



Analyzing Income for the Self-Employed Borrower

Participants Guide

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Radian: An Overview

Radian Group Inc. (NYSE:RDN), headquartered in Philadelphia, provides private mortgage insurance and related risk management products and services to mortgage lenders nationwide through its principal operating subsidiary, Radian Guaranty Inc. These services help promote and preserve homeownership opportunities for homebuyers, while protecting lenders from default-related losses on residential first mortgages and facilitating the sale of low downpayment mortgages in the secondary market. Additional information can be found at www.radian.biz

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Introduction

Understanding how to analyze income for a self-employed borrower is one of the most valuable skills a mortgage banker can attain. The ability to determine stable and continuing income is the foundation to correctly calculate qualifying income. While there are many aspects of underwriting, establishing income to repay the loan is the cornerstone of risk analysis.

This guide focuses on analyzing income for a traditional underwrite of a self-employed borrower. The information covered will take into consideration the steps required to manually underwrite a loan file. While automated underwriting systems reduce the need to perform manual underwriting, all mortgage professionals can benefit from understanding the reasons why certain income is used or not used.

The guidelines explained in this manual are the generally accepted practices by Fannie Mae. It is important to find out how your company's lending guidelines may differ from this guide and make appropriate notes as we move through this course today.

Analyzing income is not the same as completing a tax return. An underwriter must know where to look for the income and understand how the business entity generates income. You should review this information frequently until you are comfortable with the analysis process. Use the guide as a reference after the session is over.

There are three modules to this course:

1. Underwriting Components
2. Defining the Borrower and Assessing Capacity
3. IRS Form 1040 – Personal Tax Return
4. Partnerships, S Corporations and Corporations

This book is intended to be used in its entirety. Using this book in part may result in income that is significantly overstated.

Disclaimer: This presentation/document does not constitute tax advice. If you have any questions about any of the material presented, please seek advice from a tax professional.

Introduction (continued)

By the end of this training, you will be able to:

1. Explain why tax returns are required for the self-employed borrower.
2. Explain why lending to a self-employed borrower can be riskier.
3. Name the aspects of the income used in underwriting a self-employed borrower.
4. Identify borrowers who are required to provide tax returns as part of their loan package.

Underwriting can be intimidating, especially when it includes a self-employed borrower. The files often contain more documents, including tax returns, and there are more details to verify.

List some reasons below why underwriting a self-employed borrower may be intimidating:

Some of these reasons can be overcome by understanding that you are NOT expected to understand accounting to underwrite tax returns. You are only required to understand where the income is documented and why it can or cannot be used. Before we begin the analysis, we should review why we use tax returns to document the self-employed borrower's income.

Introduction (continued)

Tax returns are what the mortgage industry uses to determine the self-employed borrower's **ability** to pay the loan.

There are other documents that are used in underwriting a borrower, such as:

- A. Credit Report
- B. Appraisal
- C. Verification of Employment (W-2's, pay stubs, etc.)
- D. Verification of Deposits (bank statements)

Tax returns will tell you if the borrower has the **capacity (ability)** to pay the loan, but you also must assess the borrower's **credit (willingness)** to repay the loan and the **collateral (security)** for the loan.

Credit: The borrower's **willingness** to repay the loan is determined through their credit report. A credit report will provide a credit score and some very important information about how your borrower views their debt obligations. It documents if the borrower honors their debt obligations and can show patterns of payment (e.g., the borrower is current for 6–8 months out of the year, but a slow payer the rest of the time). Examining the credit report closely can give you insight into your borrower's commitment to monetary obligations.

Collateral: The **security** for the loan must also be examined. The security refers to the property's value in relation to the loan amount. The security is determined by underwriting the appraisal to determine if the value is sufficient to support the loan.

Capacity: The **ability** to repay a debt. It is determined by the amount of verifiable, regular and recurring income a borrower makes and the stability of their employment.

Ability, willingness and sufficient security are what all good loan files have in common.

This guide will focus on the borrower's **ability** to pay as determined by their tax return. As your experience grows, you will see that no two borrowers or their tax returns are ever the same. Therefore, you must view each case independently and on the file's own merits.

Risk

Webster's Dictionary describes risk as the possibility of loss. Understanding risk is the objective of underwriting any loan, but a thorough risk analysis is required, especially when underwriting the self-employed. Self-employed borrowers have higher delinquency and foreclosure rates than those of wage earners employed by others.

Lending to the self-employed is inherently riskier because their income stream will vary based upon the success of their business. When faced with financial difficulties, self-employed borrowers are often forced to prioritize between their business and personal financial obligations.

Introduction (continued)

Listed below are the borrowers that we define as self-employed and require two years of tax returns:

- Sole proprietor who files on a Schedule C
- Partner in a business with 25% or more ownership interest
- Shareholder or Officer in a business with 25% or more ownership interest

We require tax returns of these people because income may be difficult to document otherwise. Tax returns provide an objective and consistent reporting of the borrower's income stream. It is important to remember that taxable income is not the same as qualifying income. The government allows certain reductions to income so that the borrower's tax burden can be reduced. Borrower's goals are to document the *least* amount of income possible on their tax returns.

The mortgage industry depends on these returns to determine the borrower's capacity. So our objective in analyzing the tax returns is to determine the *most* income available. Careful analysis of the borrower's tax returns is required to adjust for tax rules that differentiate taxable income from qualifying income.

By requesting two years of tax returns, you are able to establish the stability of the borrower's income stream. You need to review the borrower's tax return for income that is **regular and recurring**.

- **Regular** income is predictable and consistent.
- **Recurring** income is determined by looking at the history and the trends of this income to help us predict the future of the income stream.

Module 1: Defining the Borrower and Assessing Capacity

Module 1 Objectives

By the end of this module, you will be able to:

1. Recognize structure of the various business entities.
2. Identify the characteristics of the business entities.
3. Understand the components of the 1084 Cash Flow Analysis Worksheet.

As discussed in the previous module, there are many different borrowers that are considered self-employed. When you are working with a borrower and determining their ability to repay the loan, it is important to understand the structure of their business. The following pages will review important aspects of the five entities you will encounter.

Sole Proprietor

- The first and most common business structure is the **Sole Proprietor**.
- The sole proprietor owns and controls 100% of the business.
- They have unlimited liability for business losses and debts.
- Their ability to borrow money and generate cash is limited to that of the individual. When the owner dies, so does the sole proprietorship.
- The business pays no taxes on income; all taxes are paid by the individual.
- The taxable income or loss is passed through to the borrower's personal return and taxed on the individual's personal tax rate.
- There will not be a separate business tax return; Schedule C of the borrower's personal tax return represents all business activities.

The sole proprietor reports income/losses on:

- Schedule C or Schedule C-EZ of the personal federal income tax return Form 1040.

Request two years 1040 tax returns to document the income of a sole proprietor.

Partnership

The second entity is a **Partnership**. This business is normally defined by an agreement between the partners that structure the entity.

- A partnership has two or more partners (one must be a General Partner).
- A General Partner has unlimited personal liability for the partnership's debts and losses.
- A Limited Partner is only liable for the amount they have invested in the business.
- The Limited Partner has no say in the operation of the business.
- The partnership pays no business taxes; all taxes are paid by the partners.
- All business activities are reflected on Form 1065.
- The partners control the Partnership; the amount of control is addressed in the Partnership Agreement.

Module 1: Defining the Borrower and Assessing Capacity (continued)

The partnership reports income/losses on:

- Form 1065, U.S. Tax Return of Partnership Income.
- Schedule K-1 (Form 1065) and Part II of Schedule E of the 1040 are where the partner's percentage of income/loss is passed through to their personal tax return, the 1040.

Request two years 1040 tax returns (including K-1's) and full 1065 returns to document the income of a borrower in a partnership.

S Corporation

An **S Corporation** is a state-chartered business.

- The number of stockholders is limited by the IRS.
- The S Corporation has enhanced borrowing capacity and income-generation abilities due to the pooling of resources by stockholders.
- The S Corporation, not the stockholders, is liable for debts and losses.
- The S Corporation pays no business taxes; all taxes are paid by the stockholders.
- All business activities are reflected in the 1120S form.
- The business activities are controlled by the Officers of the S Corporation.

The S Corporation reports income/losses on:

- Form 1120S, U.S. Tax Return for an S Corporation.
- The K-1 1120S schedule and in Part II of the 1040 Schedule E are where a stockholder's (borrower's) income/loss will be passed through to their personal tax return.

Request two years 1040 tax returns (including K-1's) and full 1120S returns to document the income of a borrower in an S Corporation.

Corporation

A **Corporation** is also a state-chartered business entity. It is a costly and difficult entity to form, but it has several benefits the others cannot offer:

- Greater ability to raise capital.
- Unlimited number of shareholders.
- The corporation is liable for debts, not the stockholders.
- A corporation is controlled by a board of directors, giving it a wide management base with greater expertise than other entities.
- The corporation has one major difference: They pay taxes twice.

The corporation reports income/losses on:

- Form 1120, which is the U.S. Corporate Tax Return.
- Form 1040: Income generated from the corporation is passed on to stockholders (the corporation's owners) as wages or dividends and reported on their personal 1040, thereby taxing the corporation's income twice.

Request two years, 1040 tax returns and full 1120 tax returns to document income when the borrower has ownership interest in a corporation.

Module 1: Defining the Borrower and Assessing Capacity (continued)

Limited Liability Company (LLC)

A **Limited Liability Company (LLC)** is like a chameleon. How it is structured determines which tax returns will be required.

- The owners are “Members.”
- The LLC is liable for the debts and losses of the company, the members are not personally liable (similar to a corporation).
- LLCs are easy to set up (similar to a partnership) with few corporate formalities.
- Many LLCs have a finite life of 30 years to operate.
- The LLC can be taxed as a pass-through entity like a partnership, S Corporation, or sole proprietorship, or as a regular corporation.

How an LLC reports income to the IRS is dependent upon how it is structured. The LLC reports income/losses on:

- Form 1040, Schedule C, E, or F if the LLC has only one member and that member is an individual. If the LLC has only one individual member, request two years of 1040 tax returns.
- Form 1120 or 1120S if the only member of the LLC is a corporation. If the LLC has only one corporate member, request two years of 1040s including K-1's and 1120S returns.
- Form 1065 if the LLC is comprised of multiple members. If the LLC is comprised of multiple members, request two years of 1040s including K-1's and 1065 returns.

Viability

Having discussed the business entities and their characteristics, let's begin to focus on the main objective for this session: determining the borrower's ability or capacity to repay the loan. To do so, we must look at the viability of the business. You must be able to answer these questions:

- How long has your borrower been in the business?
- How long has the borrower been self-employed?
- What is the likelihood of the business continuing?
- Do you need to review financial statements? Financial statements are seldom required anymore, but it does help to give you a very good view of the business operations.
- Are all the tax forms included in file? Do you have two years of returns so that you can establish regular and recurring income?



Cash Flow Analysis (Form 1084)

Borrower Name: _____

Business Name (optional): _____

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

IRS Form 1040 – Individual Income Tax Return	Year _____	Year _____
1. W-2 Income from Self-Employment	(+) _____	(+) _____
2. Schedule B – Interest and Ordinary Dividends		
a. Interest Income from Self-Employment	(+) _____	(+) _____
b. Dividends from Self-Employment	(+) _____	(+) _____
3. Schedule C – Profit or Loss from Business: Sole Proprietorship		
a. Net Profit or (Loss)	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss/Expenses	(+/-) _____	(+/-) _____
c. Depletion	(+) _____	(+) _____
d. Depreciation	(+) _____	(+) _____
e. Non-deductible Travel and Meals Expenses	(-) _____	(-) _____
f. Business Use of Home	(+) _____	(+) _____
g. Amortization/Casualty Loss	(+) _____	(+) _____
4. Schedule D – Capital Gains and Losses		
a. Recurring Capital Gains	(+) _____	(+) _____
5. Schedule E – Supplemental Income and Loss		
Note: A lender may use Fannie Mae Rental Income Worksheets (Form 1037 or Form 1038) to calculate individual rental income (loss) reported on Schedule E.		
a. Royalties Received	(+) _____	(+) _____
b. Total Expenses	(-) _____	(-) _____
c. Depletion	(+) _____	(+) _____
6. Schedule F – Profit or Loss from Farming		
a. Net Farm Profit or (Loss)	(+/-) _____	(+/-) _____
b. Non-Tax Portion Ongoing Coop and CCC Payments	(+) _____	(+) _____
c. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
d. Depreciation	(+) _____	(+) _____
e. Amortization/Casualty Loss/Depletion	(+) _____	(+) _____
f. Business Use of Home	(+) _____	(+) _____

Note: IRS Form 4797 (Sales of Business Property) is not included on this worksheet due to its infrequent use. If applicable, a lender may include analysis of the sale and related recurring capital gains.

Module 1: Defining the Borrower and Assessing Capacity (continued)

Capacity

If your borrower has met your requirements for viability, you can move on to capacity. To determine the borrower's ability to pay, you will be using the Cash Flow Analysis Worksheet (Fannie Mae Form 1084). The cash flow analysis analyzes the personal return and the business entities by making adjustments to income and analyzing deductions. There are other methods for analyzing self-employed income, however, the cash flow analysis method is currently the industry standard.

Fannie Mae Cash Flow Analysis – The 1084 Form

About the 1084:

- The form breaks down the analysis of the borrower's tax return by examining cash flow from the appropriate schedules and forms.
- A few line items have both a "+" and "-." This allows for addition of allowable expenses and losses and subtraction of non-recurring income and gains.

As you review tax returns, it is important to remember that the preparation of tax returns is the government's way of determining what income taxes are based on. The government allows certain reductions to income so that the borrower's tax burden can be reduced. When people are completing their tax forms, they are motivated to reduce their income thereby reducing their taxes. The borrower's goal is to document the *least* amount of income possible.

The mortgage industry depends on these same returns to determine the borrower's capacity. So our objective in analyzing the tax returns is to determine the *most* income available, and that is accomplished through underwriting guidelines and use of the 1084 form.

The 1084 is organized to follow the schedules and forms of business tax returns. The 1084 analyzes specific income and deductions looking for income that is regular and recurring. The form requests specific information and then asks the underwriter to add or subtract the income or loss.

This manual is structured to follow the 1084 when reviewing the various tax returns and their schedules and forms.

Many of the instructions that follow have been taken from Fannie Mae's instructions located at www.eFanniemae.com.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying surviving spouse (QSS)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.
City, town, or post office. If you have a foreign address, also complete spaces below.		State ZIP code
Foreign country name	Foreign province/state/county	Foreign postal code

You Spouse

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1958 Are blind **Spouse:** Was born before January 2, 1958 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	Child tax credit	Credit for other dependents
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b Household employee wages not reported on Form(s) W-2	1b	
c Tip income not reported on line 1a (see instructions)	1c	
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e Taxable dependent care benefits from Form 2441, line 26	1e	
f Employer-provided adoption benefits from Form 8839, line 29	1f	
g Wages from Form 8919, line 6	1g	
h Other earned income (see instructions)	1h	
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h	1z	

Attach Sch. B if required.

Standard Deduction for—
 • Single or Married filing separately, \$12,950
 • Married filing jointly or Qualifying surviving spouse, \$25,900
 • Head of household, \$19,400
 • If you checked any box under Standard Deduction, see instructions.

2a Tax-exempt interest	2a	b Taxable interest	2b
3a Qualified dividends	3a	b Ordinary dividends	3b
4a IRA distributions	4a	b Taxable amount	4b
5a Pensions and annuities	5a	b Taxable amount	5b
6a Social security benefits	6a	b Taxable amount	6b
c If you elect to use the lump-sum election method, check here (see instructions)			
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here			7
8 Other income from Schedule 1, line 10			8
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income			9
10 Adjustments to income from Schedule 1, line 26			10
11 Subtract line 10 from line 9. This is your adjusted gross income			11
12 Standard deduction or itemized deductions (from Schedule A)			12
13 Qualified business income deduction from Form 8995 or Form 8995-A			13
14 Add lines 12 and 13			14
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income			15



Module 2: IRS Form 1040 — Personal Tax Return

Module 2 Objectives

1. Recognize the sections of Form 1040.
2. Identify the income and expenses that can be recorded on the 1084.
3. Recognize the various schedules of the 1040.

The 1040 form is the starting point when analyzing any borrower who is self-employed.

Be sure to cross-check the information on the tax returns with other documents in the mortgage loan file. Those who perpetrate fraud have been known to alter or fabricate tax returns to document income. These tax returns often show inconsistencies. Refer to Appendix C to see a list of common red flags found in tax returns.

Name, Address and Social Security Number

It is important to look for consistency throughout the returns and the loan file. The borrower's name and address on every form should match the information on the first page of the 1040 and on the loan application. Social Security numbers should match, names should be spelled correctly, and income should flow correctly from one form to the next. Lack of consistency is a red flag for an underwriter.

At the top of the 1040, you will find the borrower's name, address and Social Security number. This information should be cross-checked with the credit report, any W-2's, pay stubs, etc.

Filing Status

This information should typically agree with the borrower's marital status on the loan application.

Exemptions/Dependents

Cross-check with the borrower's application to make sure the dependent information agrees with that reflected on the tax returns. Check for dependents listed, but not living with the borrower. This could indicate a possible obligation for child support.

Signature and Date

Your borrower should sign and date the return on the date the application was taken. This signature verifies the returns are the same copies filed with the IRS and there are no amendments to the return.

Be sure to cross-check the occupation listed in the signature area with the loan application.

Form **1040**

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return

2022

OMB No. 1545-0074

IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying surviving spouse (QSS)

Check only one box.

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.
City, town, or post office. If you have a foreign address, also complete spaces below.		State
		ZIP code
Foreign country name	Foreign province/state/county	Foreign postal code
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. <input type="checkbox"/> You <input type="checkbox"/> Spouse		

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1958 Are blind Spouse: Was born before January 2, 1958 Is blind

Dependents (see instructions): If more than four dependents, see instructions and check here <input type="checkbox"/>	(1) First name		(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	
	Last name				Child tax credit	Credit for other dependents
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>

Income	1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	
	b Household employee wages not reported on Form(s) W-2	1b	
	c Tip income not reported on line 1a (see instructions)	1c	
	d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
	e Taxable dependent care benefits from Form 2441, line 26	1e	
	f Employer-provided adoption benefits from Form 8839, line 29	1f	
	g Wages from Form 8919, line 6	1g	
	h Other earned income (see instructions)	1h	
	i Nontaxable combat pay election (see instructions)	1i	
	z Add lines 1a through 1h	1z	
	2a Tax-exempt interest	2a	
	3a Qualified dividends	3a	
	4a IRA distributions	4a	
	5a Pensions and annuities	5a	
	6a Social security benefits	6a	
b Taxable interest	2b		
b Ordinary dividends	3b		
b Taxable amount	4b		
b Taxable amount	5b		
b Taxable amount	6b		
c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>	
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	7		
8 Other income from Schedule 1, line 10	8		
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9		
10 Adjustments to income from Schedule 1, line 26	10		
11 Subtract line 10 from line 9. This is your adjusted gross income	11		
12 Standard deduction or itemized deductions (from Schedule A)	12		
13 Qualified business income deduction from Form 8995 or Form 8995-A	13		
14 Add lines 12 and 13	14		
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form **1040** (2022)

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Tax Area	Where on the 1040	Where on the 1084
W-2 Income from Self Employment	Page 1, Line 1	Line 1

W-2 wages can be found on line 1 of page 1 of the 1040. **Enter the wages on line 1 of the 1084 if this income is from self-employed income.** Only use the W-2 income that is from self-employed wages.

Note: W-2 wages not related to self-employment will be used for qualifying, but they are not considered on the 1084. The 1084 only covers income associated with self-employment.

Tax and Credits	16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16
	17	Amount from Schedule 2, line 3	17
	18	Add lines 16 and 17	18
	19	Child tax credit or credit for other dependents from Schedule 8812	19
	20	Amount from Schedule 3, line 8	20
	21	Add lines 19 and 20	21
	22	Subtract line 21 from line 18. If zero or less, enter -0-	22
	23	Other taxes, including self-employment tax, from Schedule 2, line 21	23
	24	Add lines 22 and 23. This is your total tax	24
Payments	25	Federal income tax withheld from:	
	a	Form(s) W-2	25a
	b	Form(s) 1099	25b
	c	Other forms (see instructions)	25c
	d	Add lines 25a through 25c	25d
	26	2022 estimated tax payments and amount applied from 2021 return	26
	27	Earned income credit (EIC)	27
	28	Additional child tax credit from Schedule 8812	28
	29	American opportunity credit from Form 8863, line 8	29
	30	Reserved for future use	30
	31	Amount from Schedule 3, line 15	31
	32	Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits	32
	33	Add lines 25d, 26, and 32. These are your total payments	33
Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34
	35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a
Direct deposit? See instructions.	b	Routing number	
	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d	Account number	
	36	Amount of line 34 you want applied to your 2023 estimated tax	36
Amount You Owe	37	Subtract line 33 from line 24. This is the amount you owe . For details on how to pay, go to www.irs.gov/Payments or see instructions	37
	38	Estimated tax penalty (see instructions)	38

Third Party Designee Do you want to allow another person to discuss this return with the IRS? See instructions Yes. Complete below. No

Designee's name	Phone no.	Personal identification number (PIN)
-----------------	-----------	--------------------------------------

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

Your signature	Date	Your occupation	If the IRS sent you an Identify Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent your spouse an

Part II Adjustments to Income

11	Educator expenses	11
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12
13	Health savings account deduction. Attach Form 8889	13
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14
15	Deductible part of self-employment tax. Attach Schedule SE	15
16	Self-employed SEP, SIMPLE, and qualified plans	16
17	Self-employed health insurance deduction	17
18	Penalty on early withdrawal of savings	18
19a	Alimony paid	19a
	b Recipient's SSN	
	c Date of original divorce or separation agreement (see instructions):	
20	IRA deduction	20
21	Student loan interest deduction	21
22	Reserved for future use	22
23	Archer MSA deduction	23
24	Other adjustments:	
	a Jury duty pay (see instructions)	24a
	b Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b
	c Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c
	d Reforestation amortization and expenses	24d
	e Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e

Module 2: IRS Form 1040 — Personal Tax Return (continued)

While we have reviewed W-2 income from the business on the 1040, the information on page 2 is useful and contains information that should be examined.

Tax Area	Where on the 1040	Where on the 1084
Itemized Deductions	Page 1, Line 12a	Line n/a

Line 12a of the 1040 page 1 indicates if the borrower itemized their tax deductions and completed a Schedule A. Most self-employed borrowers will itemize deductions (listed on Schedule A).

Tax Area	Where on the 1040	Where on the 1084
Itemized Deductions	Schedule 1 Page 2, Line 15	N/A

Amount of tax a self-employed person is required to pay will be reflected on line 15 of page 2 of the 1040 Schedule 1. This is the FICA for a self-employed borrower. Failure to pay this tax may indicate a future tax obligation.

**SCHEDULE B
(Form 1040)**

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

Interest and Ordinary Dividends

Go to www.irs.gov/ScheduleB for instructions and the latest information.
Attach to Form 1040 or 1040-SR.

OMB No. 1545-0074

2022
Attachment
Sequence No. **08**

Your social security number

		Amount
Part I Interest <small>(See instructions and the Instructions for Form 1040, line 2b.) Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.</small>	1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address: _____ _____ _____	1

	2 Add the amounts on line 1	2
	3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3
	4 Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b	4
Note: If line 4 is over \$1,500, you must complete Part III.		Amount

Part II Ordinary Dividends <small>(See instructions and the Instructions for Form 1040, line 3b.) Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.</small>	5 List name of payer: _____ _____ _____	5

	6 Add the amounts on line 5. Enter the total here and on Form 1040 or 1040-SR, line 3b	6
Note: If line 6 is over \$1,500, you must complete Part III.		

		Yes	No
Part III Foreign Accounts and Trusts <small>Caution: If required, failure to file FinCEN Form 114 may result in substantial penalties. Additionally, you may be required to file Form 8938, Statement of Specified Foreign Financial Assets. See instructions.</small>	7a At any time during 2022, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
	b If you are required to file FinCEN Form 114, list the name(s) of the foreign country(-ies) where the financial account(s) are located: _____		
	8 During 2022, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule B – Interest and Dividend Income

When reviewing Schedule B, your focus is to look for dividend and interest income that comes from the business.

If using this income type from the business you will need to validate:

- The existence of the accounts on which income is received
- Two years history, on Schedule B of the 1040 tax returns
- Three years likelihood of continuance

Review Schedule B/Schedule K-1/Form 1099 to confirm the payer is the same entity as the borrower's business.

Tax Area	Where on the 1040	Where on the 1084
Interest Income	Schedule B Part I	Line 2a

Add the interest income paid to the borrower from the borrower's business on line 2a of the 1084.

Tax Area	Where on the 1040	Where on the 1084
Dividend Income	Schedule B Part II	Line 2b

Add dividend income paid to the borrower from their self-employed business on line 2b of the 1084.

If the borrower owns stock in a corporation (including an S Corporation), the dividends paid would be reported here. Self-employment might be indicated if the payer is the borrower's employer.

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2022
Attachment
Sequence No. **09**

Name of proprietor _____		Social security number (SSN) _____								
A Principal business or profession, including product or service (see instructions) _____	B Enter code from instructions <table border="1" style="width: 100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> </tr> </table>									
C Business name. If no separate business name, leave blank. _____	D Employer ID number (EIN) (see instr.) <table border="1" style="width: 100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> <td style="width: 15%;"> </td> </tr> </table>									
E Business address (including suite or room no.) _____ City, town or post office, state, and ZIP code _____										
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____										
G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No										
H If you started or acquired this business during 2022, check here . . . <input type="checkbox"/>										
I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions . . . <input type="checkbox"/> Yes <input type="checkbox"/> No										
J If "Yes," did you or will you file required Form(s) 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No										

Part I Income

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

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

8 Advertising	8			18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9			19 Pension and profit-sharing plans	19	
10 Commissions and fees	10			20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11			a Vehicles, machinery, and equipment	20a	
12 Depletion	12			b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13			21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14			22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15			23 Taxes and licenses	23	
16 Interest (see instructions):				24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a			a Travel	24a	
b Other	16b			b Deductible meals (see instructions)	24b	
17 Legal and professional services	17			25 Utilities	25	
				26 Wages (less employment credits)	26	
				27a Other expenses (from line 48)	27a	
				b Reserved for future use	27b	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28					
29 Tentative profit or (loss). Subtract line 28 from line 7	29					
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30					
31 Net profit or (loss). Subtract line 30 from line 29. <ul style="list-style-type: none"> • If a profit, enter on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. 	31					
32 If you have a loss, check the box that describes your investment in this activity. See instructions. <ul style="list-style-type: none"> • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited. 						32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.



Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule C – Profit or Loss from Business: Sole Proprietorship

Schedule C is where a sole proprietor reports the profit or loss of the entity. Schedule C is formatted with the sole proprietor's information at the top of the form. Make sure this information matches the 1040 and the loan application.

Tax Area	Where on the 1040	Where on the 1084
Accounting Method	Schedule C Line F	N/A

Line F on the Schedule C designates the accounting method for the business. There are two methods used:

- **Cash Basis:** Income is recorded when cash is received; expenses are recorded when cash is paid.

The cash basis provides a good approximation of the business's cash flow.

- **Accrual Basis:** Income is recorded when service is performed or goods are shipped; expenses are recorded when incurred.

Companies that hold inventory typically use the accrual basis for accounting purposes.

The accrual method can give a distorted view of the company if cash flow is not examined closely. The underwriter will need to confirm that revenue exceeds the actual cash position, and financial statements may be required.

Tax Area	Where on the 1040	Where on the 1084
Gross Income (Revenue)	Schedule C Part I	N/A

Part I is the sole proprietor's business income. Income is gross receipts (revenue) less cost of goods sold (and returned) resulting in gross income.

Not all sole proprietors will indicate cost of goods sold on their tax returns. If the company is a service company, there may be no direct costs.

Tax Area	Where on the 1040	Where on the 1084
Net Profit or Loss	Schedule C Line 31	Line 3a

Add the profit or subtract the loss on line 3a of the 1084. The amount on the net profit or loss line of Schedule C should match line 12 on page 1 of the 1040. Checking for consistency within the tax returns is a very good way to detect red flags.

Tax Area	Where on the 1040	Where on the 1084
Non-Recurring Other (Income) Loss/Expenses	Schedule C Line 6	Line 3b

Other income reported on line 6 of Schedule C represents income received that was not obtained from the business. Unless the income is documented to be stable, regular and recurring, **subtract non-recurring other income or add back non-recurring loss on line 3b of the 1084.**

**SCHEDULE C
(Form 1040)**

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2022

Department of the Treasury
Internal Revenue Service

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Attachment
Sequence No. **09**

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____			
G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2022, check here <input type="checkbox"/>			
I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

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

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

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

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

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2022

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule C – Part II

Part II is the expense section. Expenses listed are those expenses required to operate the business. While these expenses are the cost of making your borrower successful, there are certain items that have potential to be added back to qualifying income. These are the items that are of particular interest when analyzing how the total income can be adjusted.

Begin with the non-cash expense. A non-cash expense occurs when cash is not used to reconcile an expense. As a general guideline, the expenses added back to income are non-cash expenses.

Tax Area	Where on the 1040	Where on the 1084
Depletion	Schedule C Line 12	Line 3c

Depletion is the exhaustion of a natural resource. Businesses that *use up* a natural resource, such as timber, oil, coal, etc., are given a tax deduction over time. No cash was actually spent for the expense listed on line 12 of the Schedule C. **Add depletion showing on line 12 of Schedule C to line 3c of the 1084.**

Tax Area	Where on the 1040	Where on the 1084
Depreciation	Schedule C Line 13	Line 3d

Depreciation is the wearing out of an asset used for the production of income and is on line 13 of the Schedule C. **Add depreciation back into income on line 3d of the 1084.**

If the borrower used the “Standard Mileage Rate” calculation on page 2, line 44a for vehicle depreciation, you will need to calculate the amount to be added to the cash flow. Multiply the actual business miles driven on line 44a by the IRS depreciation factor for the appropriate year. Note: The depreciation factor is the dollar/cents figure published by the IRS and may change yearly. **The resulting figure can also be added on line 3d of the 1084.**

Note: If an asset wears out every year to two, the business will have to purchase the asset over and over again. The business will need to have the ability to replace the asset frequently.

Tax Year	Mileage Depreciation Factor
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

**SCHEDULE C
(Form 1040)**

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2022

Department of the Treasury
Internal Revenue Service

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

Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Attachment
Sequence No. **09**

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____			
G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2022, check here <input type="checkbox"/>			
I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

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

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

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

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

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2022

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Tax Area	Where on the 1040	Where on the 1084
Non-deductible Meals	Schedule C Line 24b	Line 3e

Expenses for meals are considered the cost of being successful. There was an actual outlay of cash. This is money the borrower spent and does not have available to make a mortgage payment.

A percentage of the cost (usually 50% for most businesses*) has already been subtracted from the current total income figure. The remaining non-deductible amount needs to be excluded from income. *in 2021 a business can write off 100% of its meals expense.

Subtract the amount on line 24b of the Schedule C on line 3e of the 1084 form.

Tax Area	Where on the 1040	Where on the 1084
Business Use of Home	Schedule C Line 30	Line 3f

Business Use of Home **can be added back to on line 3f of the 1084**. This is a deduction for a portion of the home being used as an office/work space and is reflected on line 30 of Schedule C.

If the Business Use of Home deduction appears on the Schedule C, the borrower may use a simplified method and the result will be entered on Schedule C. If the simplified method is not used, IRS form 8829 must be included for it to be considered a complete tax return.

Note: Crosscheck percentage of business use of home on the 8829. Does it make sense for the size of the home? Is it a concern or mixed use?

Tax Area	Where on the 1040	Where on the 1084
Other Expense	Schedule C Line 27a	Line 3g

Other Expenses listed on line 27a of the Schedule C should be reviewed for allowable add-backs. These expenses are detailed fully on page 2 Part V of Schedule C. There are some miscellaneous expenses that can be added back to total income.

Amortization – The write-off of initial cost incurred prior to the start of business operation. Examples are: copyrights, survey fees, and customer lists, and they **can be added back on line 3g of the 1084**.

Non-Recurring Casualty Loss – This is normally a one-time expense, so it **can be added back on line 3g of the 1084**.

Note: Not every business will have one or both of these expenses.

As a rule, borrowers with one-time, extraordinary expenses are not penalized. Therefore, expenses such as replacement costs for casualty loss can be added back to qualify the borrower. Depending on the type of casualty loss (such as a fire), verify the business is back to normal operation.

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/ScheduleD for instructions and the latest information.
Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

2022

Attachment
Sequence No. **12**

Name(s) shown on return

Your social security number

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No
If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.

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

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

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

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

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule D – Capital Gains and Losses

Anyone who has sold a capital asset will file a Schedule D. The form is divided into two basic sections: Part I– Short-Term Capital Gains and Losses and Part II– Long-Term Capital Gains and Losses.

- Short-term gains/losses means a gain/loss derived from the sale of an asset held for less than 12 months.
- Long-term gains/losses means a gain/loss derived from the sale of an asset held for more than 12 months.

We evaluate the Schedule D for adjustments to income when gains are regular and recurring. This is not very common.

Tax Area	Where on the 1040	Where on the 1084
Recurring Capital Gains	Schedule D Line 7, 15	Line 4a

In most instances, a capital gain is a non-recurring event. The underwriter must compare two consecutive years to determine whether or not the income is recurring and confirm the likelihood of continuance by obtaining documentation. An average of this income should then be used.

If the income meets these qualifications, **add recurring gains on line 4a of the 1084.**

Note: Capital losses identified on Schedule D do not have to be considered when calculating income or liabilities, even if the losses are recurring.

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Name(s) shown on return

Supplemental Income and Loss

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

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

OMB No. 1545-0074

2022

Attachment
Sequence No. **13**

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

- A** Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions Yes No
B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

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

Type of Property:

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

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		
Expenses:			
5 Advertising	5		
6 Auto and travel (see instructions)	6		
7 Cleaning and maintenance	7		
8 Commissions	8		
9 Insurance	9		
10 Legal and other professional fees	10		
11 Management fees	11		
12 Mortgage interest paid to banks, etc. (see instructions)	12		
13 Other interest	13		
14 Repairs	14		
15 Supplies	15		
16 Taxes	16		
17 Utilities	17		
18 Depreciation expense or depletion	18		
19 Other (list) _____	19		
20 Total expenses. Add lines 5 through 19	20		
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21		
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	()	()
23a Total of all amounts reported on line 3 for all rental properties	23a		
b Total of all amounts reported on line 4 for all royalty properties	23b		
c Total of all amounts reported on line 12 for all properties	23c		
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) 2022

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule E – Supplemental Income and Losses

Schedule E reports income and losses from:

- Rental of real estate
- Royalties
- Partnerships and S Corporations
- Estates and trusts

For our purposes when completing the 1084, we are only concerned with Royalties received when analyzing Schedule E for additional adjustments to total income. Calculation of Rental Income is calculated outside of the form 1084 using either your own company's form or Fannie Mae Forms 1037 and/or 1038.

Tax Area	Where on the 1040	Where on the 1084
Royalties Received	Schedule E Line 4	Line 5a

Royalties are normally received from natural resources on a property. If the royalty income is regular and can be expected to continue for 3 years, **add royalty income on line 5a of the 1084.**

Tax Area	Where on the 1040	Where on the 1084
Total Expenses	Schedule E Line 20	Line 5b

Line 20 represents the total expenses incurred by the generation of royalty income. **Subtract this figure on line 5b of the 1084.**

Tax Area	Where on the 1040	Where on the 1084
Depletion	Schedule E Line 18	Line 5c

Add back depletion associated with royalty income on Line 5c of the 1084.

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Farming

Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.
Go to www.irs.gov/ScheduleF for instructions and the latest information.

OMB No. 1545-0074

2022
Attachment
Sequence No. **14**

Name of proprietor _____ Social security number (SSN) _____

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

E Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on passive losses Yes No
F Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions Yes No
G If "Yes," did you or will you require Form(s) 1099? Yes No

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

1a	Sales of purchased livestock and other resale items (see instructions)	1a	
b	Cost or other basis of purchased livestock or other items reported on line 1a	1b	
c	Subtract line 1b from line 1a	1c	
2	Sales of livestock, produce, grains, and other products you raised	2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	
3b	Taxable amount	3b	
4a	Agricultural program payments (see instructions)	4a	
4b	Taxable amount	4b	
5a	Commodity Credit Corporation (CCC) loans reported under election	5a	
b	CCC loans forfeited	5b	
5c	Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions):		
a	Amount received in 2022	6a	
6b	Taxable amount	6b	
c	If election to defer to 2023 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2021
6d		6d	
7	Custom hire (machine work) income	7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8	
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions	9	

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

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23	
11	Chemicals	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a	
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b	
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25	
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26	
16	Feed	16		27	Storage and warehousing	27	
17	Fertilizers and lime	17		28	Supplies	28	
18	Freight and trucking	18		29	Taxes	29	
19	Gasoline, fuel, and oil	19		30	Utilities	30	
20	Insurance (other than health)	20		31	Veterinary, breeding, and medicine	31	
21	Interest (see instructions):			32	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	21a		a	_____	32a	
b	Other	21b		b	_____	32b	
22	Labor hired (less employment credits)	22		c	_____	32c	
				d	_____	32d	
				e	_____	32e	
				f	_____	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33					
34	Net farm profit or (loss). Subtract line 33 from line 9	34					

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

35 Reserved for future use.

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

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

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H Schedule F (Form 1040) 2022



Module 2: IRS Form 1040 — Personal Tax Return (continued)

Schedule F – Profit or Loss from Farming

Schedule F reflects profit or loss from farming. You will see the format and the items examined are similar to Schedule C. The top of the form lists the accounting method used, Part I covers income and Part II covers expenses. The bottom is where net income is derived.

If the borrower uses the cash method for accounting purposes, review Part I of the form for:

Tax Area	Where on the 1040	Where on the 1084
Net Farm Profit or Loss	Schedule F Line 34	Line 6a

Add the Net Farm profit or subtract the loss on line 6a of the 1084.

Tax Area	Where on the 1040	Where on the 1084
Non-Taxable Ongoing Cooperative Distribution	Schedule F Line 3a-3b	Line 6b

Determine if these distributions are regular and recurring. If so, certain parts of these distributions are non-taxable and reflected on line 3 of Schedule F.

Calculation:

Subtract 3b from 3a to determine the non-taxable Cooperative Distributions.

Add the non-taxable portion of this income type on line 6b of the 1084.

Tax Area	Where on the 1040	Where on the 1084
Non-Taxable Ongoing Commodity Credit Corporation Payments	Schedule F Line 5b-5c	Line 6b

There are federal farm programs that provide loans to farmers and use their crops as collateral. In some programs, farmers can forfeit their crops in trade for loan principal reductions. This forfeiture is considered income to the farmer. In underwriting loans with Commodity Credit Corporation Payments, review all schedules for non-taxable income.

Determine if these programs/distributions are regular and recurring. If so, subtract line 5b from 5c to determine the non-taxable forfeitures. **Non-taxable forfeitures can be added back to income on line 6b of the 1084.**

Tax Area	Where on the 1040	Where on the 1084
Non-Recurring Other (Income) Loss	Schedule F Line 8	Line 6c

Other income reported on Schedule F represents income received by the farmer that was not obtained through farm operations. If this income cannot be documented to be stable, consistent and recurring, **negate this income by subtracting other income from or adding other loss to line 6c of the 1084.**

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Farming

Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.
Go to www.irs.gov/ScheduleF for instructions and the latest information.

OMB No. 1545-0074

2022
Attachment
Sequence No. **14**

Name of proprietor _____ Social security number (SSN) _____

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

E Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions Yes No

G If "Yes," did you or will you file required Form(s) 1099? Yes No

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

1a	Sales of purchased livestock and other resale items (see instructions)	1a		
b	Cost or other basis of purchased livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a			1c
2	Sales of livestock, produce, grains, and other products you raised			2
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b
				Taxable amount
4a	Agricultural program payments (see instructions)	4a		4b
				Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election			5a
b	CCC loans forfeited	5b		5c
				Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions):			
a	Amount received in 2022	6a		6b
				Taxable amount
c	If election to defer to 2023 is attached, check here <input type="checkbox"/>			6d
				Amount deferred from 2021
7	Custom hire (machine work) income			7
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			8
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions			9

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

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23	
11	Chemicals	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a	
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b	
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25	
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26	
16	Feed	16		27	Storage and warehousing	27	
17	Fertilizers and lime	17		28	Supplies	28	
18	Freight and trucking	18		29	Taxes	29	
19	Gasoline, fuel, and oil	19		30	Utilities	30	
20	Insurance (other than health)	20		31	Veterinary, breeding, and medicine	31	
21	Interest (see instructions):			32	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	21a		a	_____	32a	
b	Other	21b		b	_____	32b	
22	Labor hired (less employment credits)	22		c	_____	32c	
				d	_____	32d	
				e	_____	32e	
				f	_____	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions					33	
34	Net farm profit or (loss). Subtract line 33 from line 9					34	

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

35 Reserved for future use.

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

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

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H Schedule F (Form 1040) 2022

Module 2: IRS Form 1040 — Personal Tax Return (continued)

Part II of the Schedule F contains the expenses for running a farm. As we have done throughout the 1084, we will start our review of the expense section with the non-cash expenses.

Tax Area	Where on the 1040	Where on the 1084
Depreciation	Schedule F Line 14	Line 6d

Any depreciation reported on line 14 of the Schedule F can be added back to line 6d of the 1084.

Tax Area	Where on the 1040	Where on the 1084
Amortization, Casualty Loss and Depletion	Schedule F Line 32	Line 6e

As with the Schedule C, unusual expenses may be reflected on line 32 of the Schedule F. Some of these expenses are non-recurring and should not be considered as ongoing expenses. **Add amortization, casualty loss and depletion on line 6e of the 1084.**

Tax Area	Where on the 1040	Where on the 1084
Business Use of Home	Schedule F Line 32	Line 6f

Add expenses for Business Use of Home, which may be found on line 32 of Schedule F, to line 6f of the 1084.

If the borrower reports using the accrual method of accounting, the underwriter may need to review the financial statements rather than Schedule F to determine adjustments to total income.

Partnership or S Corporation

A self-employed borrower’s share of Partnership or S Corporation earnings can only be considered if the lender obtains documentation, such as Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

Note: See the Instructions for additional guidance on documenting access to income and business liquidity.

IRS Form 1065 - Partnership Income

7. Schedule K-1 Form 1065 – Partner’s Share of Income	Year _____	Year _____
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Income (Loss)	(+/-) _____	(+/-) _____
c. Guaranteed Payments to Partner	(+) _____	(+) _____
 8. Form 1065 - Adjustments to Business Cash Flow		
a. Ordinary (Income) Loss from Other Partnerships	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
c. Depreciation	(+) _____	(+) _____
d. Depletion	(+) _____	(+) _____
e. Amortization/Casualty Loss	(+) _____	(+) _____
f. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
g. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
h. Subtotal	_____	_____
i. Total Form 1065 (Subtotal multiplied by % of ownership)	_____	_____

IRS Form 1120S – S Corporation Earnings

	Year _____	Year _____
9. Schedule K-1 Form 1120S – Shareholder’s Share of Income		
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Rental Income (Loss)	(+/-) _____	(+/-) _____
 10. Form 1120S - Adjustments to Business Cash Flow		
a. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
b. Depreciation	(+) _____	(+) _____
c. Depletion	(+) _____	(+) _____
d. Amortization/Casualty Loss	(+) _____	(+) _____
e. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
f. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
g. Subtotal	_____	_____
h. Total Form 1120S (Subtotal multiplied by % of ownership)	_____	_____

Module 3: Partnerships, S Corporations and Corporations

Module 3 Objectives

1. Recognize the tax return forms for various business entities.
2. Identify the income and expenses that can be recorded on the Form 1084.
3. Calculate qualifying income for the self-employed borrower.

K-1's are associated with both Partnership entities and S Corporations. The form will be labeled Schedule K-1 (Form 1065) for Partnerships and Schedule K-1 (Form 1120S) for S Corporations. We will review these documents separately.

If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.

If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm all of the following to include the income in the borrower's cash flow:

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

For borrowers who have less than 25% ownership of a Partnership, S Corporation, or Limited Liability Company (LLC): ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be used in qualifying the borrower provided:

- The borrower can document ownership share (may use Schedule K-1),
- The business has adequate liquidity to support the withdrawal of earnings.

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

Your social security number

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

Part II Income or Loss From Partnerships and S Corporations

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

27 Are you reporting any loss not allowed in a prior year due to the at-risk 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			<input type="checkbox"/>		<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				
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

Part III Income or Loss From Estates and Trusts

33	(a) Name	(b) Employer identification number
A		
B		

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

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

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

Part V Summary

40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5	41
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AD; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42
43	Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43

Module 3: Partnerships, S Corporations and Corporations (continued)

Schedule E, Page 2, Part II Income or Loss From Partnerships and S Corporations

Page 2, Part II of Schedule E lists all of the Partnership and S Corporation proportionate share of income the borrower received from their ownership in the business(es). Prior to calculating the qualifying income for the borrower, you should ensure you have all of the K-1's listed on Part II. Since the percentage of ownership is not listed on Part II, the K-1 is required to document the borrower's ownership in the business.

Tax Area	Where on Schedule E	Where on the 1084
Schedule K-1 Loss	Page 2, Part II Column h	N/A

Compare the loss in Column h to Line 1 of the corresponding K-1 to verify the amounts match. The amount listed here as well as on Line 1 of the K-1 is the borrower's portion of loss from the business and will be used to calculate the borrower's total taxable income.

Tax Area	Where on Schedule E	Where on the 1084
Schedule K-1 Income	Page 2, Part II Column j	N/A

Compare the income in Column j to Line 1 of the corresponding K-1 to verify the amounts match. The amount listed here as well as on Line 1 of the K-1 is the borrower's portion of taxable income from the business and will be used to calculate the borrower's total taxable income.

Note: The Section 179 Deduction is related to depreciation but will be discussed upon review of the Partnership and S Corporation tax returns and related depreciation.

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

Department of the Treasury
Internal Revenue Service

2022

Final K-1 Amended K-1

OMB No. 1545-0123

For calendar year 2022, or tax year

beginning / / 2022 ending / /

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

See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number

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

C IRS center where partnership filed return:

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

Part II Information About the Partner

E Partner's 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.

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	%	%
Loss	%	%
Capital	%	%

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)	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)	19 Distributions
9a Net long-term capital gain (loss)	
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.

For IRS Use Only

Module 3: Partnerships, S Corporations and Corporations (continued)

Partnership Schedule K-1 (Form 1065)

For businesses operating as partnerships, each partner is responsible for paying taxes on the business' income, not the business. The partners are responsible for filing individual tax returns, therefore reporting their share of income, losses, deductions and/or credits the business reported on the 1065 partnership tax return.

The K-1 is a source document for income or loss reported on Schedule E. The left side of the form identifies your borrower and their partnership. Lines G–M give information about the borrower's involvement in the partnership.

Tax Area	Where on the K-1 1065	Where on the 1084
Percentage of Ownership	Line J, Ending Capital Percentage	N/A

Line J is where you will find your borrower's percentage of ownership in the partnership. Focus on the partner's share of capital on line J in the ending column. Line L provides a reconciliation of the partner's capital expenses. This is where capital withdrawals or contributions to the partnership will appear.

Tax Area	Where on the K-1 1065	Where on the 1084
Ordinary Income (Loss)	Line 1	Line 7a

Begin the financial review of the K-1 with Ordinary Income (Loss) on line 1. This is the borrower's share of income (or loss) from the respective sources generated from the partnership. **Add Ordinary Income or subtract Ordinary Loss from Line 1 on line 7a of the 1084.**

Tax Area	Where on the K-1 1065	Where on the 1084
Net Rental Real Estate; Other Net Income (Loss)	Lines 2, 3	Line 7b

If Net Rental Real Estate Income on line 2 and/or Other Net Rental Income on line 3 are determined to be regular and recurring, then **add Net Rental Real Estate Income/Other Net Rental Income on line 7b of the 1084. If a loss, then subtract the amount from line 7b.**

Tax Area	Where on the K-1 1065	Where on the 1084
Guaranteed Payments to Partner	Line 4c	Line 7c

These payments are made regardless of the profitability of the partnership. **If there is a two-year history, add guaranteed payments on line 7c of the 1084.**

This is a good time to remember the importance of being conservative when underwriting a borrower. Oftentimes, a borrower may have a guaranteed payment as a partner, but this does not always mean it should be counted toward income. These items need to be regular and recurring AND they need to make sense with the loan application. If the partner is receiving a guaranteed payment, but the partnership is barely breaking even or shows signs of trouble, it may make more sense not to count this toward qualifying.

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

2022

Department of the Treasury
Internal Revenue Service

For calendar year 2022, or tax year

beginning / / 2022 ending / /

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

See 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)	14 Self-employment earnings (loss)																				
B Partnership's name, address, city, state, and ZIP code		2 Net rental real estate income (loss)																					
C IRS center where partnership filed return:		3 Other net rental income (loss)	15 Credits																				
D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)		4a Guaranteed payments for services																					
Part II Information About the Partner		4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked <input type="checkbox"/>																				
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)		4c Total guaranteed payments	17 Alternative minimum tax (AMT) items																				
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.		5 Interest income																					
G <input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member		6a Ordinary dividends																					
H1 <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner		6b Qualified dividends	18 Tax-exempt income and nondeductible expenses																				
H2 <input type="checkbox"/> If the partner is a disregarded entity (DE), enter the partner's: TIN _____ Name _____		6c Dividend equivalents																					
I1 What type of entity is this partner? _____		7 Royalties																					
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>		8 Net short-term capital gain (loss)	19 Distributions																				
J Partner's share of profit, loss, and capital (see instructions): <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Beginning</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">Ending</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Profit</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Loss</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Capital</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> </tbody> </table>		Beginning		Ending		Profit	%		%		Loss	%		%		Capital	%		%			9a Net long-term capital gain (loss)	
	Beginning		Ending																				
Profit	%		%																				
Loss	%		%																				
Capital	%		%																				
Check if decrease is due to sale or exchange of partnership interest <input type="checkbox"/>		9b Collectibles (28%) gain (loss)	20 Other information																				
K Partner's share of liabilities: <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Beginning</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">Ending</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Nonrecourse</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Qualified nonrecourse financing</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Recourse</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> </tbody> </table>		Beginning		Ending		Nonrecourse	\$		\$		Qualified nonrecourse financing	\$		\$		Recourse	\$		\$			9c Unrecaptured section 1250 gain	
	Beginning		Ending																				
Nonrecourse	\$		\$																				
Qualified nonrecourse financing	\$		\$																				
Recourse	\$		\$																				
Check this box if item K includes liability amounts from lower-tier partnerships <input type="checkbox"/>		10 Net section 1231 gain (loss)																					
L Partner's Capital Account Analysis <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <tbody> <tr> <td>Beginning capital account</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Capital contributed during the year</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Current year net income (loss)</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Other increase (decrease) (attach explanation)</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Withdrawals and distributions</td> <td style="text-align: right;">\$ (_____)</td> </tr> <tr> <td>Ending capital account</td> <td style="text-align: right;">\$ _____</td> </tr> </tbody> </table>	Beginning capital account	\$	Capital contributed during the year	\$	Current year net income (loss)	\$	Other increase (decrease) (attach explanation)	\$	Withdrawals and distributions	\$ (_____)	Ending capital account	\$ _____		11 Other income (loss)									
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)? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach statement. See instructions.		12 Section 179 deduction	21 Foreign taxes paid or accrued																				
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning _____ \$ Ending _____ \$		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																					

Module 3: Partnerships, S Corporations and Corporations (continued)

Tax Area	Where on the K-1 1065	Where on the 1084
Distributions	Lines 19, Code A	Line N/A

If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to income or adequate business liquidity to support the withdrawal of earnings is required in order to include that income in the borrower's cash flow.

If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm all of the following to include the income in the borrower's cash flow.

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

Although the K-1 has many other boxes containing financial figures and information, none are currently used in the calculation of income on the Cash Flow Analysis Worksheet, Form 1084. The Section 179 Deduction is related to depreciation but will be discussed upon review of the Partnership tax return and related depreciation.

Form 1065	U.S. Return of Partnership Income	OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		2022
For calendar year 2022, or tax year beginning _____, 2022, ending _____, 20____.		
Go to www.irs.gov/Form1065 for instructions and the latest information.		

A Principal business activity	Type or Print	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			
	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		
Deductions <small>(see instructions for limitations)</small>	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		
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 <input type="checkbox"/> if self-employed	PTIN
	Firm's name				Firm's EIN
	Firm's address				Phone no.

Module 3: Partnerships, S Corporations and Corporations (continued)

Partnership Form 1065

If an individual owns 25% or more interest in a partnership, you need to review two years of partnership returns. The partnership's distributive earnings and losses are reported on Form 1065.

The partnership does not pay taxes because the income/loss is passed through to the borrower's 1040 and taxes are paid personally. The borrower's percentage of the partnership's earnings/losses is noted on the Schedule K-1 Form 1065.

When reviewing the Form 1065, we will be examining the entire partnership's earnings/losses; then we will take our borrower's share of those earnings/losses and incorporate that amount into the analysis of the K-1.

The Form 1065 is formatted as follows:

- The partnership's information at the top, along with the accounting method and number of K-1's.
- The income section.
- The deductions sections.
- The remaining pages with supporting schedules.

Start the analysis with the income section.

Tax Area	Where on the 1065	Where on the 1084
Pass-Through (Income) Loss from Other Partnerships	Line 4	Line 8a

A partnership can include partners in other partnerships. This type of income is normally listed on line 4 of the 1065 but is difficult to verify and not often used to qualify the borrower. Before any of this income can be used to qualify the borrower, additional documentation is needed to confirm the income passed through from the other partnership.

In general, **subtract non-recurring ordinary income from other partnerships or add any non-recurring ordinary losses from other partnerships to line 8a of the 1084.**

Tax Area	Where on the 1065	Where on the 1084
Non-Recurring Other (Income) Loss	Line 7	Line 8b

Just like with the sole proprietorship, other non-recurring income or loss has to be analyzed. Other income reported represents income received that was not obtained through regular operations. If this income cannot be documented to be stable, regular and recurring, **subtract non-recurring other income or add non-recurring other losses on line 8b of the 1084.**

Note: Regular and recurring income are key to using income for qualifying the borrower. This means income that has a stable 2-year history and can be counted on to continue in the future for 3 years.

Form	1065	U.S. Return of Partnership Income	OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		For calendar year 2022, or tax year beginning _____, 2022, ending _____, 20____	2022
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	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) <input 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			
	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		
Deductions <small>(see instructions for limitations)</small>	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		
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	

Form	4562	Depreciation and Amortization (Including Information on Listed Property)	OMB No. 1545-0172
Department of the Treasury Internal Revenue Service		Attach to your tax return.	2022
Go to www.irs.gov/Form4562 for instructions and the latest information.			
Attachment Sequence No. 179			
Name(s) shown on return	Business or activity to which this form relates	Identifying number	

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

1 Maximum amount (see instructions)					
2 Total cost of section 179 property placed in service (see instructions)			2		
3 Threshold cost of section 179 property before reduction in limitation (see instructions)			3		
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-			4		
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions			5		
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost		
7 Listed property. Enter the amount from line 29			7		
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7			8		
9 Tentative deduction. Enter the smaller of line 5 or line 8			9		
10 Carryover of disallowed deduction from line 13 of your 2021 Form 4562			10		
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions			11		
12 Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11			12		
13 Carryover of disallowed deduction to 2023. Add lines 9 and 10, less line 12			13		

Module 3: Partnerships, S Corporations and Corporations (continued)

We now move to the deduction section, where we will begin with our non-cash expenses.

Tax Area	Where on the 1065	Where on the 1084
Depreciation	Line 16c	Line 8c

Depreciation is the accounting for the wearing out of an asset used to produce income.

Add the depreciation listed in line 16c to line 8c of the 1084.

Note: The depreciation on Line 16a (which flows to Line 16c) of the Partnership return comes from IRS Form 4562 (Depreciation and Amortization). Form 4562, Part I is where the Section 179 Deduction is calculated and the deduction is included in the final depreciation total of Form 4562. The total is carried over to line 16a of the Partnership tax return; therefore to add back the Section 179 Deduction anywhere else on the 1084 would result in double counting that amount.

Tax Area	Where on the 1065	Where on the 1084
Depletion	Line 17	Line 8d

Depletion is the accounting for the exhaustion of a natural resource. **Add any depletion listed on line 17 to line 8d of the 1084.**

Tax Area	Where on the 1065	Where on the 1084
Amortization/Casualty Loss	Line 20	Line 8e

There are several miscellaneous expenses included on the Other Deductions Line 20 of the 1065. These expenses will be detailed on an attachment within the business tax returns. If the attachment indicates either an Amortization or Casualty Loss expense, those expenses can be added back to income. Amortization typically entails the write-off of an initial cost incurred prior to the start of business operation. Examples are copyrights, survey fees, and customer lists. Casualty Loss is normally a one-time expense incurred due to unexpected damage, theft or other catastrophic event affecting the business.

If present, add amortization or casualty loss on line 8e of the 1084 form.

Analysis of Net Income (Loss) per Return

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 21						1
2	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other	
a	General partners						
b	Limited partners						

Schedule L Balance Sheets per Books

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

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

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

1	Net income (loss) per books		6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a	Tax-exempt interest \$	
3	Guaranteed payments (other than health insurance)		7	Deductions included on Schedule K, lines 1 through 13d, and 21, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 21 (itemize):		a	Depreciation \$	
a	Depreciation \$		8	Add lines 6 and 7	
b	Travel and entertainment \$		9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	
5	Add lines 1 through 4				

Schedule M-2 Analysis of Partners' Capital Accounts

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

Module 3: Partnerships, S Corporations and Corporations (continued)

Tax Area	Where on the 1065	Where on the 1084
Mortgages, Notes, Bonds Payable in Less Than One Year	Schedule L Line 16 , column (d)	Line 8f

You will find Mortgages, Notes, Bonds Payable in Less than One Year on line 16 of Form 1065's Schedule L.

These obligations can significantly affect the financial operations of a business. If there is evidence that these obligations/liabilities regularly roll over and/or there is sufficient liquidity in the business to cover them, no deduction is necessary. **Otherwise, subtract mortgages, notes and bonds payable in less than one year, as reported on line 16, end-of-year column (d) of Schedule L on line 8f of the 1084.**

Liquidity Defined

In accounting, the term liquidity is defined as the ability of a company to meet its financial obligations as they come due. The liquidity, then, is a computation used to measure a company's ability to pay its short-term debts. See Appendix A for additional methods of calculating liquidity.

Example to calculate the current liquidity ratio using Partnership 1065, Schedule L:

Cash on Hand (Line 1)
 + Accounts Receivable (Line 2)
 + Other current Liquid Assets (Line 6)

÷

Total of Current Liabilities (Lines 15 + 16 + 17) = Current Liquidity Ratio

Tax Area	Where on the 1065	Where on the 1084
Non-deductible Travel and Entertainment	Schedule M-1 Line 4b	Line 8g

You will find this expense in Form 1065's Schedule M-1, Line 4b. The IRS typically does not allow for all of these expenses to be 100% deductible. Expenses included on Line 4b need to be reviewed to determine the non-deductible portion. **Subtract the non-deductible portion of travel and entertainment expenses reported on line 4b of Schedule M-1 from the business income on line 8g of the 1084.**

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

Department of the Treasury
Internal Revenue Service

2022

For calendar year 2022, or tax year

beginning / / 2022 ending / /

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

See separate instructions.

Final K-1 Amended K-1

Part I Information About the Partnership	
A Partnership's employer identification number	
B Partnership's name, address, city, state, and ZIP code	
C IRS center where partnership filed return:	
D <input type="checkbox"/> 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.	
G <input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member	
H1 <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner	
H2 <input type="checkbox"/> 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 <input type="checkbox"/>	
J Partner's share of profit, loss, and capital (see instructions):	
Beginning	Ending
Profit _____ %	_____ %
Loss _____ %	_____ %
Capital _____ %	_____ %
Check if decrease is due to sale or exchange of partnership interest <input type="checkbox"/>	
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 <input type="checkbox"/>	
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)? <input type="checkbox"/> Yes <input type="checkbox"/> 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)	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)	19 Distributions
9a	Net long-term capital gain (loss)	
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.		
For IRS Use Only		

Module 3: Partnerships, S Corporations and Corporations (continued)

Subtotal – Partnership

Referring back to the 1084, you will see that the underwriter is to **subtotal lines 8a through 8g**. Below is the Partnership section of the 1084 that shows you what steps we have just covered to help determine qualifying income.

Tax Area	Where on the 1065	Where on the 1084
Subtotal	N/A	Line 8h

Enter the subtotal of lines 8a through 8g on line 8h of the 1084.

Tax Area	Where on the K-1 1065	Where on the 1084
Borrower % of Ownership	Line J, Ending Capital Percentage	N/A

Tax Area	Where on the K-1 1065	Where on the 1084
Total Form 1065	N/A	Line 8i

Multiply the subtotal on line 8h of the 1084 by the borrower's percentage of ownership in the Partnership K-1 1065 Line J, Ending Capital Percentage. Enter the results on line 8i of the 1084. This amount can be added to the total income if all qualifying conditions have been met.

The Partnership review is complete.

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

2022

Department of the Treasury
Internal Revenue Service

For calendar year 2022, or tax year

beginning / / 2022 ending / /

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

See 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)	14 Self-employment earnings (loss)																				
B Partnership's name, address, city, state, and ZIP code		2 Net rental real estate income (loss)																					
C IRS center where partnership filed return:		3 Other net rental income (loss)	15 Credits																				
D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)		4a Guaranteed payments for services																					
Part II Information About the Partner		4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked <input type="checkbox"/>																				
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)		4c Total guaranteed payments	17 Alternative minimum tax (AMT) items																				
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.		5 Interest income																					
G <input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member		6a Ordinary dividends																					
H1 <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner		6b Qualified dividends	18 Tax-exempt income and nondeductible expenses																				
H2 <input type="checkbox"/> If the partner is a disregarded entity (DE), enter the partner's: TIN _____ Name _____		6c Dividend equivalents																					
I1 What type of entity is this partner? _____		7 Royalties																					
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>		8 Net short-term capital gain (loss)	19 Distributions																				
J Partner's share of profit, loss, and capital (see instructions): <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Beginning</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">Ending</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Profit</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Loss</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Capital</td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: center;">%</td> <td style="border-left: 1px solid black;"></td> </tr> </tbody> </table>		Beginning		Ending		Profit	%		%		Loss	%		%		Capital	%		%			9a Net long-term capital gain (loss)	
	Beginning		Ending																				
Profit	%		%																				
Loss	%		%																				
Capital	%		%																				
Check if decrease is due to sale or exchange of partnership interest <input type="checkbox"/>		9b Collectibles (28%) gain (loss)	20 Other information																				
K Partner's share of liabilities: <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Beginning</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">Ending</th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Nonrecourse</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Qualified nonrecourse financing</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> <tr> <td>Recourse</td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">\$</td> <td style="border-left: 1px solid black;"></td> </tr> </tbody> </table>		Beginning		Ending		Nonrecourse	\$		\$		Qualified nonrecourse financing	\$		\$		Recourse	\$		\$			9c Unrecaptured section 1250 gain	
	Beginning		Ending																				
Nonrecourse	\$		\$																				
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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)? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach statement. See instructions.		12 Section 179 deduction	21 Foreign taxes paid or accrued																				
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning _____ \$ Ending _____ \$		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																					

Module 3: Partnerships, S Corporations and Corporations (continued)

S Corporation Schedule K-1 (Form 1120S)

Similar to a Partnership, S Corporations must file an annual tax return on Form 1120S. The S Corporation provides owners with a Schedule K-1 that reports each shareholder's portion of income, losses, deductions and credits. The shareholders use the K-1 to report their income/losses on their individual tax return on Schedule E, Part II.

Schedule K-1 Form 1120S is a shorter version of Schedule K-1 Form 1065 we just reviewed. Part I and Part II on the left-hand side identify the S Corporation and explains the extent of involvement your borrower has with the business.

Tax Area	Where on the K-1 1120S	Where on the 1084
Percentage of Ownership	Line G	N/A

The borrower's percentage of ownership is located on line G. The percentage of ownership is important in both the Partnership K-1 and the S Corporation K-1, because your borrower is entitled to only the percentage of income listed for the S Corporation or Partnership.

Tax Area	Where on the K-1 1120S	Where on the 1084
Ordinary Income (Loss)	Line 1	Line 9a

Begin the financial review of the K-1 with Ordinary Income (Loss) on line 1. This is the borrower's share of income or loss from the respective sources generated from the S Corporation.

Add Ordinary Income or subtract Ordinary Loss from Line 1 of the K-1 on line 9a of the 1084.

Tax Area	Where on the K-1 1120S	Where on the 1084
Net Rental Real Estate; Other Net Rental Income (loss)	Lines 2, 3	Line 9b

Review the Net Rental Real Estate Income from line 2 and Other Net Rental Income on line 3 to verify the income(s) are regular and recurring. If so, **add the Net Rental Real Estate Income and Other Net Rental Income or subtract the loss on line 9b of the 1084.**

Tax Area	Where on the K-1 1120S	Where on the 1084
Distributions	Lines 16, Code D	N/A

If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the following to include the income in the borrower's cash flow.

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

Although the K-1 has many other boxes containing financial figures and information, none are currently used in the calculation of income on the Cash Flow Analysis Worksheet, Form 1084. The Section 179 Deduction is related to depreciation but will be discussed upon review of the S Corporation tax return and related depreciation.

Form **1120-S**

U.S. Income Tax Return for an S Corporation

OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

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

2022

For calendar year 2022 or tax year beginning _____, 2022, ending _____, 20

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

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	
	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	
Deductions <small>(see instructions for limitations)</small>	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 Rents		11
	12 Taxes and licenses		12
	13 Interest (see instructions)		13
	14 Depreciation from Form 4562 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
Tax and Payments	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 2022 estimated tax payments and 2021 overpayment credited to 2022	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 2023 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. <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. 11510H Form **1120-S** (2022)

Module 3: Partnerships, S Corporations and Corporations (continued)

S Corporation Form 1120S

As we noted when discussing the K-1's, the Partnership return and the S Corporation return are very similar.

The 1120S represents an S Corporation's distributive earnings and losses. This income or loss is reported for taxation purposes to the individual shareholders on Schedule K-1 Form 1120S. The analysis of Form 1120S will enable a lender to consider adjustments to the ordinary income or losses reported on Schedule K-1.

When analyzing Form 1120S, only the borrower's share of income or loss adjustments should be used to calculate income. The borrower's share is based on their percentage of stock ownership as reported on Schedule K-1.

Below are the steps according to the 1084 that we will take to gather qualifying income.

The Form 1120S is formatted with:

- The S Corporation's information at the top
- Number of shareholders (The number is limited by the IRS)
- The income section
- The deductions section

Start by reviewing the S Corporation's information to confirm it matches the information disclosed by your borrower. Then move on to the income section.

You are now reviewing the 1120S for key adjustments to this income through the analysis of expenses and non-recurring items.

Tax Area	Where on the 1120S	Where on the 1084
Non-Recurring Other (Income) Loss	Line 5	Line 10a

Just like with the sole proprietorship, other non-recurring income or loss has to be analyzed. Other income reported represents income received that was not obtained through regular operations. If this income cannot be documented to be stable, regular and recurring, **subtract non-recurring Other Income or add non-recurring Other Losses on line 10a of the 1084.**

Note: A shareholder of an S Corporation can also be an employee of the same S Corporation.

If the borrower is the only owner of the S Corporation, Compensation of Officers reflected on line 12 of the 1120S should correspond with the borrower's W-2.

Form 1120-S	U.S. Income Tax Return for an S Corporation	OMB No. 1545-0123		
Department of the Treasury Internal Revenue Service	Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.	2022		
For calendar year 2022 or tax year beginning _____, 2022, 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		
	Number, street, and room or suite no. If a P.O. box, see instructions.	F Total assets (see instructions)		
C Check if Sch. M-3 attached <input type="checkbox"/>	City or town, state or province, country, and ZIP or foreign postal code	\$		
G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No				
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination				
I Enter the number of shareholders who were shareholders during any part of the tax year _____				
J Check if corporation: (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 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	
5 Other income (loss) (see instructions—attach statement)		5		
6 Total income (loss). Add lines 3 through 5		6		
Deductions (see instructions for limitations)	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 Rents		11	
	12 Taxes and licenses		12	
	13 Interest (see instructions)		13	
	14 Depreciation from Form 4562 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	
Tax and Payments	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	
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	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 2023 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	
Paid	Print/Type preparer's name	Preparer's signature	Date	
		Check <input type="checkbox"/> if self-employed	PTIN	
			May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	

Form 4562	Depreciation and Amortization (Including Information on Listed Property)	OMB No. 1545-0172
Department of the Treasury Internal Revenue Service	Attach to your tax return. Go to www.irs.gov/Form4562 for instructions and the latest information.	2022 Attachment Sequence No. 179
Name(s) shown on return		Identifying number
Business or activity to which this form relates		
Part I Election To Expense Certain Property Under Section 179		
Note: If you have any listed property, complete Part V before you complete Part I.		
1 Maximum amount (see instructions)		1
2 Total cost of section 179 property placed in service (see instructions)		2
3 Threshold cost of section 179 property before reduction in limitation (see instructions)		3
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-		4
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions		5
6	(a) Description of property	(b) Cost (business use only)
		(c) Elected cost
7 Listed property. Enter the amount from line 29		7
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7		8
9 Tentative deduction. Enter the smaller of line 5 or line 8		9

Module 3: Partnerships, S Corporations and Corporations (continued)

Tax Area	Where on the 1120S	Where on the 1084
Depreciation	Line 14	Line 10b

In the deduction section, look for non-cash expenses. Depreciation is a non-cash expense that is found on line 14 of the 1120S. **Add depreciation found on the 1120S on line 10b of the 1084.**

Note: The depreciation on Line 14 of the S-Corporation return comes from IRS Form 4562 (Depreciation and Amortization). Form 4562, Part I is where the Section 179 Deduction is calculated and the deduction is included in the final depreciation total of Form 4562. The total is carried over to line 14 of the S-Corporation tax return; therefore to add back the Section 179 Deduction anywhere else on the 1084 would result in double counting that amount.

Tax Area	Where on the 1120S	Where on the 1084
Depletion	Line 15	Line 10c

Depletion is another non-cash expense and is found on line 15 of the 1120S. **Add depletion back to income on line 10c of the 1084.**

Tax Area	Where on the 1120S	Where on the 1084
Amortization/Casualty Loss	Line 19	Line 10d

Amortization and casualty loss are typically non-recurring expenses that can be added back to income. They are reflected on line 19 of the 1120S form and detailed more fully on an attachment. **Add amortization or casualty loss on line 10d of the 1084.**

Form 1120-S (2022)

Schedule K Shareholders' Pro Rata Share Items <i>(continued)</i>		Total amount
Other Information	17a Investment income	17a
	b Investment expenses	17b
	c Dividend distributions paid from accumulated earnings and profits	17c
	d Other items and amounts (attach statement)	
Reconciliation	18 Income (loss) reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 16f	18

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

Form 1120-S

Form 1120-S (2022)

Page 5

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

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

1 Net income (loss) per books		5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		a Tax-exempt interest \$ _____	
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12, and 16f (itemize):		6 Deductions included on Schedule K, lines 1 through 12, and 16f, not charged against book income this year (itemize):	
a Depreciation \$ _____		a Depreciation \$ _____	
b Travel and entertainment \$ _____		7 Add lines 5 and 6	
4 Add lines 1 through 3		8 Income (loss) (Schedule K, line 18). Subtract line 7 from line 4	

Module 3: Partnerships, S Corporations and Corporations (continued)

Tax Area	Where on the 1120S	Where on the 1084
Mortgages, Notes, Bonds Payable In Less Than 1 Year	Schedule L Line 17, column (d)	Line 10e

Mortgages, Notes, Bonds Payable in Less than 1 Year are found on line 17 of the 1120S Schedule L.

These liabilities can significantly impact the financial operations of the business. If there is evidence that these obligations regularly roll over and/or there is sufficient liquidity to cover them, no deduction is necessary. **Otherwise, subtract mortgages, notes and bonds payable in less than one year, as reported on line 17, end-of-year column (d) of Schedule L on line 10e of the 1084.**

Liquidity Defined

In accounting, the term liquidity is defined as the ability of a company to meet its financial obligations as they come due. The liquidity, then, is a computation used to measure a company's ability to pay its short-term debts. See Appendix A for additional methods of calculating liquidity.

Example to calculate the current liquidity ratio using S Corporation 1120S, Schedule L:

Cash on Hand (Line 1)
 + Accounts Receivable (Line 2)
 + Other current Liquid Assets (Line 6)

÷

Current Liabilities (Lines 16 + 17 + 18) = Current Liquidity Ratio

Tax Area	Where on the 1120S	Where on the 1084
Non-deductible Travel and Entertainment	Schedule M-1, Line 3b	Line 10f

You will find this expense on Form 1120S, Schedule M-1, Line 3b. The IRS typically does not allow for all of these expenses to be 100% deductible. Expenses included on Line 3b need to be reviewed to determine the non-deductible portion. **Subtract the non-deductible portion of travel and entertainment expenses reported on line 3b of Schedule M-1 from the business income on line 10f of the 1084.**

671121

Final K-1 Amended K-1

OMB No. 1545-0123

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

Department of the Treasury
Internal Revenue Service

2022

For calendar year 2022, or tax year

beginning / / 2022 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	1 Ordinary business income (loss)	13 Credits	
B Corporation's name, address, city, state, and ZIP code	2 Net rental real estate income (loss)		
C IRS Center where corporation filed return	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	5a Ordinary dividends		
F Shareholder's name, address, city, state, and ZIP code	5b Qualified dividends	14 Schedule K-3 is attached if checked <input type="checkbox"/>	
G Current year allocation percentage %	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)		
	8c Unrecaptured section 1250 gain		
	9 Net section 1231 gain (loss)	16 Items affecting shareholder basis	
	10 Other income (loss)		
	11 Section 179 deduction	17 Other information	
	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) 2022

Module 3: Partnerships, S Corporations and Corporations (continued)

Subtotal 1120S

The next step according to the 1084 (see below) is to subtotal lines 10a through 10f and reflect the total on line 10g of the 1084 form.

Tax Area	Where on the 1120S	Where on the 1084
Subtotal	N/A	Line 10g

Enter the subtotal of lines 10a–10f on line 10g of the 1084.

Tax Area	Where on the K-1 1120S	Where on the 1084
Borrower % of Ownership	Line G	N/A

Tax Area	Where on the 1120S	Where on the 1084
Total Form 1120S	N/A	Line 10h

Multiply the subtotal on line 10g of the 1084 by the borrower's percentage of ownership in the S Corporation K-1 1120S, Line G. Enter the results on line 10h of the 1084. This amount can be added to the total income if all qualifying conditions have been met.

The S Corporation review is complete.

Module 3: Partnerships, S Corporations and Corporations (continued)

Corporate Tax Return – Form 1120

The borrower's percentage of income retained in a corporation can be used for qualifying only if the borrower has the legal right to draw upon the additional income and ownership equals 100%. The most important reason to review the corporate return is to ensure that the corporation is profitable. If the borrower is drawing a salary from the corporation, but the entity is incurring losses, the salary will probably not be considered. Keep in mind, this income can only be used if:

- The borrower is 100% owner of the business.
- The business has adequate liquidity to support withdrawal of earnings.
- The sales and earnings trend of the business are positive.

The percentage of ownership can be found on IRS Tax Form 1125-E Compensation of Officers. To cross-check for accuracy, column F can be compared to the borrower's W-2 wages from the business.

Form **1120-S**

U.S. Income Tax Return for an S Corporation

OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.

2022

Go to www.irs.gov/Form1120S for instructions and the latest information.

For calendar year 2022 or tax year beginning _____, 2022, ending _____, 20

A S election effective date	TYPE OR PRINT	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	
	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	
Deductions <small>(see instructions for limitations)</small>	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	Rents	11	
	12	Taxes and licenses	12	
	13	Interest (see instructions)	13	
	14	Depreciation from Form 4562 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	
Tax and Payments	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	2022 estimated tax payments and 2021 overpayment credited to 2022	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 2023 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. <input type="checkbox"/> Yes <input type="checkbox"/> No
Paid Preparer Use Only	Print/Type preparer's name _____	Preparer's signature _____	Date _____
	Firm's name _____	Firm's EIN _____	Check <input type="checkbox"/> if self-employed
	Firm's address _____	Phone no. _____	PTIN _____

Module 3: Partnerships, S Corporations and Corporations (continued)

Page 1 of the 1120 lists the corporation's income, deductions and taxes paid. Pages 2, 3, 4 and 5 are supporting schedules to Page 1 of the 1120. Remember that this is the only entity that does not pass distributive earnings on to the stockholder's personal returns.

Note: The Corporation may operate on a fiscal year instead of a calendar year. The underwriter will have to make adjustments to relate corporate income to the individual's tax return.

Tax Area	Where on the 1120	Where on the 1084
Taxable Income	Line 30	Line 11a

Taxable income is found on line 30 in the tax and payments section of the 1120. **Enter the taxable income on line 11a of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Total Tax	Line 31	Line 11b

Corporations are required to pay taxes on earnings (unlike Partnerships and S Corporations). **Subtract the corporation's tax liability from taxable income on line 11b of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Non-Recurring Gains/Losses	Lines 8, 9	Line 11c

Determine the stability and likelihood of future capital gains and net gains or losses reported on lines 8 and 9 of the 1120 form. **Subtract non-recurring gains from the corporation's income or add non-recurring losses on line 11c of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Non-Recurring Other (Income) Loss	Line 10	Line 11d

Other income and losses are reflected on line 10 of the 1120 form. Determine if the income or loss is recurring. **Subtract non-recurring other income or add non-recurring other losses on line 11d of the 1084.**

1120 U.S. Corporation Income Tax Return
 Form Department of the Treasury Internal Revenue Service For calendar year 2022 or tax year beginning _____, 2022, ending _____, 2022, ending _____, 2022
 Go to www.irs.gov/Form1120 for instructions and the latest information.

OMB No. 1545-0123
2022

A Check if:
 1a Consolidated return (attach Form 851)
 b Life/nonlife consolidated return
 2 Personal holding co. (attach Sch. PH)
 3 Personal service corp. (see instructions)
 4 Schedule M-3 attached

E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change

TYPE OR PRINT

Name _____
 Number, street, and room or suite no. If a P.O. box, see instructions. _____
 City or town, state or province, country, and ZIP or foreign postal code _____

B Employer identification number _____
C Date incorporated _____
D Total assets (see instructions) \$ _____

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

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

Tax, Refundable Credits, and Payments	30	Taxable income. Subtract line 29c from line 28. See instructions	30	
	31	Total tax (Schedule J, Part I, line 11)	31	
	32	Reserved for future use	32	
	33	Total payments and credits (Schedule J, Part III, line 23)	33	
	34	Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	34	
	35	Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed	35	
	36	Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid	36	
37	Enter amount from line 36 you want: Credited to 2023 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	37		

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.

Sign Here

Signature of officer _____ Date _____ Title _____

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

Paid Preparer Use Only

Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____

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



Module 3: Partnerships, S Corporations and Corporations (continued)

In the deductions section of the 1120, begin with non-cash expenses:

Tax Area	Where on the 1120	Where on the 1084
Depreciation	Line 20	Line 11e

In the deduction section, look for non-cash expenses. Depreciation is a non-cash expense that is found on line 20 of the 1120. **Add depreciation to line 11e of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Depletion	Line 21	Line 11f

Depletion will be reflected on line 21 of the 1120 form. **Add depletion on line 11f of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Amortization and Casualty Loss	Line 26	Line 11g

Amortization and Casualty Loss will be listed under “other deductions” on line 26 of the 1120 and detailed more fully on an attachment. **Add corporate amortization or casualty loss on line 11g of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Net Operating Loss and Special Deductions	Line 29c	Line 11h

Net operating losses and special deductions are reflected on line 29c of the 1120. This is a loss amount carried over from past years that does not represent actual current expenses or loss. **Add the loss back on line 11h of the 1084.**

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

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

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

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

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

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

Module 3: Partnerships, S Corporations and Corporations (continued)

The Corporate Return Schedule L

The balance-sheet section, Schedule L, is found on Page 6 of the corporate return. We associate the Schedule L with “Liabilities” to focus us on key adjustments.

Tax Area	Where on the 1120	Where on the 1084
Mortgages, Notes, Bonds Payable In Less Than 1 Year	Schedule L Line 17, column (d)	Line 11i

Mortgages, Notes, Bonds Payable in Less than 1 Year are found on line 17 of the 1120 Schedule L.

These liabilities can significantly impact the financial operations of the business. If there is evidence that these obligations regularly roll over and/or there is sufficient liquidity to cover them, no deduction is necessary. **Otherwise, subtract mortgages, notes and bonds payable in less than one year, as reported on line 17, end-of-year column (d) of Schedule L on line 11i of the 1084.**

Liquidity Defined

In accounting, the term liquidity is defined as the ability of a company to meet its financial obligations as they come due. The liquidity, then, is a computation used to measure a company’s ability to pay its short-term debts. See Appendix for additional methods of calculating liquidity.

Example to calculate the current liquidity ratio using Corporation 1120 Schedule L:

Cash on Hand (Line 1)
 + Accounts Receivable (Line 2)
 + Other current Liquid Assets (Line 6)

 ÷

Current Liabilities (Lines 16 + 17 + 18) = Current Liquidity Ratio

Schedule M-1 is next. We associate the Schedule M with “Meals & Entertainment.”

Tax Area	Where on the 1120	Where on the 1084
Non-deductible Travel and Entertainment	Schedule M-1 Line 5c	Line 11j

You will find this expense on Form 1120, Schedule M-1, Line 5c. The IRS typically does not allow for all of these expenses to be 100% deductible. Expenses included on Line 5c need to be reviewed to determine the non-deductible portion. **Subtract the non-deductible portion of travel and entertainment expenses reported on line 5c of Schedule M-1 from the business income on line 11j of the 1084.**

Module 3: Partnerships, S Corporations and Corporations (continued)

Subtotal 1120

Tax Area	Where on the 1120	Where on the 1084
Subtotal 1120	N/A	Line 11k

Subtotal lines 11a through 11j of the 1084 and enter the result on line 11k of the 1084.

Line 11l of the 1084 refers the underwriter to account for dividends paid to the borrower. This brings you back to where our analysis began on the 1040.

Tax Area	Where on the 1040	Where on the 1084
Dividends	Schedule B Line 5	Line 11l

The total dividends paid to stockholders are reported on Schedule M-2 of the 1120. The borrower's portion of the corporation's dividends is reported in Schedule B of the 1040 (Individual Tax Return). These funds are also included in the corporation's taxable income, which means they are being counted twice. To correct the income, **subtract dividends paid by the corporation to the borrower** located on Schedule B of the borrower's 1040. **Reflect this amount on line 11l of the 1084.**

Tax Area	Where on the 1120	Where on the 1084
Total Form 1120	N/A	Line 11m

Enter the Corporation total on line 11m of the 1084.

Note: Fannie Mae requires the borrower(s) must own 100% of the Corporation and the business must have adequate liquidity to support the withdrawal of earnings.

IRS Form 1120 – Regular Corporation

Corporation earnings may be used when the borrower(s) own 100% of the corporation.

	Year _____	Year _____
11. Form 1120 – Regular Corporation		
a. Taxable Income	_____	_____
b. Total Tax	(-) _____	(-) _____
c. Nonrecurring (Gains) Losses	(+/-) _____	(+/-) _____
d. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
e. Depreciation	(+) _____	(+) _____
f. Depletion	(+) _____	(+) _____
g. Amortization/Casualty Loss	(+) _____	(+) _____
h. Net Operating Loss and Special Deductions	(+) _____	(+) _____
i. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
j. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
k. Subtotal	_____	_____
l. Less: Dividends Paid to Borrower	(-) _____	(-) _____
m. Total Form 1120	_____	_____

Module 3: Partnerships, S Corporations and Corporations (continued)

Year-to-Date Income Analysis

Year-to-date income from profit and loss statements may only be considered if the income and expenses are consistent with the previous year's performance. Any salaries or draws received by the borrower, as well as any adjustments used when analyzing tax returns, such as non-recurring income and expenses, depreciation and depletion, may be added to the business cash flow. Note, however, that these adjustments are limited to the borrower's proportionate share of ownership of the business.

Appendices

Appendix A: Liquidity Ratio: Definition, Calculation & Analysis

The financial stability of a company can be tested in many ways. One of the quickest ways to see just how well a company is performing is to use financial ratios. Here are some examples on how to calculate liquidity.

Liquidity Ratio Defined

In accounting, the term **liquidity** is defined as the ability of a company to meet its financial obligations as they come due. The **liquidity ratio**, then, is a computation used to measure a company's ability to pay its short-term debts. There are three common calculations that fall under the category of liquidity ratios. The current ratio is the most liberal of the three. It is followed by the acid ratio and the cash ratio. These three ratios are often grouped together by financial analysts when attempting to accurately measure the liquidity of a company.

1. Current Ratio

The **current ratio** indicates a company's ability to pay its current liabilities from its current assets. This ratio is one used to quickly measure the liquidity of a company. The formula for the current ratio is:

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

Note that this formula considers all current assets and current liabilities. Current assets are those assets that are expected to turn into cash within one year. Examples of current assets are cash, accounts receivable, and prepaid expenses. Also included in this category are marketable securities such as government bonds and certificates of deposit. Current liabilities are those debts that are expected to be paid or come due within a year. Examples of current liabilities are accounts payable, payroll liabilities and short-term notes payable. Look at the following example:

Company A has the following information listed on its balance sheet.

Current Assets = \$50,000

Current Liabilities = \$25,000

What is the current ratio for Company A?

1. Current Ratio = Current Assets \div Current Liabilities
2. Current Ratio = \$50,000 \div \$25,000
3. Current Ratio = 2 or 2 to 1

What does this mean? When interpreting the current ratio of Company A, you can see that for every \$1 in current liabilities, the company has \$2 in current assets. A current ratio that is better than 1 to 1 is considered good. The higher the ratio, the better the financial position of the company. Company A is in sound financial position and the current ratio of 2 to 1 indicates that they can pay their short-term obligations.

2. Acid Ratio

The second ratio that we will discuss is the **acid ratio**. This ratio is also referred to as the quick ratio. The purpose of this ratio is to measure how well a company can meet its short-term obligations with its most **liquid assets**. Remember, liquid assets are those that can be quickly turned into cash. Most of the current assets are highly liquid with the exception of inventory, which often takes a longer amount of time to turn into cash. The formula for calculating the acid ratio is:

$$\text{Acid Ratio} = (\text{Cash \& Cash Equivalents} + \text{Short-Term Investments} + \text{Accounts Receivable}) \div \text{Current Liabilities}$$

Cash and cash equivalents refer to such things as cash on hand, checking accounts, savings accounts and money market accounts. Short-term investments are any investments that will mature within 90 days, such as U.S. Treasury bills and commercial paper. Let's look back at Company A. If the balance sheet for Company A gave us the following information, what would the acid ratio be?

Cash & Cash Equivalents = \$20,000

Short-Term Investments = \$5,000

Accounts Receivable = \$10,000

Inventory = \$15,000

Current Liabilities = \$25,000

1. Acid Ratio = (Cash & Cash Equivalents + Short-Term Investments + Accounts Receivable) ÷ Current Liabilities
2. Acid Ratio = (\$20,000 + \$5,000 + \$10,000) ÷ \$25,000
3. Acid Ratio = \$35,000 ÷ \$25,000
4. Acid Ratio = 1.4 to 1

Interpreting the acid ratio for Company A shows us that for every \$1 in liabilities, the company has \$1.40 in liquid current assets. This ratio, like the current ratio, shows that company A is in excellent financial position because it not only has enough assets to pay its short-term liabilities, but it also has money left over.

3. Cash Ratio

The final liquidity ratio that we will discuss is the cash ratio. Of the three ratio calculations, the cash ratio is the most conservative measurement of a company's liquidity. The cash ratio focuses strictly on the cash and cash equivalents of a company. Accounts receivables, inventory, and prepaid expenses are not as easy to convert to cash as cash equivalents are, thus are not considered for this calculation. The formula for the cash ratio is:

$$\text{Cash Ratio} = (\text{Cash} + \text{Cash Equivalents}) \div \text{Current Liabilities}$$

Look at the balance sheet information for Company A again. What is the cash ratio for this company?

1. Cash Ratio = $\$20,000 \div \$25,000$
2. Cash Ratio = 0.80

Notice that the cash ratio is much smaller than the other two ratios. In analyzing the cash ratio, any ratio greater than 0.5 to 1 is considered good in accounting. In this case, the cash ratio is 0.8 to 1, meaning that for every \$1 in current liabilities, there is \$0.80 in current assets. Once again, analysts would say that Company A is financially sound.

Summary

Financial analysts, potential investors, and potential creditors all use liquidity ratios for the same purpose. They want to know if a company has enough liquid assets to meet its debt load. Companies that have higher liquidity ratios are able to meet their debt load, and are safer investments. Companies with lower liquidity ratios may very well be in danger of financial ruin. Liquidity ratios are also excellent tools for companies to use when performing company self-evaluations. Knowing the correct way to calculate each ratio and that each ratio means is a vital part of the financial world.



Borrower Name

Company Name

General Instructions: This Form is to be used to compare the borrower's business over a period of years. Each term is defined as follows:

Gross Income: Gross receipts or Sales (-) Returns and Allowances

Expenses: Cost of goods sold (+) Total deductions

Taxable Income: from

IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)

IRS Form 1065 = Ordinary Income or Loss (Partnership)

IRS Form 1120(S) = Ordinary Income or Loss (S Corporation)

IRS Form 1120 = Taxable Income (Corporation)

Calculation Instructions: Determine year-to-year trends in gross income, expenses, and taxable income as described below.

Gross Income

Step 1. Enter the gross income figure from each year's statement where indicated.

Step 2. Determine the percentage change in gross income from one year to the next by

- (a) calculating the dollar difference between the two years, and then
- (b) dividing the dollar difference by the previous year's gross income.

Enter the percentage of increase or decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>
Gross Income <input style="width: 100px;" type="text"/> 100%	<input style="width: 100px;" type="text"/> 100%	<input style="width: 100px;" type="text"/> 100%
% Change (+) or (-) % change** <input style="width: 80px;" type="text"/>	(+) or (-) % change** <input style="width: 80px;" type="text"/>	

Expenses

Step 1. Enter the expense income figure from each year's statement where indicated.

Step 2. Determine what percentage expenses are of gross income by dividing the expense amount by the dollar amount of gross income for each year. Enter the results where indicated.

Step 3. Determine the percentage change in expenses from one year to the next by

- (a) calculating the dollar difference between the two years, and then
- (b) dividing the dollar difference by the previous year's expenses.

Enter the percentage of increase and decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>
Expenses <input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*	<input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*	<input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*
% Change (+) or (-) % change** <input style="width: 80px;" type="text"/>	(+) or (-) % change** <input style="width: 80px;" type="text"/>	

*The expenses and taxable income each period as a percentage of gross income for that period.

**The percentage change for each item from the previous period.

Taxable Income

Step 1. Enter the taxable income figure from each year's statement where indicated.

Step 2. Determine what percentage taxable income is of gross income by dividing the dollar amount of taxable income by the dollar amount of gross income. Enter the results where indicated.

Step 3. Determine the percentage change in taxable income from one year to the next by

- (a) calculating the dollar difference between the two years, and then
- (b) dividing the dollar difference by the previous year's taxable income.

Enter the percentage of increase or decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>	Year <input style="width: 50px;" type="text"/>
Taxable Income <input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*	<input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*	<input style="width: 60px;" type="text"/> <input style="width: 30px;" type="text"/> %*
% Change (+) or (-) % change** <input style="width: 80px;" type="text"/>	(+) or (-) % change** <input style="width: 80px;" type="text"/>	

The Taxable Income Trend is

*The expenses and taxable income each period as a percentage of gross income for that period.

**The percentage change for each item from the previous period.

Appendix B: Comparative Income Analysis

(Fannie Mae Form 1088)

This form is used to compare the performance of a borrower's business over a period of time (at least two years). It will help you as an underwriter determine the stability and viability of the business and to see the earning trends of the company. The analysis compares the percentage change in the borrower's gross income, expenses and taxable income.

Definitions:

Gross Income Gross income equals gross receipts (or sales) less returns and allowance.

Expenses Expenses equal cost of goods sold plus total deductions.

Taxable income is taken from one of the following IRS forms:

- U.S. Income Tax Return (IRS Form 1040), Schedule C, for the net profit or loss for a sole proprietorship.
- U.S. Partnership Return of Income (IRS Form 1065), for ordinary income or loss for a partnership.
- U.S. Corporation Income Tax Return (IRS Form 1120), for taxable income for a corporation.
- U.S. Income Tax Return for an S Corporation (IRS Form 1120S), for taxable income for an S Corporation.

Gross Income

Step 1: Enter the gross income figure from each year's statement.

Step 2: Determine the percentage change by subtracting the most current year from the previous year and dividing the difference by the previous year's gross income.

Expenses

Step 1: Enter the expenses income figure from each year's statement.

Step 2: Determine what percentage of expenses are of gross income by dividing the expense amount by the dollar amount of gross income for each year.

Step 3: Calculate the percentage change by subtracting the most current year from the previous year and dividing the difference by the previous year's expense.

Taxable Income

Step 1: Enter the taxable income figure for each year's statement.

Step 2: Determine what percentage of taxable income is of gross income by dividing the dollar amount of taxable income by the dollar amount of gross income.

Step 3: Determine the percentage change in taxable income from one year to the next by dividing the difference by the previous year's taxable income.

Appendix C: Red Flags

Red Flags are items that an underwriter looks for when analyzing tax returns to detect fraud. Simply because some red flags occur does not mean that fraud exists, but it does warrant closer examination of the file.

- Social Security numbers differ.
- Names on Schedules do not match.
- Addresses on 1040 do not match 1003.
- Inconsistent number of dependents.
- Discrepancies of marital status between 1040 and 1003.
- No self-employment tax paid by Sole Proprietor (Schedule SE).
- Handwritten return filed by a paid tax preparer.
- Real estate taxes paid but no property owned (Schedule A).
- No mortgage interest paid if property is owned and financed (Schedule A).
- Mortgage interest is paid but borrower has not disclosed property owned or recently sold (Schedule A).
- No dividends earned on stocks owned (Schedule B).
- Borrower with substantial bank assets shows little or no interest income (Schedule B).
- Gross income does not agree with income reported on 1099 (Schedule C).
- Borrower shows interest expense with no loan (Schedule C).
- Borrower takes depreciation deduction for property not disclosed (Schedule C).
- No “cost of goods sold” for retail business (Schedule C).
- Additional businesses listed but not disclosed on loan application (Schedule E/K-1).
- Make sure the “final K-1” box is not checked. Checking this box indicates that the borrower is no longer an owner in the Partnership or S Corporation.

Glossary

Glossary

Accounts Payable	Represents amounts owed to regular business creditors from whom the company has bought goods or services on an open account.
Accounts Receivable	Represents amounts or payments due from customers for goods or services sold to them.
Accrual Method	An accounting method, matching revenues and expenses to the period when they occur regardless of whether payment has been made or received. Revenues are recognized when goods are sold or services performed, even though payment has not been received. Expenses are recognized when they are incurred and not when paid. This method is used by businesses that carry inventories.
Adjusted Gross Income (AGI)	Gross income after IRS-permitted adjustments are made.
Amortization	The systematic writing off of an account over a period of time. These are usually intangibles. A deductible expense allowed as a means of recapturing a business investment in an intangible asset.
Assets	Items of value that are owned and carried on the books at historical cost. Assets are shown on the balance sheet in order of liquidity.
Balance Sheet	The description of assets, liabilities, and owner's equity showing the financial position of a business as of a specific date.
Capital	Accumulated funds belonging to the owners of a business, invested with the intention that the funds will remain in the business as a means of generating income. Also known as equity.
Capital Gains and Losses	A distribution by a company to its shareholders from the sale of a portion of its portfolio. They are found on Schedule D.
Capital Loss Carryover	The excess of a capital loss over capital gain that may not be deducted in a particular year. This amount will be carried forward and reported in another year.
Capital Stock	The account represents the share of investment in a business by its shareholders.
Cash	Funds that are immediately available for payment.

Cash Method	A method of accounting that recognizes income when actually received and expenses when actually paid.
Common Stock	Represents ownership of investment in an entity. The shareholder has a claim position against the assets of the entity. Dividends may be paid on the stock held.
Costs of Goods Sold	The actual cost to develop, transport, and maintain a product or service for customers.
Current Assets	Cash and other resources readily convertible to cash in the normal course of business. Current assets can be expected to be sold or consumed within one year.
Current Liabilities	Obligations due within 12 months of the date of the statement and that will require the use of current assets.
Deductions	Payments or expenses allowed by IRS rules to reduce taxable income.
Deferred Gain	A gain realized but not taxable until a later date.
Deferred Income	The liability that occurs when a business receives payment in advance for a service.
Depletion	Represents the loss in value of a natural resource asset, such as oil and gas. The asset is used up and must be replaced. The loss in value is recognized as a cost (expense) and is used to reduce taxable income. No actual expense to the individual is incurred. Non-cash expense.
Depreciation	An expense representing the loss in value of property. The loss is recognized as a cost and reduces taxable income. No actual cost or expense is incurred.
Estimated Tax	An amount of tax that must be remitted quarterly to the IRS.
Exclusion	An amount that is excluded from taxable income.
Exemptions	A specific dollar deduction from Adjusted Gross Income (AGI) for the taxpayer and each dependent.
Expenses	Necessary costs incurred in doing business.
Fiscal Year	A 12-month period ending on the last day of any month other than December.
Fixed Assets	Assets not intended for sale, but are used continuously to produce a product or offer a service. These assets may consist of land, buildings, equipment, etc.

Income Statement	A summary of an organization's revenue and expenses for a specific period of time. Also called profit and loss statement.
Installment Method	A method of reporting the gain from a sale of an asset through the years the payments are received, instead of reporting the entire amount in the year of the sale.
Inventories	Items of tangible property that may be: held for sale as a product; in process of production for sale as a product; or, used for producing goods or services that will be available for sale.
Liabilities	Debts or obligations with a specified maturity date, payable to a specific party in a specific manner.
Liquid Assets	Assets that are normally converted and used within a one-year period.
Liquidity	The ability of a company to meet its financial obligations as they come due.
Liquidity Ratio	A computation used to measure a company's ability to pay short term debts.
Long-Term Capital Gain or Loss	Gain or loss realized from the sale/exchange of a capital asset that has been held for a minimum period of time.
Long-Term Liabilities	Liabilities that will not be due within one year of the date of the balance sheet, such as mortgages and bonds.
Net Operating Loss	A business loss that exceeds current income. A Net Operating Loss may be carried back three years or carried forward for 15 years to reduce taxable income in one or more of these years.
Notes Payable	Financial obligation evidenced by a note or other written acknowledgement of debt.
Notes Receivable	Amounts owed evidenced by a note or other written acknowledgement.

Preferred Stock	A form of capital stock that receives precedence over corporate bonds but is below common stock in terms of protection to the investor. Preferred stockholders have a priority claim against both current earnings and assets, but in event of liquidation, can recover their funds only after payment to bondholders and other creditors.
Real Property	Physical property that is permanent and immovable.
REMIC	Real Estate Mortgage Investment Conduit. An investment-grade mortgage bond that separates mortgage pools into different maturity and risk classes.
Retained Earnings	Represents earned income that is not dispersed in the form of salaries and/or dividends at year's end.
Revenue	An inflow of assets, not necessarily cash, in exchange for goods and services sold.
Royalty Income	Income received for the use of certain types of property.
Short-Term Capital Gain or Loss	Gain or loss on the sale/exchange of a capital asset that has been held less than the legislatively mandated time period.
Trust	An entity to which assets are transferred for protection, management, and distribution in accordance with the terms of a trust document.



Borrower Name: _____

Business Name (optional): _____

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

IRS Form 1040 – Individual Income Tax Return

Year _____

Year _____

1. W-2 Income from Self-Employment (+) _____

2. Schedule B – Interest and Ordinary Dividends

a. Interest Income from Self-Employment (+) _____

b. Dividends from Self-Employment (+) _____

3. Schedule C – Profit or Loss from Business: Sole Proprietorship

a. Net Profit or (Loss) (+/-) _____

b. Nonrecurring Other (Income) Loss/Expenses (+/-) _____

c. Depletion (+) _____

d. Depreciation (+) _____

e. Non-deductible Travel and Meals Expenses (-) _____

f. Business Use of Home (+) _____

g. Amortization/Casualty Loss (+) _____

4. Schedule D – Capital Gains and Losses

a. Recurring Capital Gains (+) _____

5. Schedule E – Supplemental Income and Loss

Note: A lender may use Fannie Mae Rental Income Worksheets (Form 1037 or Form 1038) to calculate individual rental income (loss) reported on Schedule E.

a. Royalties Received (+) _____

b. Total Expenses (-) _____

c. Depletion (+) _____

6. Schedule F – Profit or Loss from Farming

a. Net Farm Profit or (Loss) (+/-) _____

b. Non-Tax Portion Ongoing Coop and CCC Payments (+) _____

c. Nonrecurring Other (Income) Loss (+/-) _____

d. Depreciation (+) _____

e. Amortization/Casualty Loss/Depletion (+) _____

f. Business Use of Home (+) _____

Note: IRS Form 4797 (Sales of Business Property) is not included on this worksheet due to its infrequent use. If applicable, a lender may include analysis of the sale and related recurring capital gains.

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Partnership or S Corporation

A self-employed borrower's share of Partnership or S Corporation earnings can only be considered if the lender obtains documentation, such as Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

Note: See the Instructions for additional guidance on documenting access to income and business liquidity.

IRS Form 1065 - Partnership Income

7. Schedule K-1 Form 1065 – Partner’s Share of Income	Year _____	Year _____
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Income (Loss)	(+/-) _____	(+/-) _____
c. Guaranteed Payments to Partner	(+) _____	(+) _____
8. Form 1065 - Adjustments to Business Cash Flow		
a. Ordinary (Income) Loss from Other Partnerships	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
c. Depreciation	(+) _____	(+) _____
d. Depletion	(+) _____	(+) _____
e. Amortization/Casualty Loss	(+) _____	(+) _____
f. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
g. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
h. Subtotal	_____	_____
i. Total Form 1065	_____	_____
(Subtotal multiplied by % of ownership)	_____	_____

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IRS Form 1120S – S Corporation Earnings	Year _____	Year _____
9. Schedule K-1 Form 1120S – Shareholder’s Share of Income		
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Rental Income (Loss)	(+/-) _____	(+/-) _____
10. Form 1120S - Adjustments to Business Cash Flow		
a. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
b. Depreciation	(+) _____	(+) _____
c. Depletion	(+) _____	(+) _____
d. Amortization/Casualty Loss	(+) _____	(+) _____
e. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
f. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
g. Subtotal	_____	_____
h. Total Form 1120S	_____	_____
(Subtotal multiplied by % of ownership)	_____	_____

IRS Form 1120 – Regular Corporation

Corporation earnings may be used when the borrower(s) own 100% of the corporation.

	Year _____	Year _____
11. Form 1120 – Regular Corporation		
a. Taxable Income	_____	_____
b. Total Tax	(-) _____	(-) _____
c. Nonrecurring (Gains) Losses	(+/-) _____	(+/-) _____
d. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
e. Depreciation	(+) _____	(+) _____
f. Depletion	(+) _____	(+) _____
g. Amortization/Casualty Loss	(+) _____	(+) _____
h. Net Operating Loss and Special Deductions	(+) _____	(+) _____
i. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
j. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
k. Subtotal	_____	_____
l. Less: Dividends Paid to Borrower	(-) _____	(-) _____
m. Total Form 1120	_____	_____

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