

For Arch MI and Arch MI for Credit Unions

Business Tax Returns 302

Unique Considerations for
Partnerships and S Corporations

an INCOME ANALYSIS course



Legal Disclaimer

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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





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.

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)*.

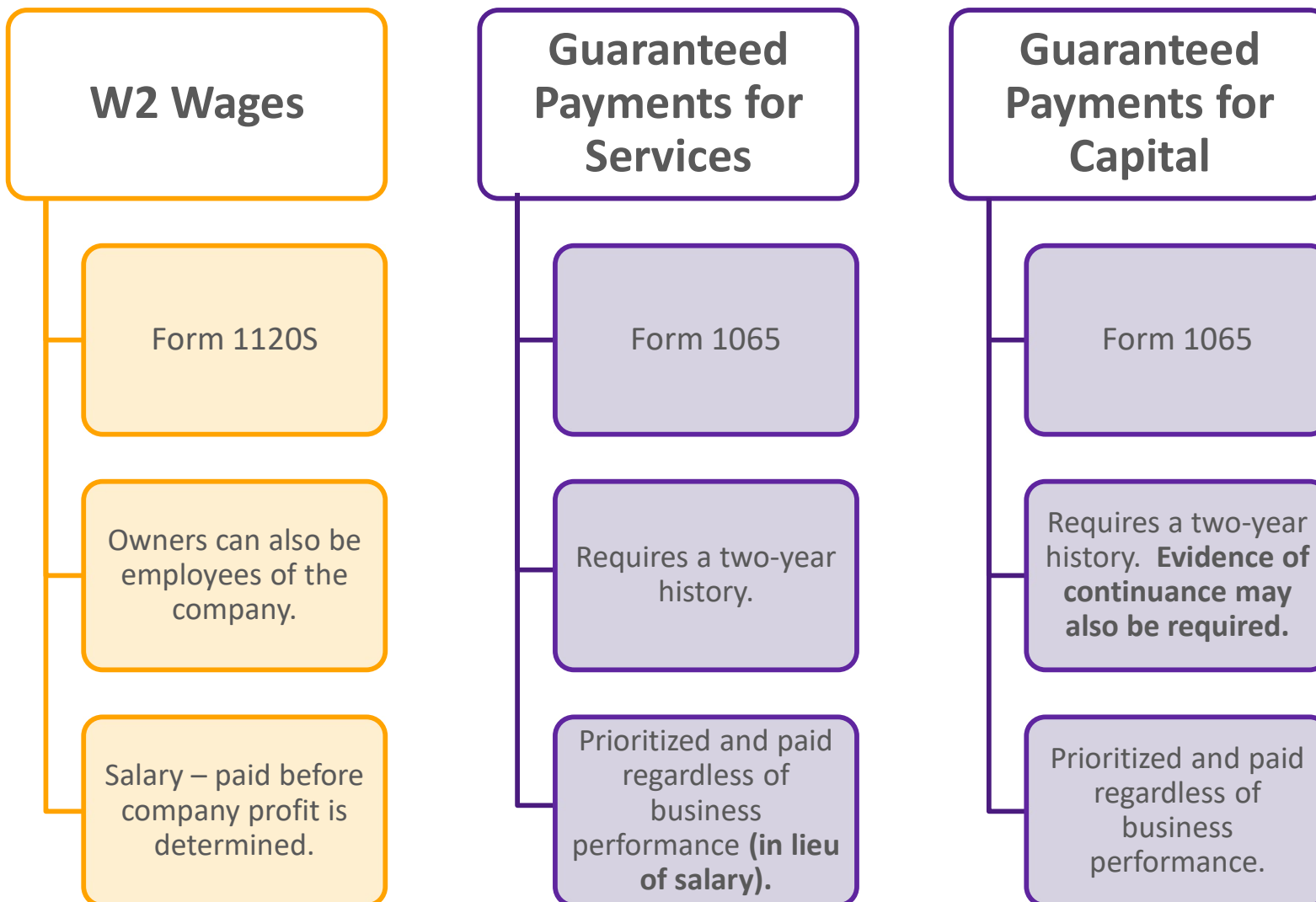
*Temporary IRS rules (2021 & 2011) allow for 100% deduction in most cases.

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



Form 1065 U.S. Return of Partnership Income OMB No. 1545-0123

Department of the Treasury Internal Revenue Service

For calendar year 2021, or tax year beginning _____, ending _____, 20__

Go to www.irs.gov/Form1065 for instructions and the latest information.

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

G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return

H Check accounting method: (1) Cash (2) Accrual (3) Other (specify) _____

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year _____

J Check if Schedules C and M-3 are attached _____

K Check if partnership: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

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

Sign Here

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

Signature of partner or limited liability company member _____ Date _____

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

Paid Preparer Use Only

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

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113902 Form 1065

Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123

Department of the Treasury Internal Revenue Service

For calendar year 2021 or tax year beginning _____, ending _____, 20__

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

A S 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
C Check if Sch. M-3 attached <input type="checkbox"/>	City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions)

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. Yes No

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

I Enter the number of shareholders who were shareholders during any part of the tax year _____

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

Income	1a Gross receipts or sales	1a	1c
	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
7	Compensation of officers (see instructions—attach Form 1125-E)		7
8	Salaries and wages (less employment credits)		8
9	Repairs and maintenance		9
10	Bad debts		10
11	Rent		11
12	Taxes and licenses		12
13	Interest (see instructions)		13
14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		14
15	Depletion (Do not deduct oil and gas depletion.)		15
16	Advertising		16
17	Pension, profit-sharing, etc., plans		17
18	Employee benefit programs		18
19	Other deductions (attach statement)		19
20	Total deductions. Add lines 7 through 19		20
21	Ordinary business income (loss). Subtract line 20 from line 6		21
22a	Excess net passive income or LIFO recapture tax (see instructions)	22a	
b	Tax from Schedule D (Form 1120-S)	22b	
c	Add lines 22a and 22b (see instructions for additional taxes)		22c
23a	2021 estimated tax payments and 2020 overpayment credited to 2021	23a	
b	Tax deposited with Form 7004	23b	
c	Credit for federal tax paid on fuels (attach Form 4136)	23c	
d	Add lines 23a through 23c		23d
24	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>		24
25	Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed		25
26	Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid		26
27	Enter amount from line 26: Credited to 2022 estimated tax Refunded		27

Sign Here

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

Signature of officer _____ Date _____ Title _____

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

Paid Preparer Use Only

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

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S

K-1s

Partnerships & S Corporations

Unique Considerations



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



Form 1065 U.S. Return of Partnership Income OMB No. 1545-0123

For calendar year 2020, or tax year beginning _____ ending _____, 20__

Department of the Treasury Internal Revenue Service

Go to www.irs.gov/Form1065 for instructions and the latest information.

A Principal business activity Name of partnership **Logan Brothers Partnership** **D** Employer identification number

B Principal product or service Type or Print Number, street, and room or suite no. if a P.O. box, see instructions. **E** Date business started

C Business code number City or town, state or province, country, and ZIP or foreign postal code **F** Total assets (see instructions) \$

G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return

H Check accounting method: (1) Cash (2) Accrual (3) Other (specify) _____

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year _____

J Check if Schedules C and M-3 are attached

K Check if partnership: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

Income	1a Gross receipts or sales	1a 200,000	
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a		1c 200,000
	2 Cost of goods sold (attach Form 1125-A)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	
7 Other income (loss) (attach statement)	7		
8 Total income (loss). Combine lines 3 through 7	8		
Deductions (see instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)	9 200,000	
	10 Guaranteed payments to partners	10 75,000	
	11 Repairs and maintenance	11	
	12 Bad debts	12	
	13 Rent	13	
	14 Taxes and licenses	14	
	15 Interest (see instructions)	15	
	16a Depreciation (if required, attach Form 4562)	16a 25,000	
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b	16c 25,000
	17 Depletion (Do not deduct oil and gas depletion.)	17	
18 Retirement plans, etc.	18		
19 Employee benefit programs	19		
20 Other deductions (attach statement)	20		
21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21 25,000		
22 Ordinary business income (loss). Subtract line 21 from line 8	22 100,000		
Tax and Payment	23 Interest due under the look-back method—completed long-term contracts (attach Form 8697)	23	
	24 Interest due under the look-back method—income forecast method (attach Form 8866)	24	
	25 BBA AAR imputed underpayment (see instructions)	25	
	26 Other taxes (see instructions)	26	
	27 Total balance due. Add lines 23 through 26	27	
	28 Payment (see instructions)	28	
	29 Amount owed. If line 28 is smaller than line 27, enter amount owed	29	
	30 Overpayment. If line 28 is larger than line 27, enter overpayment	30	

Sign Here

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

Signature of partner or limited liability company member _____ Date _____

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

Paid Preparer Use Only

Print/Type preparer's name _____ Preparer's signature _____ Date _____ Check if self-employed PTIN _____

Firm's name _____ Firm's EIN _____

Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113902 Form 1065 (2020)

Schedule K-1 (Form 1065) OMB No. 1545-0123

Department of the Treasury Internal Revenue Service

For calendar year _____, or tax year beginning _____ ending _____, 20__

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

Part I Information About the Partnership

A Partnership's employer identification number

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

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.) **Joe Logan**

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's TIN _____ Name _____

I1 What type of entity is this partner?

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

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

Beginning	Ending
Profit _____ %	50 %
Loss _____ %	20 %
Capital _____ %	55 %

Check if depreciation is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$ _____
Capital contributed during the year	\$ _____
Current year net income (loss)	\$ _____
Other increase (decrease) (attach explanation)	\$ _____
Withdrawals and distributions	\$ _____
Ending capital account	\$ _____

M Did the partner contribute property with a built-in gain (loss)? Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$ _____
Ending	\$ _____

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

1 Ordinary business income (loss)	50,000	14 Self-employment earnings (loss)	
2 Net rental real estate income (loss)	23,000	15 Credits	
3 Other net rental income (loss)		16 Schedule K-3 is attached if checked <input type="checkbox"/>	
4a Guaranteed payments for services	75,000	17 Alternative minimum tax (AMT) items	
4b Guaranteed payments for capital		18 Tax-exempt income and nondeductible expenses	
4c Total guaranteed payments	75,000	19 Distribution	
5 Interest income		20 Other information	
6a Ordinary dividends		9a Net long-term capital gain (loss)	A 57,563
6b Qualified dividends		9b Collectibles (28%) gain (loss)	
6c Dividend equivalents		9c Unrecaptured section 1250 gain	
7 Royalties		10 Net section 1231 gain (loss)	
8 Net short-term capital gain (loss)		11 Other income (loss)	
9 Other income (loss)		12 Section 179 deduction	
10 Net section 1231 gain (loss)		21 Foreign taxes paid or accrued	
11 Other income (loss)		13 Other deductions	
12 Section 179 deduction			
13 Other deductions			

L More than one activity for at-risk purposes*

23 More than one activity for passive activity purposes*

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2021

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



Form 1120-S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123

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

For calendar year 2021 or tax year beginning ending , 20

A S election effective date

B Business activity code number (see instructions)

C Check if Sch. M-3 attached

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. Yes No

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

I Enter the number of shareholders who were shareholders during any part of the tax year

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

1a Gross receipts or sales	1a 200,000	1c
b Returns and allowances	1b	2
c Balance. Subtract line 1b from line 1a		3
2 Cost of goods sold (attach Form 1125-A)		4
3 Gross profit. Subtract line 2 from line 1c		5
4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)		6
5 Other income (loss) (see instructions—attach statement)		6 200,000
6 Total income (loss). Add lines 3 through 5		7 100,000
7 Compensation of officers (see instructions—attach Form 1125-E)		8
8 Salaries and wages (less employment credits)		9
9 Repairs and maintenance		10
10 Bad debts		11
11 Rents		12
12 Taxes and licenses		13
13 Interest (see instructions)		14
14 Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		15
15 Depletion (Do not deduct oil and gas depletion.)		16
16 Advertising		17
17 Pension, profit-sharing, etc., plans		18
18 Employee benefit programs		19
19 Other deductions (attach statement)		20
20 Total deductions. Add lines 7 through 19		21 100,000
21 Ordinary business income (loss). Subtract line 20 from line 6		
22a Excess net passive income or LIFO recapture tax (see instructions)	22a	22c
b Tax from Schedule D (Form 1120-S)	22b	
c Add lines 22a and 22b (see instructions for additional taxes)		
23a 2021 estimated tax payments and 2020 overpayment credited to 2021	23a	23d
b Tax deposited with Form 7004	23b	
c Credit for federal tax paid on fuels (attach Form 4136)	23c	
d Add lines 23a through 23c		
24 Estimated tax penalty (see instructions). Check if Form 2220 is attached		24
25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed		25
26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid		26
27 Enter amount from line 26: Credited to 2022 estimated tax Refunded		27

Sign Here
 Signature of officer _____ Date _____ Title _____
 May the IRS discuss this return with the preparer shown below? See instructions. Yes No

Paid Preparer Use Only
 Print/Type preparer's name _____ Preparer's signature _____ Date _____
 Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S (2021)

Schedule K-1 (Form 1120-S)
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123

For calendar year 2021, or tax year beginning ending

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

1 Ordinary business income (loss)	13 Credits
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	
4 Interest income	
5a Ordinary dividends	
5b Qualified dividends	14 Schedule K-3 is attached if checked <input type="checkbox"/>
6 Royalties	15 Alternative minimum tax (AMT) items
7 Net short-term capital gain (loss)	
8a Net long-term capital gain (loss)	
8b Collectibles (28%) gain (loss)	
8c Unrecaptured section 1250 gain	
9 Net section 1231 gain (loss)	16 Items affecting shareholder basis
10 Other income (loss)	D 39,000
11 Section 179 deduction	
12 Other deductions	
17 Other information	

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code
Logan Brothers Corporation

C IRS Center where corporation filed return

D Corporation's total number of shares
 Beginning of tax year
 End of tax year

Part II Information About the Shareholder

E Shareholder's identifying number

F Shareholder's name, address, city, state, and ZIP code
Joe Logan

G Current year allocation percentage **50** %

H Shareholder's number of shares
 Beginning of tax year
 End of tax year

I Loans from shareholder
 Beginning of tax year \$
 End of tax year \$

For IRS Use Only

18 More than one activity for at-risk purposes*
19 More than one activity for passive activity purposes*

* See attached statement for additional information.

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

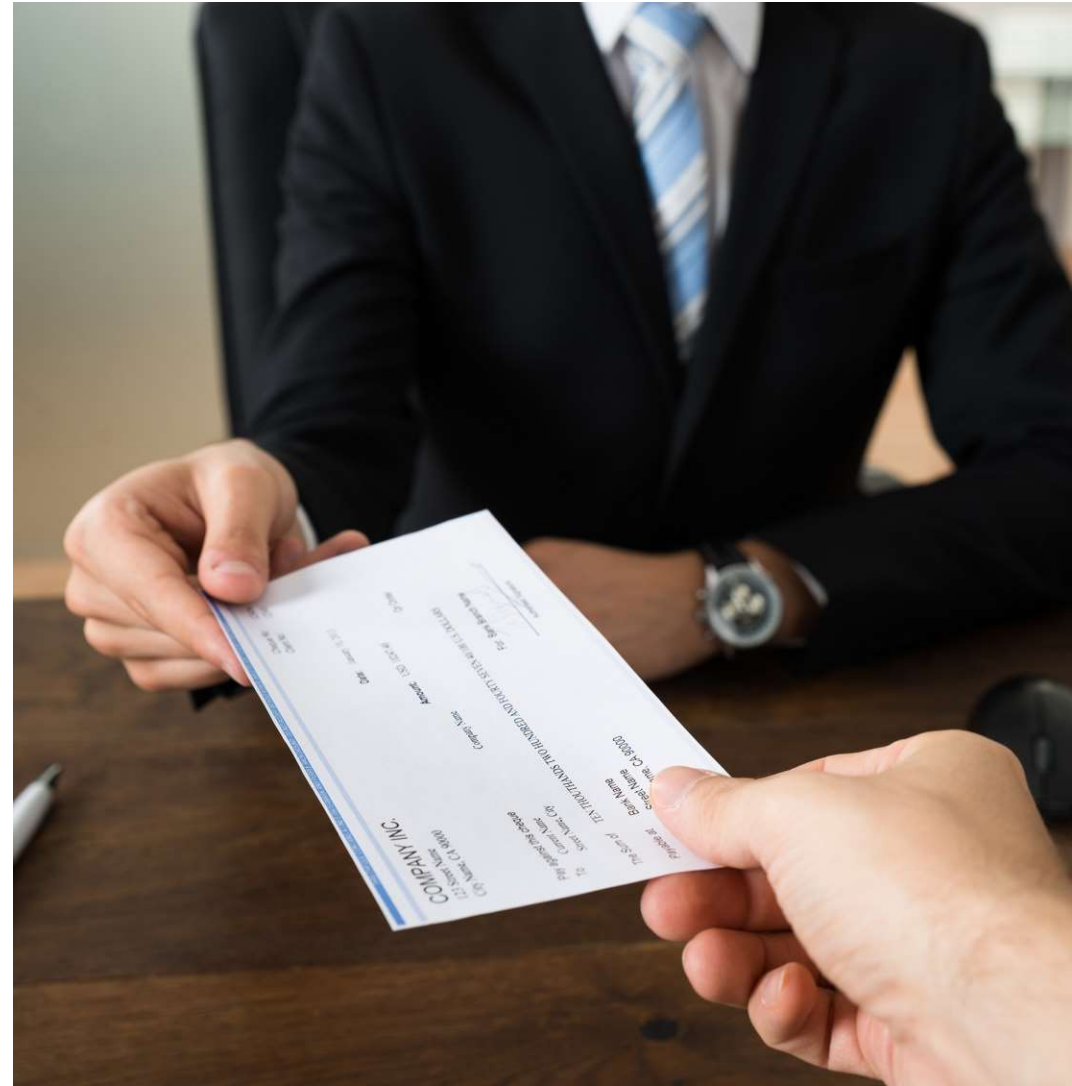
- Less than or equal to the earnings.
- Greater than earnings.
- Blank.

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.

651121
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

For calendar year 2021, or tax year beginning / / ending / /

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

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
	- 67,572		
2	Net rental real estate income (loss)	15	Credits
3	Other net rental income (loss)	16	Schedule K-3 is attached if checked <input type="checkbox"/>
4a	Guaranteed payments for services	17	Alternative minimum tax (AMT) items
4b	Guaranteed payments for capital		
4c	Total guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)	19	Distributions
9a	Net long-term capital gain (loss)		A 25,000
9b	Collectibles (28%) gain (loss)	20	Other information
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)		
11	Other income (loss)		
12	Section 179 deduction	21	Foreign taxes paid or accrued
13	Other deductions		
22	<input type="checkbox"/> More than one activity for at-risk purposes*		
23	<input type="checkbox"/> More than one activity for passive activity purposes*		
*See attached statement for additional information.			

Part I Information About the Partnership

A Partnership's employer identification number

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

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.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.
Borrower One

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's:
TIN _____ Name _____

I1 What type of entity is this partner?

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

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

	Beginning	Ending
Profit	%	50 %
Loss	%	20 %
Capital	%	55 %

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$ ()
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

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**.

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service

For calendar year beginning / / ending / /

OMB No. 1545-0123

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

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
	- 67,572		
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked <input type="checkbox"/>
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)		
		19	Distributions
			A 25,000

Part I Information About the Partnership

A Partnership's employer identification number

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

Example One

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.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

Borrower One

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

H1 Domestic partner Foreign partner

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



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

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year beginning / / 2021 ending / /

Part I Information About the Partnership

A Partnership's employer identification number

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

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.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.
Borrower One

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's: TIN _____ Name _____

I1 What type of entity is this partner?

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

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

	Beginning	Ending
Profit	%	50 %
Loss	%	20 %
Capital	%	55 %

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships

L **Partner's Capital Account Analysis**

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N **Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)**

Beginning	\$
Ending	\$

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

1 Ordinary business income (loss)	45,000	14 Self-employment earnings (loss)	
2 Net rental real estate income (loss)		15 Credits	60,000
3 Other net rental income (loss)	15,000	16 Schedule K-3 is attached if checked <input type="checkbox"/>	
4a Guaranteed payments for services		17 Alternative minimum tax (AMT) items	
4b Guaranteed payments for capital		18 Tax-exempt income and nondeductible expenses	
4c Total guaranteed payments		19 Distributions	A 150,000
5 Interest income		20 Other information	
6a Ordinary dividends		21 Foreign taxes paid or accrued	
6b Qualified dividends		22 <input type="checkbox"/> More than one activity for at-risk purposes*	
6c Dividend equivalents		23 <input type="checkbox"/> More than one activity for passive activity purposes*	
7 Royalties		*See attached statement for additional information.	
8 Net short-term capital gain (loss)		For IRS Use Only	
9a Net long-term capital gain (loss)			
9b Collectibles (28%) gain (loss)			
9c Unrecaptured section 1250 gain			
10 Net section 1231 gain (loss)			
11 Other income (loss)			
12 Section 179 deduction			
13 Other deductions			

651121 Final K-1 Amended K-1 OMB No. 1545-0123

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

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) 651121
OMB No. 1545-0123

Department of the Treasury Internal Revenue Service

For calendar year 2021, or tax year beginning / / 2021 ending / /

Partner's Share of Income, Deductions, Credits, etc.

Part I Information About the Partnership		Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
A Partnership's employer identification number	1 Ordinary business income (loss) 45,000	14 Self-employment earnings (loss)	
B Partnership's name, address, city, state, and ZIP code	2 Net rental real estate income (loss)	15 Credits	
C IRS center where partnership filed return ▶	3 Other net rental income (loss) 15,000	16 Schedule K-3 is attached if checked - - - - ▶ <input type="checkbox"/>	
D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)	4a Guaranteed payments for services	17 Alternative minimum tax (AMT) items	
Example One	4b Guaranteed payments for capital	18 Tax-exempt income and nondeductible expenses	
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)	4c Total guaranteed payments		
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	5 Interest income		
Borrower One	6a Ordinary dividends		
G <input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member	6b Qualified dividends		
H1 <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner	6c Dividend equivalents		
	7 Royalties		
	8 Net short-term capital gain (loss)		
	9a Net long-term capital gain (loss)	19 Distributions A 150,000	
	9b Collectibles (28%) gain (loss)		
	20 Other information		

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.

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year beginning / / ending / /

651121 Final K-1 Amended K-1 OMB No. 1545-0123

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

1 Ordinary business income (loss) 73,000	14 Self-employment earnings (loss)
2 Net rental real estate income (loss)	15 Credits
3 Other net rental income (loss)	16 Schedule K-3 is attached if checked <input type="checkbox"/>
4a Guaranteed payments for services	17 Alternative minimum tax (AMT) items
4b Guaranteed payments for capital	
4c Total guaranteed payments	
5 Interest income	
6a Ordinary dividends	
6b Qualified dividends	18 Tax-exempt income and nondeductible expenses
6c Dividend equivalents	
7 Royalties	
8 Net short-term capital gain (loss)	19 Distributions A 57,563
9a Net long-term capital gain (loss)	20 Other information
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1250 gain	
10 Net section 1231 gain (loss)	
11 Other income (loss)	
12 Section 179 deduction	21 Foreign taxes paid or accrued
13 Other deductions	
22 <input type="checkbox"/> More than one activity for at-risk purposes*	
23 <input type="checkbox"/> More than one activity for passive activity purposes*	

*See attached statement for additional information.

For IRS Use Only

Part I Information About the Partnership

A Partnership's employer identification number

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

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.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.
Borrower Three

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's: TIN _____ Name _____

I1 What type of entity is this partner?

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

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

	Beginning	Ending
Profit		50
Loss		20
Capital		55

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$ ()
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

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.

651121
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

For calendar year 2021, or tax year

beginning / / ending / /

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership		Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Partnership's employer identification number	1	Ordinary business income (loss) 73,000
B	Partnership's name, address, city, state, and ZIP code	2	Net rental real estate income (loss)
Example Three, Option 1		3	Other net rental income (loss)
		4a	Guaranteed payments for services
C	IRS center where partnership filed return ▶	4b	Guaranteed payments for capital
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)	4c	Total guaranteed payments
Borrower Three		5	Interest income
		6a	Ordinary dividends
E	Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)	6b	Qualified dividends
F	Name, address, city, state, and ZIP code for partner entered in E. See instructions.	6c	Dividend equivalents
Borrower Three		7	Royalties
		8	Net short-term capital gain (loss)
G	<input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member	9a	Net long-term capital gain (loss)
H1	<input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner	9b	Collectibles (28%) gain (loss)
		14	Self-employment earnings (loss)
		15	Credits
		16	Schedule K-3 is attached if checked <input type="checkbox"/>
		17	Alternative minimum tax (AMT) items
		18	Tax-exempt income and nondeductible expenses
		19	Distributions A 57,563
		20	Other information

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) 651121
 Department of the Treasury Internal Revenue Service OMB No. 1545-0123

For calendar year beginning / / ending / /

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

1	Ordinary business income (loss)	73,000	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)			
3	Other net rental income (loss)		15	Credits
4a	Guaranteed payments for services			
4b	Guaranteed payments for capital		16	Schedule K-3 is attached if checked <input type="checkbox"/>
4c	Total guaranteed payments		17	Alternative minimum tax (AMT) items
5	Interest income			
6a	Ordinary dividends			
6b	Qualified dividends		18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents			
7	Royalties			
8	Net short-term capital gain (loss)			
9a	Net long-term capital gain (loss)		19	Distributions
9b	Collectibles (28%) gain (loss)			
				A 57,563

Part I Information About the Partnership

A Partnership's employer identification number

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

Example Three, Option 2

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.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

Borrower Three

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

H1 Domestic partner Foreign partner

Solvent

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

Synonyms:

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



Two Formulas Using Schedule L (Balance Sheet) Data

1

The **Current Ratio***

(a.k.a. Working Capital Ratio)

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

2

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):

$$\text{Current Assets} \div \text{Current Liabilities}$$

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

Quick Ratio (Acid Test Ratio):

$$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$$

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

GENERAL RULE: Acceptable ratio is 1.0 or greater. A ratio of zero is acceptable IF you have current assets but no current liabilities OR if you have a completed balance sheet but no current assets or current liabilities.

Form 1065 Partnership, Schedule L Balance Sheet



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.	OMB No. 1545-0123
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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
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)				
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				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 member _____ Date _____		See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only	Print/Type preparer's name _____ Preparer's signature _____	Date _____	Check <input type="checkbox"/> if self-employed PTIN _____
	Firm's name ▶ _____	Firm's EIN ▶ _____	
	Firm's address ▶ _____	Phone no. _____	
For Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 11390Z	Form 1065



AMITRAC – Liquidity Analysis Tab

Adequate Liquidity Analysis

Current and Quick Ratios

[Click here to return to Tax Return Cash Flow tab.](#)

181	Business Name	ABC Company			
182	Current Assets	Schedule L		2021	2022
183	Cash		line 1	\$	\$ 110,000.00
184	Trade Notes and Accounts Receivable Less Allowance for Bad Debt		line 2b	\$	\$ 2,282.00
185	Inventories		line 3	\$	\$ 2,976.00
186	Other Current Assets		line 6	\$	\$ 87,648.00
187	Total Current Assets			\$ 0.00	\$ 202,906.00
188	Current Liabilities	Schedule L			
188	Accounts Payable		1065, line 15 1120-S, line 16	\$	\$ 114,000.00
189	Mortgages, Notes, Bonds Payable in Less Than One Year		1065, line 16 1120-S, line 17	\$	\$ 49,000.00
190	Other Current Liabilities		1065, line 17 1120-S, line 18	\$	\$ 50,000.00
191	Total Current Liabilities			\$ 0.00	\$ 213,000.00
192	Current Ratio	Applicable for Businesses Not Relying Heavily Upon		Prior Year Current Ratio	Most Recent Year Quick Ratio
	Inventories				
	Current Assets/Current Liabilities				
	Target of 1.0 or greater to determine Adequate Liquidity			PASS - Division By Zero Error	0.952610329
193	Quick Ratio	Applicable for Businesses with Significant		Prior Year Quick Ratio	Most Recent Year Quick Ratio
	Inventories				
	(Current Assets - Inventories)/Current Liabilities				
	Target of 1.0 or greater to determine Adequate Liquidity			PASS - Division By Zero Error	0.938638498
					Click here for guidance.

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?

671120
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1120-S)
Department of the Treasury
Internal Revenue Service

For calendar year 2020, or tax year beginning _____ ending _____

Shareholder's Share of Income, Deductions, Credits, etc.
▶ See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code

C IRS Center where corporation filed return

E Shareholder's name, address, city, state, and ZIP code

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

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Foreign transactions
6	Royalties		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
	Electives (28%) gain (loss)		
	Recaptured section 1250 gain		
9	Net section 1231 gain (loss)		
		15	Alternative minimum tax (AMT) items
	deduction	16	Items affecting shareholder basis
12	Other deductions		
		17	Other information
18	<input type="checkbox"/> More than one activity for at-risk purposes*		
19	<input type="checkbox"/> More than one activity for passive activity purposes*		

* See attached statement for additional information.

Part IV Loans from shareholders

Beginning of tax year \$ _____

End of tax year \$ _____

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120-S Cat. No. 11520D Schedule K-1 (Form 1120-S)

Final K-1 Amended K-1

Final K-1 means the business is closing
OR the owner is selling their share.

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

K-1

Individual
Income

1065

Business Cash
Flow

Add-Backs &
Deductions

Schedule K-1 (Form 1065) Distributions



651121
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

For calendar year 2021, or tax year beginning / / ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number
39-6543219

B Partnership's name, address, city, state, and ZIP code
Paula's Pancake House
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

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's TIN Name

I1 What type of entity is this partner? **General Partner**

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

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

	Beginning	Ending
Profit	85 %	85 %
Loss	85 %	85 %
Capital	85 %	85 %

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

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

1 Ordinary business income (loss)	240,679	14 Self-employment earnings (loss)	
2 Net rental real estate income (loss)		15 Credits	
3 Other net rental income (loss)		16 Schedule K-3 is attached if checked <input type="checkbox"/>	
4a Guaranteed payments for services	75,000	17 Alternative minimum tax (AMT) items	
4b Guaranteed payments for capital		18 Tax-exempt income and nondeductible expenses	
4c Total guaranteed payments	75,000	19 Distributions	A 200,000
5 Interest income		20 Other information	
6a Ordinary dividends		21 Foreign taxes paid or accrued	
6b Qualified dividends		22 <input type="checkbox"/> More than one activity for at-risk purposes*	
6c Dividend equivalents		23 <input type="checkbox"/> More than one activity for passive activity purposes*	
7 Royalties		*See attached statement for additional information.	
8 Net short-term capital gain (loss)		For IRS Use Only	
9a Net long-term capital gain (loss)			
9b Collectibles (28%) gain (loss)			
9c Unrecaptured section 1250 gain			
10 Net section 1231 gain (loss)			
11 Other income (loss)			
12 Section 179 deduction			
13 Other deductions			

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

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.

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year beginning / / ending / /

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

1	Ordinary business income (loss)	240,679	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)			

Part I Information About the Partnership

A Partnership's employer identification number: **39-6543219**

B Partnership's name, address, city, state, and ZIP code: **Paula's Pancake House, 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**

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

H1 Domestic partner Foreign partner

Part III (continued)

6a	Dividends		18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents			
7	Royalties			
8	Net short-term capital gain (loss)			
9a	Net long-term capital gain (loss)		19	Distributions
9b	Collectibles (28%) gain (loss)			
10	Other information			

A 200,000

NOTE: In order to use the earnings (e.g., the distributions are insufficient, or there are no reported distributions), you must perform (and the business must pass) an appropriate liquidity test.

Schedule K-1 (Form 1065), Guaranteed Payments



651121
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

For calendar year 2021, or tax year beginning / / ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number: **39-6543219**

B Partnership's name, address, city, state, and ZIP code:
**Paula's Pancake House
100 Second Street
Anytown, IL 60000**

C IRS center with which you are filing this return: / /

D Check if this is a partnership with a fiscal year other than 12 months ending on the last day of the month shown in C: / /

Part II Information About the Partner

E Partner's SSN: **54- / - /**

F Name, address, city, state, and ZIP code:
**Paula
57 Shady Lane
Anytown, IL 60000**

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's TIN: / - / Name: /

H3 If the partner is a trust, enter the partner's TIN: / - / Name: /

H4 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H5 If the partner is a trust, enter the partner's TIN: / - / Name: /

H6 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H7 If the partner is a trust, enter the partner's TIN: / - / Name: /

H8 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H9 If the partner is a trust, enter the partner's TIN: / - / Name: /

H10 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H11 If the partner is a trust, enter the partner's TIN: / - / Name: /

H12 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H13 If the partner is a trust, enter the partner's TIN: / - / Name: /

H14 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H15 If the partner is a trust, enter the partner's TIN: / - / Name: /

H16 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H17 If the partner is a trust, enter the partner's TIN: / - / Name: /

H18 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H19 If the partner is a trust, enter the partner's TIN: / - / Name: /

H20 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H21 If the partner is a trust, enter the partner's TIN: / - / Name: /

H22 If the partner is a partnership, enter the partner's TIN: / - / Name: /

H23 If the partner is a trust, enter the partner's TIN: / - / Name: /

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H100 If the partner is a partnership, enter the partner's TIN: / - / Name: /

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

1	Ordinary business income (loss)	240,679	14	Self-employment earnings (loss)	
2	Net rental real estate income (loss)		15	Credits	
3	Other net rental income (loss)		16	Schedule K-3 is attached if checked	<input type="checkbox"/>
4a	Guaranteed payments for services	75,000	17	Alternative minimum tax (AMT) items	
4b	Guaranteed payments for capital		18	Net short-term capital gain (loss)	
4c	Total guaranteed payments	75,000	19	Distributions	
5	Interest income		20	Other information	
6	Dividend income		21	Foreign taxes paid or accrued	
7	Capital gain (loss)		22	More than one activity for at-risk purposes*	<input type="checkbox"/>
8	Net short-term capital gain (loss)		23	More than one activity for passive activity purposes*	<input type="checkbox"/>
9a	Net long-term capital gain (loss)		*See attached statement for additional information.		
9b	Collectibles (28%) gain (loss)	A 200,000			
9c	Unrecaptured section 1250 gain				
10	Net section 1231 gain (loss)				
11	Other income (loss)				
12	Section 179 deduction				
13	Other deductions				

Part IV Partner's Capital Account Analysis

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

For example purposes, Paula has a history of receiving Guaranteed Payments.

Paula Abtoole's K-1 Subtotal

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

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

K-1

Individual
Income

1065

Business Cash
Flow

Add-Backs &
Deductions

Form 1065 Partnership Income Other Income



Form 1065		U.S. Return of Partnership Income		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		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	B Principal product or service	C Business code number	D Name of partnership	E Employer identification number
Restaurant	Food	772513	Paula's Pancake House	39-6543219
	Type or Print		Number, street, and room or suite no. If a P.O. box, see instructions.	F Date business started
			100 Second Street	4/01/2010
			City or town, state or province, country, and ZIP or foreign postal code	G Total assets (see instructions)
			Anytown, IL 60000	\$ 101,225
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				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶				
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶				
J Check if Schedules C and M-3 are attached ▶ <input type="checkbox"/>				
K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes				
Caution: Include only trade or business income and expenses on lines 1a through 22 below. See instructions for more information.				

Income	1a Gross receipts or sales	1a	532,841
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a	1c	532,841
	2 Cost of goods sold (attach Form 1125-A)	2	89,987
	3 Gross profit. Subtract line 2 from line 1c	3	442,854
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4	5,523
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5	10,193
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	15,418
7 Other income (loss) (attach statement)	7	18,866	
8 Total income (loss). Combine lines 3 through 7	8	492,854	

NOTE: Other income is typically non-recurring UNLESS you can: (1) document what the specific sources of the other income are, (2) show a minimum of a two-year history of receipt for each source, and (3) you can support that the income is likely to continue.

Deduct	18 Retirement plans, etc.	
	19 Employee benefit programs	
	20 Other deductions (attach statement)	
Tax and Payment	21 Total deductions. Add the amounts shown in the far right column	
	22 Ordinary business income (loss). Subtract line 21 from line 8	
	23 Interest due under the look-back method—completed long-term	
	24 Interest due under the look-back method—income forecast method	
	25 BBA AAR imputed underpayment (see instructions)	
	26 Other taxes (see instructions)	
	27 Total balance due. Add lines 23 through 26	
	28 Payment (see instructions)	
	29 Amount owed. If line 28 is smaller than line 27, enter amount owed	
	30 Overpayment. If line 28 is larger than line 27, enter overpayment	
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner) is based on information of which preparer has any knowledge.	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature
	Firm's name	Firm's EIN
	Firm's address	Phone no.
	Check <input type="checkbox"/> if self-employed	PTIN



Form 1065 Deductions, Non-Cash Expenses, Other Deductions



Form 1065		U.S. Return of Partnership Income		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		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	Name of partnership Paula's Pancake House	D Employer identification number 39-6543219		
B Principal product or service Food	Type or Print 100 Second Street	E Date business started 4/01/2010		
C Business code number 772513	City or town, state or province, country, and ZIP or foreign postal code Anytown, IL 60000	F Total assets (see instructions) \$ 101,225		
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				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶				
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶				
J Check if Schedules C and M-3 are attached				

Deductions (see instructions for limitations)	8	Total income (loss). Combine lines 3 through 7	8	
	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	
	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)	16a	2,300
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b	
			16c	2,300
17	Depletion (Do not deduct oil 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	

Tax and Payment	22	Ordinary business income (loss). Subtract line 21 from line 8	22	
	23	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	23	
	24	Interest due under the look-back method—income forecast method (attach Form 8866)	24	
	25	BBA AAR imputed underpayment (see instructions)	25	
	26	Other taxes (see instructions)	26	
	27	Total balance due. Add lines 23 through 26	27	
	28	Payment (see instructions)	28	
	29	Amount owed. If line 28 is smaller than line 27, enter amount owed	29	
	30	Overpayment. If line 28 is larger than line 27, enter overpayment	30	
	Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.		
	Signature of partner or limited liability company member		Date	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name	Firm's EIN		
	Firm's address	Phone no.		



Form 1065 Deductions, Non-Cash Expenses, Other Deductions



Form 1065		U.S. Return of Partnership Income		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		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	Name of partnership Paula's Pancake House	D Employer identification number 39-6543219		
B Principal product or service Food	Type or Print 100 Second Street	E Date business started 4/01/2010		
C Business code number 772513	City or town, state or province, country, and ZIP or foreign postal code Anytown, IL 60000	F Total assets (see instructions) \$ 101,225		
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				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶				
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶				
J Check if Schedules C and M-3 are attached ▶				

Deductions (see instructions for limitations)	8	Total income (loss). Combine lines 3 through 7	8	
	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	
	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)	16a	2,300
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b	
			16c	2,300
17	Depletion (Do not deduct oil and gas depletion.)	17		
18	Retirement plans, etc.	18	2,225	
19	Employee benefit programs	19	16,475	
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Tax and Payment	22	Ordinary business income (loss). Subtract line 21 from line 8	22	
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	25	BBA AAR imputed underpayment (see instructions)	25	
	26	Other taxes (see instructions)	26	
	27	Total balance due. Add lines 23 through 26	27	
	28	Payment (see instructions)	28	
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	Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.		
	Signature of partner or limited liability company member		Date	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name	Firm's EIN		
	Firm's address	Phone no.		



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

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		
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



Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year: or tax year beginning _____ ending _____, 20____ ▶ Go to www.irs.gov/Form1065 for instructions and the latest information.	OMB No. 1545-0123
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Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		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		
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		465,000
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
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



Signature of partner or limited liability company member		Date	See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ▶			Firm's EIN ▶
	Firm's address ▶			Phone no.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113902 Form 1065



Form 1065 Partnership, Schedule L Balance Sheet



Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income			OMB No. 1545-0123
	For calendar year: _____	or tax year beginning _____	ending _____	, 20 _____
▶ Go to www.irs.gov/Form1065 for instructions and the latest information.				

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		51,000		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
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		13,500
22	Total liabilities and capital		130,000		465,500

Signature of partner or limited liability company member		Date	See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ▶			Firm's EIN ▶
	Firm's address ▶			Phone no.
For Paperwork Reduction Act Notice, see separate instructions.				
			Cat. No. 113902	Form 1065



Schedule K-1 (Form 1065) Distributions



651119
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

For calendar year 2020, or tax year beginning / / , ending / /

Partner's Share of Income, Deductions, Credits, etc. ▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
39-6543219

B Partnership's name, address, city, state, and ZIP code
Paula's Pancake House
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

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

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's:
TIN _____ Name _____

H3 What type of entity is this partner? **General Partner**

H4 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

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

	Beginning		Ending	
Profit	85	%	85	%
Loss	85	%	85	%
Capital	85	%	85	%

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

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

Check this box if item K includes liability amounts from lower tier partnerships.

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals & distributions	\$
Ending capital account	\$

M Did the partner contribute property with a built-in gain or loss?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

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

1 Ordinary business income (loss)	240,679	15 Credits
2 Net rental real estate income (loss)		
3 Other net rental income (loss)		16 Foreign transactions
4a Guaranteed payments for services	75,000	
4b Guaranteed payments for capital		
4c Total guaranteed payments	75,000	
5 Interest income		
6a Ordinary dividends		
6b Qualified dividends		
6c Dividend equivalents		17 Alternative minimum tax (AMT) items
7 Royalties		
8 Net short-term capital gain (loss)		
9a Net long-term capital gain (loss)		18 Tax-exempt income and nondeductible expenses
9b Collectibles (28%) gain (loss)		
9c Unrecaptured section 1250 gain		
10 Net section 1231 gain (loss)		19 Distributions
11 Other income (loss)		A 200,000
12 Section 179 deduction		20 Other information
13 Other deductions		
14 Self-employment earnings (loss)		
21 <input type="checkbox"/> More than one activity for at-risk purposes*		
22 <input type="checkbox"/> More than one activity for passive activity purposes*		

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065)

Paula's Pancake House Sub-Total

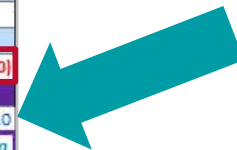
ADD		SUBTRACT	
Depreciation	\$2,300	Non-recurring Income	\$50,000
		Meals	\$2,888

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

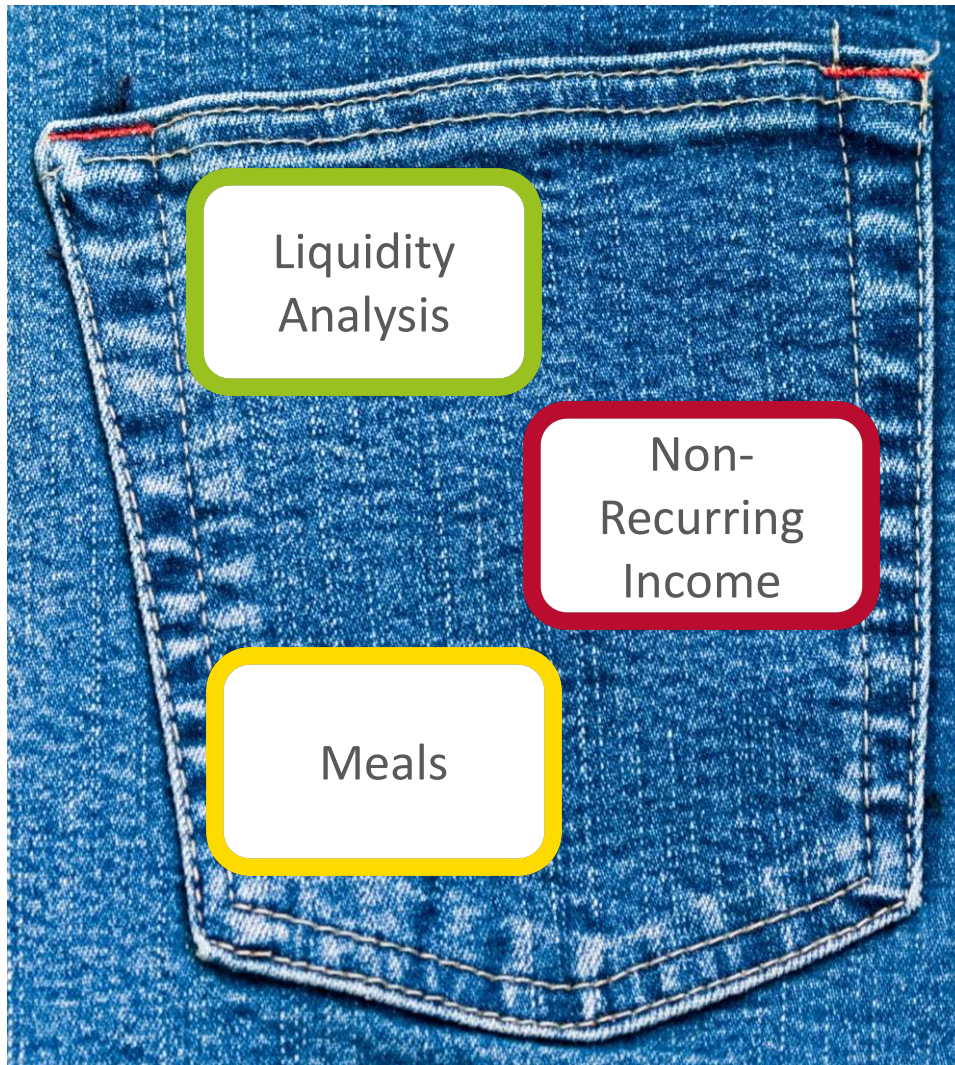
AMITRAC – Partnership Tax Return (1065) Self-Employed



		Prior Year	Most Recent Year
11	Partnership Tax Return (1065) Self-Employed Click here for section guidance.	2021	2022
Business Name		Paula's Pancake House	
100	Ordinary Business Income	+ \$	+ \$ 240,679.00
101	Ordinary Business Loss	- \$	- \$
102	Net Rental Real Estate Income	+ \$	+ \$
103	Net Rental Real Estate Loss	- \$	- \$
104	Subtotal of K-1 Profits/Losses (calculator lines 100 through 103)	\$ 0.00	\$ 240,679.00
105	Distributions	\$	\$ 200,000.00
Compare Subtotal of Profits/Losses (line 104) to Distributions (line 105). Choose one qualifying option for each year. Click here for guidance.			
		Prior Year (Choose One Option)	
106	Utilize Sub-Total of K-1 Profits/Losses	NO	
	Utilize Distributions	YES	
		Most Recent Year (Choose One Option)	
107	Utilize Sub-Total of K-1 Profits/Losses	NO	
	Utilize Distributions	YES	
108	Amount of Qualifying K-1 Income (Profit or Distribution)	+ \$ 0.00	+ \$ 200,000.00
109	Amount of Qualifying K-1 Loss	- \$ 0.00	- \$ 0.00
110	Guaranteed Payments to Partner	+ \$	+ \$ 75,000.00
111	Borrower's Qualifying K-1 Total	± \$ 0.00	± \$ 275,000.00
BUSINESS ANALYSIS 1065			
112	Non-Recurring Income from other Partnerships, etc.	- \$	- \$ 5,523.00
113	Non-Recurring Loss from other Partnerships, etc.	+ \$	+ \$
114	Non-Recurring Profit, Gain or Income	- \$	- \$ 44,477.00
115	Non-Recurring Loss	+ \$	+ \$
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 < One Year	- \$	- \$
122	Non-Deductible Portion of Travel, Meals & Entertainment <i>(See Guidance tab for 2021/2022 Temporary IRS)</i>	- \$	- \$ 2,888.00
123	Total of Partnership 1065 Cash Flow	\$ 0.00	\$ (50,588.00)
124	Ownership Percentage Click here for guidance.		85.00%
125	Borrower's Proportionate Share of 1065 Total	± \$ 0.00	± \$ (42,999.80)
PARTNERSHIP TOTALS (COMBINED K-1 ANALYSIS AND BUSINESS ANALYSIS)			
126	Totals	\$ 0.00	\$ 232,000.20
Choose One Option for 1065 Income Trend Calculation			
127	PRIOR YEAR ONLY	NO	
	MOST RECENT YEAR ONLY	YES	
	AVERAGE PRIOR and MOST RECENT YEAR	NO	
	TOTAL 1065 Annual Trend	\$232,000.20	



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?

1. 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 history in order to use them as qualifying income.



Form 1120-S

The S Corporation

The Case Study

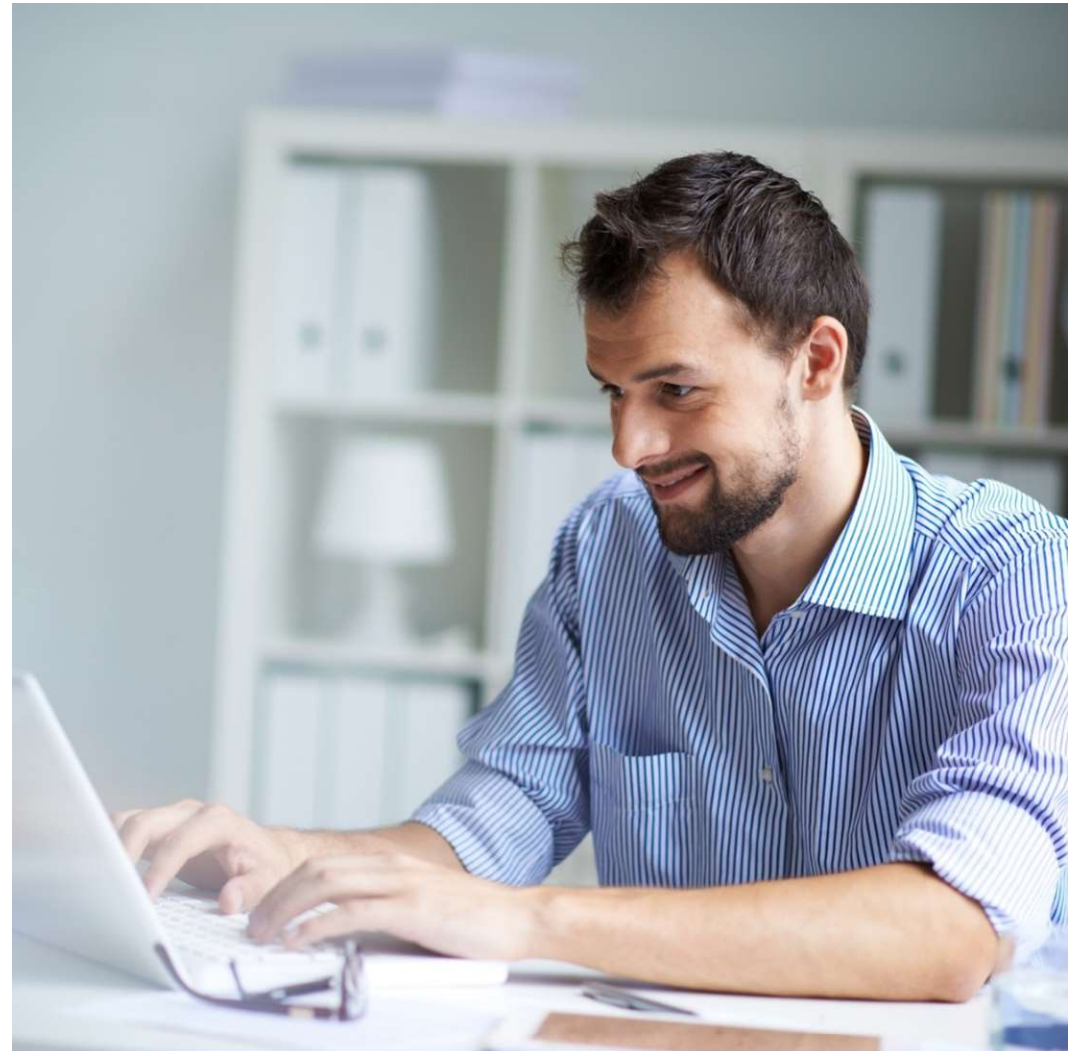


Case Study: S Corporation

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



Form **1040** Department of the Treasury—Internal Revenue Service (99) U.S. Individual Income Tax Return

OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Safe, accurate, FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile

a Employee's social security number

b Employer identification number (EIN)

c Employer's name, address, and ZIP code
Bank

d Control number

e Employee's first name and initial Last name

1 Wages, tips, other compensation 49,537	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld
5 Medicare wages and tips 49,537	6 Medicare tax withheld
7 Social security tips	8 Allocated tips
9	10 Dependent care benefits

Jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)

Enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying dependent ▶

Last name **Stalberg** Your social security number

Last name **Stalberg** Spouse's social security number

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 You Spouse

➔ **Rhea Stahlberg**

Safe, accurate, FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile

a Employee's social security number

b Employer identification number (EIN)

c Employer's name, address, and ZIP code
Ads-R-U's

d Control number

e Employee's first name and initial Last name Suff.

1 Wages, tips, other compensation 63,059	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld
5 Medicare wages and tips 63,059	6 Medicare tax withheld
7 Social security tips	8 Allocated tips
9	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12
13 Statutory employee Retirement plan Third-party sick pay	12b
14 Other	12c
	12d

f Employee's address and ZIP code

15 State Employer's state ID number 16 State wages, tips, etc. 17 State income tax 18 Local wages, tips, etc. 19 Local income tax 20 Locality name

➔ **Mark Stahlberg**

Form **W-2 Wage and Tax Statement**
Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Interest in any virtual currency? Yes No

Child tax credit (4) if qualifies for (see instructions):

1	112,596
2b	
3b	257
4b	
5b	
6b	
7	
8	100,827
9	
10	
11	
12a	
12b	
12c	
13	
14	
15	213,680



Schedule E (Form 1040), Part II

SCHEDULE E (Form 1040) Department of the Treasury Internal Revenue Service (99)	Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.) ▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041. ▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.	OMB No. 1545-0074 Attachment Sequence No. 13
Names shown on return		Your social security number

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

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

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

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Ads-R-Us	S	<input type="checkbox"/>	39-111111	<input type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss		
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A				100,827
B				
C				
D				
29a Totals				
b Totals				
30	Add columns (h) and (k) of line 29a.			30
31	Add columns (g), (i), and (j) of line 29b.			31
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31			32

d Total of all amounts reported on line 18 for all properties	23d	
e Total of all amounts reported on line 20 for all properties	23e	
24 Income. Add positive amounts shown on line 21. Do not include any losses	24	
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25	()
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L Schedule E (Form 1040)

Cash Flow Analysis, Review Schedule K-1

K-1

Individual
Income

1120-S

Business Cash
Flow

Add-Backs &
Deductions

Schedule K-1 (Form 1120-S)



671121
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1120-S)
Department of the Treasury
Internal Revenue Service

For calendar year 2021, or tax year beginning / / ending / /

Shareholder's Share of Income, Deductions, Credits, etc.
▶ See separate instructions.

Part I Information About the Corporation		Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items		
A Corporation's employer identification number 39-1111111	1 Ordinary business income (loss) 100,827	13 Credits		
B Corporation's name, address, city, state, and ZIP code Ads-R-Us 5000 Industrial Parkway Anytown, IL 60000	2 Net rental real estate income (loss)			
C IRS Center where corporation filed return Cincinnati, OH 45999-013	3 Other net rental income (loss)			
D Corporation's total number of shares Beginning of tax year End of tax year	4 Interest income			
E Shareholder's identifying number 095-07-3645	5a Ordinary dividends			
F Shareholder's name, address, city, state, and ZIP code Mark Stahlberg 4321 First Street Anytown, IL 60000	5b Qualified dividends	14 Schedule K-3 is attached if checked <input type="checkbox"/>		
G Current year allocation percentage 50.00%	6 Royalties	15 Alternative minimum tax (AMT) items		
H Shareholder's number of shares Beginning of tax year End of tax year	7 Net short-term capital gain (loss)			
I Loans from shareholder Beginning of tax year \$ End of tax year \$	8a Net long-term capital gain (loss)			
For IRS Use Only	8b Collectibles (28%) gain (loss)	16 Items affecting shareholder basis D 99,000		
	8c Unrecaptured section 1250 gain	17 Other information		
		9 Net section 1231 gain (loss)		
		10 Other income (loss)		
		11 Section 179 deduction		
		12 Other deductions		
	18 <input type="checkbox"/> More than one activity for at-risk purposes*			
	19 <input type="checkbox"/> More than one activity for passive activity purposes*			
	* See attached statement for additional information.			

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 11520D Schedule K-1 (Form 1120-S)

Mark Stahlberg's K-1 Subtotal

ADD		SUBTRACT	
W2 Wages	\$63,059		
K-1 Distributions	\$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 guidance.		2021	2022
	Business Name	Ads-R-Us			
K-1 ANALYSIS 1120-S					
130	Ordinary Business Income	+	\$		\$ 100,827.00
131	Ordinary Business Loss	-	\$		
132	Net Rental/Other Real Estate Income	+	\$		
133	Net Rental/Other Real Estate Loss	-	\$		
134	Subtotal of K-1 Profits/Losses (calculator lines 124 through 128)		\$	0.00	\$ 100,827.00
135	Distributions		\$		\$ 99,000.00
Compare Subtotal of Profits/Losses (Line 134) to Distributions (Line 135). Choose one qualifying option for each year on Lines 136 and 137. Click here for guidance.					
Prior Year (Choose One Option)					
136	Utilize Sub-Total of K-1 Profits/Losses	NO			
	Utilize Distributions	NO			
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.)	+	\$	0.00	\$ 99,000.00
139	Amount of Qualifying K-1 Loss	-	\$	0.00	\$ 0.00
140	W-2 Compensation	+	\$		\$ 63,059.00
141	Borrower's Qualifying K-1 Total	±	\$	0.00	\$ 162,059.00

K-1

Individual
Income

1120-S

Business Cash
Flow

Add-Backs &
Deductions

Form 1120-S — Other Income



Form 1120-S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Go to www.irs.gov/Form1120S for instructions and the latest information.

For calendar year 2020 or tax year beginning _____ ending _____, 20__

A S election effective date _____ **Name** _____ **D** Employer identification number _____

B Business activity code number (see instructions) _____ **TYPE OR PRINT** _____ **E** Date incorporated _____

C Check if Sch. M-3 attached _____ **Number, street, and room or suite no. If a P.O. box, see instructions.** _____ **F** Total assets (see instructions) \$ _____

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

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

I Enter the number of shareholders who were shareholders during any part of the tax year _____

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

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

Income	1a Gross receipts or sales	1a	1,320,638	
	b Returns and allowances	1b		
	c Balance. Subtract line 1b from line 1a			1c 1,320,638
	2 Cost of goods sold (attach Form 1125-A)			2
	3 Gross profit. Subtract line 2 from line 1c			3 1,320,638
	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 1,320,638

21 Ordinary business income (loss). Subtract line 20 from line 6

22a Excess net passive income or LIFO recapture tax (see instructions)

b Tax from Schedule D (Form 1120-S)

c Add lines 22a and 22b (see instructions for additional taxes)

23a 2020 estimated tax payments and 2019 overpayment credited to 2020

b Tax deposited with Form 7004

c Credit for federal tax paid on fuels (attach Form 4136)

d Reserved for future use

e Add lines 23a through 23d

24 Estimated tax penalty (see instructions). Check if Form 2220 is attached

25 Amount owed. If line 23e is smaller than the total of lines 22c and 24, enter amount owed

26 Overpayment. If line 23e is larger than the total of lines 22c and 24, enter amount overpaid

27 Enter amount from line 26: **Credited to 2021 estimated tax** **Refunded**

Sign Here
 Signature of officer _____ Date _____ Title _____
 May the IRS discuss this return with the preparer shown below? See instructions. Yes No

Paid Preparer Use Only
 Print/Type preparer's name _____ Preparer's signature _____ Date _____ Check if self-employed PTIN _____
 Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S

Form 1120-S — Non-Cash Expenses



Form 1120-S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Go to www.irs.gov/Form1120S for instructions and the latest information.

For calendar year 2020 or tax year beginning _____ ending _____, 20__

A S election effective date _____

B Business activity code number (see instructions) _____

C Check if Sch. M-3 attached

D Employer identification number _____

E Date incorporated _____

F Total assets (see instructions) \$ _____

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

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

I Enter the number of shareholders who were shareholders during any part of the tax year _____

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)	7	126,118
	8	Salaries and wages (less employment credits)	8	21,199
	9	Repairs and maintenance	9	16,914
	10	Bad debts	10	
	11	Rents	11	24,000
	12	Taxes and licenses	12	11,400
	13	Interest (see instructions)	13	
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14	4,400
	15	Depletion (Do not deduct oil and gas depletion.)	15	
	16	Advertising	16	5,279
	17	Pension, profit-sharing, etc., plans	17	60,239
18	Employee benefit programs	18		
19	Other deductions (attach statement)	19	849,435	
20	Total deductions. Add lines 7 through 19	20	1,118,984	
21	Ordinary business income (loss). Subtract line 20 from line 6	21	201,654	

Tax and

d Reserved for future use 23d

e Add lines 23a through 23d 23e

24 Estimated tax penalty (see instructions). Check if Form 2220 is attached 24

25 Amount owed. If line 23e is smaller than the total of lines 22c and 24, enter amount owed 25

26 Overpayment. If line 23e is larger than the total of lines 22c and 24, enter amount overpaid 26

27 Enter amount from line 26: Credited to 2021 estimated tax Refunded 27

Sign Here

Signature of officer _____ Date _____ Title _____

Print/Type preparer's name _____ Preparer's signature _____ Date _____

Firm's name _____ Firm's EIN _____

Firm's address _____ Phone no. _____

Check if self-employed PTN

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

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

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S

Form 1120-S — Other Deductions



Form 1120-S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.

For calendar year 2020 or tax year beginning _____ ending _____, 20__

A S election effective date _____ **D** Employer identification number _____

B Business activity code number (see instructions) _____ **E** Date incorporated _____

C Check if Sch. M-3 attached **F** Total assets (see instructions) \$ _____

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

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

I Enter the number of shareholders who were shareholders during any part of the tax year _____

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)	7	126,118
	8	Salaries and wages (less employment credits)	8	21,199
	9	Repairs and maintenance	9	16,914
	10	Bad debts	10	
	11	Rents	11	24,000
	12	Taxes and licenses	12	11,400
	13	Interest (see instructions)	13	
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14	4,400
	15	Depletion (Do not deduct oil and gas depletion.)	15	
	16	Advertising	16	5,279
	17	Pension, profit-sharing, and other plans	17	60,239
	18	Employee benefit programs	18	
	19	Other deductions (attach statement)	19	849,435
	20	Total deductions. Add lines 7 through 19	20	1,118,984
	21	Ordinary business income (loss). Subtract line 20 from line 6	21	201,654

Tax and

d Reserved for future use _____ **23d** _____

e Add lines 23a through 23d _____ **23e** _____

24 Estimated tax penalty (see instructions). Check if Form 2220 is attached **24** _____

25 Amount owed. If line 23e is smaller than the total of lines 22c and 24, enter amount owed _____ **25** _____

26 Overpayment. If line 23e is larger than the total of lines 22c and 24, enter amount overpaid _____ **26** _____

27 Enter amount from line 26: Credited to 2021 estimated tax Refunded **27** _____

Sign Here

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

Signature of officer _____ Date _____ Title _____

Print/Type preparer's name _____ Preparer's signature _____ Date _____

Check if self-employed PTIN _____

Firm's name _____ Firm's EIN _____

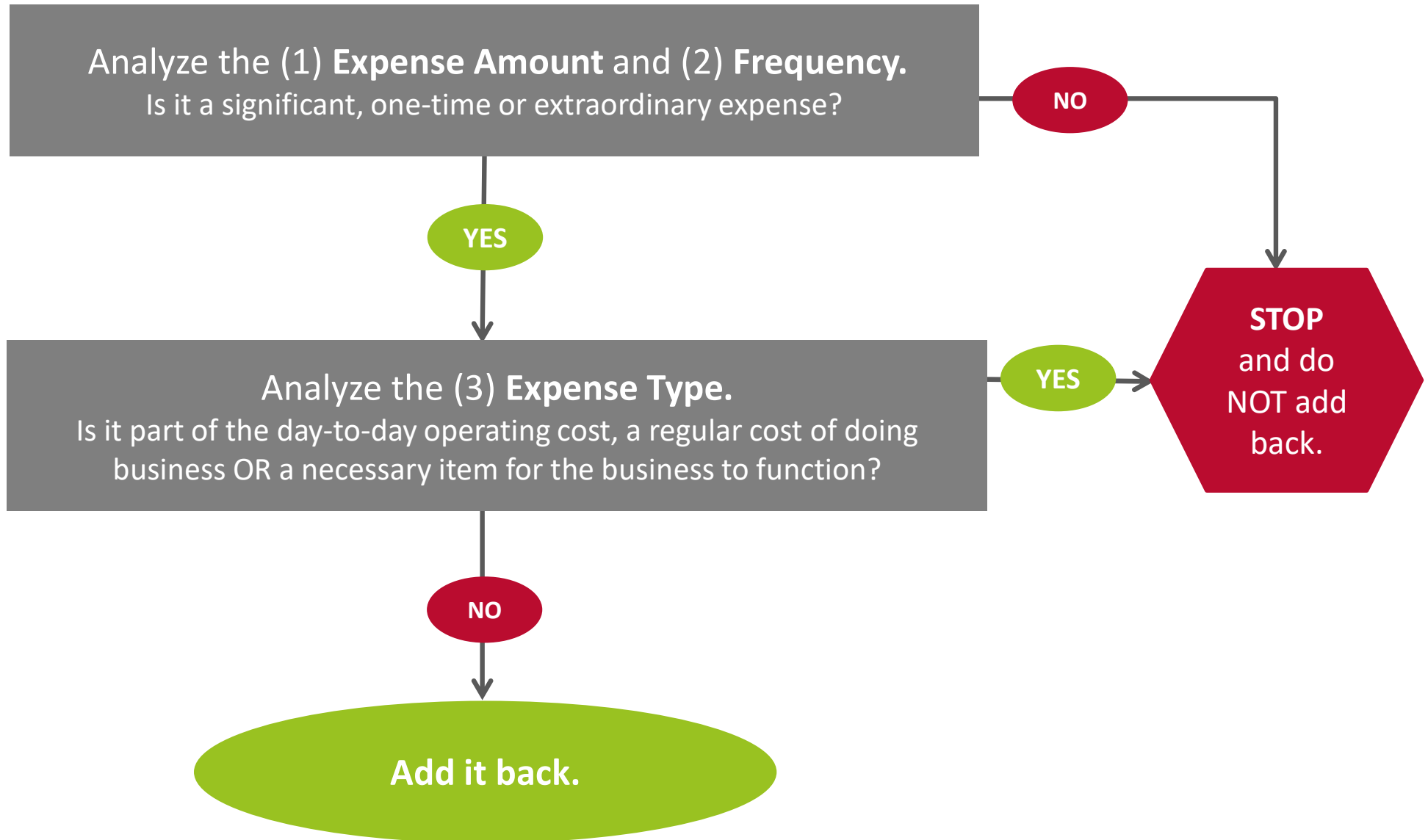
Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S

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



Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		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)				
10a	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	()		()	
14	Other assets (attach statement)				
15	Total assets		130,000		445,000
Liabilities and Shareholders' Equity					
16	Accounts payable		10,000		114,000
17	Mortgages, notes, bonds payable in less than 1 year		30,000		29,000
18	Other current liabilities (attach statement)		15,000		50,000
19	Loans from shareholders				25,000
20	Mortgages, notes, bonds payable in 1 year or more		10,000		28,000
21	Other liabilities (attach statement)		10,000		36,000
22	Capital stock		20,000		12,000
23	Additional paid-in capital		35,000		45,000
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
26	Less cost of treasury stock		()		()
27	Total liabilities and shareholders' equity		130,000		445,000

Form 1120-S

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



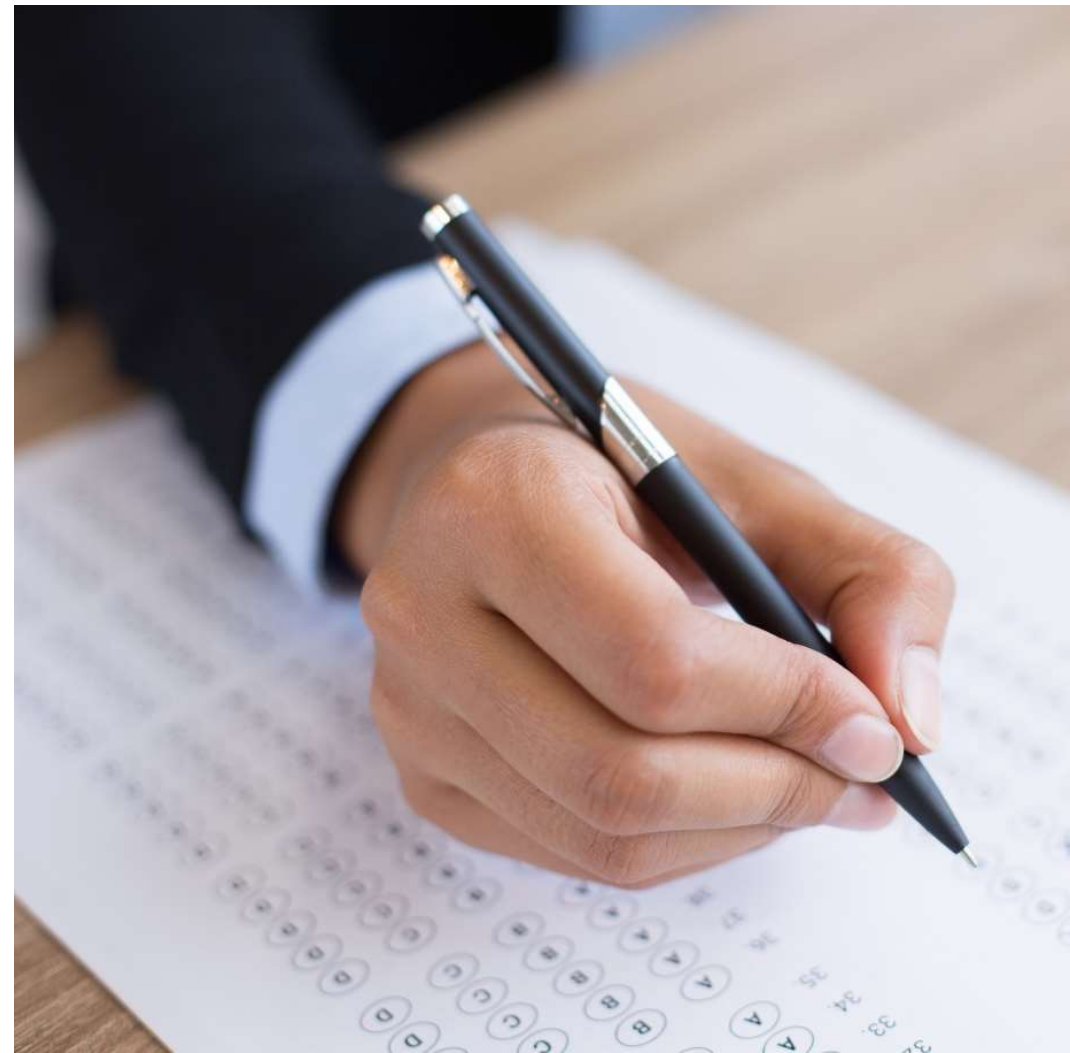
		Prior Year		Most Recent Year	
12	S Corporation Tax Return (1120-S)	Click here for section guidance.		2021	2022
Business Name		Ads-R-Us			
K-1 ANALYSIS 1120-S					
130	Ordinary Business Income	+	\$		\$ 100,827.00
131	Ordinary Business Loss	-	\$		\$
132	Net Rental/Other Real Estate Income	+	\$		\$
133	Net Rental/Other Real Estate Loss	-	\$		\$
134	Subtotal of K-1 Profits/Losses (calculator lines 124 through 128)		\$	0.00	\$ 100,827.00
135	Distributions		\$		\$ 99,000.00
Compare Subtotal of Profits/Losses (Line 134) to Distributions (Line 135). Choose one qualifying option for each					
Click here for guidance.					
Prior Year (Choose One Option)					
136	Utilize Sub-Total of K-1 Profits/Losses	NO			
	Utilize Distributions	NO			
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.)	+	\$	0.00	\$ 99,000.00
139	Amount of Qualifying K-1 Loss	-	\$	0.00	\$ 0.00
140	W-2 Compensation	+	\$		\$ 63,059.00
141	Borrower's Qualifying K-1 Total	±	\$	0.00	± \$ 162,059.00
BUSINESS ANALYSIS 1120-S					
142	Non-Recurring Income	-	\$		\$
143	Non-Recurring Loss	+	\$		\$
144	Depreciation	+	\$		\$ 4,000.00
145	Depletion	+	\$		\$
146	Amortization (as itemized from statement)	+	\$		\$
147	Casualty Losses (as itemized from statement)	+	\$		\$
148	One-Time Expenses (as itemized from statement)	+	\$		\$
149	Mortgages, Notes, Bonds Payable in < One Year	-	\$		\$
150	Non-Deductible Portion of Travel, Meals & Entertainment <i>(See Guidance tab for 2021/2022 Temporary LES)</i>	-	\$		\$ 21,277.00
151	Total of S Corporation Cash Flow		\$	0.00	\$ (17,277.00)
152	Ownership Percentage				50.00%
153	Borrower's Proportionate Share of 1120-S Totals	±	\$	0.00	± \$ (8,638.50)
S Corporation TOTALS (K-1 ANALYSIS AND BUSINESS ANALYSIS)					
154	Totals		\$	0.00	\$ 153,420.50
Choose ONE Option Only for 1120-S Income Trend Calculation					
155	PRIOR YEAR ONLY	NO			
	MOST RECENT YEAR ONLY	YES			
	AVERAGE PRIOR and MOST RECENT YEAR	NO			
	TOTAL 1120-S Annual Trend	\$153,420.50			



Knowledge Check Three

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

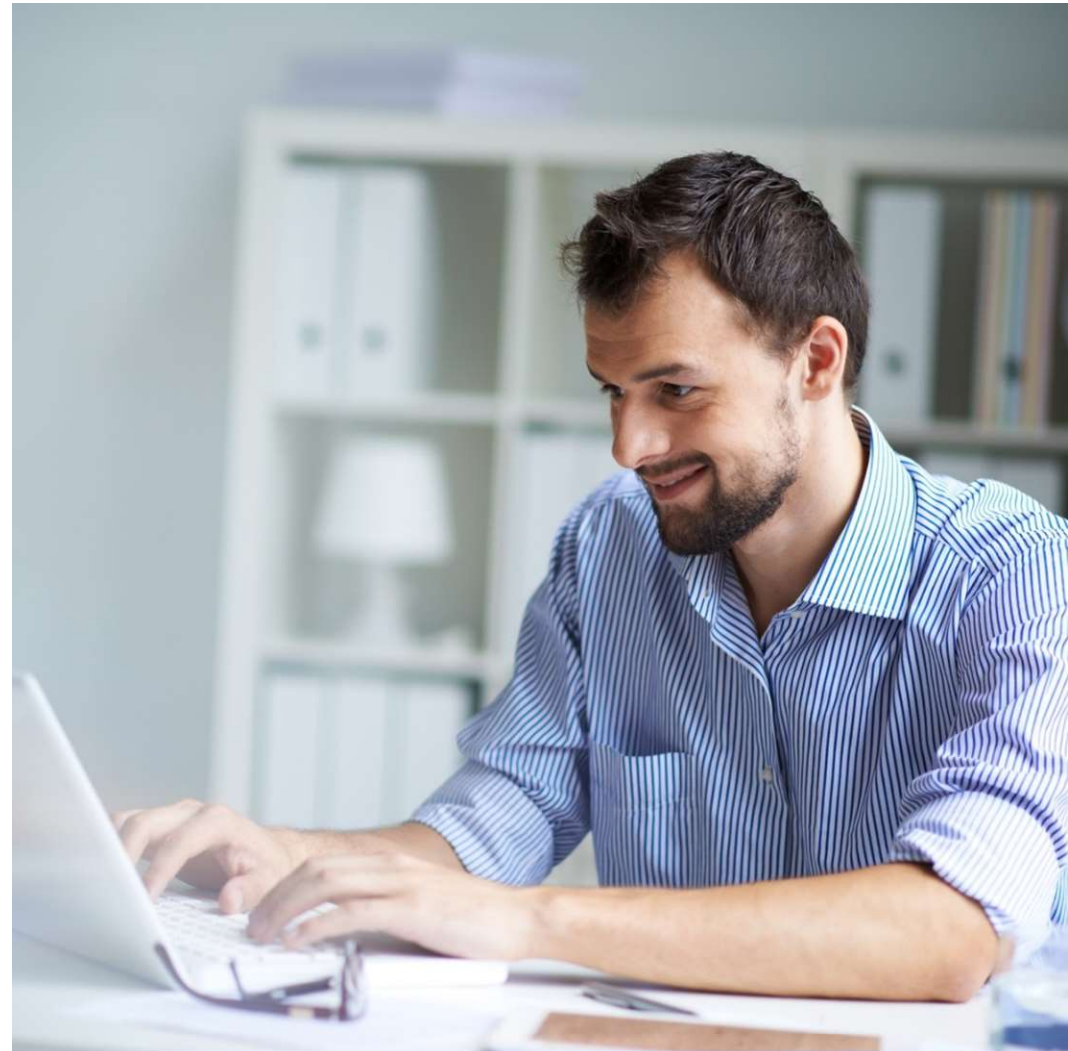
1. The K-1 is the final for that tax year.
2. The K-1 is the final for the owner from that business.
3. It has no significant meaning.

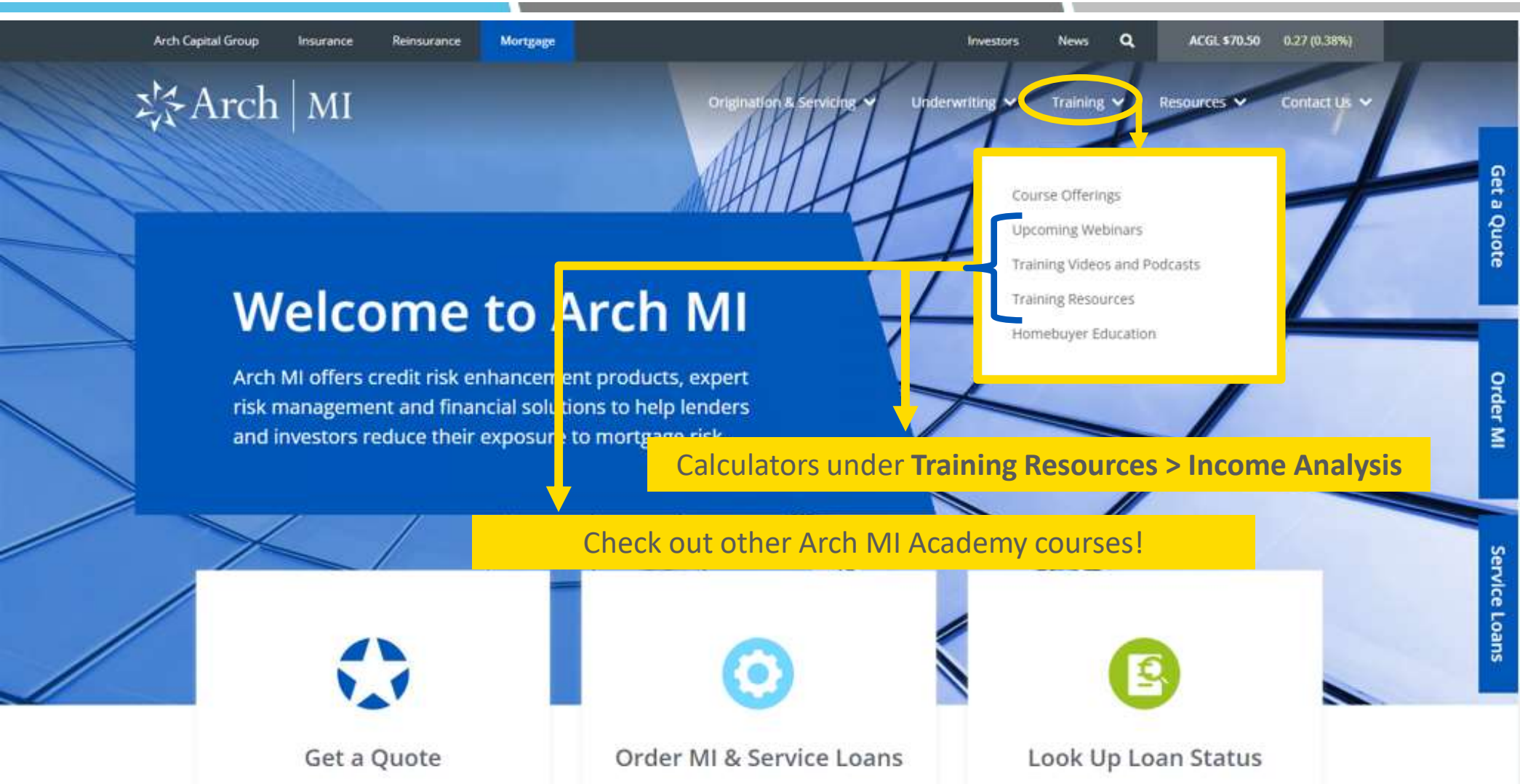


Check Your Understanding Three

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.





The screenshot shows the Arch MI website interface. At the top, there is a navigation bar with links for Arch Capital Group, Insurance, Reinsurance, Mortgage, Investors, News, and a search icon. On the right, it displays 'ACGL \$70.50' and '0.27 (0.38%)'. Below the navigation bar, there are dropdown menus for 'Origination & Servicing', 'Underwriting', 'Training', 'Resources', and 'Contact Us'. The 'Training' dropdown menu is highlighted with a yellow circle and contains the following items: 'Course Offerings', 'Upcoming Webinars', 'Training Videos and Podcasts', 'Training Resources', and 'Homebuyer Education'. A large blue banner in the center reads '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'. A yellow arrow points from the 'Training' dropdown menu to a yellow box containing the text 'Calculators under Training Resources > Income Analysis'. Another yellow arrow points from this box to a yellow box containing the text 'Check out other Arch MI Academy courses!'. At the bottom, there are three white buttons: 'Get a Quote' (with a star icon), 'Order MI & Service Loans' (with a gear icon), and 'Look Up Loan Status' (with a magnifying glass icon). On the right side of the page, there are vertical blue buttons for 'Get a Quote', 'Order MI', and 'Service Loans'.

THANK YOU

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