



For Arch MI and Arch MI for Credit Unions

Business Tax Returns 302

Unique Considerations for Partnerships and S Corporations

an INCOME ANALYSIS course





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Objectives



Recap Cash Flow Add-Backs and Deductions.

Examine Schedule K-1:

- Earnings.
- Distributions.
- Liquidity Test.

Review Case Studies:

- Partnership (Form 1065).
- S Corporation (Form 1120-S).







Inclusions and Exclusions Partnerships and S Corporations





Adjustments to Income





Typical Add-Backs

- Non-cash expenses.
- Cash expenses that meet certain criteria.



Typical Deductions

- Non-recurring income.
- Mortgages, notes and bonds.
- Meals exclusion.



Typical Inclusions

- W-2 wages from the business.
- Guaranteed payments.



Typical Add-Backs

Non-Cash expenses such as Depreciation, Depletion and Amortization.

Cash expenses that are one-time, extraordinary, and NOT for items required for day-to-day business operations.



Deductions



Typical Deductions

Non-Recurring income such as pass-through income from other businesses, farming (non-farms), sale of business property and "other".

Mortgages, notes and bonds payable in less than one year without proof of regular roll-over or sufficient liquid business assets.

The non-deductible meals expenses (equal to the amount of deductible expenses)*.





Typical Inclusions

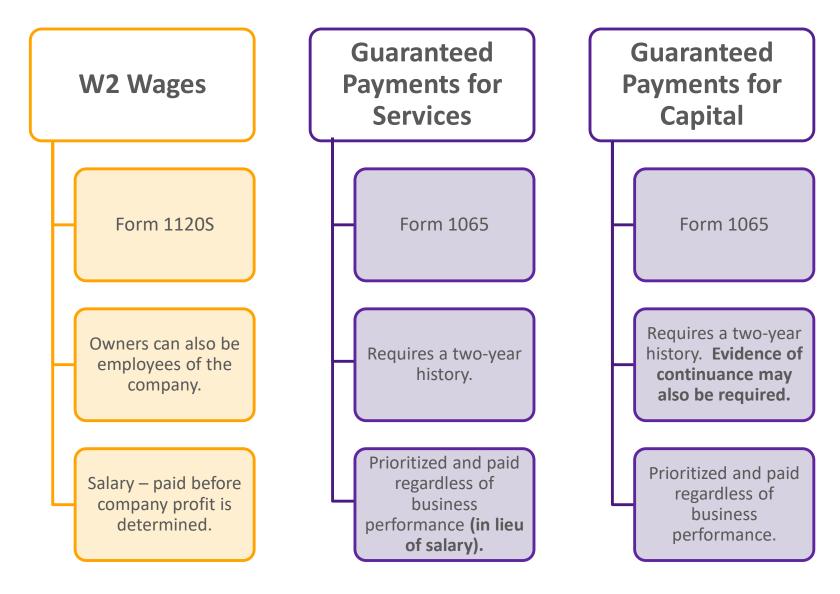
W2 wages paid to the individual owner from the business (S Corporations).

Guaranteed payments with a two-year history (Partnerships).



Salaries and Guaranteed Payments







Inclusions



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apartment of		For cal	endar year 2021, or tax	year beginning	, ending		20		
ernal Reven			Go to www.irs	.gov/Form1065 for instruc	tions and the lat	est information.	A000000	<u> </u>	
Principal bu	siness activity		Name of partnership					D Emplo	yer idenlification numb
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Principal pro	duct or service	Type	Number, street, and ro	om or suite no. If a P.O. box, se	e instructions.			E Date	business started
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_				and expenses on lines	la through 22 b	The second liverage and the second	ions for	more i	nformation.
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l c			ct line 1b from line	1a		10		c	
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E 3				ne 1c			-	3	
3 4				artnerships, estates, and				4	
E 5			loss) (attach Sched		i i i i i i i i i i i i i i i i i i i		_	5	
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8	Total inco	me (l	oss). Combine line	3 through 7				В	
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23 24 25 26 27 28 29				ethod—income forecast			_	4	
E 25			ed underpayment (5	
26							_ 2	6	
27	Total bala	nce o	lue. Add lines 23 th	rough 26	ana ana a		. 2	7	
28	Payment (see in	structions)				_ 2	8	
ž 29	Amount o	wed.	If line 28 is smaller	than line 27, enter amou	nt owed		. 2	9	
30				an line 27, enter overpay				0	
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	en instructions)	Number, si	treet, and room or suite no. If a P.	O. box, see instructions.		E Date incorp	oorated
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1a	Gross receipts or		and expenses on lines va thro	ta		somation.	
h	Returns and allow			1b			
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3	Gross profit. Subt		#####################################		## M DI	. 3	
4	Net gain (loss) fro	m Form 4797, lin	e 17 (attach Form 4797) .	**** ** *** ***		. 4	
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6	Total income (los	s). Add lines 3 th	prough 5			6	
7	Compensation of	officers (see insti	ructions-attach Form 1125	-E)	100 NA TONE CON	. 7	
8	Salaries and wage	s (less employm	ent credits)	404 4 404 4		. 8	
9	Repairs and main	tenance	*** *** *** ***	800 B 808 B	orde me es	. 9	
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12	Taxes and license		enor mer auster mer	2005-02-703 20	0505 TOT 20	. 12	
13	Interest (see instru					. 13	
14			1125-A or elsewhere on reti	um (attach Form 456	62)	. 14	
15			gas depletion.)	STATE ING S	mant ind sm	. 15	
16	Advertising			4 4 4 4 4		. 16	
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8 9 10 11 12 13 14 15 16 17 18 19 20	Employee benefit			974 ¥ 974 97	C4-09 \$08 \$00	18	
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b	Tax from Schedul			ons) 22s			
e e			tions for additional taxes) .			22c	
23a			2020 overpayment credited	to 2021 . 23a	9		
23a b c d 24				238			
c	Credit for federal	ax paid on fuels	(attach Form 4136)	230			
d d	Add lines 23a thro	ugh 23c			Law the sec	. 23d	
24	Estimated tax per	alty (see instruct	ions). Check if Form 2220 is	attached	. l	24	
25	Amount owed. If	line 23d is smalle	er than the total of lines 22c	and 24, enter amou	nt owed	. 25	
26			than the total of lines 22c ar		overpaid	. 26	
27			ted to 2022 estimated tax		Refunded		
i	Under penalties of pe belief, it is true, correc	gury, I declare that I	have examined this return, includi claration of preparer (other than to	ng accompanying scher expayer) is based on all	dules and statements, information of which i	, and to the be preparer has a	st of my knowledge ny knowledge.
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repare	Firm's name					Firm's EIN. ▶	
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K-1s

Partnerships & S Corporations

Unique Considerations





Partnership – Form 1065, Schedule K-1 (Form 1065)



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autio				me and expenses on line	s 1a through 22 be		and a comment of the last owner of the	_	e information.
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ncome				r partnerships, estates, a			ent)	4	
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9 1				Form 4562)		16a	25,00	0	
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2 3				ent)	t column for lines	Q then	unh 20	21	25.000
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-				method-completed for			Form 8697)		100,000
5 2				method-income foreca				. 24	
1				nt (see instructions)		*::::	4 500 30	. 25	
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			due. Add lines 23	HUMANATAN SAME -	R 51 5 58	*****		27	
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	100			than line 27, enter overp		+1.5	GE 140	30	
	Un	nder penalties of	perjury, I declare that	I have examined this return, inc	luding accompanying s	chedule	s and statement	s, and to the I	best of my knowled
ign	an wh	d belief, it is tru nich preparer has	e, correct, and compl s any knowledge.	ete. Declaration of preparer (oth	er than partner or limit	ed liabil	ity company me	nber) is base	d on all information
ere	W.								S discuss this return
516		_			\		- 2		parer shown below ons. Yes No
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aid	Pri	iiiu rype prepare	a a name	Preparer's signature		10	au	Check self-employe	if the second
repa	Eir	m's name 🕨				_		Firm's EIN >	1
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Cat	nedule K-1		Final K-1 Amende		OMB No. 1545-012
Fo	rm 1065)	Pa	Deductions, Cred	its, a	
terr	artment of the Treasury nal Revenue Service For calendar year , or tax year	1	Ordinary business income (loss) 50.000	14	Self-employment earnings (loss)
	beginning / / ending / /	2	Net rental real estate income (loss)		
	rtner's Share of Income, Deductions, edits, etc. See back of form and separate instructions.	3	23,000 Other net rental income (loss)	15	Credits
	Part I Information About the Partnership	4a	Guaranteed payments for services	1	
A	Partnership's employer identification number		75,000	П	
		4b	Guaranteed payments for capital	16	Schedule K-3 is attached if
В	Partnership's name, address, city, state, and ZIP code		200000000000000000000000000000000000000		checked
		4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
	Logan Brothers Partnership	5	75,000 Interest income		\
С	IRS center where partnership filed return	6a	Ordinary dividends	1	1
D	Check if this is a publicly traded partnership (PTP)				
	art II Information About the Partner	6b	Qualified dividends	18	Tax-exempt income and none ductible expenses
E	Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)	_		-	nonciduoticia expenses
_		6a	Dividend equivalents	-	
F	Name, address erry, state, and ZIP code for partner entered in E. See instructions.	7	Royalties	1	
	Jøe Logan	1	noyalies	-	
		8	Net short-term capital gain (loss)	19	Distribution
G	General partner or LLC Limited partner or othe LLC member-manager member	9a	Net long-term capital gain (loss)	Α	57,563
H1	☐ Domestic partner ☐ Foreign partner	9b	Collectibles (28%) gain (loss)		
12	If the partner is a disregarded entity (DE); enter the partner's			20	Other information
	TIN Name	9a	Unrecaptured section 1250 gain		
11	What type of entity is this partner?	-		4	
12 J	If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check lere > Partner's share of profit, loss, and capital (see instructions):	10	Net section 1231 gain (loss)		
	Beginning Ending	11	Other income (loss)		
	Profit % 50 %				
	Loss 20 %				
	Capital % 55 %				
	Check if decrease is due to sale or exchange of partnership interest	12	Section 179 deduction	21	Foreign taxes paid or accrued
ĸ	the over's share of liabilities:			_	
	Beginning Ending Nonrecourse : \$ \$	13	Other deductions		
	Qualified nonrecourse				
	financing S S Recourse S S				
	Check this box if item K includes liability amounts from lower ter partnerships ▶				
L	Partner's Capital Account Analysis	22	More than one activity for at-ris	k purp	oses*
_	Beginning capital account \$	23	More than one activity for pass	1000	
	Capital contributed during the year \$	*Se	ee attached statement for ad	dition	al information.
	Current year net income (loss) \$				
	Other increase (decrease) (attach explanation) \$				
	Withdrawals and distributions \$ ()	100			
	Ending capital account \$	For IRS Use Only			
		S			
M	Did the partner contribute property with a built-in gain (loss)?	SE.			
N	Yes No If "Yes," attach statement. See instructions.	ŏ			
14	Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning				
	Ending	1			

S Corporation – Form 1120S, Schedule K-1 (Form 1120S)



		the Treasury ue Service		is attach	file this form unless the ning Form 2553 to elect ov/Form1120S for instri	to be an S co	rporatio	on.	on.		energy top	(Fo	thedule K-1 form 1120-S) partment of the Treas rnal Revenue Service
or ca	lend	ar year 2021	or tax yea	r beginning			endin	g			, 20	1 20000	INTERNAL PRINCIPA
A Sele	ction (effective date	- 64	Name	Dunth and Co				D	Employer is	dentification number		beginning
			TYPE	Logan	Brothers Co	rporat	<u>ion</u>		_			Sh	areholder's
		ctivity code e instructions)	OR	Number, street, ar	nd room or suite no. If a P.O.	box, see instruc	tions.		E	Date incorpo	orated	Cr	edits, etc.
			PRINT	City or town state	or province, country, and Z	IP or foreign nor	tal node		E	Total assets	(see instructions)	17	Part I Inform
Chec	k if Sch	. M-3 attached		only or some came	or province, somethy, and a	e or islangir pas	ini usus		8		(and manufacture)	86	mori
3 ist	the co	orporation elec	ting to be	an S corporation	beginning with this tax y	ear? See instr	ructions	Yes	No	V-		A	Corporation's em
H Ch	eck if	f: (1) Final	return (2)	Name change	e (3) Address char	nge (4) An	nended	return (5	ITIS	election terr	mination		
En En	ter th	e number of s	hareholde	rs who were sha	reholders during any pa	ert of the tax y	ear .	#88 H3				В	Corporation's na
J Ch	eck if	corporation:	1) Aggr	egated activities for	or section 465 at-risk purp	oses (2) 🔲 (Grouped	activities fo	or secti	on 469 pass	ive activity purposes		Logan
_				ss income and ex	penses on lines 1a throu	gh 21. See the				-	4		
9		Gross receipt			NA 1865-18 AND 18	3331 BBH /	1a 1b	200,	UUU	4			
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트					attach Form 4797) .			****		4		D	Corporation's to
3	5	Other income	(loss) (see	instructions-at	tach statement)					5			Beginning of
- 2	6	Total income	(loss). Ad	d lines 3 through	15	2002			. >	6	200,000		End of tax ye
<u>@</u>					is-attach Form 1125-l	E)		100 S/	- 4	7	100.000	0.00	CONTRACTOR OF THE PARTY OF
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Instructions for		Taxes and lice							• •	12		F	Shareholder's na
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1		A CARLO SERVICE			epletion.)					15	3		
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Deductions	-	Other deducti			21 TOSSE 1911 TO	33 M		\$86 BS	* *	19		1	Ourant just and
2 2	_			ines 7 through 1	act line 20 from line 6	SECURITY OF		Apple 1872		20	100.000	н	Shareholder's n
_					pture tax (see instruction		22a	*::* *::		21	100,000		Beginning of
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22					or additional taxes) .			****	+ +	22c			
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툂					St - 1 T St + 1St - 1		23b						Beginning of
=					h Form 4136)		23c			10000			End of tax ye
Ĕ .								#35# E		23d			
E 2					Check if Form 2220 is a the total of lines 22c a		· · ·	1000 T		24			
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2					2022 estimated tax >		00111	Refund		27	30	28	
	\neg	Under penalties	of perjury, I d	leclare that I have ex	amined this return, including	g accompanying	schedule	s and statem	nents, a	nd to the bes	t of my knowledge and	€	5
Sign		belief, it is true, o	orrect, and o	complete. Declaratio	n of preparer (other than tax	payer) is based o	on all info	mation of wi	hich pro		y knowledge. S discuss this return	0	
Here	9									with the pr	eparer shown below?	l S	
10.32		Signature of o		52.11	Date	Title	-			_	tions. Yes No	IRS Use Only	
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rep	arei	E-t-	2011						_	elf-employed		11.	
Use	Onh	Firm's name							F	rm's EIN ▶			

chedule K-1 form 1120-S)	Lie		ions, Credits		urrent Year Income, Other Items
spartment of the Treasury ernal Revenue Service For calendar year 2021, or	tax year	Ordinary business	income (loss)	A. P	Credits
beginning / / ending / /	2	Net rental real est	ate income (less)		
hareholder's Share of Income, Deductions,	3	Other net rental in	ones (loss)		
redits, etc. > See separate instructions.			lourne (loss)		
Part I Information About the Corporation	4	Interest income			
Corporation's employer identification number	5a	Ordinary dividend	s		
3 Corporation's name, address, city, state, and ZIP code	5b	Qualified dividend	s	14	Schedule K-3 is attached if checked
Logan Brothers Corporation	6	Royalties		15	Alternative minimum tax (AMT) is
	7	Net short-term ca	pital gain (loss)	1	
IRS Center where corporation filed return	8a	Net long-term cap	oltal gain (loss)	1	
Corporation's total number of shares Beginning of tax year	Sb	Collectibles (28%)	gain (loss)		
End of tax year	80	Unrecaptured sec	tion 1250 gain		
Part II Information About the Shareholder	9	Net section 1231	gain (loss)	16 D	Items affecting shareholder t
Shareholder's identifying number Shareholder's name, address, city, state, and ZIP code Joe Logan	10	Other income (los	s)		
F Shareholider's name, address, city, state, and ZIP code	10	Other income (los	4		
F Shareholider's name, address, city, state, and ZIP code	36			17	Other information
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage 50	16	Other income (los			
Shareholder's name, address, city, state, and 2IP code Joe Logan	36				
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year	16	Section 179 dedu			
Joe Logan Current year allocation percentage 50 Shareholder's number of shares Beginning of tax year	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year End of tax year S End of tax year S End of tax year S	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year End of tax year S End of tax year S End of tax year S	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year End of tax year S End of tax year S End of tax year S	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year End of tax year S End of tax year S End of tax year S	16	Section 179 dedu			
Shareholder's name, address, city, state, and ZIP code Joe Logan Current year allocation percentage Shareholder's number of shares Beginning of tax year End of tax year Loans from shareholder Beginning of tax year	11 12	Section 179 dedu	ction	17	Other information

Definitions



Earnings

■ The individual owner's proportionate share of profits or losses from the business' ordinary income, rental real estate income and other rental income. *Earnings (less deductions) are passed through to the Schedule E of the Personal Tax Return.*

Distributions

The actual amount of earnings received by the individual owner.

Distribution Amounts

- Less than or equal to the earnings.
- Greater than earnings.
- Blank.



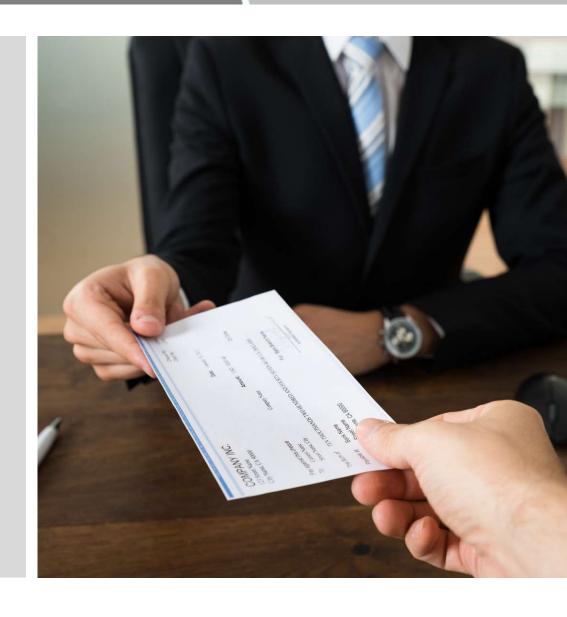
Using K-1 Income



Income was distributed to the borrower.

OR

The business has adequate liquidity to support the withdrawal of earnings.

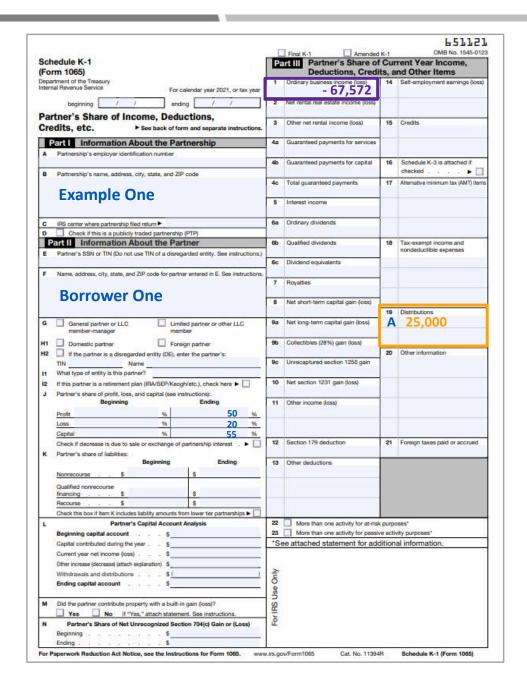




Partnership, Schedule K-1 (Form 1065) Example One



Distributions reported on Schedule K-1, but **earnings** are a loss.





Options for Qualifying Income Example One



If distributions are reported but the earnings are a loss:

- Losses should be counted in cash flow analysis.
- Do not use distributions.

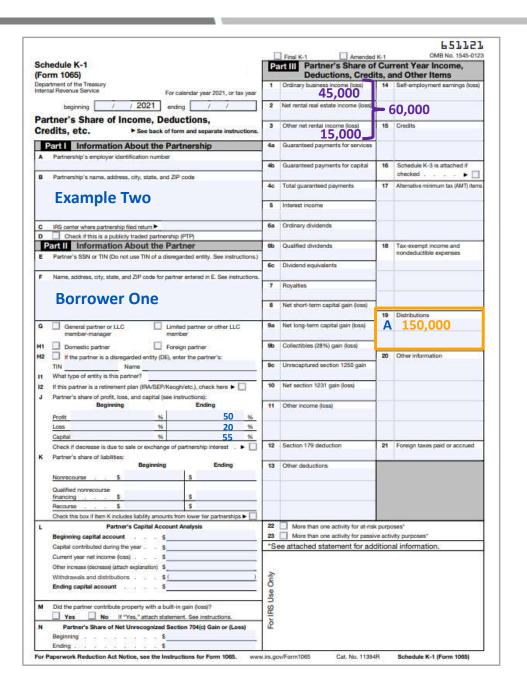
	Ε	Final K-1 Amende		65112 OMB No. 1545-012
Schedule K-1	Pa	Partner's Share of		
(Form 1065)	MIT	Deductions, Cred	-	
Department of the Treasury Internal Revenue Service For calendar year	1	Ordinary business income (loss) - 67,572	14	Self-employment earnings (loss
beginning / / ending / /	2	Net rental real estate income (loss)		
Partner's Share of Income, Deductions,			-	
Credits, etc. See back of form and separate instructions.	3	Other net rental income (loss)	15	Credits
Part Information About the Partnership	4a	Guaranteed payments for services		
Partnership's employer identification number B Partnership's name, address, city, state, and ZIP code	4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked
	4c	Total guaranteed payments	17	Alternative minimum tax (AMT) iter
Example One	5	Interest income		
C IRS center where partnership filed return ▶	6a	Ordinary dividends		
D Check if this is a publicly traded partnership (PTP)				
Part II Information About the Partner	6b	Qualified dividends	18	Tax-exempt income and
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)				nondeductible expenses
	6c	Dividend equivalents		
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	7	Royalties		
Borrower One	8	Net short-term capital gain (loss)	19	Distributions
G General partner or LLC Limited partner or other LLC member-manager member	9a	Net long-term capital gain (loss)	4	25.000
H1 Domestic partner Foreign partner	9b	Collectibles (28%) gain (loss)		



Partnership, Schedule K-1 (Form 1065) Example Two



Distributions reported on the K-1 are GREATER than the earnings.





Options for Qualifying Income Example Two



If distributions are GREATER than the earnings:

You must
 evaluate
 further,
 before
 determining
 qualifying
 income.

Schedule K-1 (Form 1065)	Pa		f Cur	651121 OMB No. 1545-012 Trent Year Income,
Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year	1	Ordinary business income (loss) 45, 000	14	Self-employment earnings (loss)
beginning / / 2021 ending / /	2	Net rental real estate income (loss)		50,000
Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	3	Other net rental income (loss) 15. 000	15	Credits
Part Information About the Partnership A Partnership's employer identification number	4a	Guaranteed payments for services		
B Partnership's name, address, city, state, and ZIP code	4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked
COLUMN COLUMN COLUMN CONTRACTOR COMPANY CONTRACTOR COLUMN	4c	Total guaranteed payments	17	Alternative minimum tax (AMT) item
Example One	5	Interest income		
C IRS center where partnership filed return ▶	6a	Ordinary dividends		
Check if this is a publicly traded partnership (PTP)				
Part II Information About the Partner	6b	Qualified dividends	18	Tax-exempt income and
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)	6c	Dividend equivalents		nondeductible expenses
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	00	Dividend equivalents		
Borrower One	7	Royalties		
borrower Offe		Net short-term capital gain (loss)	19	Distributions
G General partner or LLC Limited partner or other LLC member-manager member	9a	Net long-term ca	Α	150,000
H1 Domestic partner Foreign partner	9b	Collectibles (28%) gain (loss)		



Distributions Greater than Earnings



Maybe the business didn't distribute all the prior year's earnings to the owner.



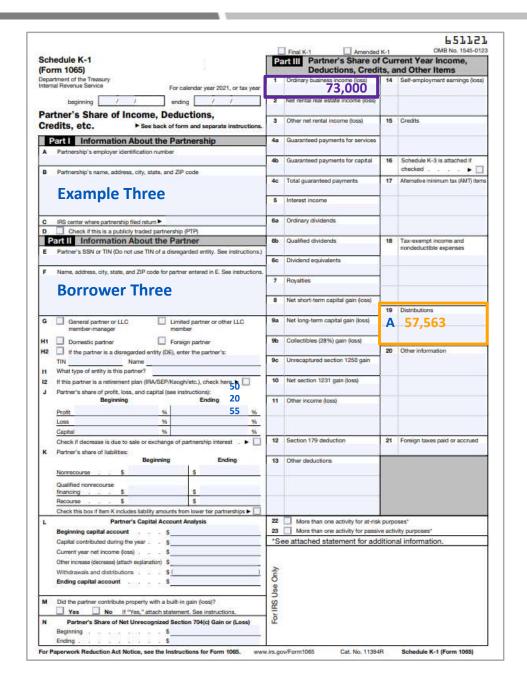
Maybe the business is in the process of shutting down and "paying" back" the original investment.



Partnership, Schedule K-1 (Form 1065) Example Three



Distributions reported on the K-1 are LESS than the earnings.





Options for Qualifying Income Example Three, Option 1



If distributions are LESS than the earnings:

- You can use the distributions.
- No further documentation is needed.

Schedule K-1	Pa	Final K-1		-	65112 OMB No. 1545-01: rent Year Income,
Form 1065)			eductions, Credi	its, a	nd Other Items
Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year		Ordinary I	73,000	14	Self-employment earnings (loss
beginning / / ending / /	2	Net rental	real estate income (loss)		
Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	3	Other net	rental income (loss)	15	Credits
Part I Information About the Partnership	4a	Guarante	ed payments for services		
A Partnership's employer identification number					
B Partnership's name, address, city, state, and ZIP code	4b	Guarante	ed payments for capital	16	Schedule K-3 is attached if checked
Control of the Contro	4c	Total gua	ranteed payments	17	Alternative minimum tax (AMT) ite
Example Three, Option 1	5	Interest in	come		
C IRS center where partnership filed return ▶	6a	Ordinary	dividends		
 Check if this is a publicly traded partnership (PTP) 					
Part II Information About the Partner	6b	Qualified	dividends	18	Tax-exempt income and nondeductible expenses
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)					nondeductible expenses
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	6c	Dividend	equivalents		
Borrower Three	7	Royalties	j		
borrower rinee	8	Net short	term capital gain (loss)		
		11201	and the second	19	Distributions
G General partner or LLC Limited partner or other LLC member-manager member	9a	Net long-	term ca	Α	57,563
Strate and the strategy of the	9b	1 mg (mg) (mg)	es (28%) gain (loss)		



Options for Qualifying Income Example Three, Option 2



If distributions are LESS than the earnings, but you want to maximize qualifying income by using the earnings:

You MUST document adequate liquidity.



Schedule K-1 (Form 1065)	-	Final K-1 Amended art III Partner's Share of Deductions, Cred	f Cur	OMB No. 1545-013 rrent Year Income, and Other Items
Department of the Treasury Internal Revenue Service For calendar year	1	Ordinary business income (loss) 73,000	14	Self-employment earnings (loss
beginning / / ending / /	2	Net rental real estate income (loss)		
Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	3	Other net rental income (loss)	15	Credits
Part I Information About the Partnership	4a	Guaranteed payments for services		
Partnership's employer identification number B Partnership's name, address, city, state, and ZIP code	4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked
Example Three, Option 2	4c	Total guaranteed payments Interest income	17	Alternative minimum tax (AMT) ite
C IRS center where partnership filed return ▶	6a	Ordinary dividends		
D Check if this is a publicly traded partnership (PTP)			_	
Part II Information About the Partner E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)	6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	6c	Dividend equivalents		
Borrower Three	7	Royalties		
Dollower Tillee	8	Net short-term capital gain (loss)	19	Distributions
G General partner or LLC Limited partner or other LLC	9a	Net long-term capital gain (loss)	6	57.50
member-manager member			The same of	



Adequate Liquidity Definition



Solvent

Having assets equal to or greater than liabilities; able to pay one's debts.

Synonyms:

- Financially sound.
- Debt-free.
- In the black.





Adequate Liquidity Tests



Two Formulas Using Schedule L (Balance Sheet) Data



The Current Ratio*

(a.k.a. Working Capital Ratio)

Used for businesses that do NOT rely heavily upon inventory to generate revenue.



The Quick Ratio*

(a.k.a. Acid Test Ratio)

Used for businesses that DO rely heavily upon inventory to generate revenue.



*Acceptable ratio is 1.0 or greater or zero is acceptable under certain conditions.



Adequate Liquidity Calculation Differences



Current Ratio (Working Capital Ratio):

Current Assets ÷ Current Liabilities

Appropriate for businesses that do NOT rely on inventory to generate income.

Quick Ratio (Acid Test Ratio):

(Current Assets – Inventory) ÷ Current Liabilities

GENERAL RULE: Acceptable ratio is

1.0 or greater. A ratio of zero is

acceptable IF you have current

acceptable IF you have current liabilities OR

assets but no current assets or

sheet but no current liabilities.

current liabilities.

Appropriate for businesses that DO rely significantly on inventory to generate income.



Form 1065 Partnership, Schedule L Balance Sheet

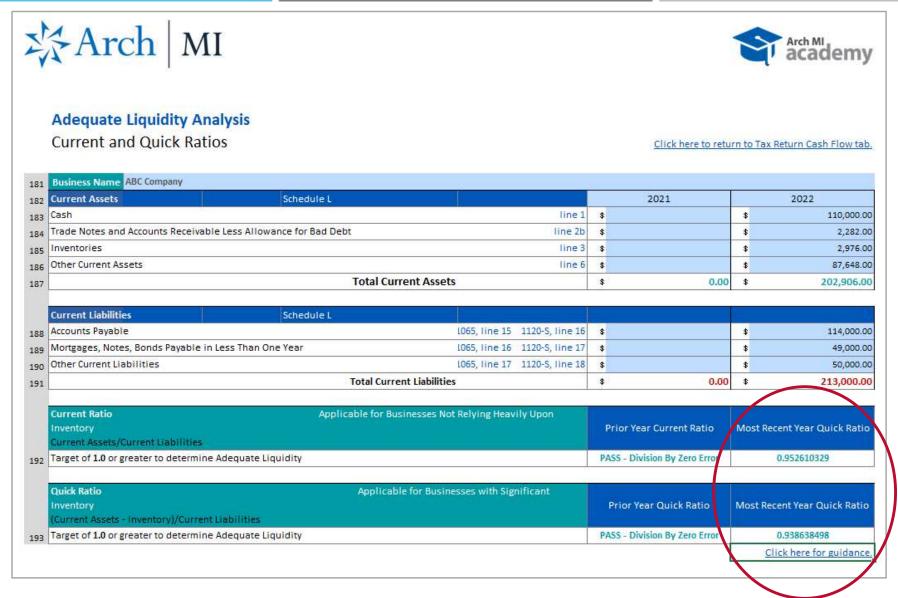


	For calendar year 2020, or tax year beginn		ng , 20 .	OMB No. 1545-0123	
Sch	Indemail Revenue Service	1065 for instructions and the la	of tax year	End of tax	vear
OCI	Assets	(a)	(b)	(c)	(d)
1	Cash				110,000
2a	Trade notes and accounts receivable			2,782	
b	Less allowance for bad debts			500	2.282
3	Inventories				2,976
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement)				87,648
7a	Loans to partners (or persons related to partners) .	Ĭ.			
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets			200,000	
b	Less accumulated depreciation			100,000	100,000
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	<u>I</u>			465,500
	Liabilities and Capital				
15	Accounts payable]			114,000
16	Mortgages, notes, bonds payable in less than 1 year				49,000
17	Other current liabilities (attach statement)				50,000
18	All nonrecourse loans				25,000
19a	Loans from partners (or persons related to partners) .				28,000
b	Mortgages, notes, bonds payable in 1 year or more .				36,000
20	Other liabilities (attach statement)				120,000
21	Partners' capital accounts				45,000
22	Total liabilities and capital				465,500
	Signature of partner or limited liability company mem	iber Dati	See instr	uctions. Yes No	



AMITRAC – Liquidity Analysis Tab







K-1 Income

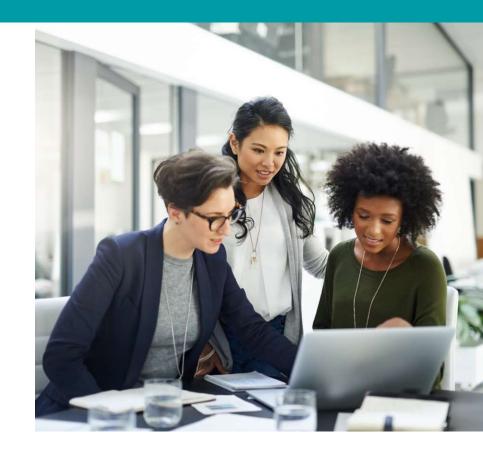


Adequate Liquidity

No Schedule L?

Use an alternative method of analysis compatible with the type or nature of the business, for example:

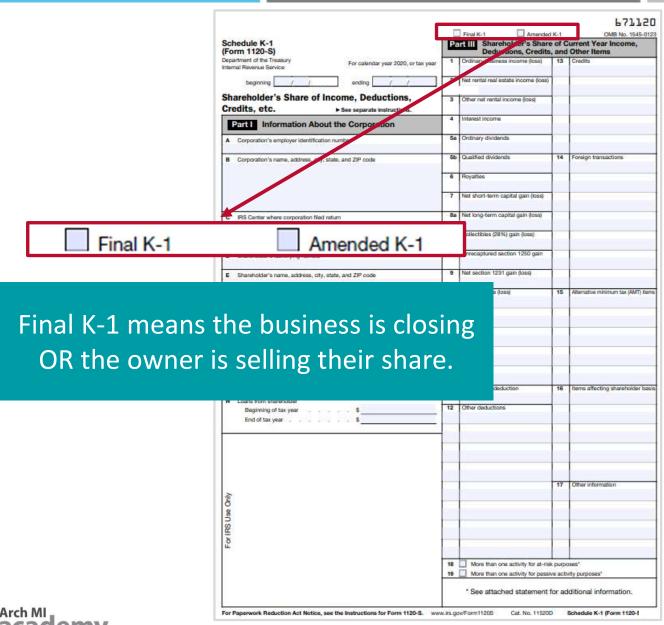
- Year-to-Date Profit and Loss Statement.
- Year-to-Date Balance Sheet.
- Current business bank statements.





What Does Final K-1 Mean?





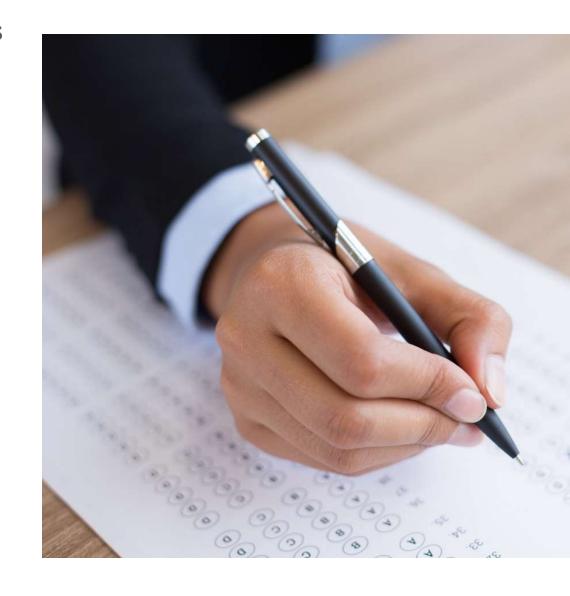


Knowledge Check One



Which of the following statements is true when using ordinary income (earnings) for qualifying when the distributions are less?

- 1. You can never use ordinary income (earnings).
- 2. The business must pass the appropriate liquidity test.
- 3. You can always use ordinary income (earnings). The distributions don't matter.





Check Your Understanding One



The answer is 2. The Business must pass the appropriate liquidity test.

You must be able to support the use of earnings in excess of distributions.







Form 1065
The Partnership
The Case Study





Case Study: Partnership



Background

Paula Abtoole is the general partner of Paula's Pancake House, a small restaurant that serves breakfast and lunch. Their specialty is pancakes — Paula's secret recipe.

Paula opened the business in 2015 and took on a limited partner with 15% ownership.

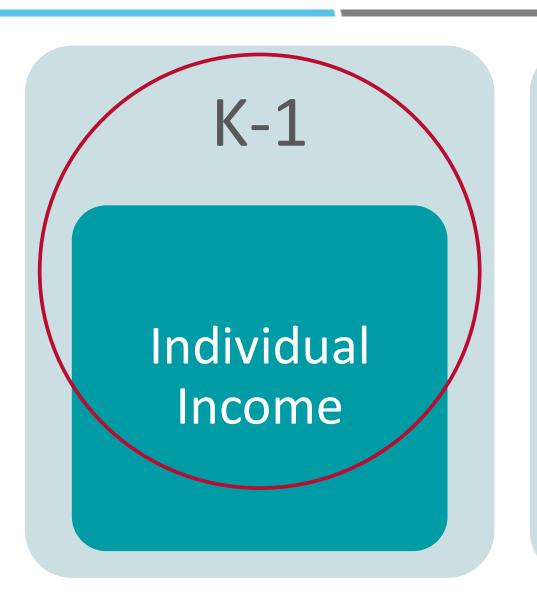
Paula draws \$75,000 per year from the partnership (in guaranteed payments).





Cash Flow Analysis, Review Schedule K-1





1065

Business Cash Flow

Add-Backs & Deductions



Schedule K-1 (Form 1065) Distributions Arch MI



	38% 845%		Final K-1 Amended		OMB No. 1545-012
	edule K-1 m 1065)	Pa	Partner's Share o Deductions, Cred		
	tment of the Treasury al Revenue Service For calendar year 2021, or tax year	1	Ordinary business income (loss) 240.679	14	Self-employment earnings (loss)
	beginning / / ending / /	2	Net rental real estate income (loss)		
	tner's Share of Income, Deductions, dits, etc. > See back of form and separate instructions.	3	Other net rental income (loss)	15	Credits
_	Information About the Partnership	4a	Guaranteed payments for services		
A	Partnership's employer identification number 39-6543219	4b	75,000 Guaranteed payments for capital	16	Schedule K-3 is attached if
В	Partnership's name, address, city, state, and ZIP code				checked
	Paula's Pancake House 100 Second Street	4c	Total guaranteed payments 75,000	17	Alternative minimum tax (AMT) items
	Anytown, IL 60000	5	Interest income		
С	IRS center where partnership filed return ▶	6a	Ordinary dividends	1	
D	Check if this is a publicly traded partnership (PTP)	6b	Oxalified dividends	18	Tax-exempt income and
E	Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)				nondeductible expenses
F	541-03-2789 Name, address, city, state, and ZIP code for partner entered in E. See instructions.	6c	Dividend equivalents		
	Paula Abtoole 57 Shady Lane	7	Royalties	-	
	Anytown, IL 60000	8	Net short-term capital gain (loss)	19	Distributions
G	General partner or LLC Limited partner or other LLC member manager member	9a	Net long-term capital gain (loss)		Distributions
11	Domestic partner If the partner is a disregarded entity (DE), enter the partner's:	9b	Collectibles (28%) gain (loss)	A 20	200,000 Other information
11	TIN Name What type of entity is this partner? General Partner	9c	Unrecaptured section 1250 gain	alvisa	
2	If this partner is a refinement plan (IRA/SEP/Keogh/etc.), check here ▶	10	Net section 1231 gain (loss)		
J	Partner's share of profit, loss, and capital (see instructions): Beginning Ending	11	Other income (loss)		
	Proft 85 % 85 %				
	Capital 85 % 85 %				
ĸ	Check if decrease is due to sale or exchange of partnership interest . Partner's share of liabilities:	12	Section 179 deduction	21	Foreign taxes paid or accrued
	Beginning Ending Nonrecourse	13	Other deductions		
	Qualified nonrecourse financing				
	Recourse \$ \$				
	Check this box if item K includes liability amounts from lower tier partnerships ▶				
L	Partner's Capital Account Analysis	22	More than one activity for at-ris		
	Beginning capital account \$	23	More than one activity for passi		
	Capital contributed during the year \$	- 56	e attached statement for ad	altion	ai information.
	Current year net income (loss) \$				
	Other increase (decrease) (attach explanation) \$ Withdrawals and distributions \$ ()	2			
	Ending capital account \$	For IRS Use Only			
	ACTION OF THE PROPERTY OF THE STATE OF THE S	Use			
M	Did the partner contribute property with a built-in gain (loss)?	RS			
_	Yes No If "Yes," attach statement. See instructions.	orl			
N	Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning	Œ			



Options for Qualifying Income From Schedule K-1



If distributions are LESS than the earnings:

- You can use the distributions.
- No further documentation is needed.

			Amended		OMB N	5112 o. 1545-01
Schedule K-1	P	THE RESERVE AND ADDRESS OF THE PERSON NAMED IN			rent Year Inco	200000
(Form 1065)	215			ts, a	nd Other Items	
Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year	1	Ordinary business inco	,679	14	Self-employment ea	mings (los
beginning / / ending / /	2	Net rental real estate in	ncome (I			
Partner's Share of Income, Deductions, Credits, etc. ▶ See back of form and separate in		In order to	use the	2, 00	irnings —	
39-6543219	(6	1.0" Lethel	re are r	,	wform atta	ched if
		L AV IVIO		1. +		- Table 1
Partnership's name, address, city, state, and ZIP code Paula's Pancake House	affi dist	cient, or signs), you	ou must	1 PU	ass) an	x (AMT) it
100 Second Street Anytown, IL 60000	uffi dist (an	cient, or signs), you	ou must	1 PU	est.	-
100 Second Street Anytown, IL 60000 C IRS center where partnership filed return	uffi dist (an	ributions), 40 ributions), 40 d the busine appropriate	ou must	1 PU	est.	-
100 Second Street Anytown, IL 60000 C IRS center where partnership filed return ▶ D Check if this is a publicly traded partnership (PTP)	uffi dist (an	ributions), 40 ributions), 40 d the busine appropriate	ou must	t pa	est.	ox (AMT) is
100 Second Street Anytown, IL 60000 C IRS center where partnership filed return ▶ D Check if this is a publicly traded partnership (PTP) Part II Information About the Partner	alst (an	cient, or signs), you	ou must	1 PU	Tax-exempt income nondeductible exper	x (AMT) it
100 Second Street Anytown, IL 60000 C IRS center where partnership filed return ▶ D ☐ Check if this is a publicly traded partnership (PTP)	alst (an	ributions), 40 ributions), 40 d the busine appropriate	ou must	t pa	est. Tax-exempt income	x (AMT) it
100 Second Street Anytown, IL 60000 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 SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789 F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	als1 (an	ributions), 40 ributions), 40 d the busine appropriate appropriate	ou must	t pa	est. Tax-exempt income	x (AMT) is
100 Second Street Anytown, IL 60000 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 SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789	als1 (an	ributions), 40 ributions), 40 d the busine appropriate appropriate	ou must	t pa	est. Tax-exempt income	x (AMT) it
100 Second Street Anytown, IL 60000 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 SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789 F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Paula Abtoole	6c 7	ributions), 40 ributions), 40 d the busine appropriate appropriate Dividend equivalents Royalties	ou must ss must ; liquidit	t pa	est. Tax-exempt income	x (AMT) is
100 Second Street Anytown, IL 60000 C IRS center where partnership filed retum ▶ D Check if this is a publicly traded partnership (PTP) Part II Information About the Partner E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789 F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Paula Abtoole 57 Shady Lane	als1 (an	ributions), 40 ributions), 40 d the busine appropriate appropriate Dividend equivalents	ou must ss must ; liquidit	t p0 t p0 ty to	Tax-exempt income nondeductible exper	x (AMT) is
100 Second Street Anytown, IL 60000 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 SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789 F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Paula Abtoole 57 Shady Lane Anytown, IL 60000	6c 7 8	ributions), 44 d the busine appropriate appropriate Dividend equivalents Royalties Net short-term capital	ou must ss must ; liquidit	t pa	est. Tax-exempt income	x (AMT) is
100 Second Street Anytown, IL 60000 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 SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789 F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Paula Abtoole 57 Shady Lane	6c 7	ributions), 40 ributions), 40 d the busine appropriate appropriate Dividend equivalents Royalties	ou must ss must ; liquidit	t p0 t p0 ty to	Tax-exempt income nondeductible exper	x (AMT) its



Schedule K-1 (Form 1065), Guaranteed Payments



	Final K-1 Amende		OMB No. 1545-0123
nedule K-1	Part III Partner's Share o		
rm 1065) streent of the Treasury	1 Ordinary business income (loss)		Self-employment earnings (loss)
nal Revenue Service For calendar year 2021, or tax year		14	Seri-employment earnings (loss)
beginning / / ending / /	2 Net rental real estate income (loss)	1	
rtner's Share of Income. Deductions.			
edits, etc. See back of form and separate instructions	3 Other net rental income (loss)	15	Credits
Information About the Partnership	4a Guaranteed payments for services	1	
Partnership's employer identification number 39-6543219	75,000 4b Guaranteed payments for capital	16	Schedule K-3 is attached if
Partnership's name, address, city, state, and ZIP code			checked
Paula's Pancake House	4c Total guaranteed payments	17	Alternative minimum tax (AMT) items
100 Second Street	75,000		
Anytown, IL 60000	5 Interest income		
Par Paris Control of the Paris	g Guarante		
57 Shady Lane Anytown, IL 60000	8 Net short-term capital gain (oss)		
General partner or LLC Limited partner or other LLC member manager member	9a Net long-term capital gain (loss)	19	Distributions
Domestic partner Foreign partner	9b Collectibles (28%) gain (loss)	A	200.000
Domestic partner If the partner is a disregarded entity (DE), enter the partner's:	and the set that the set	20	Other information
TIN Name	9c Unrecaptured section 1250 gain	100335	Design Charles Co. Charles Co.
What type of entity is this partner? General Partner			
If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here >	10 Net section 1231 gain (loss)		
이 보고 발생하는 사람이 되었다. 이 경영을 보고 있는데 하는데 되었다면 하는데		-	
Partner's share of profit, loss, and capital (see instructions): Beginning Ending	11 Other income (loss)		
	11 Other income (loss)		
Beginning Ending			
Beginning Ending Profit 85 % 85 % Loss 85 % 85 % Capital 85 % 85 %			
Beginning Ending		21	Foreign taxes paid or accrued
Beginning Ending Profit 85 % 85 % Loss 85 % 85 % Capital 85 % 85 %		21	Foreign taxes paid or accrued
Profit 85 16 85 16	12 Section 179 deduction	21	Foreign taxes paid or accrued
Beginning	12 Section 179 deduction	21	Foreign taxes paid or accrued
Beginning Ending Profit 85 46 85 46 Loss 85 46 85 46 Capital 85 46 85 46 Check if decrease is due to sale or exchange of partnership interest . ▶ □ Partner's share of liabilities: Beginning Ending Nonrecourse \$ \$ Counified nonrecourse francing . \$	12 Section 179 deduction	21	Foreign taxes paid or accrued
Profit 85 46 85 46	12 Section 179 deduction	21	Foreign taxes paid or accrued
Beginning Ending Profit 85 46 85 46 Loss 85 46 85 46 Capital 85 46 85 46 Check if decrease is due to sale or exchange of partnership interest . ▶ □ Partner's share of liabilities: Beginning Ending Nonrecourse \$ \$ Counified nonrecourse francing . \$	12 Section 179 deduction		
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Partnership: K-1 Subtotal



Paula Abtoole's K-1 Subtotal

ADD

K-1 Distribution \$200,000 Guaranteed Payments \$75,000

SUBTRACT

\$200,000 + \$75,000 = \$275,000



Cash Flow Analysis, Review Form 1065



K-1

Individual Income

1065

Business Cash Flow

Add-Backs & Deductions



Form 1065 Partnership Income **Other Income**



			Form 10	U.S. Retur	rn of Partnership Income		OMB No. 1545-0123			
			Department of ti	For calendar year 2020, or tax year begin	nning ending m1065 for instructions and the latest inform	, 20				
			A Principal busi	activity Name of partnership		nation.	D Employer identification number			
			Restau B Principal produ				39-6543219 E Date business started			
			Food C Business cor	or 100 Second Str	eet		4/01/2010			
			77251	Anytown, IL 600	untry, and ZIP or foreign postal code		F Total assets (see instructions)			
			G Check ap		inal return (3) Name change (4)	Address change	\$ 101,225			
			H Check ac	nting method: (1) Cash (2) A	ccrual (3) ☐ Other (specify) ▶		***************************************			
			J Check if S	dules C and M-3 are attached			▶ □			
			Caution: Inc	ership: (1) Aggregated activities for section e only trade or business income and exp	n 465 at-risk purposes (2) Grouped activi censes on lines 1a through 22 below. Se	ties for section 469 e instructions fo	more information			THE THE BUILDING
	1a	Gross receipts or		are write as no empression	e arrance remineegr	18			11.01.0	I I I I I I I I I I I I I I I I I I I
	b	Returns and allow		Partia Sabil Partia: Varia	140 MONTHS MONTHS (MONTHS)	11		041	Š.	
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	C				20.566 305 20.56	38 3035	90500 D	1 (8)	1c	532,841
2	2	Cost of goods so	A STATE OF THE STA			84 ¥33¥	(20 258 EX		2	89,987
	3	Gross profit. Sub		from line 1c	CARTINO AND AND AND AND	4004	40 40 4 400	- 10	3	442,854
3 T										
5	4			other partnerships, e	2013 (4)	ach state	ment)	1 127	4	
5	4 5			other partnerships, e Schedule F (Form 10	2013 (4)	ach state	ment)	1 W + ai	5	5,523 10,193
2	17-7-	Net farm profit (lo	ss) (atta	A STATE OF THE PARTY OF THE PAR	140))	33 3334	a da so		5	
5	5	Net farm profit (lo	ss) (atta m Form	Schedule F (Form 10 797, Part II, line 17 (at	(40))	15 SAG	a de 80	oically !	5 non-	10,193 15,418
	5 6	Net farm profit (lo Net gain (loss) fro Other income (los	ss) (atta m Form s) (attac	Schedule F (Form 10 797, Part II, line 17 (at	140))	o ther I	ncome is tyl	oically l	5 non-	10,193 15,418 18,866
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	5 6 7	Net farm profit (lo Net gain (loss) fro Other income (los	m Form (attac ss) (attac ss). Con	n Schedule F (Form 10 797, Part II, line 17 (at statement) ine lines 3 through 7 tirement plans, etc. ployee benefit programs prof deductions (attach statement) tal deductions. Add the amounts shown	140())	Other I	ncome is tyl VLESS you c t the speci	10 3000	non-) rces	10,193 15,418 18,866
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	5 6 7	Net farm profit (lo Net gain (loss) fro Other income (los	(attac ss) (attac ss). Con 13) 18 19 20 21 22 11 23 12 24 24 26 26 26 27 27 28 28 29	n Schedule F (Form 10) 797, Part II, line 17 (att statement) ilne lines 3 through 7 tirement plans, etc. ployee benefit programs her deductions (attach statement) hal deductions. Add the amounts shown dinary business income (loss). Subtract erest due under the look-back method—c erest due under the look-back method—c erest due under the look-back method—in A AAR imputed underpayment (see instruct er taxes (see instructions) hal balance due. Add lines 23 through 26 yment (see instructions) hount owed. If line 28 is smaller than line	tarch Form 4797) NOTE: recul in the far right colum t line 21 from line 8 completed long-term income forecast meth	Other I rring U ent wha other I num of ot for ea	ncome is typ NLESS you of t the special ncome are, l a two-year ach source, of that the inc	2) shu histor	non-) rces ow a y of	10,193 15,418 18,866 492,854
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	5 6 7	Net farm profit (lo Net gain (loss) fro Other income (los	(atta) (a	n Schedule F (Form 10) 797, Part II, line 17 (att statement) ilne lines 3 through 7 tirement plans, etc. ployee benefit programs her deductions (attach statement) hal deductions. Add the amounts shown dinary business income (loss). Subtract erest due under the look-back method—c erest due under the look-back method—c erest due under the look-back method—in A AAR imputed underpayment (see instruct er taxes (see instructions) hal balance due. Add lines 23 through 26 yment (see instructions) hount owed. If line 28 is smaller than line	tarch Form 4797) NOTE: recun tine far right colun tine 21 from line 8 completed long-term income forecast meth uctions) 27, enter amount owed 7, enter overpayment det this return, including accomp	Other I rring U ent wha other I num of ot for ea	ncome is typ NLESS you of t the special ncome are, l a two-year ach source, of that the inc	2) shu histor	non-) rces ow a y of	10,193 15,418 18,866 492,854
	5 6 7	Net farm profit (lo Net gain (loss) fro Other income (los	(attac ss) (attac ss). Con 13) 18 19 20 21 22 11 23 12 24 24 26 26 26 27 27 28 28 29	n Schedule F (Form 10) 797, Part II, line 17 (att statement) ine lines 3 through 7 irrement plans, etc. ployee benefit programs ter deductions (attach statement) tal deductions. Add the amounts shown dinary business income (loss). Subtract erest due under the look-back method—ir act AAR imputed underpayment (see instructions) tal balance due. Add lines 23 through 26 yment (see instructions) tount owed. If line 28 is larger than line? erpayment. If line 28 is larger than line? der penalties of portury. I decire that I have examin	tarch Form 4797) NOTE: recun tine far right colun tine 21 from line 8 completed long-term income forecast meth uctions) 27, enter amount owed 7, enter overpayment det this return, including accomp	Other I rring U ent whe other i num of ot for ea upport	ncome is typy NLESS you of the specific proome are, Continue, and the individual to continue.	2) shu histor	non-) rces ow a y of	10,193 15,418 18,866 492,854
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e li colle	5 6 7 8	Net farm profit (lo Net gain (loss) fro Other income (los	(atta) (a	n Schedule F (Form 10) 797, Part II, line 17 (att statement) sine lines 3 through 7 tirement plans, etc. ployee benefit programs are deductions (attach statement) all deductions. Add the amounts shown dinary business income (loss). Subtract arest due under the look-back method— iret daves (see instructions) tal balance due. Add lines 23 through 26 yment (see instructions) tal balance due. Add lines 23 through 26 yment (see instructions) tal balance due. Add lines 23 through 26 yment (see instructions) tal balance due, Add lines 23 through 26 yment (see instructions) tal balance due, Add lines 23 through 26 yment (see instructions) state balance due, Add lines 23 through 26 yment (see instructions) state balance due, Add lines 23 through 26 yment (see instructions) state balance due, Add lines 23 through 26 yment (see instructions) state balance due, Add lines 25 through 26 yment (see instructions) state balance due, Add lines 25 through 26 yment (see instructions) state balance due, Add lines 25 through 26 yment (see instructions) state balance due, Add lines 25 through 26 yment (see instructions) state balance due, Add lines 25 through 26 yment (see instructions) state balance due, Add lines 25 through 27 yment (see instructions) state balance due, Add lines 25 through 27 yment (see instructions) state balance due, Add lines 26 through 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions) state balance due, Add lines 27 yment (see instructions)	in the far right column time 21 from line 8 completed long-term income forecast method puctions) in the far right column time 8 completed long-term income forecast method puctions of the minity receipt can so the column time of preparer (other than partner long preparer (other than partner long).	Other in the other is a support. May when the other is a support. May when is a support.	ncome is typy NLESS you of the specific proone are, of a two-year ach source, of the specific proone and the income ach the income to continue. The proper shows below? The proper shows below? The proper shows below?	2) shu histor	non-) rces ow a y of	10,193 15,418 18,866, 492,854



Form 1065 Deductions, Non-Cash Expenses, Other Deductions

Sign

Here

Paid Preparer

Use Only

Firm's name >

Firm's address ▶

For Paperwork Reduction Act Notice, see separate instructions.



	The state of the Treasury Internal Revenue Service U.S. Return of Partnership Income OMB No. 1545-0123 OMB No. 1545-0123 Proceeding .20 For calendar year 2020, or tax year beginning ending .20 For oto www.irs.gov/Form1065 for instructions and the latest information.		
	A Principal business activity Restaurant B Principal product or service Food C Business code number 772513 Name of partnership Paula's Pancake House 139-6543219 B E Date business started 4/01/2010 C Cty or town, state or province, country, and ZIP or foreign postal code Anytown, IL 60000 S Enployer Mentification number 39-6543219 E Date business started 4/01/2010 F Total assets (see instructions) \$ 101,225		
8	G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return H Check accounting method: (1) Sash (2) Accrual (3) Other (specify) 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	181	
9	Salaries and wages (other than to partners) (less employment credits)	9	42,964
10 11 12 13 14 15	Guaranteed payments to partners	10	75,000
11	Repairs and maintenance	11	3,45
12	Bad debts	12	0,40
9 13	Rent	13	38,52
5 14	Taxes and licenses	14	9,32
15	Interest (see instructions)	15	1,26
16a	Depreciation (if required, attach Form 4562)		•
b	Less depreciation reported on Form 1125-A and elsewhere on return . 16b	16c	2,30
6 17	Depletion (Do not deduct oil and gas depletion.)	17	
18	Retirement plans, etc	18	2,22
17 18 19 20	Employee benefit programs	19	16,47
<u>මී</u> 20	Other deductions (attach statement)	20	17,90
21	Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21	209,70
	22 Ordinary business income (loss). Subtract line 21 from line 8 22		



May the IRS discuss this retu

Check if if self-employed

Firm's EIN ▶

Phone no.

with the preparer shown below? See instructions. Yes No

Form 1065 Deductions, Non-Cash Expenses, Other Deductions



	Form 1065 Department of the Treasury Internal Revenue Service U.S. Return of Partnership Income For calendar year 2020, or tax year beginning ending , 20 ▶ Go to www.irs.gov/Form1065 for instructions and the latest information.		
	A Principal business activity Restaurant B Principal product or service Food C Business code number 772513 Name of partnership Paula's Pancake House Paula's Pancake House 39-6543219 B Epolype destination number 39-6543219 D Employe destination number 39-6543219 D Employe destination number and surface in the partnership Paula's Pancake House 100 Second Street 100 Se		
18	G Check applicable boxes: (1) X 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) 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	18	
9	Salaries and wages (other than to partners) (less employment credits)	9	42,964
10	Guaranteed payments to partners	10	75,000
11	Repairs and maintenance	11	3,451
12	Bad debts	12	3,431
13	Rent	13	38,523
14	Taxes and licenses	14	9,327
15	Interest (see instructions)	15	1,268
16a	Depreciation (if required, attach Form 4562)		-,
b	Less depreciation reporter Form 1125-A and elsewhere on return . 16b	16c	2,300
17	Depletion (Do not deduct and gas depletion.)	17	,
18	Retirement plans, etc.	18	2,225
19	Employee benefit programs	19	16,475
20	Other deductions (attach statement)	20	17,900
21	Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21	209,703
	22 Ordinary business income (loas). Subtract line 21 from line 8		
	Paid Print/Type preparer's name Preparer's signature Preparer's signature Print/Type preparer's name Preparer's signature Date Date Print/Type preparer's name Preparer's signature Print/Type preparer's name Preparer's signature Date Check if self-employed Date Print/Type preparer's name Preparer's name Preparer's name Preparer's signature Date Print/Type preparer's name Pre		

Firm's EIN ▶



Partnership, Other Deductions, Statement 1



- Review for amortization.
- Check for extraordinary and one-time deductions.
- Look for Meals expenses.

Statement 1	
Form 1065, Line 20	
Other Deductions	
Accounting	1,633
Insurance	3,418
Legal and Professional	2,500
Meals	2,888
Postage	2,567
Supplies	1,345
Utilities	3,549
Total	\$ 17,900



Rules for Meals Expenses



Standard Rules (IRS)

 Business meals are subject to a 50% limitation.

GSEs require a cash flow deduction of the exclusion.

* Temporary Rule (IRS)

 Business meals purchased from a restaurant can be deducted at 100%.

GSEs have not yet addressed this temporary rule change.

*For tax years 2021 and 2022.



Partnership, Other Deductions, Meals Expenses



- \$2,888 is the amount claimed.
- Assuming a 50%
 deduction limitation,
 \$2,888 should be
 subtracted because it
 assumes \$5,776 was
 spent.

NOTE: Check to see if your institution has addressed this temporary Policy. You may not need to make a deduction for 2021 or 2022 tax years.

Statement 1	
Form 1065, Line 20	
Other Deductions	
A	1 (22
Accounting	1,633
Insurance	3,418
Legal and Professional	2,500
Meals	2,888
Postage	2,567
Supplies	1,345
Utilities	3,549
Total	\$ 17,900



Form 1065 Partnership, Schedule L Balance Sheet

1065



OMB No. 1545-0123

	For allendar year: or tax year beginning Department of the Treasury Internal Revenue Service For calendar year: or tax year beginning For calendar year: or tax year beginning For calendar year: or tax year beginning		, 20 information.		
Sch	edule L Balance Sheets per Books	Beginning of	tax year	End of tax	year
	Assets	(a)	(b)	(c)	(d)
1	Cash	-	51,000	1000	110,000
2a	Trade notes and accounts receivable	300,000		100,000	
b	Less allowance for bad debts	4,000	296,000	500	99,500
3	Inventories		250,000		
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement)		200,000		205,000
7a	Loans to partners (or persons related to partners) .				
b	Mortgage and real estate loans				350,000
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets	230,000		200,000	
b	Less accumulated depreciation	150,000	75,000	100,000	100,000
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		130,000		46 00
	Liabilities and Capital				
15	Accounts payable		10,000		114, 00
16	Mortgages, notes, bonds payable in less than 1 year		30,000		49,000
17	Other current liabilities (attach statement)		15,000		50,000
18	All nonrecourse loans				25,000
19a	Loans from partners (or persons related to partners) .		10,000		28,000
b	Mortgages, notes, bonds payable in 1 year or more .		10,000		36,000
20	Other liabilities (attach statement)		20,000		120,000
21	Partners' capital accounts		35,000		45,000
22	Total liabilities and capital		130,000		465,500
			See instructions	Yes No	

U.S. Return of Partnership Income



Form 1065 Partnership, Schedule L Balance Sheet



Sch	edule L Balance Sheets per Books	Beginning of	tax year	End of tax	year
	Assets	(a)	(b)	(c)	(d)
1	Cash		51,000	1000	110,000
2a	Trade notes and accounts receivable	300,000		2,675	
b	Less allowance for bad debts	4,000	296,000	500	2,175
3	Inventories		250,000		365
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement)		200,000		153,800
7a	Loans to partners (or persons related to partners) .				
b	Mortgage and real estate loans				99,160
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets	230,000		200,000	
b	Less accumulated depreciation	150,000	75,000	100,000	100,000
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		130,000		465,500
	Liabilities and Capital				
15	Accounts payable		10,000		114,000
16	Mortgages, notes, bonds payable in less than 1 year		30,000		49,000
17	Other current liabilities (attach statement)		15,000		50,000
18	All nonrecourse loans				25,000
9a	Loans from partners (or persons related to partners) .		10,000		28,000
b	Mortgages, notes, bonds payable in 1 year or more .		10,000		36,000
20	Other liabilities (attach statement)		20,000		120,000
21	Partners' capital accounts		35,000		13,50
22	Total liabilities and capital		130,000		465,50

II & Poturn of Partnerchin Income

OMB No. 1545-0123



Schedule K-1 (Form 1065) Distributions Arch MI



		г	Final K-1 Amended	K-t	65111° OMB No. 1545-012
	edule K-1		Partner's Share of	Cur	rent Year Income,
	m 1065)	1100.00	Deductions, Credi		
tern	tment of the Treasury at Revenue Service For calendar year 2020, or tax year	1	Ovdinary business income (loss) 240,679	15	Credits
	beginning / / ending / /	2	Net rental real estate income (loss)		
	tner's Share of Income, Deductions, dits, etc. See separate instructions.	3	Other net rental income (loss)	16	Foreign transactions
	Information About the Partnership	4a	Guaranteed payments for services		
A	Partnership's employer identification number 39-6543219	4b	75,000 Guaranteed payments for capital		
В	Partnership's name, address, city, state, and ZIP code	COSTA			
	Paula's Pancake House 100 Second Street	40	Total guaranteed payments 75,000		
	Anytown, IL 60000	5	Interest income		
C D	IRS Center where partnership filed return > Check if this is a publicity traded partnership (PTP)	6a	Ordinary dividends		
	Information About the Partner				
E	Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 541-03-2789	Gb	Qualified dividends		
F	Name, address, city, state, and ZIP code for partner entered in E. See instructions. Paula Abtoole	6c	Dividend equivalents	17	Alternative minimum tax (AMT) item
	57 Shady Lane Anytown, IL 60000	7	Royalties		
G	General partner or LLC Limited partner or other LLC member-manager member	8	Net short-term capital gain (loss)		
11	Domestic partner Foreign partner	9a	Net long-term capital gain (loss)	18	Tax-exempt income and nondeductible expenses
12	If the partner is a disregarded entity (DE), enter the partner's: TIN Name	9b	Collectibles (28%) gain (loss)		
11	What type of entity is this partner? General Partner If this partner is a retirement plan (IRA/SEP/Keoph/etc.), check here	9c	Unrecaptured section 1250 gain		
J	Partner's share of profit, loss, and capital (see instructions): Beginning Ending	10	Net section 1231 gain (loss)		
	Profit 85 % 85 %	10	Net section 1231 gain (loss)	19	Distributions
	Loss 85 % 85 %	11	Other income (loss)		200 000
	Capital 85 % 85 % Check if decrease is due to sale or exchange of partnership interest			Α	200,000
	200000000000000000000000000000000000000	12	Section 179 deduction	20	Other information
K	Partner's share of liabilities: Beginning Ending	12	Deciron 113 decidation		
	Nonrecourse S S	13	Other deductions		
	Qualified nonrecourse financing \$ \$				
	Recourse \$ S	_		-	
L	Check this box if Item K includes liability amounts from lower tier partnerships.				
-	Partner's Capital Account Analysis	14	Self-employment earnings (loss)		
	Beginning capital account \$				
	Capital contributed during the year \$				
	Current year net income (loss) \$				
	Other increase (decrease) (attach explanation) \$	21	More than one activity for at-risk	k purpe	oses*
	Withdrawals & distributions \$ ()	22	More than one activity for passing	ve activ	vity purposes*
	Ending capital account \$		se attached statement for add		
M	Did the partner contribute property with a built-in gain or loss?	Use Only			
	Yes No If "Yes," attach statement. See instructions.	Use			
N	Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning	RS.			
	유전투(MTMF 0.00cm) 다른 가입하고 있으면 다양종 (A	ò			



Partnership: Form 1065



Paula's Pancake House Sub-Total

ADD		SUBTRACT			
Depreciation	\$2,300	Non-recurring Income Meals	\$50,000 \$2,888		

 $($2,300 - $52,888) \times 85\% = -$42,999.80$



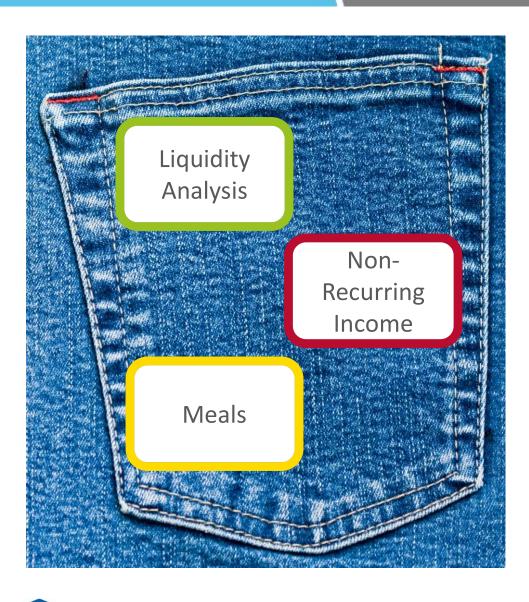
AMITRAC – Partnership Tax Return (1065) Self-Employed



				Prior Year		A	lost Recent Ye
11	Partnership Tax Return (1065) Self-Employed	Click here for section guida	nce.	2021			2022
	Business Name	Paula's Pancake Hous	se				
100	Ordinary Business Income		*	The state of the s		\$ 24	10,679.00
101	Ordinary Business Loss				(E)		
102	Net Rental Real Estate Income		\$			\$	
103	Net Rental Real Estate Loss				(10)		
104	Subtotal of K-1 Profits/Los	Ses (calculatorlinos 100 through 103)		0.00		1	240,679.00
105	Distributions						200,000.00
	Compare Subtotal of Profits (Cosses (Cine	104) to Distributions (Line)). Choose one qu	Jam	yırıy c	phonito eac
		Click here for guidance,					
				Prio	or Ye	ear (Ch	oose One Optio
106	Utilize Sub-T	otal of K-1 Profits/Losses		N	o		
		Utilize Distributions		Yi	ES		
				1111			
	Ý			Most Recei	it Ye	ar (Ch	oose One Opti
107	Utilize Sub-T	otal of K-1 Profits/Losses		N	o		
		Utilize Distributions		Y	ES		
		NAME AND ADDRESS OF THE PARTY O		1.152			
108	Amount of Qualifying K-1Income (Profit or Distribution	on) •		0.00			200,000
109	Amount of Qualifying K-1Loss	2000	\$	0.00	-		C
110	Guaranteed Payments to Partner		•				75.000
111	Borrower's Qualifying K-1 To	tal ±	\$	0.00	±	- 1	275,000.
	20	BUSINESS ANALYSIS 10		N.	-72		
112	Non-Recurring Income from other Partnerships,	etc -					5,523,00
113	Non-Recurring Loss from other Partnerships, etc	Q23.73					510770000
114	Non-Recurring Profit, Gain or Income	20					44,477.00
115	Non-Recurring Loss						0.0000.0000
116	Depreciation						2,300.00
117	Depletion						
118	Amortization (as itemized from statement)						
119	Casualty Losses (as itemized from statement)		•				
120	One-Time Expenses (as itemized from statement)		-				
121	Mortgages, Notes, Bonds Payable in Cone Year				*		
121	Non-Deductible Portion of Travel, Meals &		- 100		050		
122	Entertainment		*		35		2,888.00
123	/Saa /Silitanna tab for 2021/2022 TamonraculES Total of Partnership 1065 Cash	Flour	\$	0.00			/E0 500 001
124	Ownership Percentage	Click here for guidance.		0.00		183	(50,588.00) 5.00%
125	Borrower's Proportionate Share of:		\$	0.00	13	•	(42,999.
120	PARTNERSHIP TOTALS (C)	STATE OF THE STATE	16170	C-00177	120	•	(42,399.
ine.	FANTRENSHIP TOTALS (C.		5	CONTRACTOR OF THE PROPERTY OF THE PERSON NAMED IN COLUMN TWO PARTY OF THE PERSON NAMED	a)	_	222.000
126		Totals	-	0.00		5	232,000
		Electrical and the state of the	Une	Option for 1065		me II	ena calculatio
127	I	PRIOR YEAR ONLY		N			
	120.007/2007/8008	MOST RECENT YEAR ONLY		Yi			
		R and MOST RECENT YEAR			0		
		OTAL 1065 Annual Trend		62	23 0	00.20	

Items in Your Back Pocket





- If initial review does not produce sufficient income:
 - Go back and collect
 additional documentation to
 increase add-backs and/or
 reduce deductions

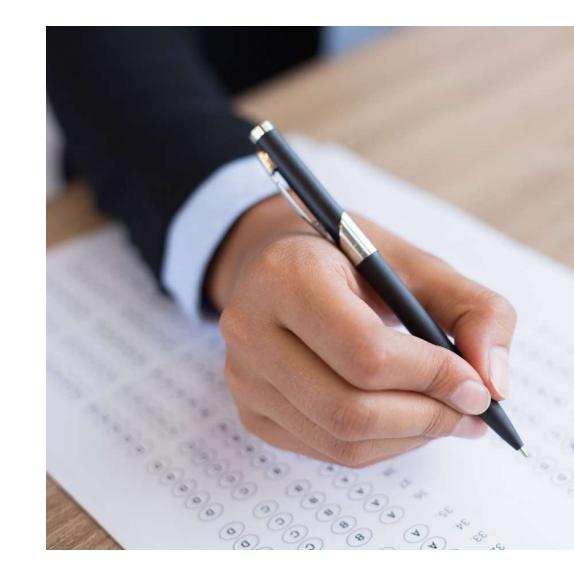


Knowledge Check Two



Which of the following requires proof of continuance if being used for qualifying?

- Guaranteed Payments for Capital.
- 2. Guaranteed Payments for Services.
- 3. Neither.
- 4. Both.





Check Your Understanding Two



The answer is 1. Guaranteed Payments for Capital.

 Guaranteed Payments for Capital require proof of continuance.

NOTE: Guaranteed payments
for Capital OR Services require
a minimum of a two-year
a minimum of a two-year
history in order to use them as
qualifying income.







Form 1120-S
The S Corporation
The Case Study





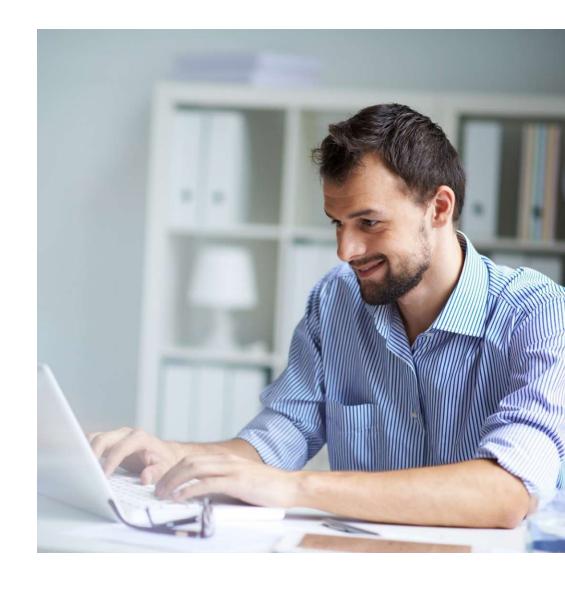
Case Study: S Corporation



Background

Mark Stahlberg is a co-owner of an advertising company, Ads-R-Us, along with his friend Steve.
Mark and Steve each own 50% of Ads-R-Us, which has been in business for 10 years.

Mark's wife, Rhea, is not involved in the business. She is a full-time employee of a local bank.





1040, Page 1 and W-2s



					£104	O.O. IIIC	lividual Inc		Return Married filing separa	The state of the s	No. 1545-00 Head of hou			te or staple in this space (ying widow(er) (Q)
19	 Employee's social 	security number	OMB No. 1545	Safe, accur FAST! Use			the IRS website at v.irs.gov/efile	nter the na	ame of your spouse. If	you checked the	HOH or Q	W box, enter the	e child's n	ame if the qualifyi
Employer identification number (El	N)	•		1 Wages, tips, othe 49.5		2 Federal incon	ne tax withheld	ependent	Last name Stalb	erg			Your soc	ial security number
Employer's name, address, and Zli	P code			3 Social security	wages	4 Social securit	y tax withheld		Last name			-	Spouse's	social security num
Bank				5 Medicare wage 49.5	s and tips	6 Medicare tax	withheld). box, see	Stalb instructions.	erg		Apt. no.	President	tial Election Campa
				7 Social security		8 Allocated tips		ss, also cor	mplete spaces below.	State	Z	IP code	spouse if	ere if you, or your filing jointly, want
1 Control number				9		10 Dependent co	re benefits		Foreign province	/state/county	Fr	oreign postal code		his fund. Checking w will not change or refund.
Employee's first name and initial	Last name		^ "											You Spo
Phoa Stab	lhora			a Employee's so	ocial security numi	OMB No. 15	Safe, ac 45-0008 FAST! U			the IRS website at v.irs.gov/efile		any virtual currer	icy?	Yes No
Rhea Stah	ineig	b Employer iden	tification numbe	r (EIN)			1 Wages, tips, o	ther compensat	ion 2 Federal incom	ne tax withheld	dent			
		c Employer's na	me, address, an	d ZIP code			3 Social secur		4 Social security	y tax withheld	as born l	pefore January 2	, 1957	s blind
		Ads-	R-Us				5 Medicare wa	ges and tips	6 Medicare tax	withheld	ationship you	(4) v if qu Child tax cr	Contraction of the	(see instructions): credit for other depen
Employee's address and ZIP code State Employer's state ID number	16 S	7 (03	00				7 Social secur	,059	8 Allocated tips					
							57 800388VE70e(0)	ty upu	10000000000000000000000000000000000000				-	
		d Control number	er				9		10 Dependent ca	re benefits				440.500
W-2 Wage and	Tax Statem	e Employee's fire	st name and init	al Last name		Suff	11 Nonqualified	plans	12a See instruction	ons for box 12	nterest		1 2b	112,596
py B-To Be Filed With Emplo		Mar	k Sta	hlberg	ז		13 Statutory Fi	etirement Third- an sick p	party 12b		dividends	s	. 3b	257
s information is being furnished	to the Internation	IVIGI	K Sta	IIIDCI			14 Other		12c	-	mount .		. 4b	
							200-2012		G		mount .		. 6b	
									12d		nere .		. 8	100,827
		f Employee's ad	NAME OF TAXABLE PARTY.	NAME OF TAXABLE PARTY.	2		Leat					1	9	
		15 State Employe	er's state ID nun	nber 16	State wages, tips,	etc. 17 State inco	me tax 18 Loc	al wages, tips,	etc. 19 Local income tax	20 Locality name			10	
		1									12a			
	Ι,	W o	2.7	721 A731	1.128			Departme	ent of the Treasury—Inten	nal Revenue Service	12b		. 12c	
		roini -		nd Tax State							*: *: *:		. 13	
				nployee's FEDER hed to the Interna							+ + +	* * * *	14	213,680

Schedule E (Form 1040), Part II

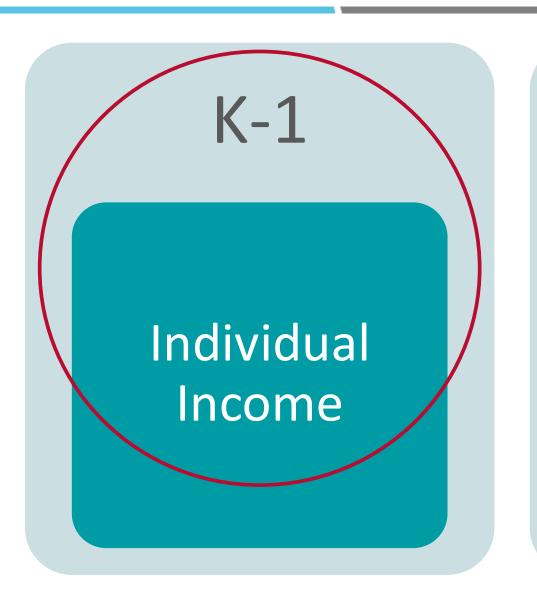


Part	Incom stock, o computa		m Partnership payment from an 3 a loss from an at-	you are an indivi- your tax in os and S S corporati risk activit	Corp	oratio	ome or loss fro DUNTS SING NS - No heck the l	own or ote: If y	iss on page 2, line 40. In Schedule(s) Food report a loss, column (e) on line	receive e 28 and	attach the	requ	ired basi
27	Are you rep passive ac	porting any loss tivity (if that loss tions before con	not allowed in a was not report	prior yea ed on For						The state of the s	If you an		
28		(a) Name	N-8	(b) Enter partners for S corp	hip; S	(c) Che forei partner	gn	ld	Employer entification	basis oc	Check if imputation	arry .	Check if smount is at risk
A	Ads-R-Us		}	S	Grabon	Dartises	216		-111111	ISTO	Ovred	1100	E COAL
+													
_	Pa	ssive Income a	nd Loss			-	-	Nonpa	assive Income	and Lo	oss	_	
	(g) Passive (attach Form 8	loss allowed 582 if required)	(h) Passive in from Schedul			onpassive see Sched	loss allows	d	Section 179 expeduction from Form	ense	(k) None		income le K-1
												10	0,827
9a	Totals							-					
b	Totals												
0		s (h) and (k) of lin			St 10	() ()	588 58	* *	408 508 50	30			
1		s (g), (i), and (j) of ership and S cor		ne or flos	el Co	mbine li	nos 30 =	 and 31	2002 2002 20 0 2002 20	31	K.		
		d Total of a e Total of a 24 Income. 25 Losses.	all amounts reported on lir all amounts reported on lir Add positive amounts sh Add royalty losses from line ttal real estate and roya	ne 18 for all pro ne 20 for all pro ne 20 for all pro nown on line 21 21 and rental re	perties . perties . Do not in	nclude any losses from line	. 23d . 23e sses	losses here	. 24 e. 25 ()			



Cash Flow Analysis, Review Schedule K-1





1120-S

Business Cash Flow

Add-Backs & Deductions



Schedule K-1 (Form 1120-S)



		Final K-1 Amende	d K-1	67112 OMB No. 1545-01
chedule K-1 form 1120-S)	Pa	Shareholder's Shar Deductions, Credits	e of C	
spartment of the Treasury For calendar year 2021, or tax year email Revenue Service	1	Ordinary business income (loss) 100,827	13	Credits
beginning / / sending / /	2	Net rental real estate income (loss)		
hareholder's Share of Income, Deductions, redits, etc.	3	Other net rental income (loss)		
Part I Information About the Corporation	4	Interest income		
Corporation's employer identification number 39-1111111	5a	Ordinary dividends		
Corporation's name, address, city, state, and ZIP code Ads-R-Us	5b	Qualified dividends	14	Schedule K-3 is attached if checked
5000 Industrial Parkway	6	Royalties	15	Alternative minimum tax (AMT) iter
Anytown, IL 60000	7	Net short-term capital gain (loss)		
PS Center where corporation filed return Cincinnati, OH 45999-013	8a	Net long-term capital gain (loss)		
Corporation's total number of shares Beginning of tax year	8b	Collectibles (28%) gain (loss)		
End of tax year	80	Unrecaptured section 1250 gain		
Part II Information About the Shareholder	9	Net section 1231 gain (loss)	16 D	Items affecting shareholder ba
Shareholder's identifying number 095-07-3645	10	Other income (loss)		
Shareholder's name, address, city, state, and ZIP code				
Mark Stahlberg				
4321 First Street				
Anytown, IL 60000				
Current year allocation percentage 50.00 %			17	Other information
	11	Section 179 deduction	1	
Shareholder's number of shares Beginning of tax year End of tax year	12	Other deductions		
Loans from shareholder Beginning of tax year				
		More than one activity for at-ris		
	19	 More than one activity for pass See attached statement 		



S Corporation: W-2 and K-1 Subtotal



Mark Stahlberg's K-1 Subtotal

ADD		SUBTRACT
W2 Wages K-1 Distributions	\$63,059 \$99,000	

\$63,059 + \$99,000 = \$162,059



AMITRAC – S Corporation Tax Return (1120-S), K-1 Total



					Prior Year			Most Recent Year
12	S Corporation Tax Return (1120-S)	Click here for section gui	dano	<u>ce.</u>	2021		3	2022
	Business Name	Ads-R-Us						
	_	K-1 ANALYSIS 1120-S						
130	Ordinary Business Income		+	\$		+	\$	100,827.00
131	Ordinary Business Loss		(4)	\$		ñ es	\$	
132	Net Rental/Other Real Estate Income		+	\$		+	\$	
133	Net Rental/Other Real Estate Loss		(4)	\$		ñ#i	\$	
134	Subtotal of K-1 P	rofits/Losses (calculator lines 124 through 12	8)	S	0.00		S	100,827.00
135	Distributions			\$		5 - 5	ş	99,000.00
		Click here for guidance.			Prio	r Vo	ar lo	boose One Ontion
136	Utili	Click here for guidance. ze Sub-Total of K-1 Profits/Losses Utilize Distributions			Prio N N	0	ar (C	Choose One Option
136		ze Sub-Total of K-1 Profits/Losses Utilize Distributions			N N Most Recen	O O t Ye		Choose One Option
136 137		ze Sub-Total of K-1 Profits/Losses			N N Most Recen N	O O t Ye		
		ze Sub-Total of K-1 Profits/Losses Utilize Distributions ze Sub-Total of K-1 Profits/Losses	+	\$	N N Most Recen N	O O t Ye O ES		Choose One Option
137	Utili	ze Sub-Total of K-1 Profits/Losses Utilize Distributions ze Sub-Total of K-1 Profits/Losses		s	Most Recen N	O O t Ye O ES	ar (C	Choose One Option
137	Utili Amount of Qualifying K-1 Income (See Guidance tab.)	ze Sub-Total of K-1 Profits/Losses Utilize Distributions ze Sub-Total of K-1 Profits/Losses	+	- 15	Most Recen N YI	O O t Ye O ES	ar (C	





Cash Flow Analysis, Review Form 1065



K-1

Individual Income

1120-S

Business Cash Flow

Add-Backs & Deductions



Form 1120-S — Other Income

Sign

Here

Paid Preparer

Use Only

Signature of officer

Firm's name |

Firm's address ▶

For Paperwork Reduction Act Notice, see separate instructions.



		Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123		
		▶ Do not file this form unless the corporation has filed or Department of the Treasury Internal Revenus Service Go to www.irs.gov/Form1120S for instructions and the latest information.		
		For calendar year 2020 or tax year beginning ending , 20		
		A 5 election effective date Name D Employer identification number		
		B Business activity code number (see instructions) Number, street, and room or suite no. If a P.O. box, see instructions. E Date incorporated PRINT		
		City or town, state or province, country, and ZIP or foreign postal code F Total assets (see instructions) C Check if Sch. M-3 attached S		
		G is the corporation electing to be an S corporation beginning with this tax year?		
	1a b	2 Cost of goods sold (attach Form 1125-A) 2 2		
en:	c	Balance: Subtract line 1b from line 1a	1c	1,320,63
Ĕ	2	Cost of goods sold (attach Form 1125-A)	2	
псоте	3	Gross profit. Subtract line 2 from line 1c	3	1,320,63
	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	1,320,63
		21 Ordinary business income (loss). Subtract line 20 from line 6		

> May the IRS discuss this return with the preparer shown below

> > Form 1120-S

Check If PTIN

Firm's EIN ▶



Form 1120-S — Non-Cash Expenses



		Form 1120-S	U.S. Inco	me Tax Return for an S Corp	oration	OMB No. 1545-0123		
				ot file this form unless the corporation has file				
		Department of the Treasury Internal Revenue Service		ching Form 2553 to elect to be an S corporating ov/Form1120S for instructions and the later				
		For calendar year 20 A S election effective date	20 or tax year beginning Name	endi		, 20 loyer identification number		
		A S election effective data			D Emp	soyer identification number		
		B Business activity code number (see instruction		and room or suite no. If a P.O. box, see instructions.	E Date	incorporated		
		C Check if Sch. M-3 attaches		ate or province, country, and ZIP or foreign postal code	F Total	assets (see instructions)		
		H Check if: (1) Fi	nal return (2) Name char of shareholders who were si	on beginning with this tax year?	i return (5) S electi	on termination or revocation		
30	7	Compensation of officers (see instru	ctions-attac	h Form 1125-E)			7	126,118
8	8	Salaries and wages (less employme	nt credits) .				8	21,199
18	9	Repairs and maintenance					9	16,914
for Imitations)	10	Bad debts					10	
	11	Rents					11	24,000
instructions	12	Taxes and licenses					12	11,400
5	13	Interest (see instructions)					13	
ST	14	Depreciation not claimed on Form 1	125-A or else	where on return (attach	Form 4562)	14	4,400
	15	Depletion (Do not deduct oil and g	as depletion.				15	
8	16	Advertising					16	5,279
DS.	17	Pension, profit-sharing, etc., plans					17	60,239
윮	18	Employee benefit programs					18	
Deductions	19	Other deductions (attach statement	C:				19	849,435
õ	20	Total deductions. Add lines 7 throu	-			•	20	1,118,984
_	21	Ordinary business income (loss).		0 from line 6			21	201,654
		e Add lines: 24 Estimated 25 Amount o 26 Overpayn 27 Enter amo Sign Here	wed, If line 23e is smaller the ent. If line 23e is larger than ant from line 26: Credited ses of perjury, I declare that I have se, correct, and complete. Declara of officer	examined this return, including accompanying scheduling of preparer (other than taxpayer) is based on all inf	owed	has any knowledge. the IRS discuss this return the preparer shown below? instructions. Yes No		
		Paid Print/Typ	preparer's name	Preparer's signature	ate Check	I PTIN		

Firm's EIN ▶



Form 1120-S — Other Deductions



	Form 1120 Department of the Internal Revenue	: Treasury	is attach	file this form unless the ning Form 2553 to elec- ov/Form1120S for inst	t to be an S cor	poration.	tion.						
	For calendar A 5 election effe	year 2020 or tax	year beginning Name			ending	D Fr	nployer ide		20 number			
		734	OF.							Humbur			
	B Business acti number (see i	ity code	Number, street, an	nd room or suite no. If a P.	D. box, see instruct	ions.	E Do	te incorpora	ated				
	C Check if Sch. M	3 attached [1]	City or town, state	or province, country, and	ZIP or foreign post	al code	F To	tal assets (s	iee instruc	sions)			
	H Check if: I Enter the	(1) Final return number of shareho	(2) Name change olders who were share	beginning with this tax e (3) Address chareholders during any per section 465 at-risk pure	ange (4) Am	nended return ear	(5) S ele	ction termin	nation or	revocation			
7	Compensation of officers (see it	estruction	ns-attach	Form 1125	-E) .	2500000	(COM)	10.50	200		12821	7	126,11
8	Salaries and wages (less emplo	yment or	edits) .		43.5	444		1 4		48		8	21,19
9	Repairs and maintenance	e Section se	50 SEC.	38304 38304	34356	343554 34	37-5-m 3	S054	343404	403	57400	9	16,91
10	Bad debts											10	
11	Rents	3400 AL DA	5741 545741	345541 34554	104004	sacrai sa	-0.74.00		36747	-	.740	11	24,00
12	Taxes and licenses				341							12	11,40
13	Interest (see instructions)	277	7.74 TAX 7.74	1200-1200-	32.572	12772	erora e	40.04	10000			13	,
14	Depreciation not claimed on Fo	rm 1125-	A or elsew	here on ret	urn (atta	ch Form	456	2)				14	4,400
15			epletion.)	aron aron		12/2/2013						15	1,10
16	Advertising				300							16	5,27
17		ens .	ou navou	arou rarou	12702	navona na		-	11040			17	60,23
18	Employee benefit program.											18	00,20
19	Other deductions (attach staten	nent)	974 (S4.974)	14374 14374	34374	34374 34	277-0		1000		1740	19	849,43
20	Total deductions. Add lines 7 t	hrough 1	9	\$4. \$4.	494	484 4	908		- 33	2.3)	20	1,118,98
21	Ordinary business income (lo	ss). Subtr	ract line 20	from line 6		12.77.74	100	40.74	-00			21	201,65
	e Ac 24 Es 25 Ar 26 Oc 27 Er Sign Here He	nount owed. If line rerpayment. If line ter amount from li	gh 23d ty (see instructions), le 23e is smaller than e 23e is larger than the ine 26: Credited to ty, I declare that I have as and complete. Declaratio	Check if Form 2220 is the total of lines 22c are total of lines 22c are 2021 estimated tax armined this return, lockdon of preparer (other than to Date	and 24, enter and 24, enter amo	ount overpaid . Refur	ements, and which prepar	23e 24 25 26 27 to the best of the preper serior the prep	discuss to	his return n below?		1 1	



Form 1120-S Corporation, Statement 1, Other Deductions

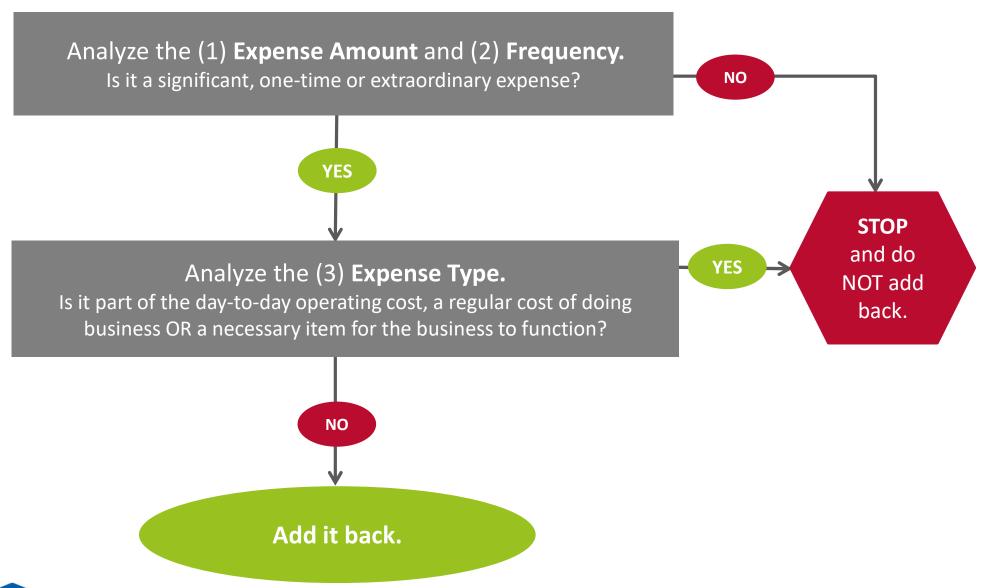


Statement 1	
Form 1120-S, Line 19	
Other Deductions	
Paper	98,723
Billboard Rental	729,435
Meals	21,277
Total	\$ 849,435



Add-Back Analysis Process





Form 1120-S, Schedule L Balance Sheet Arch MI



Sche	dule L Balance Sheets per Books	Beginning of	tax year	End of tax	year
	Assets	(a)	(b)	(c)	(d)
1	Cash	1000	51,000		110,000
2a	Trade notes and accounts receivable	300,000		100,000	
b	Less allowance for bad debts (4,000	296,000	500	99,500
3	Inventories		250,000		350,000
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)		200,000		185,000
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
0a	Buildings and other depreciable assets	230,000		200,000	
b	Less accumulated depreciation (150,000	75,000	100,000	100,000
11a	Depletable assets				
b	Less accumulated depletion ()	()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization ()	()	
4	Other assets (attach statement)	i i		i i	
5	Total assets		130,000		445
	Liabilities and Shareholders' Equity				
6	Accounts payable		10,000		114, 0
7	Mortgages, notes, bonds payable in less than 1 year		30,000		29,000
8	Other current liabilities (attach statement)		15,000		50,000
9	Loans from shareholders				25,000
20	Mortgages, notes, bonds payable in 1 year or more		10,000		28,000
21	Other liabilities (attach statement)	į.	10,000		36,000
22	Capital stock	j	20,000		12,000
23	Additional paid-in capital	j	35,000		45,000
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
6	Less cost of treasury stock	()	(
27	Total liabilities and shareholders' equity		130,000		445,000

S Corporation: 1120-S Subtotal



Mark Stahlberg's 1120-S Subtotal

ADD		SUBTRACT						
Depreciation	\$4,400	Meals Exclusion	\$21,277					

 $($4,400 - $21,277) \times 50\% = -$8,438.50$



AMITRAC – S Corporation Tax Return (1120-S), K-1 Analysis 1120-S



					Prior Year		٨	dost Recent Yea
12	5 Corporation Tax Return (1120-5)	Click here for section gui	idar	ice.	2021			2022
- 1	Business Name	Ads-R-Us						
- 4		K-1 ANALYSIS 1120-	S					
30	Ordinary Business Income		•	\$	3	٠	\$ 10	0,827.00
131	Ordinary Business Loss	/-	-	\$		-		
32	Net Rental/Other Real Estate Income			\$				
33	Net Rental/Other Real Estate Loss	N-	-	\$		-	\$	
34	Subtotal of K-1 Profits/L	OSSES (calculator liner 124 through 128	9)	\$	0.00		\$	100,827.00
35	Distributions		T	\$				99,000.00
	Compare Subtotal of Profits/Losses (Li	ne 134) to Distributions (Li 1: 126 J Click here for guidance	112					
						_	ar (Ch	oose One Option
36	Utilize Su	b-Total of K-1 Profits/Losses			N			
		Utilize Distributions			N	0		
					Most Recer	it Ye	ar (Ch	oose One Optio
37	Utilize Su	b-Total of K-1 Profits/Losses			N	0		
		Utilize Distributions			YE	S		
38	Amount of Qualifying K-1Income (See Guidano	e tab./	•	\$	0.00		\$	99,000.0
39	Amount of Qualifying K-1Loss	-	-	\$	0.00	-	\$	0.0
40	W-2 Compensation	P.		\$			\$	63,059.
141	Borrower's Qualifying K	-1 Total	±	\$	0.00	±	\$	162,059.00
		BUSINESS ANALYSIS 11	120	-S				
142	Non-Recurring Income		-	\$		-	\$	
43	Non-Recurring Loss			\$			\$	
44	Depreciation	·-		\$				4,000.00
45	Depletion			\$				
46	Amortization (as itemized from statement)	~		\$			\$	
47	Casualty Losses (as itemized from statement)	14		\$			\$	
48	One-Time Expenses (as itemized from statemen	nt)		\$				
49	Mortgages, Notes, Bonds Payable in € One Yea	ar -	-	\$		-		
	Non-Deductible Portion of Travel, Meals &	(A)		10				
50	Entertainment	_ -		*		7	*	21,277.00
151	/Saa Guidagna tab for 2021/2022 TampuraculB Total of S Corporation C			\$	0.00		\$	(17,277.00)
152	Ownership Percentage	10						0.00%
53	Borrower's Proportionate Share	of 1120-S Total	±		0.00	•	٠,	(8,638.50
		TOTALS (K-1 ANALYSIS ANI				Ė	·	(0,000
54		Totals		•	0.00		\$	153,420.5
		Choose	O٨	IE Opti	ion Only for 1120-	S In	come	Trend Calculatio
	I	PRIOR YEAR ONLY			N			
155	I	MOST RECENT YEAR ONLY			YE	7		
	AVERAGE P	RIOR and MOST RECENT YEAR			N	0		



Knowledge Check Three



Which of the following statements is **True** regarding the "Final K-1" indication?

- 1. The K-1 is the final for that tax year.
- 2. The K-1 is the final for the owner from that business.
- 3. It has no significant meaning.



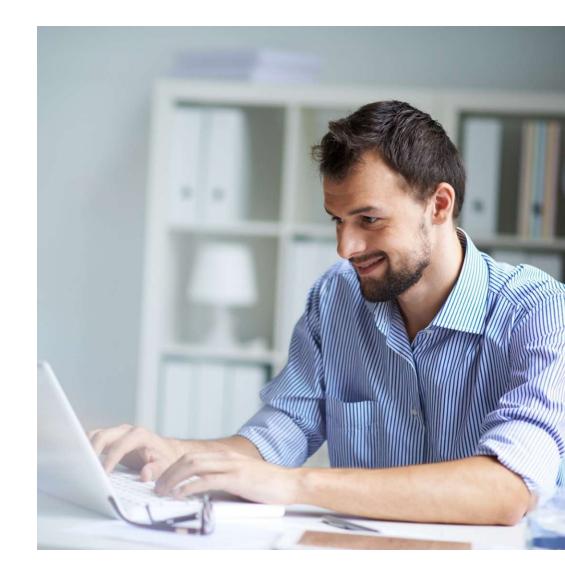


Check Your Understanding Three



The answer is 2. The K-1 is the final for the owner from that business.

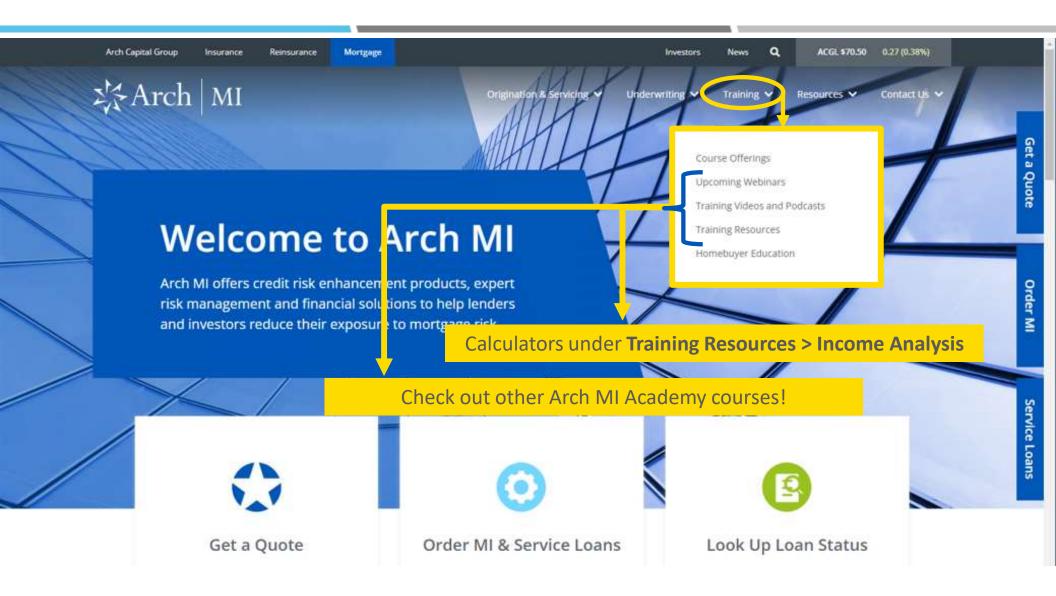
When the K-1 is marked final, you cannot use income from that business to qualify the borrower.





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