholders

**Revenue** – Capital flowing into the business. There are 2 types of revenue accounts: sales and other sources of income

## Glossary of Terms and Definitions

**S Corporation** – A legal entity with a limited number of shareholders. Its shareholders participate in the management of the corporation without being personally liable for the debts of the corporation. The shareholders pay tax on their proportionate share of the corporate income/loss

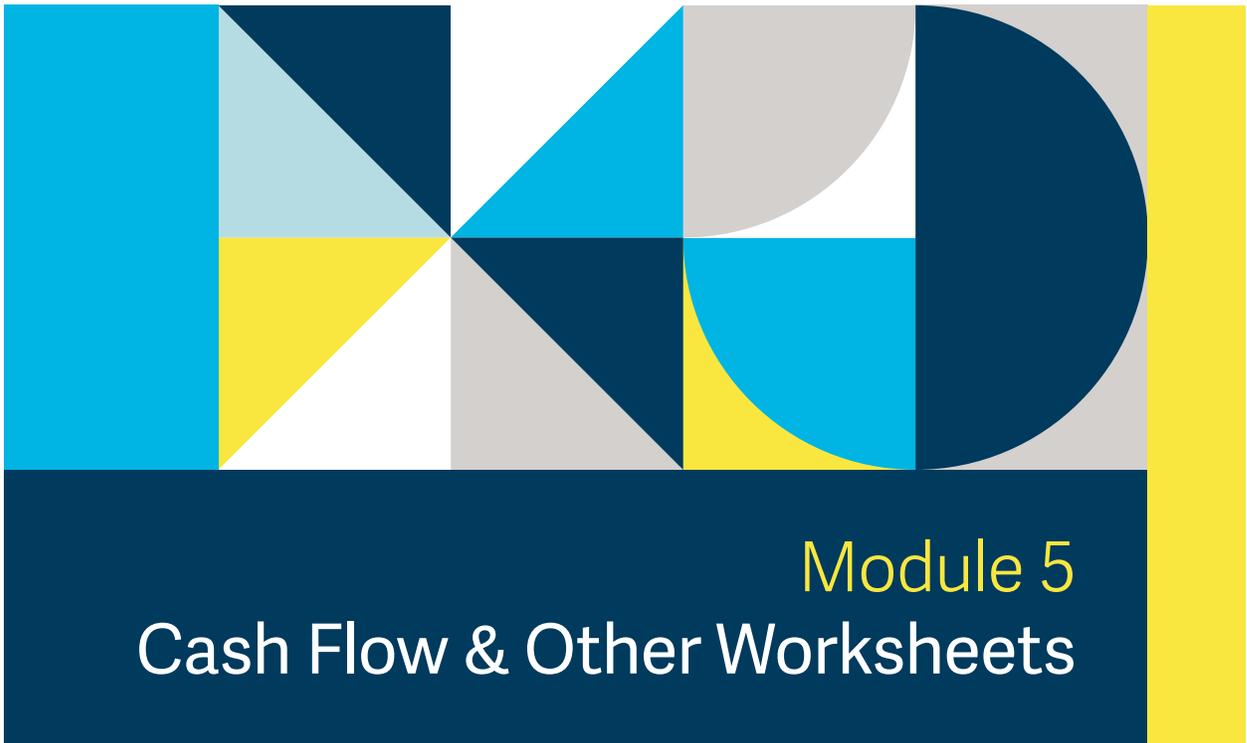
**Sales** – The primary source of revenue a business receives for goods sold or services offered

**Selling Expenses** – Costs the business incurs in the process of selling and marketing its goods and/or services

**Sole Proprietorship** – A business with a single owner. It has no separation between the business entity and its owner

**Straight-Line Method of Depreciation** – A method to calculate depreciation that distributes the same dollar amount of depreciation to expense each period. For example, a \$10,000 car with a useful life of 10 years would depreciate by \$1,000 each year

**Trademark** – A symbol, design, brand name or any other indication of easy and ready recognition attributed to a product



There are several resources available to help you calculate self-employed borrower cash flow or the net rental income from a rental property.

This module includes our:

- MGIC SAM Cash Flow Analysis Worksheet
- MGIC Liquidity Worksheet
- MGIC Comparative Income Analysis Worksheet
- MGIC Rental Income Worksheet

Each year, we update our worksheets to reflect the most recent changes in the tax forms. Line-by-line navigation of each tax schedule makes them easy to follow.

This module also includes current Fannie Mae and Freddie Mac worksheets. The Agencies and most investors have **no requirements** about which worksheet to use. However, they all require that you clearly show how you determined qualifying income.

The rationale behind whether you should add/deduct the amount of a line item to/from cash flow is universal. Once you've mastered the concepts, you can apply them to any worksheet (unless investor guidelines or company policy require you to use a certain one).

You can photocopy the worksheets for your calculations right from this manual. But, if you prefer to work online, go to [mgic.com/seb](http://mgic.com/seb) to access editable, auto-calculating versions of the MGIC worksheets.

## Questions?

If you have questions about our Evaluating the Self-Employed Borrower program, contact your MGIC representative, [mgic.com/contact](http://mgic.com/contact).

**SAM Method** **Cash Flow Analysis Worksheet** **MGIC**

BORROWER AND/OR CO-BORROWER NAME: \_\_\_\_\_ DATE: \_\_\_\_\_

YEAR 1: \_\_\_\_\_ YEAR 2: \_\_\_\_\_

X SCHEDULE B - INTEREST AND DIVIDENDS FROM SELF-EMPLOYMENT			
1	Recurring Interest Income: LINE 1 or 1040 LINE 2b (2018), LINE 8a (2017 and 2016)		
2	Recurring Dividend Income: LINE 5 or 1040 LINE 3b (2018), LINE 9a (2017 and 2016)		
SUBTOTAL		\$ -	\$ -

X SCHEDULE C - SOLE PROPRIETORSHIP			
Name: _____ + -			
3	Net Profit (Loss): LINE 31		
4	Deduct nonrecurring income/add nonrecurring loss or expense: LINE 6		
5	Depletion: LINE 12		
6	Depreciation: LINE 13		
7	Meals or Meals and Entertainment Exclusion: LINE 24b	( )	( )
8	Business Use of Home: LINE 30		
9	Business Miles: page 2, part IV, LINE 44a	*Miles	*Miles
10a	x Depreciation Rate 2018: \$0.25, 2017: \$0.25, 2016: \$0.24		
10b	= Total Mileage Depreciation		
11	Amortization/Casualty Loss (only if noted): page 2, part V		
SUBTOTAL		\$ -	\$ -

X SCHEDULE D - CAPITAL GAINS AND LOSSES			
12	Recurring Capital Gains (Loss): page 2, LINE 16 (details on FORM 8949)		
SUBTOTAL		\$ -	\$ -

X SCHEDULE E - SUPPLEMENTAL INCOME AND LOSS <small>To calculate rental property income (loss), use the Rental Income Worksheet</small>			
13	Royalty Income (Loss): LINE 4		
14	Total Expenses: LINE 20	( )	( )
15	Depletion: LINE 18		
SUBTOTAL		\$ -	\$ -

X SCHEDULE F - FARM INCOME			
16	Net Profit (Loss): LINE 34		
17	Non-Tax Portion Ongoing Co-op & CCC Pmts: LINES 3a minus b through 6a minus b		
18	Deduct nonrecurring income/add nonrecurring loss: LINE 8		
19	Depreciation: LINE 14		
20	Amortization/Casualty Loss/Depletion (only if noted): LINE 32		
21	Business Use of Home (only if noted): LINE 32		
SUBTOTAL		\$ -	\$ -

**Partnership Cash Flow**

Evaluate K-1 income and business income as required by your investor.

<input checked="" type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
<b>SCHEDULE K-1</b>			
22	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.		
23	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.		
24	Guaranteed Payments to Partner: LINE 4		
	<b>SUBTOTAL</b>	\$ -	\$ -
<b>FORM 1065</b>			
25	Passthrough (Income) Loss from Other Partnerships: LINE 4		
26	Deduct nonrecurring income/add nonrecurring loss: LINES 5, 6 & 7		
27	Depreciation: LINE 16c		
28	Depreciation (FORM 8825): LINE 14		
29	Depletion: LINE 17		
30	Amortization/Casualty Loss (only if noted): LINE 20 from attached statement		
31	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 16, Column d	( )	( )
32	Travel and Entertainment Exclusion: Schedule M-1, LINE 4b	( )	( )
	<b>SUBTOTAL</b>	\$ -	\$ -
33	Multiplied by Ownership Percentage		
	<b>Partner's Total Share of Income (Loss)</b>	\$ -	\$ -

<input type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
--------------------------	---	--	--

<input type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
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<input type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
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<input type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
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<input type="checkbox"/>	<b>PARTNERSHIP SCHEDULE K-1 and FORM 1065</b> Name:		
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**S Corporation Cash Flow**

Evaluate K-1 income, W-2 wages and business income as required by your investor.

<input checked="" type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
<b>SCHEDULE K-1</b>			
34	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.		
35	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.		
	<b>SUBTOTAL</b>	\$ -	\$ -
<b>FORM W-2</b>			
36	Wages: W-2, Box 5 (in general)		
<b>FORM 1120S</b>			
37	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5		
38	Depreciation: LINE 14		
39	Depreciation (FORM 8825): LINE 14		
40	Depletion: LINE 15		
41	Amortization/Casualty Loss (only if noted): LINE 19 from attached statement		
42	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )	( )
43	Travel and Entertainment Exclusion: Schedule M-1, LINE 3b	( )	( )
	<b>SUBTOTAL</b>	\$ -	\$ -
44	Multiplied by Ownership Percentage		
	<b>Shareholder's Total Share of Income (Loss)</b>	\$ -	\$ -

<input type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
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<input type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
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<input type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
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<input type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
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<input type="checkbox"/>	<b>S CORPORATION SCHEDULE K-1, W-2 WAGES and FORM 1120S</b> Name:		
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# MGIC SAM Cash Flow Analysis Worksheet

## Corporation Cash Flow

Evaluate W-2 wages and business income as required by your investor.

<input checked="" type="checkbox"/>	W-2 WAGES and FORM 1120	Name:	
FORM W-2			
45	Wages: W-2, Box 5 (in general)		
FORM 1120			
46	Taxable Income: LINE 30		
47	Total Tax: LINE 31	( )	( )
48	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9		
49	Deduct nonrecurring income/add nonrecurring loss: LINE 10		
50	Depreciation: LINE 20		
51	Depletion: LINE 21		
52	Domestic Production Activities Deduction: LINE 25 (2017 and 2016)		
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		
54	Net Operating Loss and Special Deductions: LINES 29a & b		
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )	( )
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	( )	( )
	SUBTOTAL	\$ -	\$ -
57	Multiplied by Ownership Percentage		
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	( )	( )
	Corporation's Total Share of Income (Loss)	\$ -	\$ -
<input type="checkbox"/>	W-2 WAGES and FORM 1120	Name:	
<input type="checkbox"/>	W-2 WAGES and FORM 1120	Name:	

## SAM Method

## Cash Flow Analysis Worksheet



### Cash Flow Analysis Summary

A. To modify the Total No. of Months select the applicable number from the # mo. drop-down box.  
 B. To exclude a Subtotal from Qualifying Income, select the box to the left of the dollar amount.

Subtotal	
<input checked="" type="checkbox"/>	\$ 10,000.00

	Subtotal	# mo.	Subtotal	# mo.	Qualifying Income	Total No. of Months
p.1	PERSONAL CASH FLOW SUBTOTALS:					
p.2	PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:					
p.3	CORPORATION CASH FLOW SUBTOTALS:					
	Average Monthly Cash Flow (Total)				\$ -	

Comments / Notes

## Liquidity Worksheet



Determine business liquidity using S Corporation or Partnership tax returns and entering the applicable line items below.

In general:

- Use the **Current Ratio** for a business that doesn't rely on inventory to generate its income
- Use the **Quick Ratio** for a business that relies heavily on inventory to generate its income

Typically, a result of 1.00 or greater for either ratio demonstrates adequate liquidity. However, it's important to use the most appropriate ratio, based on how the business operates. Investor guidelines may vary and other liquidity methods may apply. FOLLOW INVESTOR GUIDELINES.

NOTE: If there are no business liabilities, results will reflect N/A, indicating adequate liquidity.

Business Name:

Schedule L - Assets Select the Years:

1	Cash: <a href="#">Line 1, Column d</a>		
2	Trade notes and accounts receivable, less bad debt: <a href="#">Line 2b, Column d</a>		
3	Inventories: <a href="#">Line 3, Column d</a>		
4	Other: <input type="text"/>		
5	<b>Total Current Assets:</b>	\$ -	\$ -

Schedule L - Liabilities

6	Accounts Payable: <a href="#">Form 1120S Line 16/Form 1065 Line 15, Column d</a>		
7	Mortgages, notes, bonds payable < 1 year: <a href="#">Form 1120S Line 17/Form 1065 Line 16, Column d</a>		
8	Other current liabilities: <a href="#">Form 1120S Line 18/Form 1065 Line 17, Column d</a>		
9	<b>Total Current Liabilities:</b>	\$ -	\$ -

Current Ratio

	<b>Total Current Assets:</b> <a href="#">Row 5 - Assets above</a>	\$ -	\$ -
	<b>Total Current Liabilities:</b> <a href="#">Row 9 - Liabilities above</a>	\$ -	\$ -
	<b>Current Ratio:</b> <a href="#">In general, a ratio ≥ 1 demonstrates adequate liquidity</a>	N/A	N/A

Quick Ratio

	<b>Cash, notes, accounts receivable (less bad debt) &amp; other:</b> <a href="#">Rows 1, 2 &amp; 4 - Assets above</a>	\$ -	\$ -
	<b>Total Current Liabilities:</b> <a href="#">Row 9 - Liabilities above</a>	\$ -	\$ -
	<b>Quick Ratio:</b> <a href="#">In general, a ratio ≥ 1 demonstrates adequate liquidity</a>	N/A	N/A

Comments / Notes

## Comparative Income Analysis Worksheet



An effective way to measure and compare the profitability or growth of a business is to calculate the trend ratios, which compare income statement accounts from one year to the next.

Using the business's tax returns, select the appropriate tax year and enter the applicable line items in the table below.

NOTE: If using YTD for 2019, when entering the date of the Income Statement, the entries will auto-calculate as annualized figures.

The % Change (increase or decrease) in the various categories automatically populates in the matrix, eliminating the need for any manual calculation.

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

Business Name:

Select the Years:

Gross Receipt/Sales

Returns & Allowances

Cost of Goods Sold

Total deductions/Total expenses

- Total deductions for Partnership, S Corporation or Corporation

- Total expenses for Sole Proprietorship

Taxable Income

- Ordinary Income (Loss) for Partnership/S Corporation

- Taxable Income (Loss) for Corporation

- Net Profit (Loss) for Sole Proprietorship

Gross Receipts/Sales	\$	-		\$	-		\$	-
% Change			-					-
Gross Income	\$	-		\$	-		\$	-
(Gross Receipts/Sales - Returns & Allowances)								
% Change			-					-
Cost of Goods Sold (CGS)	\$	-		\$	-		\$	-
% Change			-					-
Expenses	\$	-	n/a*	\$	-	n/a*	\$	- n/a*
(CGS + Total deductions/Total expenses)								
% Change			-					-
Gross Profits	\$	-		\$	-		\$	-
(Gross Receipts/Sales - Returns & Allowances - CGS)								
% Change			-					-
Taxable Income	\$	-	n/a**	\$	-	n/a**	\$	- n/a**
% Change			-					-

\*Annual % of Expenses compared to Gross Income \*\*Annual % of Taxable Income compared to Gross Income

Comments / Notes

Rental Income Worksheet (for Schedule E or Form 8825)



BORROWER AND/OR CO-BORROWER NAME:

Complete your analysis using Schedule E or Form 8825, as applicable to your loan file and investor requirements.  
 Note: In general, investors require you to analyze only the most recent tax year for net rental income (loss).

- For Schedule E – PITIA method – Complete rows 1-12:
  - > When row 12 shows income, include row 12 in qualifying income; exclude PITIA from DTI
  - > When row 12 shows loss, include row 12 in DTI; exclude PITIA from DTI
- For Form 8825 – Complete rows 1-12:
  - > When row 12 shows income, do nothing with row 12; exclude PITIA from DTI
  - > When row 12 shows loss < PITIA, include row 12 in DTI; exclude PITIA from DTI
  - > When row 12 shows loss > PITIA, do nothing with row 12; include PITIA in DTI
- For Schedule E – Traditional Method – Complete rows 1-3 & 7-9

Property:  + -

Rental Income (Loss) Calculation		Select the Years: <input type="text"/> <input type="text"/>	
1	Number of Months: Maximum 12	<input type="text"/>	<input type="text"/>
2	Income (Loss): Schedule E Line 21; Form 8825 Line 17	<input type="text"/>	<input type="text"/>
3	Depreciation: Schedule E Line 18; Form 8825 Line 14	<input type="text"/>	<input type="text"/>
4	Taxes: Schedule E Line 16; Form 8825 Line 11	<input type="text"/>	<input type="text"/>
5	Mortgage Interest: Schedule E Lines 12 & 13; Form 8825 Line 9	<input type="text"/>	<input type="text"/>
6	Insurance: Schedule E Line 9; Form 8825 Line 7	<input type="text"/>	<input type="text"/>
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E Line 19; Form 8825 Line 15	<input type="text"/>	<input type="text"/>
8	Annual Gross Rental Income (Loss)	\$ <input type="text"/> -	\$ <input type="text"/> -
9	Monthly Gross Rental Income (Loss)	N/A	N/A
10	Monthly Mortgage Payment – P & I	( <input type="text"/> )	( <input type="text"/> )
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( <input type="text"/> )	( <input type="text"/> )
12	NET Monthly Rental Income (Loss)	N/A	N/A

Property:  + -

Rental Income (Loss) Calculation		Select the Years: <input type="text"/> <input type="text"/>	
1	Number of Months: Maximum 12	<input type="text"/>	<input type="text"/>
2	Income (Loss): Schedule E Line 21; Form 8825 Line 17	<input type="text"/>	<input type="text"/>
3	Depreciation: Schedule E Line 18; Form 8825 Line 14	<input type="text"/>	<input type="text"/>
4	Taxes: Schedule E Line 16; Form 8825 Line 11	<input type="text"/>	<input type="text"/>
5	Mortgage Interest: Schedule E Lines 12 & 13; Form 8825 Line 9	<input type="text"/>	<input type="text"/>
6	Insurance: Schedule E Line 9; Form 8825 Line 7	<input type="text"/>	<input type="text"/>
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E Line 19; Form 8825 Line 15	<input type="text"/>	<input type="text"/>
8	Annual Gross Rental Income (Loss)	\$ <input type="text"/> -	\$ <input type="text"/> -
9	Monthly Gross Rental Income (Loss)	N/A	N/A
10	Monthly Mortgage Payment – P & I	( <input type="text"/> )	( <input type="text"/> )
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( <input type="text"/> )	( <input type="text"/> )
12	NET Monthly Rental Income (Loss)	N/A	N/A

Property:  + -

Rental Income (Loss) Calculation		Select the Years: <input type="text"/> <input type="text"/>	
1	Number of Months: Maximum 12	<input type="text"/>	<input type="text"/>
2	Income (Loss): Schedule E Line 21; Form 8825 Line 17	<input type="text"/>	<input type="text"/>
3	Depreciation: Schedule E Line 18; Form 8825 Line 14	<input type="text"/>	<input type="text"/>
4	Taxes: Schedule E Line 16; Form 8825 Line 11	<input type="text"/>	<input type="text"/>
5	Mortgage Interest: Schedule E Lines 12 & 13; Form 8825 Line 9	<input type="text"/>	<input type="text"/>
6	Insurance: Schedule E Line 9; Form 8825 Line 7	<input type="text"/>	<input type="text"/>
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E Line 19; Form 8825 Line 15	<input type="text"/>	<input type="text"/>
8	Annual Gross Rental Income (Loss)	\$ <input type="text"/> -	\$ <input type="text"/> -
9	Monthly Gross Rental Income (Loss)	N/A	N/A
10	Monthly Mortgage Payment – P & I	( <input type="text"/> )	( <input type="text"/> )
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( <input type="text"/> )	( <input type="text"/> )
12	NET Monthly Rental Income (Loss)	N/A	N/A



Fannie Mae

**Cash Flow Analysis (Form 1084)**

**Borrower Name:** \_\_\_\_\_

*Business Name (optional):* \_\_\_\_\_

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

**IRS Form 1040 – Individual Income Tax Return**                      **Year**\_\_\_\_\_                      **Year**\_\_\_\_\_

1. **W-2 Income from Self-Employment**                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

2. **Schedule B – Interest and Ordinary Dividends**

a. Interest Income from Self-Employment                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

b. Dividends from Self-Employment                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

3. **Schedule C – Profit or Loss from Business: Sole Proprietorship**

a. Net Profit or (Loss)                      (+/-)\_\_\_\_\_                      (+/-)\_\_\_\_\_

b. Nonrecurring Other (Income) Loss/Expenses                      (+/-)\_\_\_\_\_                      (+/-)\_\_\_\_\_

c. Depletion                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

d. Depreciation                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

e. Non-deductible Meals and Entertainment Expenses                      (-)\_\_\_\_\_                      (-)\_\_\_\_\_

f. Business Use of Home                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

g. Amortization/Casualty Loss                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

4. **Schedule D – Capital Gains and Losses**

a. Recurring Capital Gains                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

5. **Schedule E – Supplemental Income and Loss**

**Note:** A lender may use Fannie Mae Rental Income Worksheets ([Form 1037](#) or [Form 1038](#)) to calculate individual rental income (loss) reported on Schedule E.

a. Royalties Received                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

b. Total Expenses                      (-)\_\_\_\_\_                      (-)\_\_\_\_\_

c. Depletion                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

6. **Schedule F – Profit or Loss from Farming**

a. Net Farm Profit or (Loss)                      (+/-)\_\_\_\_\_                      (+/-)\_\_\_\_\_

b. Non-Tax Portion Ongoing Coop and CCC Payments                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

c. Nonrecurring Other (Income) Loss                      (+/-)\_\_\_\_\_                      (+/-)\_\_\_\_\_

d. Depreciation                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

e. Amortization/Casualty Loss/Depletion                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

f. Business Use of Home                      (+)\_\_\_\_\_                      (+)\_\_\_\_\_

**Note:** IRS Form 4797 (Sales of Business Property) is not included on this worksheet due to its infrequent use. If applicable, a lender may include analysis of the sale and related recurring capital gains.

**Partnership or S Corporation**

A self-employed borrower's share of Partnership or S Corporation earnings can only be considered if the lender obtains documentation, such as Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

**Note:** See the Instructions for additional guidance on documenting access to income and business liquidity.

**IRS Form 1065 - Partnership Income**

	Year _____	Year _____
<b>7. Schedule K-1 Form 1065 – Partner’s Share of Income</b>		
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Income (Loss)	(+/-) _____	(+/-) _____
c. Guaranteed Payments to Partner	(+) _____	(+) _____
<b>8. Form 1065 - Adjustments to Business Cash Flow</b>		
a. Ordinary (Income) Loss from Other Partnerships	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
c. Depreciation	(+) _____	(+) _____
d. Depletion	(+) _____	(+) _____
e. Amortization/Casualty Loss	(+) _____	(+) _____
f. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
g. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
h. Subtotal	_____	_____
i. Total Form 1065 (Subtotal multiplied by % of ownership)	_____	_____

**IRS Form 1120S – S Corporation Earnings**

	Year _____	Year _____
<b>9. Schedule K-1 Form 1120S – Shareholder’s Share of Income</b>		
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Rental Income (Loss)	(+/-) _____	(+/-) _____
<b>10. Form 1120S - Adjustments to Business Cash Flow</b>		
a. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
b. Depreciation	(+) _____	(+) _____
c. Depletion	(+) _____	(+) _____
d. Amortization/Casualty Loss	(+) _____	(+) _____
e. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
f. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
g. Subtotal	_____	_____
h. Total Form 1120S (Subtotal multiplied by % of ownership)	_____	_____

**IRS Form 1120 – Regular Corporation**

Corporation earnings may be used when the borrower(s) own 100% of the corporation.

	Year _____	Year _____
<b>11. Form 1120 – Regular Corporation</b>		
a. Taxable Income	_____	_____
b. Total Tax	(-) _____	(-) _____
c. Nonrecurring (Gains) Losses	(+/-) _____	(+/-) _____
d. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
e. Depreciation	(+) _____	(+) _____
f. Depletion	(+) _____	(+) _____
g. Amortization/Casualty Loss	(+) _____	(+) _____
h. Net Operating Loss and Special Deductions	(+) _____	(+) _____
i. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
j. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
k. Subtotal	_____	_____
l. Less: Dividends Paid to Borrower	(-) _____	(-) _____
m. Total Form 1120	_____	_____

Rental Income Worksheet						
Principal Residence, 2- to 4-unit Property: Monthly Qualifying Rental Income						
<b>Documentation Required:</b> ▪ Schedule E (IRS Form 1040) OR ▪ Lease Agreement or Fannie Mae Form 1007 or Form 1025				Address of Principal Residence:		
Enter				Rental Unit	Rental Unit	Rental Unit
<b>Step 1.</b> When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>						
<b>Step 1. Result:</b> The number of months the property was in service:				<b>Result</b>		
<b>Step 2.</b> Calculate monthly qualifying rental income using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1025.						
<b>Step 2 A. Schedule E - Part I For each property complete ONLY 2A or 2B</b>						
A1	Enter total rents received (from the <b>non-owner-occupied</b> units). <i>May enter rent from individual unit(s) or combine.</i>	Enter				
A2	Subtract total expenses.	Subtract				
A3	Add back insurance expense.	Add				
A4	Add back mortgage interest paid.	Add				
A5	Add back tax expense.	Add				
A6	Add back homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add				
A7	Add back depreciation expense or depletion.	Add				
A8	Add back any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
Equals adjusted rental income.		Total	0	0	0	
A9	Divide by the number of months the property was in service (Step 1 Result).	Divide	0	0	0	
<b>Step 2A. Result:</b> Monthly qualifying rental income (or loss):				<b>Result</b>	0	0
<b>Step 2B. Lease Agreement OR Fannie Mae Form 1025 For each property complete ONLY 2A or 2B</b> <i>This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing.</i>						
B1	Enter the gross monthly rent (from the lease agreement) or market rent (from Form 1025) for the applicable rental unit	Enter				
B2	Multiply gross monthly rent or market rent by 75% (.75). <i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	
Equals monthly rental income per unit		Total	0	0	0	
B3	Combine the monthly rental income of all non-owner-occupied rental units (up to a maximum of 3 rental units since rental income is not eligible on the unit occupied by the borrower).	Add	0			
<b>Step 2B. Result:</b> Monthly qualifying rental income:				<b>Result</b>	0	
<b>Step 3. Determine the qualifying impact using the combined result of Step 2A or Step 2B.</b>						
3A	Add the monthly qualifying rental income to the borrower's monthly qualifying income.					0
3B	Identify the full amount of the PITIA as the borrower's primary housing expense and include it in the debt-to-income ratio. <i>Use proposed PITIA when the subject property; existing PITIA when not the subject property.</i>					
<b>DU Data Entry</b>		<b>Monthly Income and Combined Housing Expenses</b>		<b>Mortgage Liabilities</b>		
Subject Property	Enter the amount of the monthly qualifying income "Subject Net Cash."			Include as the borrower's primary housing expense. For refinance transactions, identify the mortgage as a subject property lien.		
Non-Subject Property	Enter the amount of the monthly qualifying income "Net Rental."			Include as the borrower's primary housing expense.		

Refer to the Rental Income topic in the Selling Guide for additional guidance.

# Fannie Mae Rental Income Worksheet Form 1038

Rental Income Worksheet						
Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)						
<b>Documentation Required:</b> ■ Schedule E (IRS Form 1040) OR ■ Lease Agreement or Fannie Mae Form 1007 or Form 1025		Enter	Investment Property Address	Investment Property Address	Investment Property Address	Investment Property Address
<b>Step 1.</b> When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>						
<b>Step 1. Result:</b> Enter the number of months the property was in service:		Result				
<b>Step 2.</b> Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1025.						
Step 2A. Schedule E - Part I			For each property complete ONLY 2A or 2B			
A1	Enter total rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
Equals adjusted rental income.		Total	0	0	0	0
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
Equals adjusted monthly rental income		Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
<b>Step 2A. Result:</b> Monthly qualifying rental income (or loss):		Result	0	0	0	0
Step 2B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025			For each property complete ONLY 2A or 2B			
This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing, or the lender has justification for using a lease agreement.						
B1	Enter the gross monthly rent (from the lease agreement) or market rent (reported on Form 1007 or Form 1025). <i>For multi-unit properties, combine gross rent from all rental units.</i>	Enter				
B2	<i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	x.75
Equals adjusted monthly rental income.		Total	0	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
<b>Step 2B. Result:</b> Monthly qualifying rental income (loss):		Result	0	0	0	0
Step 3. Determine the qualifying impact using the result of Step 2A or Step 2B.						
If the result of Step 2A or 2B is <b>positive</b> , add the positive amount to the borrower's monthly qualifying income. <i>Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.</i>						
If the result of Step 2A or 2B is <b>negative</b> , include the amount of the loss in the borrower's monthly expenses when calculating the DTI ratio.						
DU Data Entry	Monthly Income and Combined Housing Expenses			Mortgage Liabilities		
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Subject Net Cash."			For refinance transactions, identify the mortgage as a subject property lien.		
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."			Identify the mortgage as a rental property lien.		

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Rental Income Worksheet						
Business Rental Income from Investment Property(s): Qualifying Impact of Mortgaged Investment Property PITIA Expense						
Documentation Required: ▪ IRS Form 8825 (filed with either IRS Form 1065 or 1120S) OR ▪ Lease Agreement		Enter	Property Address	Property Address	Property Address	Property Address
Enter the mortgagee and the mortgage loan account number.		Enter	Mortgagee/#	Mortgagee/#	Mortgagee/#	Mortgagee/#
<b>Step 1.</b> When using IRS Form 8825, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>						
Step 1. Result: Enter The number of months the property was in service:		Result				
<b>Step 2.</b> Calculate monthly property cash flow using Step 2A: IRS Form 8825 OR Step 2B: Lease Agreement.						
Step 2A. IRS Form 8825 (IRS Form 1065 or 1120S)			For each property complete ONLY 2A or 2B			
A1	Enter gross rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Form 8825 in order to add it back.</i>	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
	Equals adjusted rental income.	Total	0	0	0	0
A9	The number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
	Equals adjusted monthly rental income	Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2A. Result: Monthly property cash flow:		Result	0	0	0	0
Step 2B. Lease Agreement			For each property complete ONLY 2A or 2B			
<i>This method is used in certain circumstances (e.g., when the property was acquired subsequent to the most recent tax filing or the lender has justification for using a lease agreement).</i>						
B1	Enter the gross monthly rent (from the lease agreement) <i>For multi-unit properties, combine the monthly qualifying income of all rental units.</i>	Enter				
B2	<i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rents.	Total	0	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2B. Result: Monthly property cash flow:		Result	0	0	0	0
<b>Step 3. Determine qualifying impact of the mortgaged investment property PITIA expense.</b>						
If the result of Step 2A or 2B is <b>negative</b> , include this loss, not to exceed the monthly PITIA expense, in the debt-to-income ratio.						
If the result of Step 2A or 2B is positive, the full amount of the PITIA expense has been offset. Do not include it in the debt-to-income ratio..						
<b>Important:</b> This worksheet provides a means of calculating an offset to the monthly PITIA. To add any net income to the borrower's qualifying income, additional requirements apply (e.g., two-year history vs. one-year history). Refer to the Self-Employment Income topic in the Selling Guide.						
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities		Real Estate Owned		
Subject Property	Enter the amount of the negative monthly property cash flow in "Subject Net Cash." If the monthly property cash flow is positive enter \$0.00	For refinancing transactions, identify the mortgage as a subject property lien.		If REO Schedule is completed, confirm that the "Net Rental Income" field reflects either ▪ the amount of the property cash flow if it is negative, or ▪ \$0.00 if the monthly property cash flow is positive.		
Non-Subject Property	Enter the amount of the negative monthly property cash flow in "Net Rental." If the monthly property cash flow is positive, enter \$0.00	Identify the mortgage as a rental property lien.				

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Borrower Name: \_\_\_\_\_



# Form 91

## Income Calculations (Schedule Analysis Method)

Form 91 is to be used to document the Seller's calculation of the income for a self-employed Borrower. This form is a tool to help the Seller calculate the income for a self-employed Borrower; the Seller's calculations must be based on the requirements and guidance for the determination of stable monthly income in Topic 5300. This form does not replace the requirements and guidance for the analysis and treatment of the income for self-employed Borrowers as described in Chapters 5304 and 5305.

### I. Income Calculations from IRS Form 1040

IRS Form 1040 Federal Individual Income Tax Return	Year:	Year:
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<b>1. W-2 Income from self-employment (reported on IRS Forms 1040 and 1120 or 1120S)</b>		
Name of business: _____		
IRS Form 1040, W-2 Income – Officer Compensation (Section 5304.1(d)) <sup>1</sup>	(+)	(+)
<b>Subtotal of W-2 income from self-employment</b>	\$	\$

<sup>1</sup>Validate with business returns and IRS Form 1125-E, Compensation of Officers, as applicable

<b>2. Schedule B – Interest and Ordinary Dividends</b>		
Recurring interest income (Chapter 5305)	(+)	(+)
Recurring dividend income (Chapter 5305)	(+)	(+)
Dividend income from self-employment reported on IRS Form 1120	(-)	(-)
<b>Subtotal of dividends and interest</b>	\$	\$

Borrower Name: \_\_\_\_\_

<b>3. Schedule C – Profit or Loss from Business (Sole Proprietorship) (Chapter 5304)</b>		
<b>Name of business #1: _____</b>		
Net profit or loss	(+/-)	(+/-)
Non-recurring other income or loss, or expenses	(+/-)	(+/-)
Depletion	(+)	(+)
Depreciation	(+)	(+)
Meals (and entertainment if applicable) exclusion	(-)	(-)
Amortization or casualty loss	(+)	(+)
Business use of home	(+)	(+)
<b>Subtotal from Schedule C, Business #1</b>	<b>\$</b>	<b>\$</b>

<b>4. Schedule C – Profit or Loss from Business (Sole Proprietorship) (Chapter 5304)</b>		
<b>Name of business #2: _____</b>		
Net profit or loss	(+/-)	(+/-)
Non-recurring other income or loss, or expenses	(+/-)	(+/-)
Depletion	(+)	(+)
Depreciation	(+)	(+)
Meals (and entertainment if applicable) exclusion	(-)	(-)
Amortization or casualty loss	(+)	(+)
Business use of home	(+)	(+)
<b>Subtotal from Schedule C, Business #2</b>	<b>\$</b>	<b>\$</b>

<b>5. Schedule D – Capital Gains and Losses (Chapter 5305)</b>		
Recurring capital gains and/or losses	(+/-)	(+/-)
<b>Subtotal from Schedule D, capital gains and losses</b>	<b>\$</b>	<b>\$</b>

# Freddie Mac Form 91 Income Calculations

Borrower Name: \_\_\_\_\_

<b>6. Schedule E<sup>1</sup> – Supplemental Income or Loss (Royalties) (Chapter 5305)</b>		
Royalties received	(+)	(+)
Total expenses	(-)	(-)
Depletion	(+)	(+)
<b>Subtotal Schedule E, from royalties</b>	<b>\$</b>	<b>\$</b>

<sup>1</sup>Refer to Form 92 for net rental income calculations using IRS Schedule E

<b>7. Schedule F – Profit or Loss from Farming (Chapter 5304)</b>		
Net Farm Profit or Loss	(+/-)	(+/-)
Non-taxable portion of recurring cooperative and CCC payments	(+)	(+)
Non-recurring other income or loss	(+/-)	(+/-)
Depreciation	(+)	(+)
Amortization/Casualty loss/Depletion	(+)	(+)
Business use of home	(+)	(+)
<b>Subtotal from Schedule F, farming</b>	<b>\$</b>	<b>\$</b>

<b>Combined total from IRS Form 1040</b>	<b>\$</b>	<b>\$</b>
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Borrower Name: \_\_\_\_\_

**II. Income Calculations from IRS Schedule K-1 and IRS Form 1065**

**8. Partnership Income (Refer to Chapter 5304)**

Name of business: \_\_\_\_\_

Partnership – Schedule K-1 (IRS Form 1065)	Year:	Year:
Ordinary Business Income or Loss	(+/-)	(+/-)
Net rental real estate income or loss	(+/-)	(+/-)
Guaranteed Payments	(+)	(+)
<b>Subtotal from Schedule K-1 (IRS Form 1065)</b>	<b>\$</b>	<b>\$</b>

Partnership Income from IRS Form 1065	Year:	Year:
Depreciation (IRS Form 1065)	(+)	(+)
Depreciation (IRS Form 8825) (Guide Section 5304.1(d))	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
<b>Subtotal prior to application of ownership interest percentage</b>	<b>\$</b>	<b>\$</b>
Multiply by total percentage of ownership (on Schedule K-1)	(x)	(x)
<b>Subtotal from IRS Form 1065</b>	<b>\$</b>	<b>\$</b>

<b>Combined subtotal from partnership</b>	<b>\$</b>	<b>\$</b>
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Borrower Name: \_\_\_\_\_

**III. Income Calculations from IRS Schedule K-1 and IRS Form 1120S**

**9. S Corporation Income (Refer to Chapter 5304)**

Name of business: \_\_\_\_\_

<b>S Corporation Schedule K-1 (IRS Form 1120S)</b>	<b>Year:</b>	<b>Year:</b>
Ordinary Business Income or Loss	(+/-)	(+/-)
Net rental real estate income or loss	(+/-)	(+/-)
<b>Subtotal from Schedule K-1 (IRS Form 1120S)</b>	<b>\$</b>	<b>\$</b>

<b>S Corporation Income from IRS Form 1120S</b>	<b>Year:</b>	<b>Year:</b>
Depreciation (IRS Form 1120S)	(+)	(+)
Depreciation (IRS Form 8825) (Guide Section 5304.1(d))	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
<b>Subtotal prior to application of ownership interest percentage</b>	<b>\$</b>	<b>\$</b>
Multiply by total percentage of ownership (on Schedule K-1)	(x)	(x)
<b>Subtotal from IRS Form 1120S</b>	<b>\$</b>	<b>\$</b>

<b>Combined subtotal from S corporation</b>	<b>\$</b>	<b>\$</b>
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Borrower Name: \_\_\_\_\_

**IV. Income Calculations from IRS Form 1120**

**10. Corporation Income (Refer to Chapter 5304)**

Name of business: \_\_\_\_\_

<b>Corporate Income from IRS Form 1120</b>	<b>Year:</b>	<b>Year:</b>
Depreciation	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Net operating loss	(+)	(+)
Taxable income or loss	(+/-)	(+/-)
Total tax	(-)	(-)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
<b>Subtotal prior to application of ownership interest percentage</b>	\$	\$
Multiply by total percentage of ownership	(x)	(x)
<b>Subtotal from IRS Form 1120</b>	\$	\$
<b>Combined subtotal from corporation</b>	\$	\$

Borrower Name: \_\_\_\_\_

**V. SUMMARY OF INCOME FROM SELF-EMPLOYMENT**

<b>IRS Form 1040 (Chapters 5304 and 5305)</b>	<b>Year:</b>	<b>Year:</b>
Subtotal of W-2 income from self-employment (Business name: _____)	\$	\$
Subtotal from Schedule B – Interest and Ordinary Dividends	\$	\$
Subtotal from Schedule C – Profit or Loss from Business (Sole Proprietorship) (Business #1 name: _____)	\$	\$
Subtotal from Schedule C – Profit or Loss from Business (Sole Proprietorship) (Business #2 name: _____)	\$	\$
Subtotal from Schedule D – Capital Gains and Losses	\$	\$
Subtotal from Schedule E – Supplemental Income or Loss (Royalties)	\$	\$
Subtotal from Schedule F – Profit or Loss from Farming	\$	\$
<b>Combined total from IRS Form 1040</b>	<b>\$</b>	<b>\$</b>

<b>Partnership Income (Chapter 5304)</b>	<b>Year:</b>	<b>Year:</b>
Subtotal from Schedule K-1 (IRS Form 1065)	\$	\$
Subtotal from IRS Form 1065	\$	\$
<b>Combined subtotal from Partnership (Business name: _____)</b>	<b>\$</b>	<b>\$</b>

<b>S Corporation Income (Chapter 5304)</b>	<b>Year:</b>	<b>Year:</b>
Subtotal from Schedule K-1 (IRS Form 1120S)	\$	\$
Subtotal from IRS Form 1120S	\$	\$
<b>Combined subtotal from S corporation (Business name: _____)</b>	<b>\$</b>	<b>\$</b>

<b>Corporate Income from IRS Form 1120 (Chapter 5304)</b>	<b>Year:</b>	<b>Year:</b>
Subtotal from IRS Form 1120	\$	\$
<b>Combined subtotal from corporation (Business name: _____)</b>	<b>\$</b>	<b>\$</b>

<b>Seller's calculation of stable monthly income</b>	<b>Year:</b>	<b>Year:</b>
<b>Sum of combined subtotals</b>	\$	\$
<b>Total income used to determine stable monthly income<sup>1</sup></b>	\$	
<b>Comments</b> _____		
<b>Divided by _____ months<sup>1</sup></b>		
<b>Total stable monthly income<sup>2</sup></b>	\$	

<sup>1</sup> Manual input: The Seller must determine the appropriate amount of income to use based on the requirements and guidance for the analysis and treatment of income for self-employed Borrowers as described in Chapters 5304 and 5305

<sup>2</sup> The Seller must determine that the *total stable monthly income* meets the requirements and guidance for the determination of stable monthly income in Topic 5300. This includes, but is not limited to, business review and analysis requirements (Section 5304.1(d)) to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.

Borrower Name: \_\_\_\_\_



# Form 92

## Net Rental Income Calculations – Schedule E

Form 92 is to be used to document the Seller’s calculation of net rental income from Schedule E. This form is a tool to help the Seller calculate the net rental income from Schedule E; the Seller’s calculations must be based on the requirements and guidance for the determination of stable monthly income in Guide Chapter 5306. This form does not replace the requirements and guidance for the analysis and treatment of rental income as described in Chapter 5306.

### I. Net Rental Income from Schedule E (Subject 2- to 4-unit Primary Residence)

SUBJECT 2- TO 4-UNIT PRIMARY RESIDENCE NET RENTAL INCOME CALCULATION – SCHEDULE E <sup>1</sup> Refinance Transaction owned in the prior year(s)		
IRS 1040 Schedule E – Supplemental Income and Loss	Subject Property Address: _____	
	Year:	Year:
Rents received	(+)	(+)
Less total expenses	(-)	(-)
Insurance <sup>2</sup>	(+)	(+)
Mortgage interest paid to banks, etc. <sup>2</sup>	(+)	(+)
Taxes (real estate only) <sup>2,3</sup>	(+)	(+)
Depreciation and/or depletion	(+)	(+)
Homeowners association (HOA) dues (if specifically reported as an expense) <sup>2</sup>	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)
<b>Subtotal(s)</b>	\$	\$
<b>Result: Net Rental Income</b> (calculated to a monthly amount) <sup>4</sup> <i>(Sum of subtotal(s) divided by number of applicable months = Net Rental Income)</i>	\$ _____ / _____ = \$ _____	

<sup>1</sup> Refer to Section 5306.1(c)(iii) for net rental Income calculation requirements

<sup>2</sup> This expense, if added back, must be included in the monthly housing expense being used to establish the DTI ratio

<sup>3</sup> The taxes added back must represent only real estate taxes included in the monthly housing expense

<sup>4</sup> **Establishing DTI ratio (Section 5306.1(d)):** The monthly housing expense must be added as a liability; the net rental income may be added to the stable monthly income

# Freddie Mac Form 92 Net Rental Income Calculations – Schedule E

Borrower Name: \_\_\_\_\_

## II. Net Rental Income from Schedule E (Subject Investment Property)

SUBJECT INVESTMENT PROPERTY NET RENTAL INCOME CALCULATION – SCHEDULE E <sup>1</sup> Refinance Transaction owned in the prior year(s)		
IRS 1040 Schedule E – Supplemental Income and Loss	Subject Property Address: _____	
	Year:	Year:
Rents received	(+)	(+)
Less total expenses	(-)	(-)
Insurance <sup>2</sup>	(+)	(+)
Mortgage interest paid to banks, etc. <sup>2</sup>	(+)	(+)
Taxes (real estate only) <sup>2,3</sup>	(+)	(+)
Depreciation and/or depletion	(+)	(+)
HOA dues (if specifically reported as an expense) <sup>2</sup>	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)
<b>Subtotal(s)</b>	<b>\$</b>	<b>\$</b>
<b>Result: Net Rental Income (calculated to a monthly amount)<sup>4</sup></b> <i>(Sum of subtotal(s) divided by number of applicable months = Net Rental Income)</i>	\$ _____ / _____ = \$ _____	

<sup>1</sup>Refer to Section 5306.1(c)(iii) for net rental income calculation requirements

<sup>2</sup>This expense, if added back, must be included in the monthly payment amount being used to establish the DTI ratio

<sup>3</sup>The taxes added back must represent only real estate taxes included in the monthly payment amount

<sup>4</sup> **Establishing DTI ratio (Section 5306.1(d))**: Subtract the monthly payment amount from the net rental income. If the result is positive, it may be added to income; if the result is negative, add it to the monthly liabilities

Borrower Name: \_\_\_\_\_

**III. Net Rental Income from Schedule E (Non-subject investment property(s))**

NON-SUBJECT INVESTMENT PROPERTY(S) NET RENTAL INCOME CALCULATION – SCHEDULE E <sup>1,2</sup> Refinance Transactions owned in the prior year(s)						
Property Address <sup>3</sup>	Property Address #1: _____		Property Address #2: _____		Property Address #3: _____	
IRS 1040 Schedule E – Supplemental Income and Loss	Year:	Year:	Year:	Year:	Year:	Year:
Rents received	(+)	(+)	(+)	(+)	(+)	(+)
Less total expenses	(-)	(-)	(-)	(-)	(-)	(-)
Insurance <sup>4</sup>	(+)	(+)	(+)	(+)	(+)	(+)
Mortgage interest paid to banks, etc. <sup>4</sup>	(+)	(+)	(+)	(+)	(+)	(+)
Taxes (real estate only) <sup>4,5</sup>	(+)	(+)	(+)	(+)	(+)	(+)
Depreciation and/or depletion	(+)	(+)	(+)	(+)	(+)	(+)
HOA dues (if specifically reported as an expense) <sup>4</sup>	(+)	(+)	(+)	(+)	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)	(+)	(+)	(+)	(+)
<b>Subtotals</b>	\$	\$	\$	\$	\$	\$
<b>Result: Net Rental Income</b> (calculated to a monthly amount) <sup>6</sup>	\$ _____ / _____ = \$ _____ <sup>7</sup>		\$ _____ / _____ = \$ _____ <sup>7</sup>		\$ _____ / _____ = \$ _____ <sup>7</sup>	

<sup>1</sup> Refer to Section 5306.1(c)(iii) for net rental income calculation requirements

<sup>2</sup> Refer to Chapter 5304 and Form 91 for the treatment of all rental real estate income or loss reported on IRS Form 8825, regardless of Borrower's percentage of ownership interest in the business or whether the Borrower is personally obligated on the note

<sup>3</sup> Review rental properties on Schedule E against Uniform Residential Loan Application ("URLA"). If properties are on the tax return(s) but not on the URLA, provide evidence the Borrower no longer owns the property

<sup>4</sup> This expense, if added back, must be included in the monthly payment amount used to establish the DTI ratio

<sup>5</sup> The taxes added back must represent only real estate taxes that are included in the monthly payment amount used to establish the DTI ratio

<sup>6</sup> **Establishing DTI ratio (Section 5306.1(d)):** Subtract the monthly payment amount from the net rental income. For one property, if the result is positive, add it to the income; if the result is negative, add it to the monthly liabilities. For multiple properties, subtract the monthly payment amount from the net rental income for each property. Combine the results and if the combined result is positive, add it to the income; if the combined result is negative, add it to the monthly liabilities.

<sup>7</sup> **Net Rental Income** = the sum of the subtotal(s) divided by the number of applicable months



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71-8847 2/19