

# Self-Employed Borrower Basics: Part I – Personal Tax Return Review

March 2022

Enact Mortgage Insurance Corporation and Enact Mortgage Insurance Corporation of North Carolina  
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# Agenda

**Business Income Concepts**

**Qualifying Income**

**General Underwriting Guidelines**

**Self-Employed Business Types**

**IRS Form 1040 Personal Tax Return**

**Profit and Loss Statement**

**Income Analysis Forms**

**Sole Proprietor Schedule C**

Adjustments to Income

- Non-reoccurring Income
- Depreciation
- Amortization
- Depletion
- Meals and Entertainment

**Enact Resources**

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# Business Income Concepts

## Four Concepts

- Business Income May Be Reported On Personal Tax Returns and/or Business Tax Returns
- Taxable Income
  - Calculated on Tax Returns
  - Income on Which Borrower Owes Taxes
- Qualifying Income
  - Money Available to Pay Mortgage
  - Taxed Income May Have Been Passed Through to The Borrower
  - Taxed Income May Not Be Available
    - Expensed Not Acknowledged
  - Untaxed Income May Be Available
    - Income Not Required To Be Reported As Taxable
    - Non-Cash Expenses Computed in Calculation of Taxable Income

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# Business Income Concepts

## Four Concepts

Examine Past to Predict Future

- 1 or 2 Year History With Documentation
- Calculations Shown
  - Fannie Mae- Form 1084
  - Freddie Mac- Form 91
  - Lender Form
  - MI Co. Form

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# Qualifying Income

**The only income that can be used to qualify your borrower is income that is:**

- Steady,
- Stable,
- Likely to Continue, and
- Provable.

**Generally: Two Year History Of Receipt, Three Year Continuance.  
Specific Income Types May Vary.**

# General Underwriting Guidelines

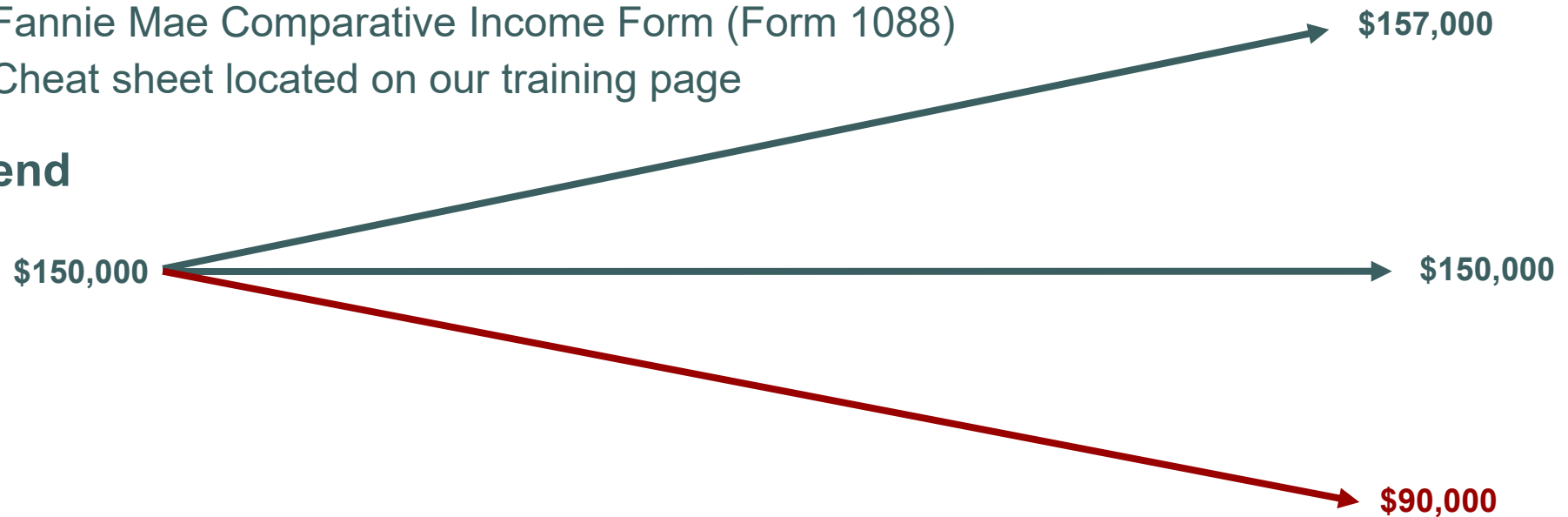
## Declining Personal Income

- Can the income be used to qualify?
- If so, use only the lower of the two years

## Declining Business Income

- Conduct a Trend Analysis
  - Fannie Mae Comparative Income Form (Form 1088)
  - Cheat sheet located on our training page

## Income Trend



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# Self-Employed Business Types

## Each business structure reports taxes as follows:

### Sole Proprietor

- Completes IRS Form 1040
  - Schedule C

### Farm

- Completes IRS Form 1040
- Schedule F

*(Continues on Next Slide)*

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# Self-Employed Business Types

**Each business structure reports taxes as follows:** *(Continued from previous slide)*

## Partnership

- Completes IRS Form 1065
- Partners receive Form K-1s from the partnership reporting the partner's profit/loss
  - IRS Form 1040 may reflect pass through income on B, C, D, E or F

## S-Corporation

- Completes IRS Form 1120S
- Shareholders receive Form K-1s from the S-Corp reporting the shareholder's profit/loss
  - IRS Form 1040 may reflect pass through income on B, C, D, E or F

## Limited Liability Company

- An LLC may complete Partnership or Corp returns
  - Single member, or husband/wife only may report on Form 1040, Schedule C
- Income analyzed based on form completed, not business type

*(Continues on Next Slide)*



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# Self-Employed Business Types

## **Each business structure reports taxes as follows:**

*(Continued from previous slide)*

### Corporation

- Completes IRS Form 1120.
- Shareholders may receive
  - Wages reported on a W-2
  - Dividend reported on IRS Form 1040, Schedule B

# IRS Form 1040- Individual Tax Return

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** 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 widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial: Dan Last name: Designer Your social security number: XXX-XX-XXXX  
 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. 1000 Decorator Drive Apt. no. \_\_\_\_\_  
 City, town, or post office. If you have a foreign address, also complete spaces below. Raleigh State: NC ZIP code: 27615  
 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.  
 You  Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  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, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> 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"/>

Attach Sch. B if required.

<b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2	<b>1</b>	
<b>2a</b> Tax-exempt interest	<b>2a</b>	
<b>3a</b> Qualified dividends	<b>3a</b>	
<b>4a</b> IRA distributions	<b>4a</b>	
<b>5a</b> Pensions and annuities	<b>5a</b>	
<b>6a</b> Social security benefits	<b>6a</b>	
<b>7</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	<b>7</b>	
<b>8</b> Other income from Schedule 1, line 10	<b>8</b>	38,000.
<b>9</b> Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	<b>9</b>	40,155.
<b>10</b> Adjustments to income from Schedule 1, line 26	<b>10</b>	10,451.
<b>11</b> Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	<b>11</b>	29,704.
<b>12a</b> Standard deduction or itemized deductions (from Schedule A)	<b>12a</b>	25,154.
<b>b</b> Charitable contributions if you take the standard deduction (see instructions)	<b>12b</b>	
<b>c</b> Add lines 12a and 12b	<b>12c</b>	25,154.
<b>13</b> Qualified business income deduction from Form 8995 or Form 8995-A	<b>13</b>	910.
<b>14</b> Add lines 12c and 13	<b>14</b>	26,064.
<b>15</b> <b>Taxable income.</b> Subtract line 14 from line 11. If zero or less, enter -0-	<b>15</b>	3,640.

**Standard Deduction for—**  
 • Single or Married filing separately, \$12,000  
 • Married filing jointly or Qualifying widow(er), \$25,100  
 • Head of household, \$18,800  
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** (2021)

# What Taxable Activities Has Your Borrower Filed?

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** 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 widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial: Dan Last name: Designer Your social security number: XXX-XX-XXXX  
 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. 1000 Decorator Drive Apt. no. \_\_\_\_\_  
 City, town, or post office. If you have a foreign address, also complete spaces below. Raleigh State: NC ZIP code: 27615  
 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.  
 You  Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  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, 1957  Are blind **Spouse:**  Was born before January 2, 1957  Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> 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"/>

<b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2	<b>1</b>	
<b>2a</b> Tax-exempt interest	<b>2a</b>	
<b>3a</b> Qualified dividends	<b>3a</b>	
<b>4a</b> IRA distributions	<b>4a</b>	
<b>5a</b> Pensions and annuities	<b>5a</b>	
<b>6a</b> Social security benefits	<b>6a</b>	
<b>7</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	<b>7</b>	
<b>8</b> Other income from Schedule 1, line 10	<b>8</b>	38,000.
<b>9</b> Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	<b>9</b>	40,155.
<b>10</b> Adjustments to income from Schedule 1, line 26	<b>10</b>	10,451.
<b>11</b> Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	<b>11</b>	29,704.
<b>12a</b> Standard deduction or itemized deductions (from Schedule A)	<b>12a</b>	25,154.
<b>b</b> Charitable contributions if you take the standard deduction (see instructions)	<b>12b</b>	
<b>c</b> Add lines 12a and 12b	<b>12c</b>	25,154.
<b>13</b> Qualified business income deduction from Form 8995 or Form 8995-A	<b>13</b>	910.
<b>14</b> Add lines 12c and 13	<b>14</b>	26,064.
<b>15</b> <b>Taxable income.</b> Subtract line 14 from line 11. If zero or less, enter -0-	<b>15</b>	3,640.

**Standard Deduction for—**  
 • Single or Married filing separately, \$12,000  
 • Married filing jointly or Qualifying widow(er), \$25,100  
 • Head of household, \$18,800  
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** (2021)

This return shows two different types of income report:

- Taxable Interest
- Business Income Schedule C

The presence of a schedule prompts the mortgage file reviewer to investigate the activity posted.

# What Taxable Activities Has Your Borrower Filed?

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return 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 widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial: Dan  
 Last name: Designer  
 Your social security number: XXX-XX-XXXX  
 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.  
 1000 Decorator Drive  
 City, town, or post office. If you have a foreign address, also complete spaces below.  
 Raleigh  
 State: NC ZIP code: 27615  
 Foreign country name: \_\_\_\_\_ Foreign province/state/county: \_\_\_\_\_ Foreign postal code: \_\_\_\_\_  
 You  Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  Yes  No

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

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind

**Dependents** (see instructions):  (1) Social security  (2) Relationship  (3) Relationship  (4) if qualifies for (see instructions)

If more than four dependents, see instructions and check here  **8** Other income from Schedule 1, line 10 . . . . . **8** 38,000.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2b	Taxable interest 2,155.
3a	Qualified dividends	3b	Ordinary dividends
4a	IRA distributions	4b	Taxable amount
5a	Pensions and annuities	5b	Taxable amount
6a	Social security benefits	6b	Taxable amount
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	7	
8	Other income from Schedule 1, line 10	8	38,000.
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	9	40,155.
10	Adjustments to income from Schedule 1, line 26	10	10,451.
11	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	11	29,704.
12a	<b>Standard deduction or itemized deductions</b> (from Schedule A)	12a	25,154.
b	Charitable contributions if you take the standard deduction (see instructions)	12b	
c	Add lines 12a and 12b	12c	25,154.
13	Qualified		
14	Add line		
15	<b>Taxable</b>		

**Review Line 8 to determine if there is a Schedule 1**

The Example is Dan Designer  
 Dan runs a business from home.  
 The business is a Sole Proprietor  
 and he files a Schedule C. He is  
 a 100% owner.



# What Taxable Activities Has Your Borrower Filed?

## The Example is Dan Designer

Dan runs a business from home. The business is a Sole Proprietor and he files a Schedule C. He is a 100% owner.

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		2021 Attachment Sequence No. 01
Name(s) shown on Form 1040, 1040-SR, or 1040-NR Dan Designer			Your social security number XXX-XX-XXXX	
<b>Part I Additional Income</b>				
1	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	1		
2a	Alimony received . . . . .	2a		
b	Date of original divorce or separation agreement (see instructions) ▶			
3	Business income or (loss). Attach Schedule C . . . . .	3	38,000.	
4	Other gains or (losses). Attach Form 4797 . . . . .	4		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . .	5		
6	Farm income or (loss). Attach Schedule F . . . . .	6		
7	Unemployment compensation . . . . .	7		
8	Other income:			
a	Net operating loss . . . . .	8a		
b	Gambling income . . . . .	8b		
c	Cancellation of debt . . . . .	8c		
d	Foreign earned income exclusion from Form 2555 . . . . .	8d		
e	Taxable Health Savings Account distribution . . . . .	8e		
f	Alaska Permanent Fund dividends . . . . .	8f		
g	Jury duty pay . . . . .	8g		
h	Prizes and awards . . . . .	8h		
i	Activity not engaged in			
j	Stock options . . . . .			
k	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property . . . . .	8k		
l	Olympic and Paralympic medals and USOC prize money (see instructions) . . . . .	8l		
m	Section 951(a) inclusion (see instructions)			
n	Section 951A(a) inclusion (see instructions)			
o	Section 461(j) excess business loss . . . . .			
p	Taxable distributions from an ABL account (see instructions) . . . . .	8p		
z	Other income. List type and amount ▶	8z		
9	Total other income. Add lines 8a through 8z . . . . .	9		
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 . . . . .	10	38,000.	

**Review Line 3 to determine if there is a Schedule C**



# What Taxable Activities Has Your Borrower Filed?

**3 Business income or (loss). Attach Schedule C . . . . . 3 38,000.**

- 31 Net profit or (loss). Subtract line 29 from line 28.**
- 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.

**SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)** OMB No. 1545-0074  
 Department of the Treasury Internal Revenue Service (99) **2021** Attachment Sequence No. 09  
 Go to [www.irs.gov/ScheduleC](http://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.

Name of proprietor: Dan Designer Social security number (SSN): XXX-XX-XXXX  
 A Principal business or profession, including product or service (see instructions): Interior Design B Enter code from instructions: 15141410  
 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.): 1000 Decorator Drive City, town or post office, state, and ZIP code: Raleigh, NC 27615

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	303,566.
2	Returns and allowances . . . . .	2	13,799.
3	Subtract line 2 from line 1 . . . . .	3	289,767.
4	Cost of goods sold (from line 42) . . . . .	4	47,000.
5		5	242,767.
6		6	
7	Net profit or (loss). Subtract line 5 from line 4. See instructions for line 30. <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	7	242,767.
8	Advertising expense (see instructions) . . . . .	8	
9	Travel expense (see instructions) . . . . .	9	18,000.
10	Car expense (see instructions) . . . . .	10	
11	Meals and entertainment expense (see instructions) . . . . .	11	
12	Gift expense (see instructions) . . . . .	12	
13	Other expenses (see instructions) . . . . .	13	245.
14	Employee benefit programs (other than on line 19) . . . . .	14	
15	Insurance (other than health) . . . . .	15	4,390.
16	Interest (see instructions):	16	
16a	Mortgage (paid to banks, etc.) . . . . .	16a	
16b	Other . . . . .	16b	1,522.
17	Legal and professional services . . . . .	17	19,100.
18	Depreciation and amortization . . . . .	18	
19	Charitable contributions . . . . .	19	
20a	Business property (see instructions):	20a	
20b	Real estate . . . . .	20b	24,600.
20c	Other business property . . . . .	20c	
21	Repairs and maintenance . . . . .	21	
22	Supplies (not included in Part III) . . . . .	22	6,802.
23	Taxes and licenses . . . . .	23	2,000.
24	Travel and meals:	24	
24a	Travel . . . . .	24a	9,330.
24b	Deductible meals (see instructions) . . . . .	24b	1,849.
25	Utilities . . . . .	25	
26	Wages (less employment credits) . . . . .	26	
27a	Other expenses (from line 48) . . . . .	27a	9,498.
27b	Reserved for future use . . . . .	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a. <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	28	179,069.
29	Tentative profit or (loss). Subtract line 28 from line 7. . . . .	29	63,698.
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	25,698.
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both <b>Schedule 1 (Form 1040), line 3</b> , and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If a loss, you <b>must</b> go to line 32.	31	38,000.
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 <b>Schedule 1 (Form 1040), line 3</b> , and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on <b>Form 1041, line 3</b> . • If you checked 32b, you <b>must</b> attach <b>Form 6196</b> . Your loss may be limited.	32a	<input type="checkbox"/> All investment is at risk.
		32b	<input type="checkbox"/> Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. BAA REV 01/24/22 TTW Schedule C (Form 1040) 2021

*Review Line 31 to determine if just 1 Schedule C has been filed*





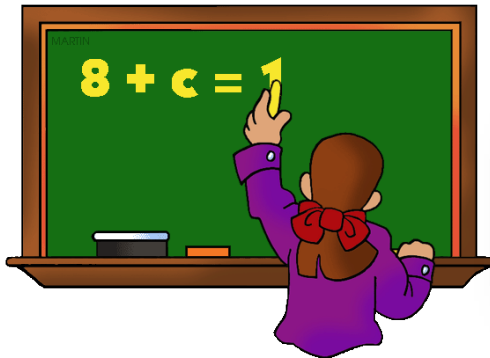
# Review Schedule C

## Start with the Net Profit or Loss

3	Schedule C – Profit or Loss from Business: Sole Proprietorship	
	a. Net Profit or Loss (Line 31)	+/-

Each schedule simply shows the math behind the sum that carried forward to the Form 1040.

After reviewing the schedule you may determine that adjustments need to be made to the taxable income reported to convert it to *qualifying income* for loan purposes.



**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	38,000.
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**SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)**

OMB No. 1545-0074  
**2021**  
 Attachment Sequence No. **09**

Department of the Treasury Internal Revenue Service (99) ▶ Go to [www.irs.gov/ScheduleC](http://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.

Name of proprietor: Dan Designer  
 Social security number (SSN): XXX-XX-XXXX

**A** Principal business or profession, including product or service (see instructions): Interior Design  
**B** Enter code from instructions: 15411400

**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.): 1000 Decorator Drive  
 City, town or post office, state, and ZIP code: Raleigh, NC 27615

**F** Accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ▶

**G** Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses . . .  Yes  No

**H** If you started or acquired this business during 2021, check here . . .

**I** Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions . . .  Yes  No

**J** If "Yes," did you or will you file required Form(s) 1099? . . .  Yes  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	303,566.
2	Returns and allowances . . . . .	2	13,799.
3	Subtract line 2 from line 1 . . . . .	3	289,767.
4	Cost of goods sold (from line 42) . . . . .	4	47,000.
5	<b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	5	242,767.
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	6	
7	<b>Gross income.</b> Add lines 5 and 6 . . . . . ▶	7	242,767.

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

8	Advertising . . . . .	8	16,900.	18	Office expense (see instructions) . . . . .	18	18,000.
9	Car and truck expenses (see instructions) . . . . .	9	25,833.	19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):	20a	
11	Contract labor (see instructions) . . . . .	11	39,000.	a	Vehicles, machinery, and equipment . . . . .	20b	24,600.
12	Depletion . . . . .	12		b	Other business property . . . . .	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . . . .	13	245.	21	Repairs and maintenance . . . . .	21	
14	Employee benefit programs (other than on line 19) . . . . .	14		22	Supplies (not included in Part III) . . . . .	22	6,802.
15	Insurance (other than health) . . . . .	15	4,390.	23	Taxes and licenses . . . . .	23	2,000.
16	Interest (see instructions):	16		24	Travel and meals:	24a	9,330.
a	Mortgage (paid to banks, etc.) . . . . .	16a		a	Travel . . . . .	24b	1,849.
b	Other . . . . .	16b	1,522.	b	Deductible meals (see instructions) . . . . .	25	
17	Legal and professional services . . . . .	17	19,100.	25	Utilities . . . . .	25	
18				26	Wages (less employment credits) . . . . .	26	
19				27a	Other expenses (from line 48) . . . . .	27a	9,498.
20				b	Reserved for future use . . . . .	27b	
21				28	<b>Total expenses before expenses for business use of home.</b> Add lines 8 through 27a . . . . . ▶	28	179,069.
22				29	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	29	63,698.
23				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: \_\_\_\_\_

Form 1041, line 3.  If you checked 32b, you must attach Form 6198. Your loss may be limited.

32b  Some investment is not at risk.

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# The Profit and Loss Statement

## What is it?

- Profit and Loss Statement (P&L) may also be referred to as The Income Statement or Earnings Statement
- The P&L Statement shows the total actions of a business over a period of time
  - It may represent a month, a quarter or a year
- A 1040 Schedule C & F and A Business Tax Return (1065, 1120S, 1120) are all a form of an Income Statement



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# Income Statement/ P&L Definitions

**NET SALES:** The total dollar volume of all cash or credit sales less returns, allowances, discounts and rebates.

**COST OF GOODS SOLD:**

- For a retail or wholesale business it is the total price paid for the products sold plus the cost of having it delivered to the store during the accounting period
- For a manufacturing firm it is the beginning inventory plus purchases, delivery costs, material, labor, and overhead minus the ending inventory

**GROSS PROFIT:** Profit before expenses and federal taxes have been deducted.

**EXPENSES:** The cost of doing business. It includes such items as: wages, telephone, insurance, depreciation, interest and advertising.

**NET PROFIT:** The amount left over after expenses plus interest and federal taxes. (Net profit is typically noted before paying federal taxes).

---

# The Profit and Loss Statement/Income Statement

## It begins when a sale is made...

- The first entry or account would be **Sales**. If the sale was \$30,000 it would look like this:

<b>Sales</b>	<b>\$30,000</b>
--------------	-----------------

- The next entry would be the **Cost of Goods Sold**. If the cost was \$22,000 it would be subtracted to show the **Gross Profit**.

<b>Sales</b>	<b>\$30,000</b>
<b>Cost of Goods Sold</b>	<b>(\$22,000)</b>
<b>Gross Profit</b>	<b>\$ 8,000</b>

- The next entries are the expenses connected to running the business. Expenses are either cash or accrued.

# PROFIT AND LOSS STATEMENT

## Company XYZ

January X Through March X, 20XX

NET SALES (LESS ALLOWANCES AND DISCOUNTS)		\$700,000
COST OF GOODS SOLD		(500,000)
GROSS PROFIT		200,000
DRAWINGS (OWNERS)	\$ 74,000	
WAGES	65,000	
DELIVERY	7,000	
BAD DEBT	4,000	
TELEPHONE	2,000	
DEPRECIATION	4,000	
INSURANCE	7,000	
TAXES (LOCAL)	8,000	
INTEREST	8,700	
ADVERTISING	3,000	
*MISCELLANEOUS	2,000	
	<hr/>	
TOTAL EXPENSES	\$184,700	
<b>NET PROFIT (BEFORE FEDERAL TAXES)</b>		<b>\$15,300</b>

\*Miscellaneous - This line item may include: donations, office and shop supplies, occupancy expenses, credit card expenses, leasing, legal, accounting, computer services, dues and subscriptions, entertainment, laundry, disposal, employer benefits...

# Schedule C vs. Income Statement

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"/>	1 303,566.
2	Returns and allowances . . . . .	2 13,799.
3	Subtract line 2 from line 1 . . . . .	3 289,767.
4	Cost of goods sold (from line 42) . . . . .	4 47,000.
5	<b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	5 242,767.
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	6
7	<b>Gross income.</b> Add lines 5 and 6 . . . . . <input type="checkbox"/>	7 242,767.

Part II Expenses. Enter expenses for business use of your home <b>only</b> on line 30.							
8	Advertising . . . . .	8	16,900.	18	Office expense (see instructions) . . . . .	18	18,000.
9	Car and truck expenses (see instructions) . . . . .	9	25,833.	19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions) . . . . .	11	39,000.	a	Vehicles, machinery, and equipment	20a	
12	Depletion . . . . .	12		b	Other business property . . . . .	20b	24,600.
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . . . .	13	245.	21	Repairs and maintenance . . . . .	21	
14	Employee benefit programs (other than on line 19) . . . . .	14		22	Supplies (not included in Part III) . . . . .	22	6,802.
15	Insurance (other than health) . . . . .	15	4,390.	23	Taxes and licenses . . . . .	23	2,000.
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel . . . . .	24a	9,330.
b	Other . . . . .	16b	1,522.	b	Deductible meals (see instructions) . . . . .	24b	1,849.
17	Legal and professional services	17	19,100.	25	Utilities . . . . .	25	
				26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48) . . . . .	27a	9,498.
				b	<b>Reserved for future use</b> . . . . .	27b	

---

# Financial Statements

**Financial statements are comprised of a balance sheet and income statement.**

**The balance sheet represents the financial picture as it stood for that particular time.**

**It is useful as a representation of the weight of the assets vs. the liabilities.**

**The most important analysis to be conducted on a self-employed borrower is to determine if the borrower can be expected to make timely repayment of the debt.**

**In order to determine this, it is important that you also determine the financial standing of his company, regardless of whether it is a corporation, S corporation, proprietorship, or partnership.**

**To do this you need to analyze the company's financial statements.**

---

# The Balance Sheet

## Why is it called a “Balance Sheet”?

The key word is balance. Because both the total assets and the liabilities and net worth are the same, they balance. This is true even if the liabilities exceed the assets. In this case, net worth becomes a negative and it must be subtracted from the liabilities, instead of being added.

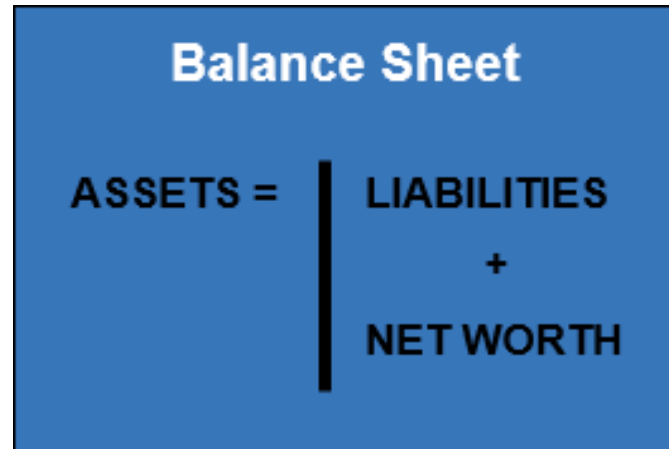
The difference between the assets and liabilities equals the *net worth*. That is, after all the bills and notes are paid, anything left is called net worth. Another definition is that the net worth is what is due the owner(s) of the business once all the liabilities have been paid

**ASSETS - LIABILITIES = NET WORTH**

**OR**

**ASSETS = LIABILITIES + NET WORTH**

# The Balance Sheet



**Assets** are normally broken into two main categories: *current assets* and *fixed assets*. Current assets usually mean anything that can be converted to cash within one year. Fixed assets are more permanent items like buildings or major equipment.

**Liabilities** are similarly divided. They are normally shown as *current liabilities* (that which is owed within one year) and *long term debt*. Current liabilities include bills for items such as inventory, salaries, rent, etc. Debt is normally items that, by agreement, need not be paid back quickly, such as a mortgage or long-term note.

---

# How a Balance Sheet is Prepared

<b>ASSETS</b>	<b>LIABILITIES</b>
<b>CURRENT ASSETS</b>	<b>NET WORTH</b>
Cash \$100,000	\$100,000

A balance sheet on a new business started with the owners savings.



# How a Balance Sheet is Prepared

ASSETS		LIABILITIES	
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
Cash	\$75,000	<i>Accounts payable</i>	\$25,000
<i>Inventory</i>	\$50,000	NET WORTH	\$100,000
TOTAL	\$125,000	TOTAL	\$125,000

The owner decides to stock her store, and purchases \$50,000 worth of merchandise (*Inventory*), but pays only \$25,000 in cash and promises to pay the other \$25,000 in thirty days, (this creates a new account called *Accounts Payable* which is placed under the category of *Current Liabilities*).

It was placed under Current Liabilities, because it is due to be paid back in a specified period of time, which is under one year.

# How a Balance Sheet is Prepared

ASSETS		LIABILITIES	
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
Cash	\$50,000	Accounts payable	\$25,000
Inventory	\$50,000	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$25,000</b>
<b>TOTAL CURRENT ASSETS</b>	<b>\$100,000</b>		
<b>FIXED ASSETS</b>		<b>LONG TERM DEBT</b>	
<i>Building</i>	\$100,000	<i>Mortgage</i>	\$75,000
<b>TOTAL FIXED ASSETS</b>	<b>\$100,000</b>	<b>TOTAL LONG TERM DEBT</b>	<b>\$75,000</b>
<b>TOTAL</b>	<b>\$200,000</b>	<b>NET WORTH</b>	<b>\$100,000</b>
		<b>TOTAL</b>	<b>\$200,000</b>

The owner now buys a building for \$100,000. She puts \$25,000 down and obtains a mortgage for the remainder. *Long term debt* - Paid over a period of longer than a year. *Fixed assets* include land, buildings and equipment.

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# The Balance Sheet

The difference between the assets and liabilities equals the *net worth*. That is, after all the bills and notes are paid, anything left is called net worth. Another definition is that the net worth is what is due the owner(s) of the business once all the liabilities have been paid.

$$\begin{aligned} \text{ASSETS} - \text{LIABILITIES} &= \text{NET WORTH} \\ \text{OR} \\ \text{ASSETS} &= \text{LIABILITIES} + \text{NET WORTH} \end{aligned}$$

## Why is it called a “Balance Sheet”?

The key word is balance. Because both the total assets and the liabilities and net worth are the same, they balance. This is true even if the liabilities exceed the assets. In this case, net worth becomes a negative and it must be subtracted from the liabilities, instead of being added.

# The Business Return



Each business return's page has a Balance Sheet Section- Schedule L


You may have to determine the businesses Solvency/Liquidity position

<b>Schedule L</b>		<b>Balance Sheets per Books</b>		<b>Beginning of tax year</b>		<b>End of tax year</b>	
		<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>		
<b>Assets</b>							
1	Cash . . . . .						
2a	Trade notes and accounts receivable . . . . .						
b	Less allowance for bad debts . . . . .						
3	Inventories . . . . .						
4	U.S. government obligations . . . . .						
5	Tax-exempt securities . . . . .						
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 . . . . .						
<b>Liabilities and Capital</b>							
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 . . . . .						







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 PDF	<b>UPDATED Fannie Mae Form 1084 Calculator (2021-2020)</b>  Calculate and analyze cash flow to help you complete Fannie Mae form 1084. <b>UPDATED</b>	 XLSX	<b>Fannie Mae Form 1084 Calculator XLS (2019-2020)</b>  Calculate and analyze cash flow to help you complete Fannie Mae form 1084.	 PDF	<b>UPDATED Freddie Mac Form 91 Calculator (2021-2020)</b>  Quick reference guide and income analysis for Freddie Mac Form 91 <b>UPDATED</b>
 PDF	<b>UPDATED Freddie Mac Form 92 Calculator (2021-2020)</b>  Form 92 Net Rental Income Calculations –	 PDF	<b>UPDATED Rental Income Calculator (2021-2020)</b>  Assists in calculating rental income from IRS form 1040 Schedule E.	 PDF	<b>UPDATED Current Ratio – Liquidity Calculator (2021-2020)</b>  Calculate working capital liquidity against current

# Income Worksheets/Calculator

For full functionality, download and save PDF first before entering data. Please download before each calculation as calculators are updated periodically.

Borrower(s) Name(s)  Loan Number   
 Property Address



## Calculator and Quick Reference Guide: Fannie Mae Cash Flow Analysis

Please use the following quick reference guide to assist you in completing Fannie Mae Form 1084. It provides suggested guidance only and does not replace Fannie Mae instructions or applicable guidelines.

Note: For entries with the marker (+/-) type a '-' for entering a negative amount. Example: -12,345.67

IRS Form 1040 – Individual Income Tax Return		2021	2020	NOTES
1	W-2 Income from Self-Employment	+		
2	Schedule B – Interest and Ordinary Dividends			*Only add back the eligible "Other" deductions, such as Amortization or Casualty Loss.
	a. Interest Income from Self-Employment (Line 1)	+		
	b. Dividends from Self-Employment (Line 5)	+		
3	Schedule C – Profit or Loss from Business: Sole Proprietorship			Notes:
	a. Net Profit or Loss (Line 31)	+/-		
	b. Nonrecurring Other (Income) Loss/Expenses (Line 4)	+/-		
	c. Depletion (Line 12)	+		
	d. Depreciation (Line 13)	+		
	e. Non-deductible Meals and Entertainment Expenses (Line 24b)	-		
	f. Business Use of Home (Line 30, Check applicable guidelines)	+		
	g. Amortization/Casualty Loss (Only add back Amort/CL - Review Schedule C Page 2, Part V*)	+		
	Business Miles (Page 2, Part IV, Line 44a OR Related 4562, Line 30)			
	X Depreciation Rate (2021 - 26%; 2020 - 27%)		0.26	0.27
	= Total Mileage Depreciation	+	0.00	0.00
	Subtotal Schedule C	=	0.00	0.00
4	Schedule D – Capital Gains and Losses			
	a. Recurring Capital Gains (from Self-Employment)	+		
5	Schedule E – Supplemental Income and Loss			
	Note: A lender may use Fannie Mae Rental Income Worksheets (Form 1037 or Form 1038) or a comparable form to calculate individual rental income (loss) reported on Schedule E.			
	a. Royalties Received (Line 4)	+		
	b. Total Expenses (Line 20)	-		
	c. Depletion (Line 18)	+		
	Subtotal Schedule E	=	0.00	0.00
6	Schedule F – Profit or Loss from Farming			
	a. Net Farm Profit or Loss (Line 34)	+/-		
	b. Non-Tax Portion Ongoing Coop and CCC Payments (Line 3, 4, 6(a-b))	+/-		
	c. Nonrecurring Other (Income) or Loss (Lines 5c & 8)	+/-		
	d. Depreciation (Line 14)	+		
	e. Amortization/Casualty Loss/Depletion (Line 32*)	+		
	f. Business Use of Home (Line 32, Check applicable guidelines)	+		
	Subtotal Schedule F	=	0.00	0.00

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.

For full functionality, download and save PDF first before entering data. Please download before each calculation as calculators are updated periodically.

Borrower(s) Name(s)  Loan Number   
 Property Address



## Calculator and Quick Reference Guide: Form 91 Income Calculations

Please use the following quick reference guide to assist you in completing Freddie Mac Form 91. This form is for suggested guidance and does not replace Freddie Mac instructions or applicable guidelines.

Note: For entries with the marker (+/-) type a '-' for entering a negative amount. Example: -12,345.67

### I. Income Calculations from IRS Form 1040 IRS Form 1040 Federal Individual Income Tax Return

1	W-2 Income from self-employment (reported on IRS Forms 1040 and 1120 or 1120S)	2021	2020	NOTES
	Name of Business: <input type="text"/>			
	W-2 Income, Section 5304.1 (d1)	+		*Validate with business returns and IRS Form 1125-E, Compensation of Officers, as applicable
	Subtotal of W-2 Income From Self-employment		\$ 0.00	\$ 0.00
2	Schedule B – Interest and Ordinary Dividends	2021	2020	NOTES
	Recurring interest income (Chapter 5305) (Line 1)	+		
	Recurring dividend income (Chapter 5305) (Line 5)	+		
	Dividend income from self-employment reported on IRS Form 1120	-		
	Subtotal of Dividends and Interest		\$ 0.00	\$ 0.00
3	Schedule C – Profit or Loss from Business (Sole Proprietorship) (Chapter 5304)	2021	2020	NOTES
	Name of Business #1: <input type="text"/>			
	Net profit or loss (Line 31)	+/-		
	Non-recurring other income or loss, or expenses (Line 4)	+/-		
	Depletion (Line 12)	+		
	Depreciation - See three lines below for additional vehicle depreciation (Line 13)	+		
	Meals and entertainment exclusion (Line 24b)	-		
	Amortization or casualty loss - Only add back Amort/CL (Review C, Page 2, Part V)	+		
	Business use of home - Follow investor credit policy (Line 30, Form 8829 or Simplified Method Worksheet)	+		
	Business Miles (Page 2, Part IV, Line 44a or Related 4562, Line 30)			
	x Depreciation Rate (2021-26% and 2020-27%)		0.26	0.27
	= Total Mileage Depreciation	+	\$ 0.00	\$ 0.00
	Subtotal from Schedule C, Business #1		\$ 0.00	\$ 0.00

This calculator can be found at <https://EnactMI.com/self-employed-borrower-calculators>



# Sole Proprietor

Only one owner (100% ownership)

Income reported on schedule C

Taxed on personal rate

## Advantages

- Easy to form
- Inexpensive
- 100% ownership

## Disadvantages

- Unlimited personal liability
- Unable to raise large sums of money to invest in business

**SCHEDULE C**  
**(Form 1040)**

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

CMB No. 1545-0074  
**2021**  
Attachment  
Sequence No. **09**

Department of the Treasury Internal Revenue Service (99) ▶ Go to [www.irs.gov/ScheduleC](http://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.

Name of proprietor  
Dan Designer

Social security number (SSN)  
XXX-XX-XXXX

**A** Principal business or profession, including product or service (see instructions)  
Interior Design

**B** Enter code from instructions  
1541400

**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.) ▶ 1000 Decorator Drive  
City, town or post office, state, and ZIP code Raleigh, NC 27615

**F** Accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ▶

**G** Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses . . .  Yes  No

**H** If you started or acquired this business during 2021, check here . . .

**I** Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions . . .  Yes  No

**J** If "Yes," did you or will you file required Form(s) 1099? . . .  Yes  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	303,566.
2	Returns and allowances . . . . .	2	13,799.
3	Subtract line 2 from line 1 . . . . .	3	289,767.
4	Cost of goods sold (from line 42) . . . . .	4	47,000.
5	Gross profit. Subtract line 4 from line 3 . . . . .	5	242,767.
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	242,767.

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

8	Advertising . . . . .	8	16,900.	18	Office expense (see instructions) . . . . .	18	18,000.
9	Car and truck expenses (see instructions) . . . . .	9	25,833.	19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):	20a	
11	Contract labor (see instructions) . . . . .	11	39,000.	a	Vehicles, machinery, and equipment . . . . .	20b	24,600.
12	Depletion . . . . .	12		21	Repairs and maintenance . . . . .	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . . . .	13	245.	22	Supplies (not included in Part III) . . . . .	22	6,802.
14	Employee benefit programs (other than on line 19) . . . . .	14		23	Taxes and licenses . . . . .	23	2,000.
15	Insurance (other than health) . . . . .	15	4,390.	24	Travel and meals:	24a	9,330.
16	Interest (see instructions):	16		a	Travel . . . . .	24b	1,849.
a	Mortgage (paid to banks, etc.) . . . . .	16a		b	Deductible meals (see instructions) . . . . .	25	
b	Other . . . . .	16b	1,522.	26	Utilities . . . . .	26	
17	Legal and professional services . . . . .	17	19,100.	27	Wages (less employment credits) . . . . .	27a	9,498.
				27a	Other expenses (from line 48) . . . . .	27b	
				b	Reserved for future use . . . . .	28	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a . . . . .	28		28	Total expenses for business use of home. Add lines 8 through 27a . . . . .	28	179,069.
29	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	29		29	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	29	63,698.
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		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	25,698.
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		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	38,000.
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.	32		32a	<input type="checkbox"/> All investment is at risk.	32b	<input type="checkbox"/> Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. BAA REV 01/24/22 TTW Schedule C (Form 1040) 2021

# Income Analysis Calculator

**SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)** OMB No. 1545-0074  
**2020** Attachment Sequence No. 09  
 Department of the Treasury Internal Revenue Service (99) ▶ Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information. ▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor: **Dan Designer** Social security number (SSN): **XXX-XX-XXXX**  
 A Principal business or profession, including product or service (see instructions): **Interior Design** B Enter code from instructions: **1514141010**  
 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.): **1000 Decorator Drive** City, town or post office, state, and ZIP code: **Raleigh, NC 27615**  
 F Accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ▶  
 G Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on losses  Yes  No  
 H If you started or acquired this business during 2020, check here  Yes  No  
 I Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions  Yes  No  
 J If "Yes," did you or will you file required Form(s) 1099?  Yes  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	297,800.
2	Returns and allowances	2	14,888.
3	Subtract line 2 from line 1	3	282,912.
4	Cost of goods sold (from line 42)	4	0.
5	Gross profit. Subtract line 4 from line 3	5	282,912.
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	282,912.

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

8	Advertising	17,999.	18	Office expense (see instructions)	17,555.
9	Car and truck expenses (see instructions)		19	Pension and profit-sharing plans	
10	Commissions and fees	25,082.	20	Rent or lease (see instructions):	
11	Contract labor (see instructions)	48,122.	a	Vehicles, machinery, and equipment	
12	Depletion		b	Other business property	22,700.
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	3,120.	21	Repairs and maintenance	
14	Employee benefit programs (other than on line 19)		22	Supplies (not included in Part III)	6,599.
15	Insurance (other than health)	3,100.	23	Taxes and licenses	1,750.
16	Interest (see instructions):		24	Travel and meals:	
a	Mortgage (paid to banks, etc.)		a	Travel	7,855.
b	Other	1,444.	b	Deductible meals (see instructions)	1,172.
17	Legal and professional services	17,660.	25	Utilities	
18	Total expenses before expenses for business use of home. Add lines 8 through 27a		26	Wages (less employment credits)	
19	Tentative profit or (loss). Subtract line 28 from line 7		27a	Other expenses (from line 48)	13,929.
20	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.		b	Reserved for future use	
21	Simplified method filers only: Enter the total square footage of (a) your home:		28		188,087.
22	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		29		94,825.
23	Net profit or (loss). Subtract line 30 from line 29.		30		28,555.
24	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.		31		66,270.
25	If a loss, you must go to line 32.				
26	If you have a loss, check the box that describes your investment in this activity. See instructions.				
27	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.				
28	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. BAA REV 02/16/21 TTW Schedule C (Form 1040) 2020

3	Schedule C – Profit or Loss from Business: Sole Proprietorship		
	a. Net Profit or Loss (Line 31)	+/-	
	b. Nonrecurring Other (Income) Loss/Expenses (Line 6)	+/-	
	c. Depletion (Line 12)	+	
	d. Depreciation (Line 13)	+	
	e. Non-deductible Meals and Entertainment Expenses (Line 24b)	-	
	f. Business Use of Home (Line 30, Check applicable guidelines)	+	
	g. Amortization/Casualty Loss (Only add back Amort/CL - Review Schedule C Page 2, Part V*)	+	
	Business Miles (Page 2, Part IV, Line 44a OR Related 4562, Line 30)		
	X Depreciation Rate (2021 - 26%; 2020 - 27%)		
	= Total Mileage Depreciation	+	
	Subtotal Schedule C	=	

Enact Calculators



# Adjustments To The Income

*Common sense guides us through most of the adjustments.*

**If a business received income/revenue in the past tax year but was NOT expected to receive it in future years, can you rely on it to be a source of income for the borrower to make mortgage payments with?**

3	Schedule C – Profit or Loss from Business: Sole Proprietorship		
	a. Net Profit or Loss (Line 31)	+/-	
	b. Nonrecurring Other (Income) Loss/Expenses (Line 6)	+/-	
	c. Depletion (Line 12)	+	
	d. Depreciation (Line 13)	+	
	e. Non-deductible Meals and Entertainment Expenses (Line 24b)	-	
	f. Business Use of Home (Line 30, Check applicable guidelines)	+	
	g. Amortization/Casualty Loss (Only add back Amort/CL - Review Schedule C Page 2, Part V*)	+	
	Business Miles (Page 2, Part IV, Line 44a OR Related 4562, Line 30)		
	X Depreciation Rate (2021 - 26%; 2020 - 27%)		
	= Total Mileage Depreciation	+	
	Subtotal Schedule C	=	



# Adjustments To The Income

*Common sense guides us through most of the adjustments.*

**If a business has acknowledged an expense that is considered a “non-cash” expense or a “paper loss” does the business still have the cash to be a source of income for the borrower to make mortgage payments with?**

3 Schedule C – Profit or Loss from Business: Sole Proprietorship			
	a. Net Profit or Loss (Line 31)	+/-	
	b. Nonrecurring Other (Income) Loss/Expenses (Line 6)	+/-	
	c. Depletion (Line 12)	+	
	d. Depreciation (Line 13)	+	
	e. Non-deductible Meals and Entertainment Expenses (Line 24b)	-	
	f. Business Use of Home (Line 30, Check applicable guidelines)	+	
	g. Amortization/Casualty Loss (Only add back Amort/CL - Review Schedule C Page 2, Part V*)	+	
	Business Miles (Page 2, Part IV, Line 44a OR Related 4562, Line 30)		
	X Depreciation Rate (2021 - 26%; 2020 - 27%)		
	= Total Mileage Depreciation	+	
	Subtotal Schedule C	=	



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# Depreciation

## **Legal Definition of *depreciation***

1 : any decrease in the value of property (as machinery) for the purpose of taxation that cannot be offset by current repairs and is carried on company books as a yearly charge amortizing the original cost over the useful life of the property

<https://www.merriam-webster.com/legal/depreciation>

Businesses depreciate long-term assets for both tax and accounting purposes.

For tax purposes, businesses can deduct the cost of the tangible assets they purchase as business expenses; however, businesses must depreciate these assets in accordance with IRS rules about how and when the deduction may be taken.

A taxpayer must use Form 4562, Depreciation and Amortization, to report depreciation on a tax return.

# Property Classifications For Depreciation



## Example of straight line depreciation

Purchase Price of Race Horse	\$20,000		
Placed in Service Jan 1st 2015	Depreciation	Book Value	Accumulated Depreciation
1st Year write-off	\$6,666.66	\$13,333	\$6,666
2nd Year write-off	\$6,666.66	\$6,666	\$13,333
3rd Year write-off	\$6,666.66	\$0	\$20,000

## 1. 3-year property

- Tractor units for over-the-road use
- Any race horse over 2 years old when placed in service. (All race horses placed in service after December 31, 2008, and before January 1, 2017 are deemed to be 3-year property, regardless of age.)
- Any other horse (other than a race horse) over 12 years old when placed in service
- Qualified rent-to-own property (defined later)

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# Property Classifications For Depreciation

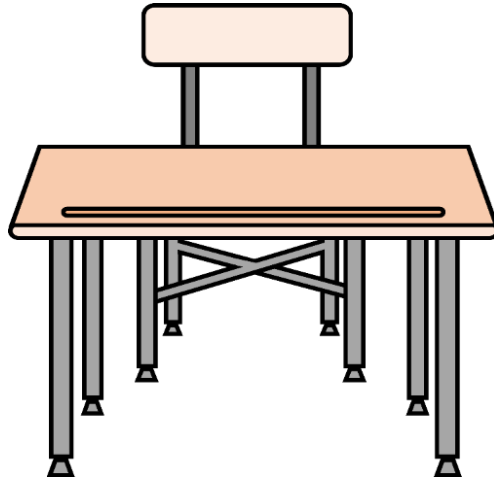


## 2. 5-year property

- a. Automobiles, taxis, buses, and trucks
- b. Computers and peripheral equipment
- c. Office machinery (such as typewriters, calculators, and copiers)
- d. Any property used in research and experimentation
- e. Breeding cattle and dairy cattle
- f. Appliances, carpets, furniture, etc. used in a residential rental real estate activity
- g. Certain geothermal, solar, and wind energy property

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# Property Classifications For Depreciation



## 3. 7-year property

- a. Office furniture and fixtures (such as desks, files, and safes)
- b. Agricultural machinery and equipment
- c. Railroad track
- d. Any property that does not have a class life and has not been designated by law as being in any other class
- e. Certain motorsports entertainment complex property (defined later) placed in service before January 1, 2017

# Depreciation And Amortization Worksheet

The worksheet allows the mortgage file reviewer to review the asset that was considered.

Form **4562** Depreciation and Amortization (Including Information on Listed Property) OMB No. 1545-0172  
 Department of the Treasury Internal Revenue Service (IRS) Attach to your tax return. 2021 Attachment Sequence No. 179  
 Go to [www.irs.gov/Form4562](http://www.irs.gov/Form4562) for instructions and the latest information.

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

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

1	Maximum amount (see instructions)	1
2	Total cost of section 179 property placed in service (see instructions)	2
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5

6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2020 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 2022. Add lines 9 and 10, less line 12	13	

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

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

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions	14
15	Property subject to section 108(f)(1) election	15
16	Other depreciation (including ACRS)	16

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

**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2021	17
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>	

**Section B—Assets Placed in Service During 2021 Tax Year Using the General Depreciation System**

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

**Section C—Assets Placed in Service During 2021 Tax Year Using the Alternative Depreciation System**

20a	Class life				S/L	
b	12-year		12 yrs.		S/L	
c	30-year		30 yrs.	MM	S/L	
d	40-year		40 yrs.	MM	S/L	

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

21	Listed property. Enter amount from line 28	21
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 12909N Form 4562 (2021)

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# Section 179

**Essentially, Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during the tax year.**

**That means that if you buy (or lease) a piece of qualifying equipment, you can deduct the FULL PURCHASE PRICE from your gross income.**

**It's an incentive created by the U.S. government to encourage businesses to buy equipment and invest in themselves.**



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# Depreciation

**The loss of value to an asset due to wear and tear.**

**A cost of doing business.**

**A non-cash expense.**

**+ Underwriting guideline: add it back !**

---

# Amortization

**Amortization is a method of recovering (deducting) certain capital costs over a fixed period of time. It is similar to the straight line method of depreciation.**

**The Internal Revenue Service (IRS) allows taxpayers to take a deduction for certain amortized expenses:**

- Geological and geophysical expenses incurred in oil and natural gas exploration
- Atmospheric pollution control facilities
- Bond premiums
- Research and development
- Lease acquisition
- Forestation and reforestation
- Certain intangibles such as goodwill, patents, copyrights and trademarks

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# Amortization

**The depreciation of an intangible asset.**

- Goodwill
- Trade Marks
- Copy Rights
- Patents

**A non-cash expense.**

**+ Underwriting guideline: add it back!**

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# Depletion

**Depletion is the using up of natural resources by mining, quarrying, drilling, or cutting.**

**The depletion deduction allows an owner or operator to account for the reduction of a product's reserves.**

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# Depletion

**The using up of a natural resource.**

- Coal
- Timber
- Gas

**A cost of doing business.**

**A non-cash expense.**

**+ Underwriting guideline: add it back !**

# Adjustments To The Income

*Common sense guides us through most of the adjustments.*

**If a business has not acknowledged an expense but the expense resulted in a cash outlay from the business does the business still have the cash to be a source for the borrower to make mortgage payments with?**

3 Schedule C – Profit or Loss from Business: Sole Proprietorship			
	a. Net Profit or Loss (Line 31)	+/-	
	b. Nonrecurring Other (Income) Loss/Expenses (Line 6)	+/-	
	c. Depletion (Line 12)	+	
	d. Depreciation (Line 13)	+	
	e. Non-deductible Meals and Entertainment Expenses (Line 24b)	-	
	f. Business Use of Home (Line 30, Check applicable guidelines)	+	
	g. Amortization/Casualty Loss (Only add back Amort/CL - Review Schedule C Page 2, Part V*)	+	
	Business Miles (Page 2, Part IV, Line 44a OR Related 4562, Line 30)		
	X Depreciation Rate (2021 - 26%; 2020 - 27%)		
	= Total Mileage Depreciation	+	
	Subtotal Schedule C	=	



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# Meals And Entertainment Expenses = Enjoyment Tax

**To qualify for a business expense the business owner would need to be present.**

## **Meals**

- Your borrower had to eat anyway!

## **Entertainment**

- Your Borrower had a *Really* good time!

**Regardless of the amount of people present, your borrower ate 50% and had a good time.**

- Gary took 10 clients to a show and dinner. The check came to \$2,700, Gary can write off \$1,350.
- Reduce income by line 24c

# Taxable Income

Form **1040** Department of the Treasury—Internal Revenue Service (99) | **2021**  
**U.S. Individual Income Tax Return**

- + Paper Write-Offs
- + Untaxed Income
- + Losses Not Continuing
- - Taxed Income Not Available
- - Income Not Expected To Continue



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Estimated Cash Available To Pay  
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## Self-Employed Borrower Tools by Enact MI

We get it, mental math is hard. That's why Enact provides a collection of downloadable calculators and reference guides to help you analyze a self-employed borrower's average monthly income and expenses. Please note that these tools offer suggested guidance, they don't replace instructions or applicable guidelines from the GSEs.

*Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.*

 <b>Fannie Mae Form 1084 Calculator (2019-2020)</b> Calculate and analyze cash flow to help you complete Fannie Mae form 1084. <small>UPDATED</small>	 <b>Fannie Mae Form 1084 Calculator XLS (2019-2020)</b> Calculate and analyze cash flow to help you complete Fannie Mae form 1084. <small>UPDATED</small>	 <b>Freddie Mac Form 91 Calculator (2019-2020)</b> Quick reference guide and income analysis for Freddie Mac Form 91 <small>UPDATED</small>
 <b>Freddie Mac Form 92 Calculator (2019-2020)</b> Form 92 Net Rental Income Calculations – Schedule E <small>UPDATED</small>	 <b>Schedule Analysis Method (SAM) Calculator (2019-2020)</b> Calculate qualifying income from tax returns. <small>UPDATED</small>	 <b>Rental Income Calculator (2019-2020)</b> Assists in calculating rental income from IRS form 1040 Schedule E. <small>UPDATED</small>
 <b>Current Ratio – Liquidity Calculator (2019-2020)</b> Calculate working capital liquidity against current liabilities. <small>UPDATED</small>	 <b>Quick Ratio – Liquidity Calculator (2019-2020)</b> Calculate an organization's liquidity against current liabilities. <small>UPDATED</small>	 <b>Fannie Mae Rental Guide (Calculator 1037)</b> Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, 2- to 4-unit Property)
 <b>Fannie Mae Rental Guide (Calculator 1039)</b> Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property)	 <b>Fannie Mae Form 1088 Cheat Sheet</b> Use this quick reference guide for Fannie Mae's Comparative Analysis Form (Form 1088)	 <b>Fannie Mae Comparative Analysis Form 1088</b> Calculate increases/decreases in gross income, expenses and taxable income.
 <b>Income Calculation Worksheet</b> Use this form to calculate income. <small>UPDATED</small>	 <b>P&amp;L Calculator</b> Created as result of changes made by the GSEs to adapt to the COVID-19 pandemic.	 <b>Business Stability and Income Worksheet (2021)</b> Created as result of changes made by the GSEs to adapt to the COVID-19 pandemic. <small>UPDATED</small>

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