

For Arch MI and Arch MI for Credit Unions

Business Tax Returns 201

The Basics of Self-Employed
Borrower Income Calculation

an INCOME ANALYSIS course



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Examine Cash-Flow Adjustments:

- Required Deductions.
- Allowable Add-Backs.

Outline Profit and Loss Statement Requirements.

Explain Net Operating Losses.

List Personal Debt Paid by the Business Exclusion Criteria.



Cash Flow Adjustments

What to Know

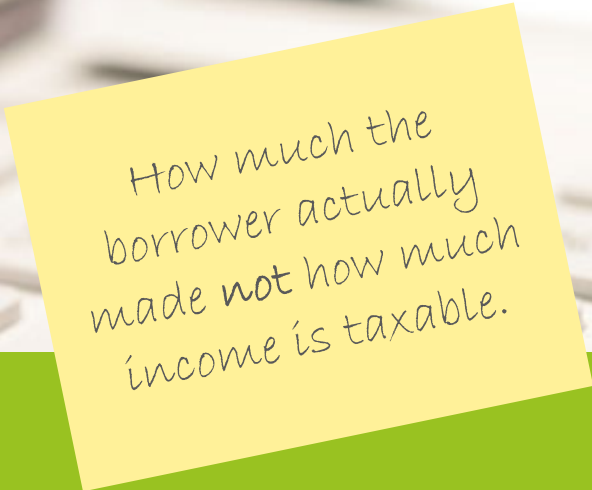


What Are Cash Flow Adjustments?



- Adjustment(s) to determine the “real” borrower income.
- Apply to all business structures.
- Can be  and .
- Multiplied by borrower’s ownership percentage.

Why Cash Flow Adjustments?



How much the borrower actually made not how much income is taxable.

- Adjustment(s) reduce taxable income.
- Only portions can be deducted from certain incurred expenses.

Schedule C (Form 1040), Profit or Loss from Business (Sole Proprietorship)

Part II Expenses		Enter expenses for business use of your home only on line 30.	
8	Advertising	8	
9	Car and truck expenses (see instructions).	9	1,243 00
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	4,013 00
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	209 00
16	Interest:		
	a Mortgage (paid to banks, etc.)	16a	
	b Other	16b	
17	Legal and professional services	17	145 00
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
	a Vehicles, machinery, and equipment	20a	22 00
	b Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	116 00
23	Taxes and licenses	23	
24	Travel, meals, and entertainment:		
	a Travel	24a	951 00
	b Deductible meals and entertainment (see instructions)	24b	49 00
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	1,754 00
27b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28	8,502 00
29	Tentative profit or (loss). Subtract line 28 from line 7	29	73,576 00
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: <input type="text"/> and (b) the part of your home used for business: <input type="text"/> . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	1,123 00
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	72,453 00
32	If you have a loss, check the box that describes your investment in this activity (see instructions).		

Expenses to Add-Back



**NON-CASH
EXPENSES**

**CASH
EXPENSES**

Non-Cash Expense

- Tax deduction cost business:
 - No money (paper write-off),
 - **OR** –
 - Money in a previous year but deducted **in the current** tax year.

Cash Expense

- Tax deduction for item(s) business spent money on in **the current** tax year.

Fannie Mae / Freddie Mac Guidelines*

+ ALL



+ SOME



*Fannie Mae Selling Guide B3-3.2-01, Freddie Mac Selling Guide Chapter 5304.1

Non-Cash Expenses

- Depreciation.
- Depletion.
- Amortization.

Cash Expenses

- Casualty Losses.
- Business Use of Home.
- All “Other” Cash Expenses.

Cash Flow Adjustments

Path of Least Resistance



■ Non-Cash Expenses Add-Backs

- History of expense **doesn't** matter.
- Continuance of expenses **doesn't** matter.



■ Cash Expenses Add-Backs

- Expense **must not** be historical.
- Expense **must not** be expected to repeat.

Back Pocket



- Follow the path of least resistance FIRST.
- Put any other potential cash expenses, or add-backs, in your “back pocket” and revisit them later if necessary.

Non-Cash Expenses



Depreciation

Depletion

Amortization

What is Depreciation?

- Fixed assets.
- Tangible property.
- Annual allowance for:
 - Wear and tear.
 - Deterioration.
 - Obsolescence.
- Not an out-of-pocket cost.
- Loss of value is written-off.



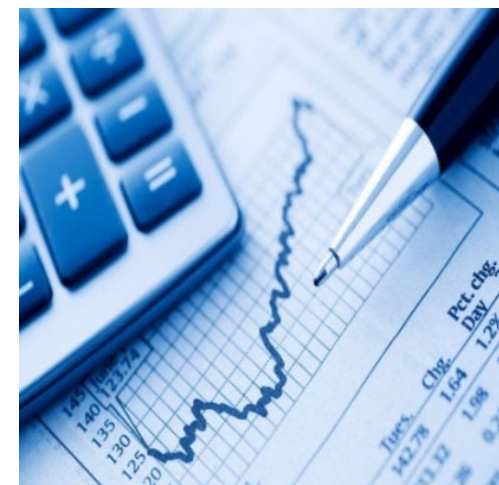
What is Depletion?

- Using up natural resources:
 - Mining.
 - Drilling.
 - Quarrying stone.
 - Cutting timber.
- Allows owner reduction of product reserves.
- Can add back into cash flow.
- Not an out-of-pocket expense.



What is Amortization?

- Associated with intangible items:
 - Goodwill
 - Trademarks
 - Patents
 - Logos
- Accounting for the cost of an item over a period of time.



NOTE: GSE's allow add-back of amortization but some investors do not. Check program guidelines for overlays.

Amortization Example



Depreciation

- **Tangible Assets.**

Depletion

- **Natural Resources.**

Amortization

- **Intangible Assets.**

Knowledge Check One

Which of the following statements is **TRUE** regarding **non-cash** expenses?

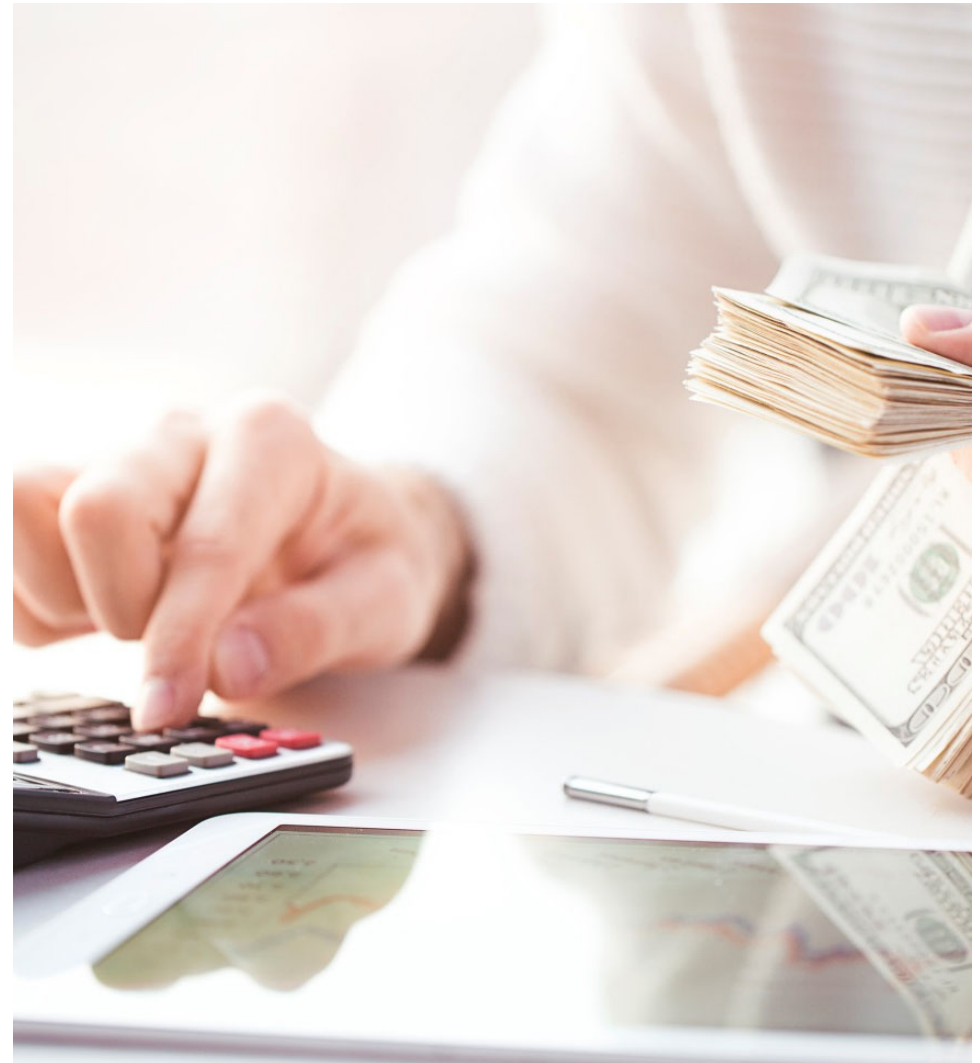
1. The GSEs allow them to be added back.
2. Investors may have their own requirements.
3. They are paper write-offs.
4. All the above.



Check Your Understanding One

The answer is **4. All the above.**

- The GSEs allow them to be added back, but some investors have overlays (e.g., do not allow amortization). Non-cash expenses are all considered paper write-offs.



Cash Expenses



Casualty Losses

Business Use of Home

“Other” Cash Expenses

IMPORTANT

To add back most cash expenses, you **MUST** typically have **TWO YEARS** of tax returns.

Remember This Slide?



■ Non-Cash Expenses Add-Backs

- History of expense **doesn't** matter.
- Continuance of expenses **doesn't** matter.

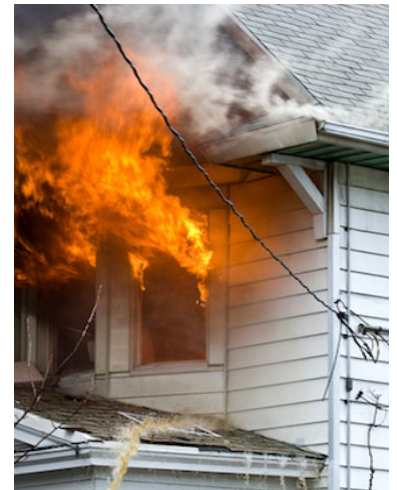
■ Cash Expenses Add-Backs

- Expense must **not** be historical.
- Expense must **not** be expected to repeat.



What are Casualty Losses?

- Losses due to:
 - Theft
 - Fire
 - Flood
- Expenses incurred directly by business.
- Expenses not covered by insurance.



Scenario One

2021



THEFT

+

2022



THEFT

=

**Can NOT
Add
Back**

Same casualty loss year over year.

Scenario Two

2021



FIRE



2022



FLOOD



**May
Typically
Add Back**

Different types of casualty losses each year.

What is Business Use of Home?

- Office in home devoted entirely to business use.
- Write-off a percentage of household expenses (typically based on square footage).
- Expenses can be added back because they are incurred regardless of home office.



IRS Deduction Methods

- Simplified Method
 - Square footage of home use for business (not to exceed 300 square feet).
 - \$5 per square foot.
- Regular Method
 - Percentage of home used for business.
 - Actual expenses determined and records maintained.



Business Use of Home Simplified Method — Schedule C

Part II Expenses		Enter expenses for business use of your home only on line 30.	
8	Advertising	8	
9	Car and truck expenses (see instructions).	9	1,243 00
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	4,013 00
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	209 00
16	Interest:		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	145 00
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	22 00
b	Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	116 00
23	Taxes and licenses	23	
24	Travel, meals, and entertainment:		
a	Travel	24a	951 00
b	Deductible meals and entertainment (see instructions)	24b	49 00
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	1,754 00
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28	8,502 00
29	Tentative profit or (loss). Subtract line 28 from line 7	29	73,576 00
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: 3,000 and (b) the part of your home used for business: 224.6 . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	1,123 00
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	72,453 00
32	If you have a loss, check the box that describes your investment in this activity (see instructions).		

Cash Expenses

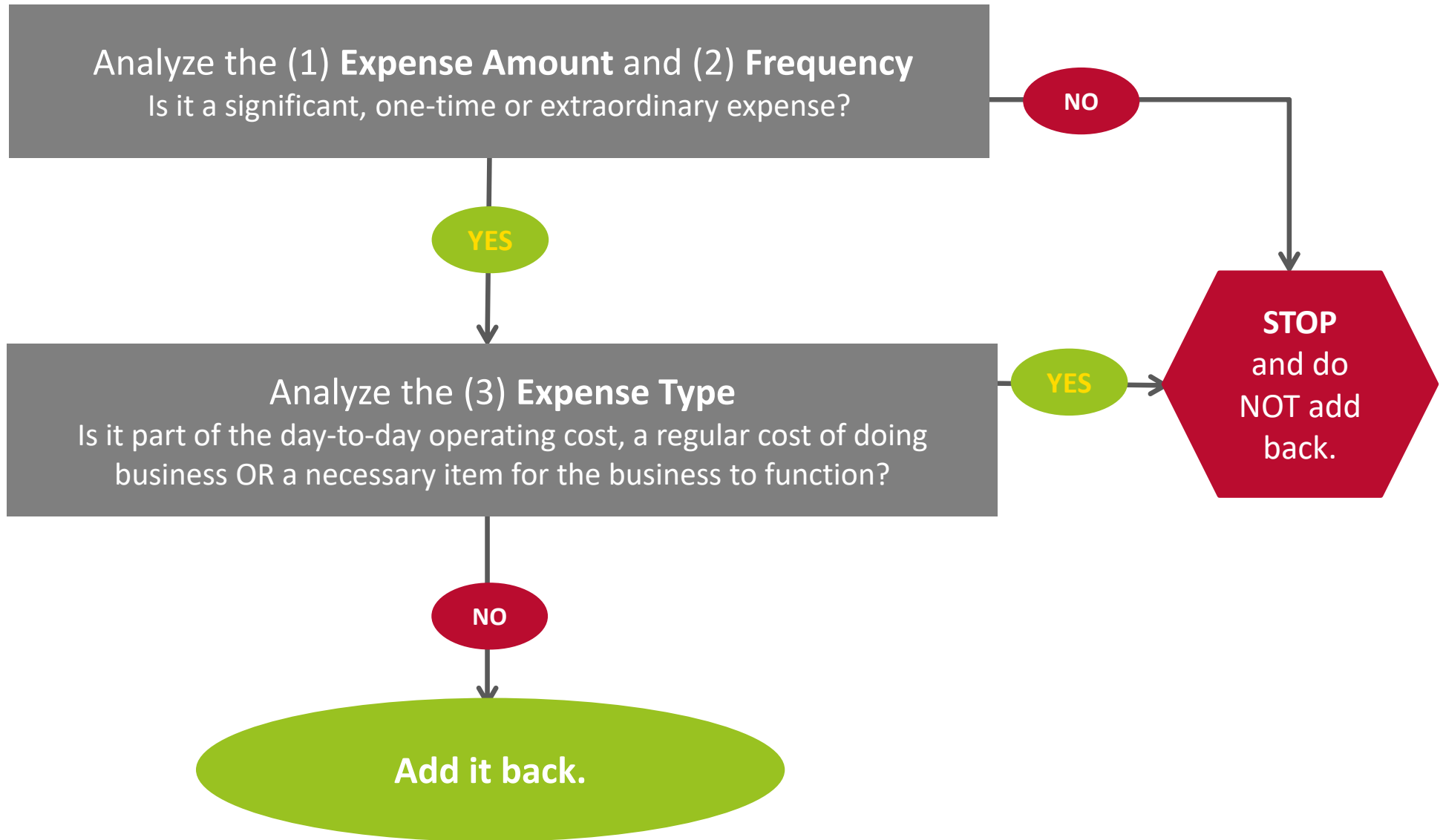
Other, Non-Recurring Expenses

What are Other, Non-Recurring Expenses?

- Extraordinary and non-reoccurring.
- Non-specific expenses.
- Pass three questions/ burdens-of-proof before adding back.



Add-Back Analysis Process



Example: Schedule C, Page 1 Sole Proprietorship

Part II Expenses		Enter expenses for business use of your home only on line 30.	
8	Advertising	8	
9	Car and truck expenses (see instructions).	9	1,243 00
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	4,013 00
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	209 00
16	Interest:		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	145 00
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
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22	Supplies (not included in Part III)	22	116 00
23	Taxes and licenses	23	
24	Travel, meals, and entertainment:		
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b	Deductible meals and entertainment (see instructions)	24b	49 00
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	1,754 00
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29	Tentative profit or (loss). Subtract line 28 from line 7	29	73,576 00
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: <input type="text"/> and (b) the part of your home used for business: <input type="text"/> . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	1,123 00
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	72,453 00
32	If you have a loss, check the box that describes your investment in this activity (see instructions).		

Example: Schedule C, Page 2 Sole Proprietorship

42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		
Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.				
43	When did you place your vehicle in service for business purposes? (month, day, year)	▶	5 / 15 / 2022	
44	Of the total number of miles you drove your vehicle during 2013, enter the number of miles you used your vehicle for:			
a	Business	2,200	b Commuting (see instructions)	c Other
45	Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
46	Do you (or your	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
47a	Do you have evi	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	
b	If "Yes," is the evidence written?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	
Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.				
	Supplies		1123	00
	Mail		623	00
	Amortization, if applicable, would also be listed here.			

Example: Form 1120S, S Corporation

Form 1120S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 For calendar year 2013 or tax year beginning 2013, ending 2013

A S election effective date: 10/28/97
 B Business activity code number: 541800
 C Check if Sch. M-3 attached:

NAME: Adx-R-Uls
 TYPE: OR
 PRINT: 5000 Industrial Parkway
 City or town, state or province, county, and ZIP or foreign postal code: Anytown, IL 60000

D Employer identification number: 39-1111111
 E Date incorporated: 10/28/97
 F Total assets (see instructions): 265,142.00

G Is the corporation electing to be an S corporation beginning with this tax year? Yes No
 H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination or revocation

Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)	7	126,118	00
	8	Salaries and wages (less employment credits)	8	21,199	00
	9	Repairs and maintenance	9	16,914	00
	10	Bad debts	10		
	11	Rents	11	24,000	00
	12	Taxes and licenses	12	11,400	00
	13	Interest	13		
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14	4,400	00
	15	Depletion (Do not deduct oil and gas depletion)	15		
	16	Advertising	16	5,279	00
	17	Pension, profit-sharing, etc., plans	17	60,239	00
	18	Employee benefit programs	18		
	19	Other deductions (attach statement) see Statement 1.	19	849,435	00
	20	Total deductions. Add lines 7 through 19	20	1,118,984	00
	21	Ordinary business income	21	201,654	00

Are there items that can be added back?

Are there items that must be subtracted?

26 Over payments. Enter amount of overpayment (if any) and date of overpayment.

27 Enter amount from line 26 credited to 2014 estimated tax. Refunded

Under penalty 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.

Sign Here: Signature of officer, Date, Title

Paid Preparer Use Only: Preparer's name, Preparer's signature, Date, Preparer's EFIN, Preparer's address, Preparer's phone no.

Example: Add-Back Analysis Documentation

What's the first document you need?



“Attached
Statement.”

What's the second document you need?



Prior Year's
Tax Return.

Example: Statement 1, S Corporation

Statement 1

Paper

\$120,000

Billboard Rental

\$729,435

Significant Amount?

Extraordinary?

Not Regular Cost of Doing Business?

\$849,435

Example: Statement 1, Two Years, Advertising, S Corporation

Prior Year - 2021

Most Recent Year - 2022

Statement 1

Statement 1

Paper \$118,000
Direct Mail \$672,943

Paper \$120,000
Billboard Rental \$729,435

\$790,943

\$849,435

Advertising

Example: Statement 1, Two Years, No Advertising, S Corporation

Prior Year - 2021

Most Recent Year - 2022

Statement 1

→ Paper

\$118,000

\$118,000

Statement 1

→ Paper

\$120,000

Billboard Rental

\$729,435

\$849,435

Still regular cost of doing business, but what if...

Example: Scenario Twist Verification, S Corporation

Contract for Billboard
Rental is signed **once
every eight years.**

There are **no other
advertising costs in the
other seven years.**

**How could you
account for this?**

Example: Amortization Calculation, S Corporation

**\$729,435 for Eight Years –
Cost Written-Off Entirely in 2022.**

**2021
- 1/8***

- \$91,179.38

**2022
+ 7/8***

+ \$638,255.66

***\$729,435 / 8 = \$91,179.38**

Scenario Twist, Arch MI Income Tax Return Analysis Calculator (AMITRAC)



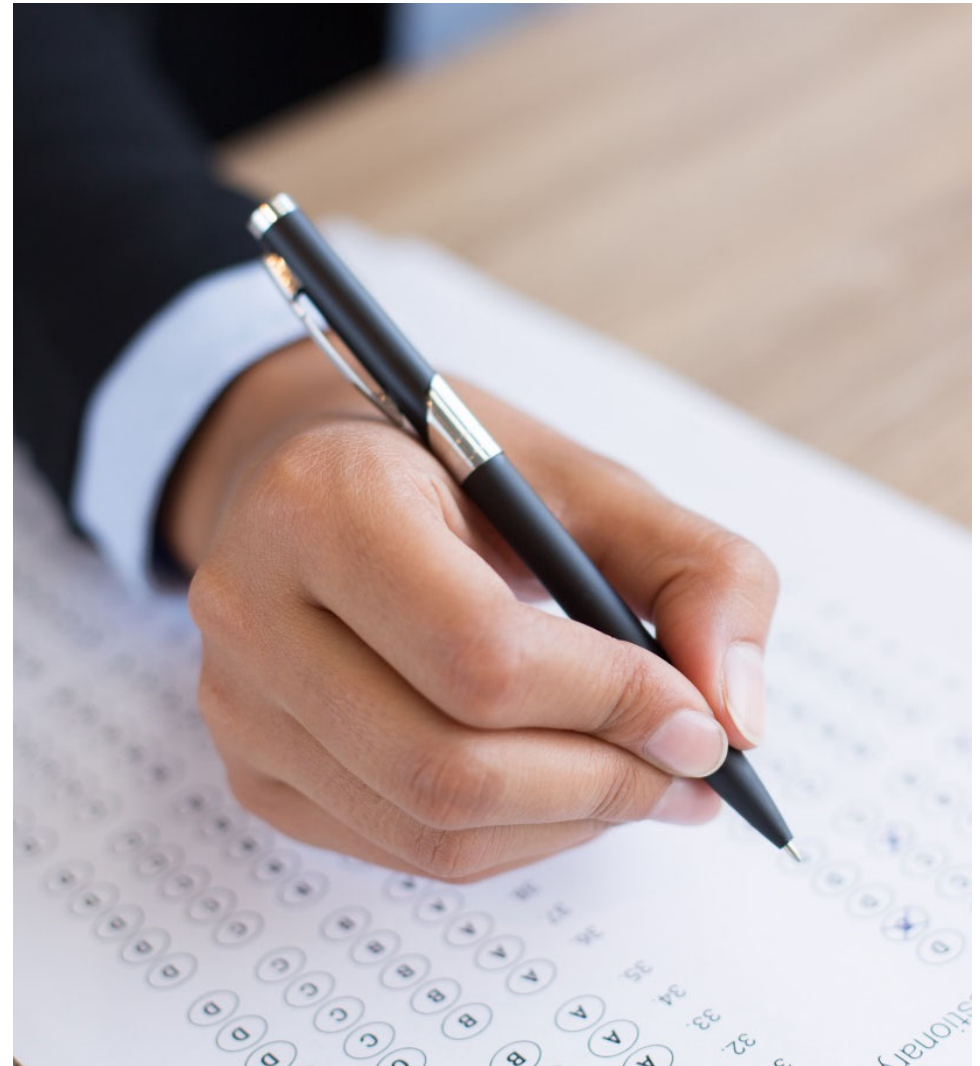
Atypical Scenario

		Prior Year		Most Recent Year	
+/-	12	S Corporation Tax Return (1120-S) Click here for section guidance.		2021	2022
		Business Name: Ads-R-Us			
K-1 ANALYSIS 1120-S					
130	Ordinary Business Income	+	\$ 465,569.00	+	\$ 100,827.00
131	Business Loss	-	\$	-	\$
	Other Real Estate Income	+	\$	+	\$
	Other Real Estate Loss	-	\$	-	\$
	Subtotal of K-1 Profits/Losses (calculator lines 124 through 128)		\$ 465,569.00		\$ 100,827.00
			\$ 415,000.00		\$ 95,000.00
Total of Profits/Losses (Line 134) to Distributions (Line 135). Choose one qualifying option for each year on Lines 137 and 138. Click here for guidance.					
				Prior Year (Choose One Option)	
		Utilize Sub-Total of K-1 Profits/Losses		NO	
		Utilize Distributions		YES	
				Most Recent Year (Choose One Option)	
137	Utilize Sub-Total of K-1 Profits/Losses		NO		
	Utilize Distributions		YES		
138	Amount of Qualifying K-1 Income (See Guidance tab.)	+	\$ 415,000.00	+	\$ 95,000.00
139	Amount of Qualifying K-1 Loss	-	\$ 0.00	-	\$ 0.00
140	W-2 Compensation	+	\$ 63,059.00	+	\$ 63,059.00
141	Borrower's Qualifying K-1 Total	±	\$ 478,059.00	±	\$ 158,059.00
BUSINESS ANALYSIS 1120-S					
142	Non-Recurring Income	-	\$ 91,179.00	-	\$
143	Non-Recurring Loss	+	\$	+	\$ 638,255.66
144	Depreciation	+	\$ 4,400.00	+	\$ 4,400.00
145	Depletion	+	\$	+	\$
146	Amortization (as itemized from statement)	+	\$	+	\$

Knowledge Check Two

Is the following **True** or **False**?

- Casualty losses are a cash expense that can be added back as long as you have a two-year pattern of the business having the expense.



Check Your Knowledge Two

The answer is **False**.

- You are looking for a LACK of a pattern from one year to the next BEFORE adding them back.

2021



FIRE



2022



FLOOD

Items in Your Back Pocket



- Once your initial analysis is completed, IF NECESSARY, you can go back and collect additional documentation to increase add-back.

Any **additions** you make to the business cash flow will have a “multiplier of the Borrower’s ownership %”.

Deductions from Income



Expenses

- Mortgages, Notes, Bonds Payable in Less Than One Year.
- Non-Deductible Travel, Meals and/or Entertainment Expenses.

Income

- Non-Recurring Income.

Income and Expenses to Deduct Mortgages, Notes & Bonds < 1 Year

What is it?

- Business debts that are due within the next 12 months (short-term debts).
- Reported on the Balance Sheet (Schedule L).
- Affect business cash flow.
- Affect working capital required by business and future growth.



IRS Requirements to Waive Balance Sheet Requirement



Schedule L (Balance Sheet), Schedule M-1 (Reconciliation of Income/Loss), and Schedule M-2 (Analysis of Shareholder's or Partners Capital Accounts) are **NOT REQUIRED** by the IRS when ...

Corporations and S Corporations:

- Total receipts were less than \$250,000 for the tax year, **AND**
- Total assets were less than \$250,000 at the end of the tax year.

Partnerships:

- Total receipts were less than \$250,000 for the tax year, **AND**
- Total assets were less than \$1 million at the end of the tax year, **AND**
- Schedule K-1's are filed with the return and furnished to the partners on or before the due date (including extensions), **AND**
- The partnership is not filing or required to file Schedule M-3.

Mortgages, Notes and Bonds < 1 Year Income Deduction



Form 1065, U.S. Return of Partnership Income

SUBTRACT*

- Mortgages, notes, bonds payable in less than one year.

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
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				
6	Other current assets (attach statement)				
7a	Loans to partners (or persons related to partners)				
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
10a	Depletable assets				
b	Less accumulated depletion				
11	Land (net of any amortization)				
12a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
13	Other assets (attach statement)				
14	Total assets				
Liabilities and Capital					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year				250,000
17	Other current liabilities (attach statement)				
18	All nonrecourse loans				
19a	Loans from partners (or persons related to partners)				
b	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach statement)				
21	Partners' capital accounts				
22	Total liabilities and capital				

*Does not apply to Schedule C (Form 1040), Profit or Loss from Business (Sole Proprietorship).

Mortgages, Notes and Bonds < 1 Year Deduction Exceptions

Mortgages, Notes, Bonds Payable In Less Than One Year

Do NOT deduct IF...

- Sufficient liquid business assets cover the debt (Schedule L, Line 1D).
- OR -
- Can document that obligations rollover from year-to-year.



Mortgages, Notes and Bonds < 1 Year Sufficient Liquid Business Assets

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash				275,000
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement) . . .				
7a	Loans to partners (or persons related to partners)				
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
10a	Depletable assets				
b	Less accumulated depletion				
11	Land (net of any amortization)				
12a	Intangible assets (amortizable)				
b	Less accumulated amortization				
13	Other assets (attach statement)				
14	Total assets				
Liabilities and Capital					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year				250,000
17	Other current liabilities (attach statement) . .				
18	All nonrecourse loans				
19a	Loans from partners (or persons related to partners)				
b	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach statement)				
21	Partners' capital accounts				
22	Total liabilities and capital				

No Need to Deduct.

Mortgages, Notes and Bonds < 1 Year Sufficient Liquid Business Assets

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash				175,000
2a	Trade notes and accounts receivable . . .				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement) . . .				
7a	Loans to partners (or persons related to partner)				
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
10a	Depletable assets				
b	Less accumulated depletion				
11	Land (net of any amortization)				
12a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
13	Other assets (attach statement)				
14	Total assets				
Liabilities and Capital					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year				250,000
17	Other current liabilities (attach statement)				
18	All nonrecourse loans				
19a	Loans from partners (or persons related to partners)				
b	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach statement)				
21	Partners' capital accounts				
22	Total liabilities and capital				

Not Proportionate

In other words, you shouldn't simply subtract the difference.

Mortgages, Notes and Bonds < 1 Year Rollover Year-to-Year

- Debt does not have to be subtracted if you can document it rolls over year-to-year.
- Copy of note to show debt is Line of Credit.
- Letter/documentation from CPA.



Income and Expenses to Deduct

Travel, Meals, Entertainment Exclusion

What is it?

- These expenses may not be deductible at 100%.
 - Meals are generally deductible at 50% and entertainment expenses are non-deductible.
- Amounts known/reported but not deducted from income must be subtracted from the business Cash Flow Analysis.



2017 and Prior

- Business meals deductible at 50%.
- Entertainment expenses deductible at 50%.

2018, 2019, 2020

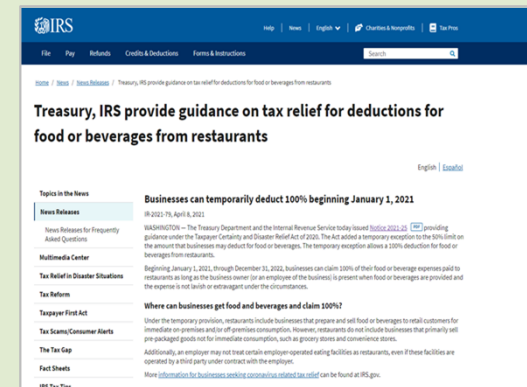
- Business meals deductible at 50%.
- Entertainment expenses **NO LONGER** deductible.

2021 and 2022

- Most business meals deductible at 100%.
- Entertainment expenses NOT deductible.

Temporary Rules for 100% Deduction

- Purchased at restaurant.
- Owner or employee must be present.
- Expense cannot be lavish or extravagant under the circumstances.



2023 – Future

- Business meals deductible at 50%.
- Entertainment expenses NOT deductible.

Meals — 2020 and Prior Years

Schedule C, Sole Proprietorship

Part II Expenses. Enter expenses for business use of your home only on line 30.									
8	Advertising	8			18	Office expense (see instructions)	18		
9	Car and truck expenses (see instructions).	9	1,243	00	19	Pension and profit-sharing plans	19		
10	Commissions and fees	10			20	Rent or lease (see instructions):			
11	Contract labor (see instructions)	11			a	Vehicles, machinery, and equipment	20a		
12	Depletion	12			b	Other business property	20b		
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	4,013	00	21	Repairs and maintenance	21		
14	Employee benefit programs (other than on line 19)	14			22	Supplies (not included in Part III)	22	138	00
15	Insurance (other than health)	15	209	00	23	Taxes and licenses	23		
16	Interest (see instructions):				24	Travel and meals:			
a	Mortgage (paid to banks, etc.)	16a			a	Travel	24a		
b	Other	16b			b	Deductible meals (see instructions)	24b	4,900	00
17	Legal and professional services	17	145		25	Utilities	25		
					26	Wages (less employment credits)	26		
					27a	Other expenses (from line 48)	27a	1,754	00
					b	Reserved for future use	27b		

\$9,800 Spent.



Subtract \$4,900 Exclusion.

Meals — 2021 and 2022

Schedule C, Sole Proprietorship

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	
9	Car and truck expenses (see instructions).	9	1,243 00
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	4,013 00
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	209 00
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	145
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	138 00
23	Taxes and licenses	23	
24	Travel and meals:		
a	Travel	24a	
b	Deductible meals (see instructions)	24b	4,900 00
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	1,754 00
b	Reserved for future use	27b	

Amount Reported is likely 100% of Expenses Incurred.

Travel, Meals and Entertainment Partnerships, S Corps and Corporations

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): _____		8	Deductions on this return not charged against book income this year (itemize):
5	Expenses recorded on books this year not deducted on this return (itemize):		a	Depreciation . . . \$ _____
	a Depreciation \$ _____		b	Charitable contributions \$ _____
	b Charitable contributions . . \$ _____			_____
	c Travel and entertainment . . \$ 15,000		9	Add lines 7 and 8
6	Add lines 1 through 5		10	Income (page 1, line 28)—line 6 less line 9

Amount reported here is the Non-Deductible Portion of these expenses.

Subtract \$15,000 Exclusion.

Meals — 2020 and Prior, No Schedule M-1 Partnerships, S Corps and Corporations

**STATEMENT 1
FORM 1120, LINE 26
OTHER DEDUCTIONS**

ACCOUNTING.....	\$	4,205.
AUTO AND TRUCK.....		28,671.
BANK CHARGES.....		1,457.
BONUSES.....		2,911.
CAD DESIGNER.....		2,811.
COMMISSIONS.....		119.
COMPUTER & INTERNET EXPENSES.....		4,252.
DUES AND SUBSCRIPTIONS.....		719.
EDUCATION.....		499.
INSURANCE.....		34,178.
LEGAL AND PROFESSIONAL.....		8,250.
LOAN FEES.....		3,990.
MEALS.....		2,888.
OUTSIDE SERVICES.....		2,935.
PAYROLL PROCESSING FEES.....		3,155.
POSTAGE.....		3,010.
SUPPLIES.....		32,970.
TELEPHONE.....		7,426.
UNIFORMS.....		117.
UTILITIES.....		3,549.
TOTAL.....	\$	<u>148,112.</u>

\$5,776
Spent.

Subtract
\$2,888
Exclusion.

Meals — 2021 and 2022, No Schedule M-1 Partnerships, S Corps and Corporations

STATEMENT 1
FORM 1120, LINE 26
OTHER DEDUCTIONS

ACCOUNTING.....	\$	4,205.
AUTO AND TRUCK.....		28,671.
BANK CHARGES.....		1,457.
BONUSES.....		2,911.
CAD DESIGNER.....		2,811.
COMMISSIONS.....		119.
COMPUTER & INTERNET EXPENSES.....		4,252.
DUES AND SUBSCRIPTIONS.....		719.
EDUCATION.....		499.
INSURANCE.....		34,178.
LEGAL AND PROFESSIONAL.....		8,250.
LOAN FEES.....		3,990.
MEALS.....		2,888.
OUTSIDE SERVICES.....		2,935.
PAYROLL PROCESSING FEES.....		3,155.
POSTAGE.....		3,010.
SUPPLIES.....		32,970.
TELEPHONE.....		7,426.
UNIFORMS.....		117.
UTILITIES.....		3,549.
TOTAL.....	\$	<u>148,112.</u>

Amount Reported is likely
100% of Expenses
Incurred.

Income and Expenses to Deduct Non-Recurring Income

What is it?

- Income from sources other than gross receipts.
- Must be subtracted from the Cash Flow.



Non-Recurring Income Form 1065, Partnership



1065		U.S. Return of Partnership Income		OMB No. 1545-0099
Form Department of the Treasury Internal Revenue Service		For calendar year or tax year beginning _____ ending _____, 20__		
▶ Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 .				
A Principal business activity	Name of partnership	D Employer identification number		
Restaurant	Paula's Pancake House	39-6543219		
B Principal product or service	Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started		
Food	100 Second Street	4/01/2010		
C Business code number	City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see the instructions)		
772513	Anytown, IL 60000	\$ 101,225 00		
G Check applicable boxes: (1) <input checked="" type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return				
(6) <input type="checkbox"/> Technical termination - also check (1) or (2)				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶				

Income	1a Gross receipts or sales	1a	532,841	00		
	b Returns and allowances	1b				
	c Balance. Subtract line 1b from line 1a	1c				
	2 Cost of goods sold (attach Form 1125-A)					
	3 Gross profit. Subtract line 2 from line 1c					
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			5,000	00	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5		10,000	00	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6		15,000	00	
7 Other income (loss) (attach statement)	7		20,000	00		
8 Total income (loss). Combine lines 3 through 7	8		521,047	00		

Total = \$50,000

Deductions (see the instructions for)	12 Bad debts	12			
	13 Rent	13	42,000	00	
	14 Taxes and licenses	14	9,327	00	
	15 Interest	15	3,268	00	
	16a Depreciation (if required, attach Form 4562)	16a	2,300	00	
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b			
	16c		2,300	00	
	17 Depletion (Do not deduct oil and gas depletion.)	17			
	18 Retirement plans, etc.	18	2,225	00	
	19 Employee benefit programs	19	26,475	00	
	20 Other deductions (attach statement)	20			
21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21	249,689	00		
22 Ordinary business income (loss). Subtract line 21 from line 8	22	283,152	00		

Sign 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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Non-Recurring Income

Schedule C, Form 1120-S, Form 1120



- Schedule C,
Sole
Proprietorship

Part I		Income	
1	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"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	

- Form 1120-S,
S Corporation

Income	1a	Gross receipts or sales	1a	
	b	Returns and allowances	1b	
	c	Balance. Subtract line 1b from line 1a	1c	
	2	Cost of goods sold (attach Form 1125-A)	2	
	3	Gross profit. Subtract line 2 from line 1c	3	
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)	4	
5	Other income (loss) (see instructions—attach statement)	5		
6	Total income (loss). Add lines 3 through 5	6		

- Form 1120,
Corporation

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

Non-Recurring Income, Form 1065

Potential Sources: Pass-Through Income

Form 1065, Partnership

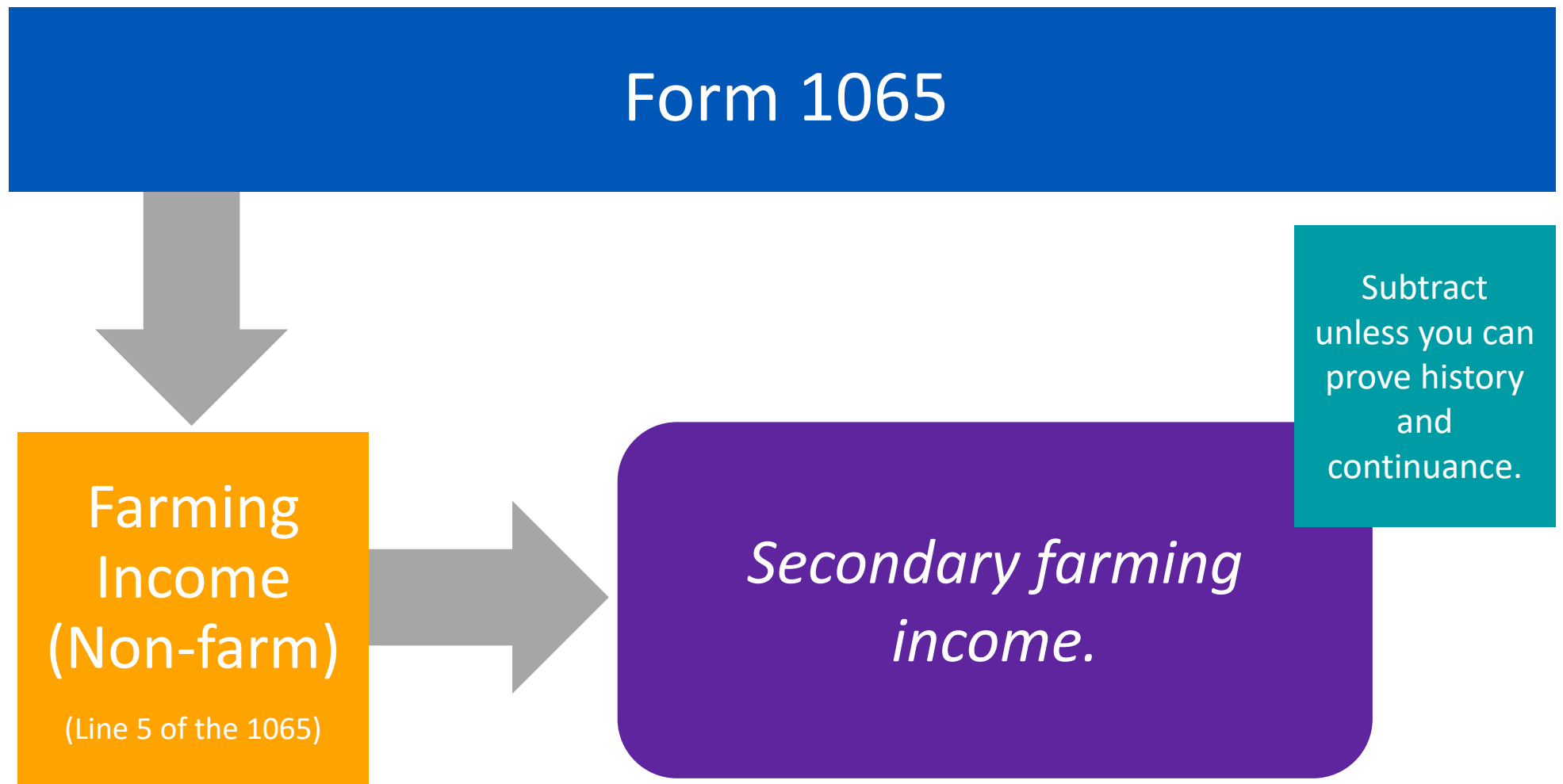
Subtract unless you can prove history and continuance.

Pass-Through Income

(Line 4 of the 1065)

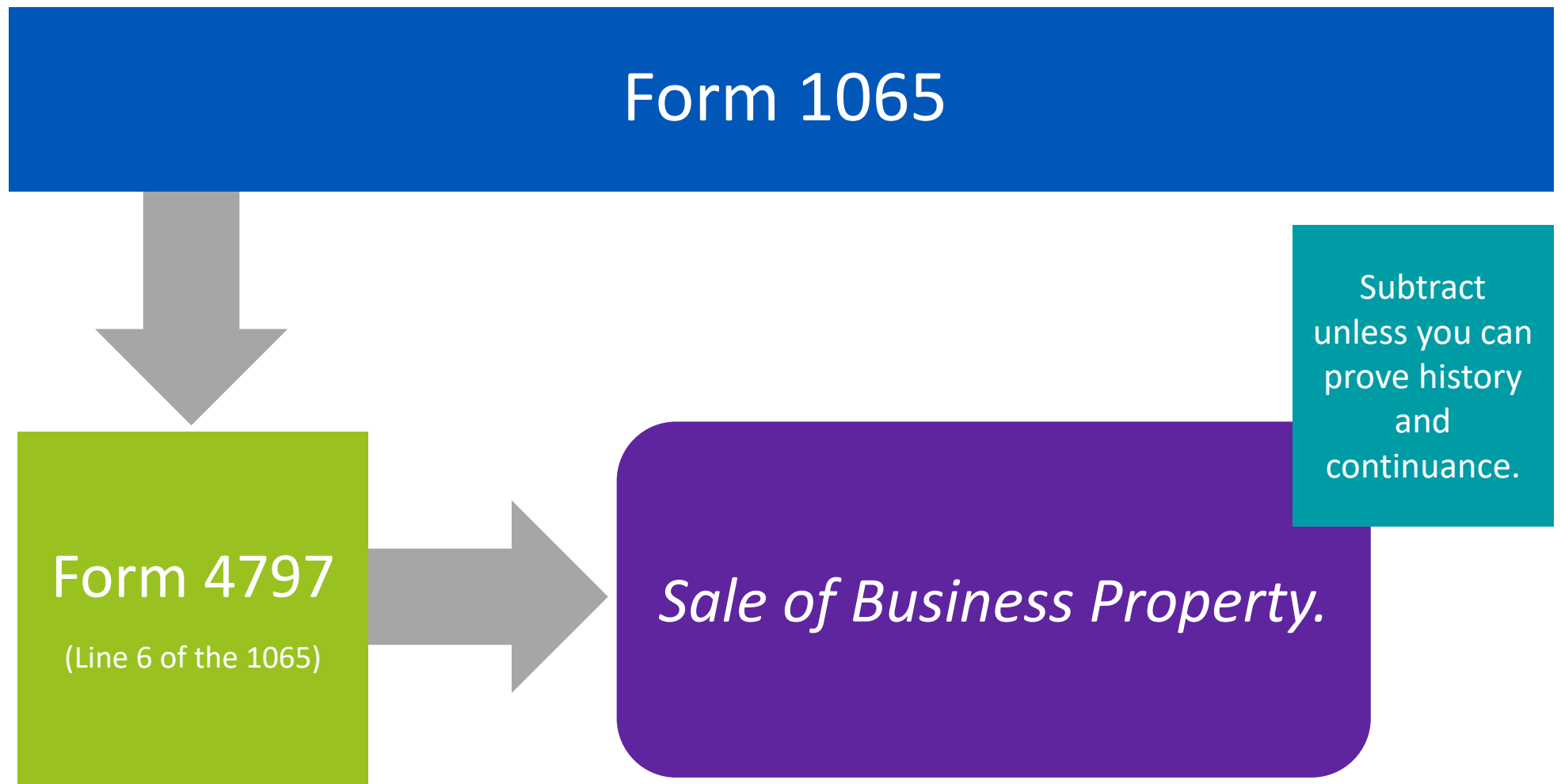
Income earned from ownership in other partnership(s), estate(s), or trust(s).

Non-Recurring Income, Form 1065 Potential Sources: Farming Income



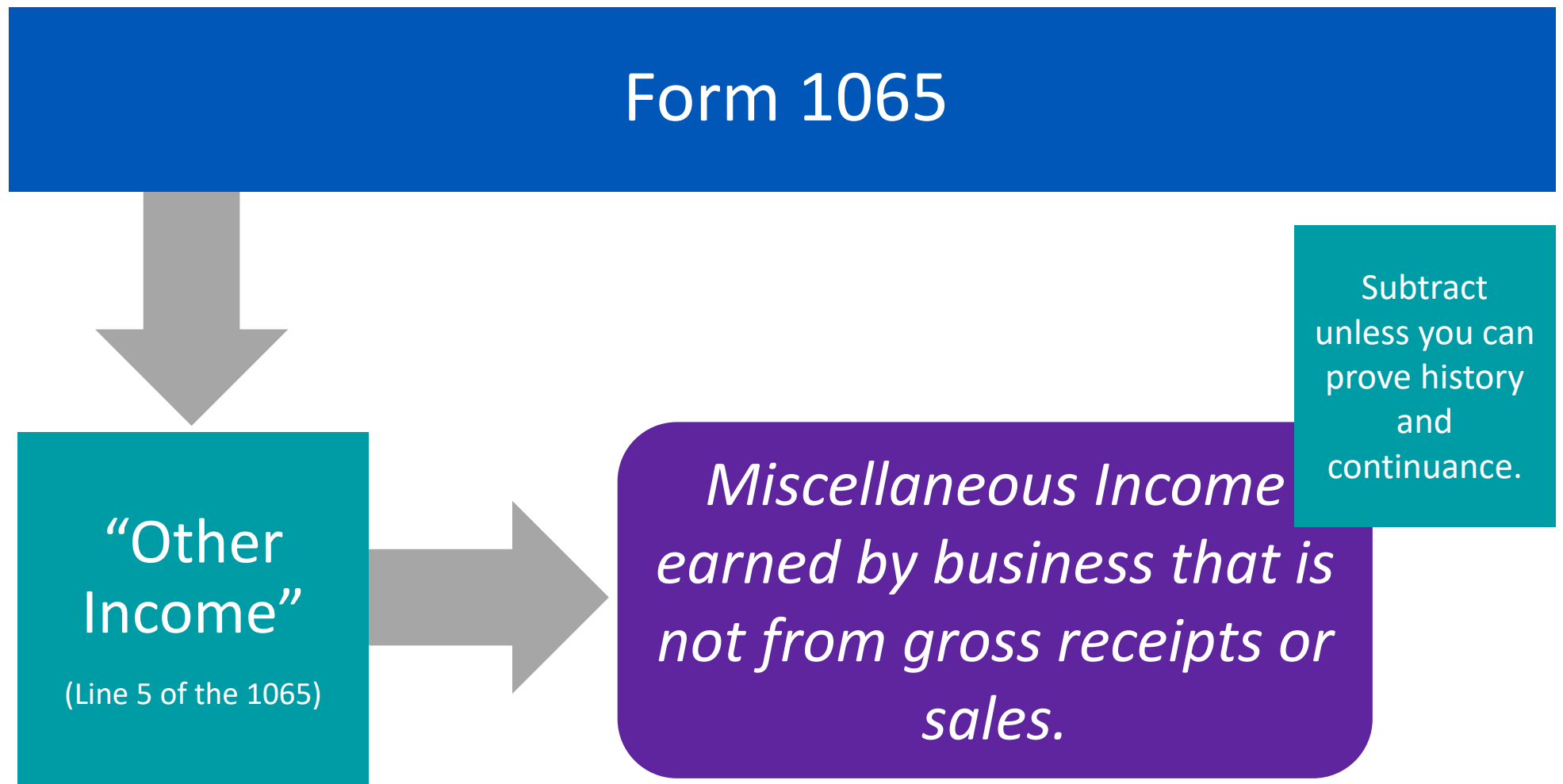
Non-Recurring Income, Form 1065

Potential Sources: Form 4797



Non-Recurring Income, Form 1065

Potential Sources: Other Income



Income Sources Path of Least Resistance

Initial Review

- Subtract any potential non-recurring income.

Calculate

- Deductions will be multiplied by ownership %.

Revisit

- If deductions make qualifying income too low, review further.

Items in Your Back Pocket



- Once your initial analysis is completed, remember that you can go back and collect additional documentation to increase add-back and/or reduce deductions.

Any **additions** you make to the business cash flow will have a “multiplier of the Borrower’s ownership %”.

What if the borrower doesn't qualify because you've assumed "Other Income" to be non-recurring?

1. Identify the income:
 - *Document consistent source.*
2. Document a history of the income:
 - *Must have at least two years of stable history.*
3. Verify continuance of the income:
 - *Income should continue for at least three more years.*

Non-Recurring Losses

What if these are Losses rather than Gains or Profits?

Income	1a	Gross receipts or sales	1a	532,841	00			
	b	Returns and allowances	1b					
	c	Balance. Subtract line 1b from line 1a	1c	523,841	00			
	2	Cost of goods sold (attach Form 1125-A)	2	61,794	00			
	3	Gross profit. Subtract line 2 from line 1c	3	471,047	00			
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4	(5,000)	00			
	5	Net farm profit (loss) (attach Schedule F (Form 1040))	5	(10,000)	00			
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	(15,000)	00			
7	Other income (loss) (attach statement)	7	(20,000)	00				
8	Total income (loss). Combine lines 3 through 7	8	421,047	00				

What is the path of least resistance?

Non-Recurring Losses

- The “path of least resistance” is to leave the loss alone and make **no adjustments**.
- **If** you can explain, document and support that the loss is **non-recurring**, it can be added back.



Knowledge Check Three

Is the following **True** or **False**?

- Income from sources other than gross receipts are often considered non-recurring and must be subtracted.



Check Your Understanding Three

The answer is *True*.

- Income from sources other than gross receipts are often considered non-recurring and must be subtracted.



Net Operating Loss (NOL) Carryover

Things to Consider



Net Operating Loss Carryover or Loss Carry Forward

What is it?

- Loss taken in a prior year because a company's allowable tax deductions are greater than its taxable income.
- Used to spread a net operating loss over subsequent years to reduce future tax liability.

Effectively, it is a “non-cash” expense, but there are more considerations.



Why Does a Net Operating Loss Carryover Matter?

Beyond Add-Back, Why Care?



Probably Don't Care.

Definitely Care.



Net Operating Loss Carryover



Three Important Questions

Current Business

When?

Why?

How Much?



Can You Add Back the Write-Off?

Sometimes,
but only if it affected
the actual
business cash flow.



Net Operating Loss Carryover

Schedule C, Part II, Other Expenses



9	Car and truck expenses (see instructions).	9		19	Pension and profit-sharing plans	19		
10	Commissions and fees	10		20	Rent or lease (see instructions):			
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a		
12	Depletion	12		b	Other business property	20b		
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	30,000 00	21	Repairs and maintenance	21		
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22		
15	Insurance (other than health)	15		23	Taxes and licenses	23		
16	Interest:			24	Travel, meals, and entertainment:			
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a		
b	Other	16b		b	Deductible meals and entertainment (see instructions)	24b	1,000	00
17	Legal and professional services	17		25	Utilities	25		
28	Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28		26	Wages (less employment credits)	26		
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	10,000	00
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: 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	30		b	Reserved for future use	27b		
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	100,000 00					
32	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 Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . 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)**

Net Operating Loss Carryover Schedule C, Part V, Other Expenses

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

Net Operating Loss Carryover (NOL) from 2012	10,000	00
48 Total other expenses. Enter here and on line 27a	48	10,000 00

Schedule C (Form 1040)

Yes

Net Operating Loss Carryover

Schedule C, Part II, NOL



9	Car and truck expenses (see instructions).	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	30,000 00	21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals and entertainment (see instructions)	24b	1,000 00
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28		26	Wages (less employment credits)	26	
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	10,000 00
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: 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	30		b	Reserved for future use	27b	
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	100,000 00				
32	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 Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.						32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040)

Net Operating Loss Carryover Form 1120, Corporation Example



Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (see instructions—attach Form 1125-E)	12	57,000	00
	13	Salaries and wages (less employment credits)	13	88,000	00
	14	Repairs and maintenance	14	2,975	00
	15	Bad debts	15		
	16	Rents	16	14,000	00
	17	Taxes and licenses	17	3,825	00
	18	Interest	18	2,260	00
	19	Charitable contributions	19		
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	15,200	00
	21	Depletion	21		
	22	Advertising	22	1,350	00
	23	Pension, profit-sharing, etc., plans	23		
	24	Employee benefit programs	24	2,500	00
	25	Domestic production activities deduction (attach Form 8903)	25		
	26	Other deductions (attach statement)	26	7,960	00
	27	Total deductions. Add lines 12 through 26	27	195,070	00
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	28	27,255	00
	29a	Net operating loss deduction (see instructions)	29a	8,767	00
	b	Special deductions (Schedule C, line 20)	29b		
	c	Add lines 29a and 29b	29c	8,767	00

Yes

Net Operating Loss Carryover Schedule 1 (Form 1040) Example



SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.		Attachment Sequence No. 01
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes	1		
2a	Alimony received	2a		
	b Date of original divorce or separation agreement (see instructions) ▶			
3	Business income or (loss). Attach Schedule C	3		
4	Other gains or (losses). Attach Form 4797	4	100,000	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		
6	Farm income or (loss). Attach Schedule F	6		
7	Unemployment compensation	7		
8	Other income:			
a	Net operating loss	8a	()	
b	Gambling income	8b		
c	Cancellation of debt	8c		
d	Foreign earned income exclusion from Form 2555	8d	()	
e	Taxable Health Savings Account distribution	8e		
f	Alaska Permanent Fund dividends	8f		
g	Jury duty pay	8g		
h	Prizes and awards	8h		
i	Activity not engaged in for profit income	8i		
j	Stock options	8j		
k	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8k		
l	Olympic and Paralympic medals and USOC prize money (see instructions)	8l		
m	Section 951(a) inclusion (see instructions)	8m		
n	Section 951A(a) inclusion (see instructions)	8n		
o	Section 461(l) excess business loss adjustment	8o		
p	Taxable distributions from an ABL account (see instructions)	8p		
z	Other income. List type and amount ▶ NOL	8z	(20,000)	
9	Total other income. Add lines 8a through 8z	9	(20,000)	
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	80,000	

No

Loss Carryover Example, Schedule E (Form 1040), Page Two



Part II		Income or Loss From Partnerships and S Corporations		Note: 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 (e) 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.				<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk	
A	[REDACTED]	S	<input type="checkbox"/>	[REDACTED]	<input type="checkbox"/>	
B	[REDACTED]	S	<input type="checkbox"/>	[REDACTED]	<input type="checkbox"/>	
C	Prior year Basis carryover loss (PYA)		<input type="checkbox"/>		<input type="checkbox"/>	
D			<input type="checkbox"/>		<input type="checkbox"/>	
Passive Income and Loss			Nonpassive Income and Loss			
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1	
A					95,937	
B					8,402	
C			8,402			
D						
29 a	Totals				104,339	
b	Totals		8,402			
30	Add columns (g) and (j) of line 29a				30	104,339
31	Add columns (f), (h), and (i) of line 29b				31	(8,402)
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below				32	95,937

Knowledge Check Four

Is the following **True** or **False**?

- Business Stability is one key component when determining whether you can add back Net Operating Loss (NOL).



Check Your Understanding Four

The answer is *True*.

- Stability IS a key when determining whether the NOL can be added back. But before you consider the add-back, you must first address the overall health of the business.



Profit and Loss Statements

What to Know



Profit and Loss Statements

Standard Guidance



Under Standard Guidance, GSEs do not REQUIRE a P&L.

- Recommended if application is more than 120 days after end of the business tax year.
- Some investors may require. The underwriter may determine a need.

Profit and Loss Statements (P&L)

Standard Guidance

- Use to calculate income.



- Generally, use to determine business strength and stability only.



Personal Debt Paid by Business

When to Exclude



Personal Debt Paid by Business

Account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligation IF:

- No history of delinquency.
- Business provides evidence that obligation was paid out of company funds.
- Business cash flow analysis took payment of obligation into consideration.



Tools, Questions and Contact



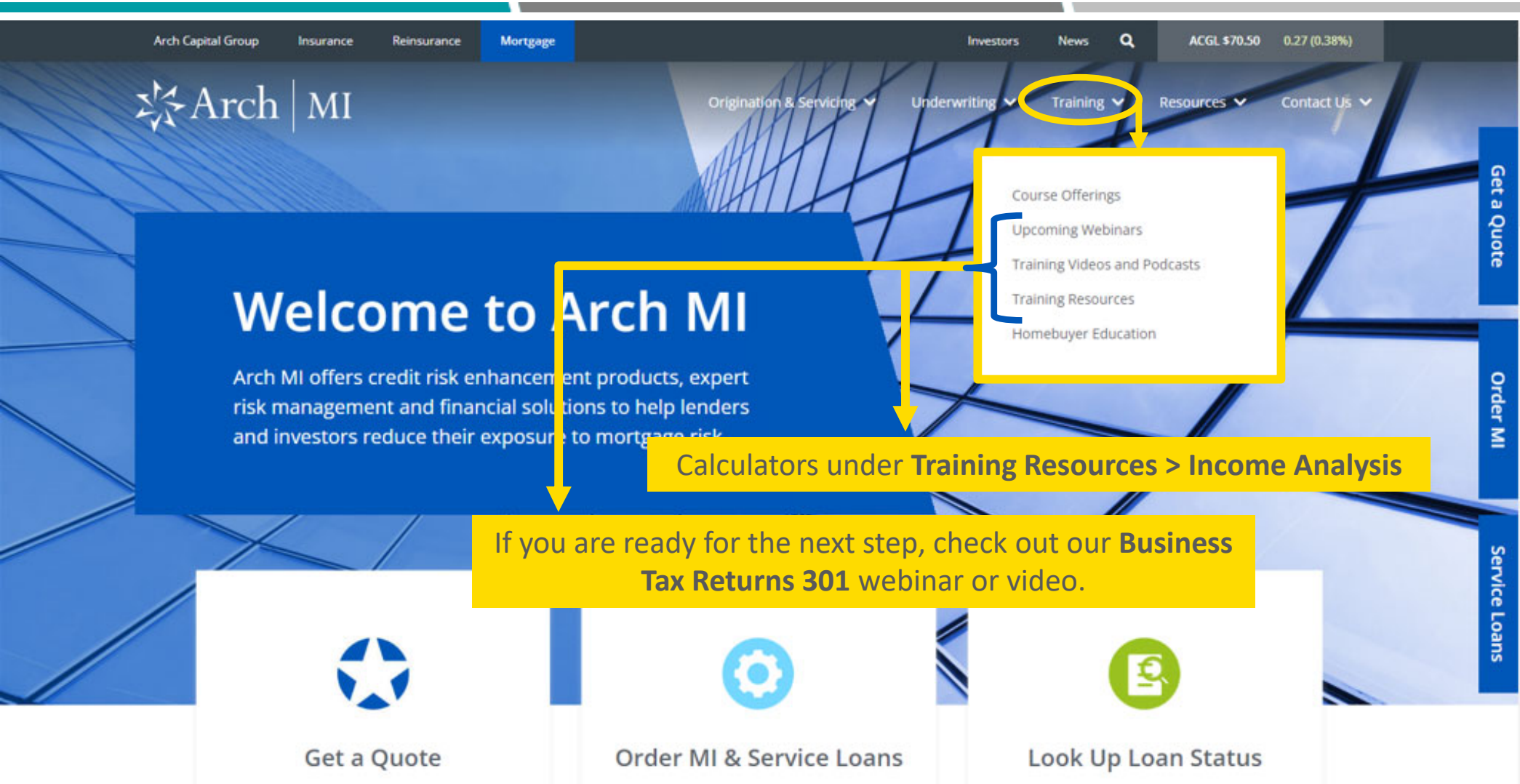
Use a worksheet to calculate income.

**BEST
PRACTiCE**

Place worksheet in file for others.

Options

- Arch MI Tax Return Analysis Calculator (AMITRAC).
- Fannie Mae Form 1084.
- Freddie Mac Form 91.
- Other



The screenshot shows the Arch MI website with several annotations. A yellow circle highlights the 'Training' dropdown menu in the top navigation bar. A yellow box highlights the dropdown menu items: 'Course Offerings', 'Upcoming Webinars', 'Training Videos and Podcasts', 'Training Resources', and 'Homebuyer Education'. A yellow arrow points from the 'Training' menu to a yellow box containing the text 'Calculators under Training Resources > Income Analysis'. Another yellow arrow points from the 'Welcome to Arch MI' section to a yellow box containing the text 'If you are ready for the next step, check out our Business Tax Returns 301 webinar or video.' The website header includes 'Arch Capital Group', 'Insurance', 'Reinsurance', 'Mortgage', 'Investors', 'News', 'ACGL \$70.50', and '0.27 (0.38%)'. The main navigation bar includes 'Origination & Servicing', 'Underwriting', 'Training', 'Resources', and 'Contact Us'. The main content area features a blue banner with the text 'Welcome to Arch MI' and 'Arch MI offers credit risk enhancement products, expert risk management and financial solutions to help lenders and investors reduce their exposure to mortgage risk'. The bottom navigation bar includes 'Get a Quote', 'Order MI & Service Loans', and 'Look Up Loan Status'.

THANK YOU

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