

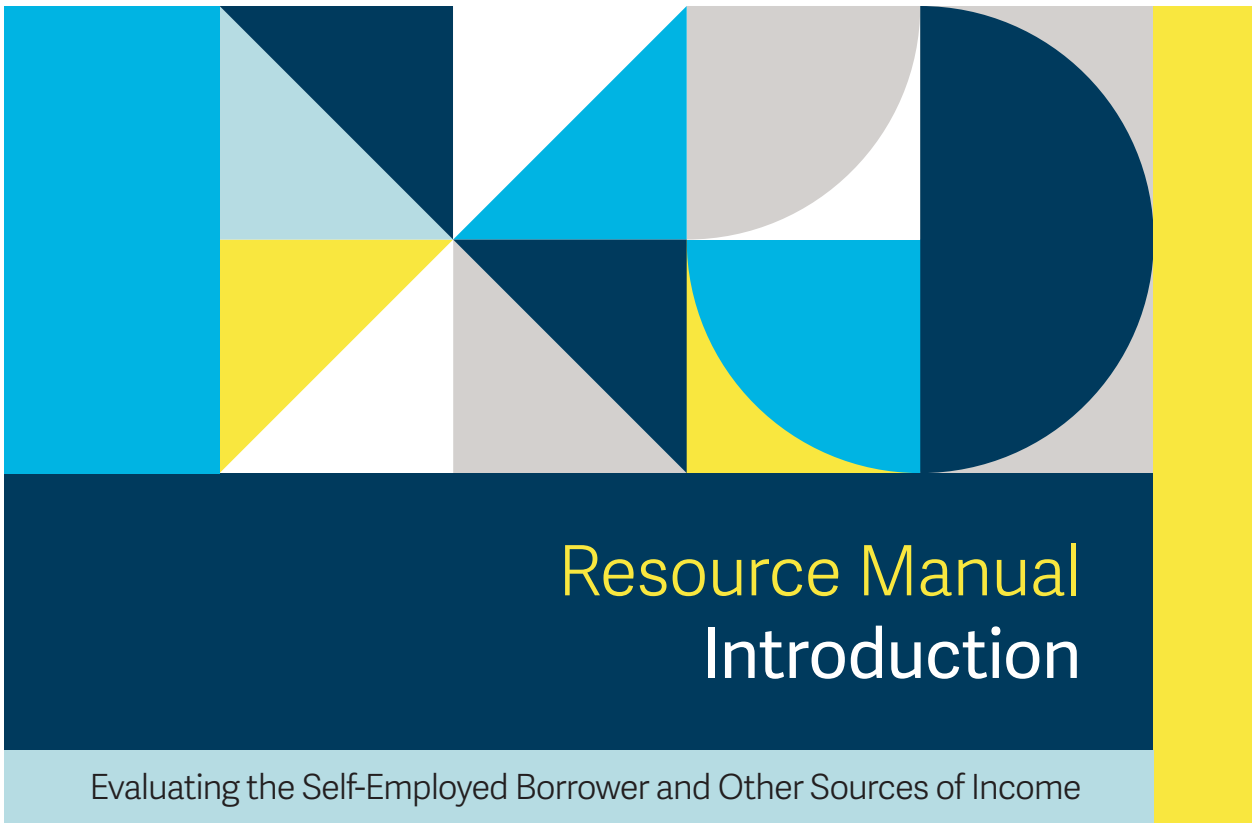
The MGIC logo is positioned in the top right corner of the cover. It consists of the letters "MGIC" in a white, bold, sans-serif font, set against a dark blue rectangular background. The overall cover design features a dark blue background with various geometric patterns in shades of light blue, yellow, and grey. These patterns include diagonal lines, horizontal stripes, and solid shapes, creating a modern and professional aesthetic.

MGIC

Evaluating the Self-Employed Borrower

and other sources of income

2017 TAX YEAR



This Resource Manual, updated with 2017 IRS forms, provides line-by-line explanations for personal and business tax returns.

We have additional tools to help you with your income analysis:

- Interactive, auto-calculating worksheets are hyperlinked to this resource manual, so help is only a click away
- SAM Cash Flow Analysis Worksheet expands for multiple businesses
- Liquidity Worksheet helps support use of K-1 income
- Rental Income Worksheet also expands for multiple properties

Access these materials at mgic.com/seb

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Introduction

Analytical skills and sound judgment are necessary when evaluating self-employed borrowers. Determining whether they can and will repay a loan is difficult because obtaining an estimate of their earnings from tax returns can be confusing.

The challenge for self-employed borrowers is, while their accountants or tax preparers are experts at reducing tax liabilities by minimizing taxable income, we underwriters start with that same taxable income as a gauge of their earnings. The tax return reveals the borrower's taxable income. But what you are really looking for is the borrower's **cash flow** – funds the borrower is going to use to repay the mortgage.

This manual will guide you through determining qualifying income and calculating cash flow for:

- Self-employed borrowers
- Borrowers who may not be self-employed but whose income changes from month to month; for example, a salesperson paid on commission

Throughout this manual, we may use the term "borrowers" to refer to multiple borrowers or a single borrower.

Risk Factors

Consider these factors when you evaluate self-employed borrowers:

- **Is the local industry structure stable, diversified and competitive?** In other words, how healthy is this business?
- **Is there evidence of sufficient cash reserves to meet personal and business obligations?** A poor personal credit history could indicate a cash flow problem in the business and prevent the business owner from obtaining financing for additional capital if needed
- **Is the property securing the mortgage marketable?** If the business fails, this property becomes the source for repaying the loan

Why use tax returns?

You can get a good snapshot of a typical borrower's income from a paystub, W-2 form or written Verification of Employment.

But a self-employed borrower is not typical. There is no independent third party to verify employment and income. The most credible sources to verify income are the tax returns they've submitted to the IRS.

Unfortunately, tax returns are not designed to provide a clear picture of cash flow. Instead, they report taxable income and deductible expenses. However, by carefully analyzing tax schedules, you can calculate self-employed borrowers' cash flow. This analysis is known as the Schedule Analysis Method, or SAM. SAM will help you determine whether the self-employed borrower is an acceptable risk.

Key Concepts

Tax returns are a starting point for analyzing cash flow.

However, before you can dive into analysis, it's important to know what to consider as **income, expense or loss**. Once you understand these basic concepts, you'll have a good foundation for conducting a meaningful analysis.

Three key income/expense components appear throughout the cash flow analysis:

- Noncash expenses
- Expenses limited by the IRS
- Recurring vs. nonrecurring income, expense or loss

Noncash Expenses

The most common types of noncash expenses are depreciation, depletion and amortization. The borrower deducts them from the business's earnings just like cash expenses such as rent, supplies and wages. These write-offs are a way for the business to spread out these costs.

Because these items do not involve a payment to anyone, add them to the borrower's cash flow.

Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset. The "expense" reflects a reasonable allowance for wear and tear of an asset. The depreciated asset wears out, becomes obsolete or gets used-up and eventually needs to be replaced.

"Real" depreciation typically refers to real estate; either a rental home or commercial property.

"Chattel" depreciation typically refers to assets that have a short life span, such as furniture, cars and office equipment.

Depletion

Depletion is the exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. The IRS allows a business that exhausts a natural resource in the course of normal operation to allocate the total costs of that natural resource over a given period of time.

This allocation capability enables the borrower to gather sufficient capital to start over once the natural resource is depleted.

Amortization

Amortization is the write-off of initial costs incurred by the borrower prior to the beginning of formal business operations. Examples of initial costs include survey fees, goodwill, trademarks, patents, copyrights, customer lists, non-compete agreements and prepayments. Borrowers can expense these one-time costs over a period of time.

Expenses Limited by the IRS

In certain situations, the IRS limits the amount of expense borrowers can declare to reduce taxable income.

In the course of doing business, borrowers often treat clients to **meals or entertainment** such as golf, ball games, theater, etc. In general, borrowers deduct 50% of these out-of-pocket costs on the tax return – sometimes more, depending upon their occupation. However, since the borrower paid 100% of the expense; subtract the difference from cash flow.

Recurring vs. Nonrecurring Income, Expense or Loss

Recurring Income

Recurring income is ongoing income you can expect to continue for at least the next 3 years in order to consider it as qualifying income for cash flow. The more the borrowers have to rely on that income to repay the mortgage, the more important it is for that income to continue long into the future.

Introduction

Examples of **recurring income** include earnings from the operation of a business, interest from long-term investments or even lottery winnings paid out over a number of years.

Nonrecurring Income

Nonrecurring income is income from one-time events. Since you can't expect it to continue, you can't consider it as qualifying income toward cash flow. Examples include the sale of an asset or a prize or other windfall.

Recurring Expense

Recurring expenses are ongoing expenses associated with the day-to-day operation of a business. Examples include wages, insurance, car and truck expenses, etc.

Nonrecurring Expense

A nonrecurring expense or loss is a one-time expense or loss. For example, a **casualty loss** is a one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane.

If you can document an expense as a true, one-time occurrence related to business, add back the amount to cash flow.

Tax Forms & Schedules

Borrowers may use a variety of tax forms and schedules to document their income and deductions. This manual will discuss the following:

Personal Income

- **Form 1040:** U.S. Individual Income Tax Return
- **Schedule A:** Itemized Deductions
- **Form 2106:** Employee Business Expenses
- **Schedule B:** Interest and Ordinary Dividends
- **Schedule C:** Profit or Loss From Business
- **Form 4562:** Depreciation and Amortization
- **Schedule D:** Capital Gains and Losses
- **Form 8949:** Sales and Other Dispositions of Capital Assets
- **Form 6252:** Installment Sale Income
- **Schedule E:** Supplemental Income and Loss
- **Form 8582:** Passive Activity Loss Limitations
- **Schedule F:** Profit or Loss From Farming

The IRS has several simplified versions of some of these schedules and forms.

Using an EZ version will limit deductions for the borrower.

For example:

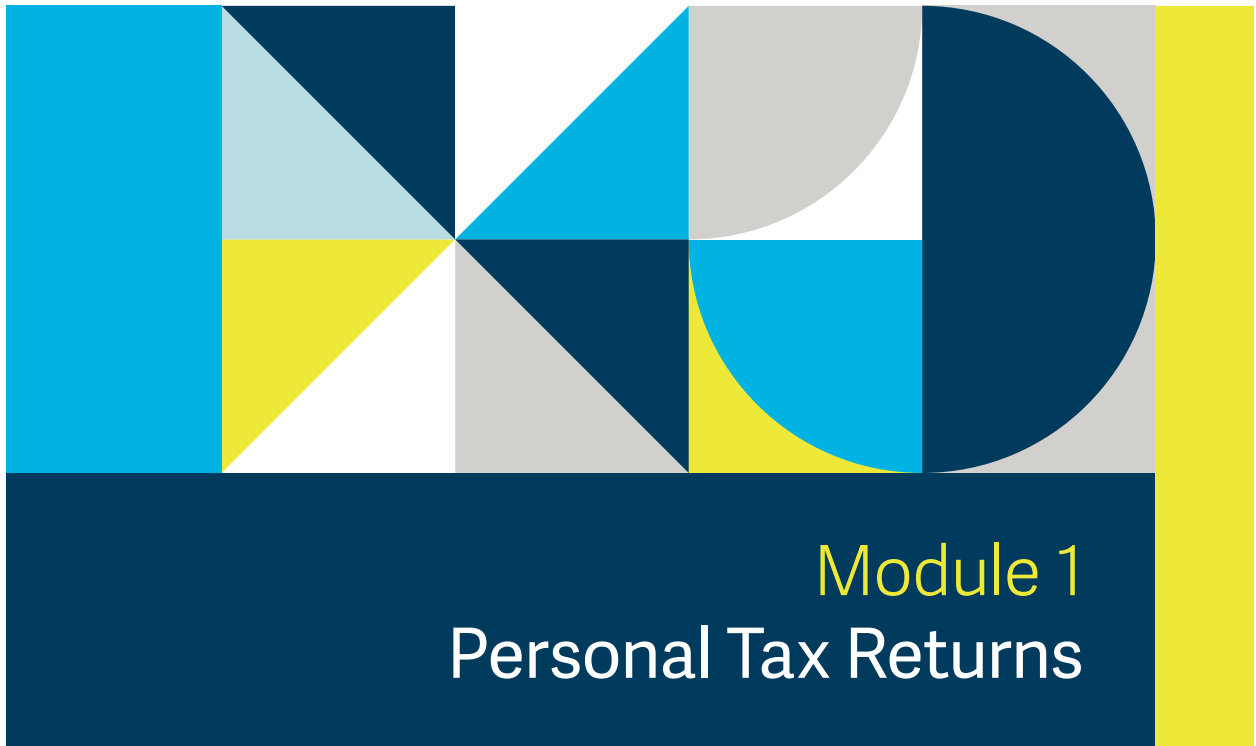
Schedule C-EZ: Net Profit from Business

A small number of businesses are eligible to file Schedule C-EZ. This alternative to Schedule C limits business expenses to \$5,000 and does not allow for depreciation or amortization.

We don't provide samples of these EZ schedules and forms in this manual, but you should be aware of them.

Business Income

- **Schedule K-1 (FORM 1065):** Partner's Share of Income, Deductions, Credits, etc., from Partnership Schedule
- **Form 1065:** U.S. Return of Partnership Income
- **Schedule K-1 (FORM 1120S):** Shareholder's Share of Income, Deductions, Credits, etc., from S Corporation
- **Form 1120S:** U.S. Income Tax Return for an S Corporation
- **Form 8825:** Rental Real Estate Income and Expenses of a Partnership or an S Corporation
- **Form 1120:** U.S. Corporation Income Tax Return
- **Form 1125-E:** Compensation of Officers



Before we get started, here are some housekeeping items regarding how we've organized this module.

Even-numbered pages contain a sample tax form. Odd-numbered pages explain the effect of the applicable line items from the tax form on the borrower's cash flow based on SAM.

When you see the heading, **Effect On Cash Flow Analysis Worksheet** or **Effect On Rental Income Worksheet**, you'll find guidance as to whether you should add/deduct the amount of a line item to/from the borrower's cash flow.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Presidential Election Campaign

Foreign country name Foreign province/state/county Foreign postal code 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

Filing Status 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) 5 Qualifying widow(er) (see instructions) If the qualifying person is a child but not your dependent, enter this child's name here.

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. b Spouse c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if child under age 17 qualifying for child tax credit (see instructions) Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 8a Taxable interest. Attach Schedule B if required 8a b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 10 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here 13 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a b Taxable amount 15b 16a Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 19 Unemployment compensation 19 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22

Adjusted Gross Income 23 Educator expenses 23 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24 25 Health savings account deduction. Attach Form 8889 25 26 Moving expenses. Attach Form 3903 26 27 Deductible part of self-employment tax. Attach Schedule SE 27 28 Self-employed SEP, SIMPLE, and qualified plans 28 29 Self-employed health insurance deduction 29 30 Penalty on early withdrawal of savings 30 31a Alimony paid b Recipient's SSN 31a 32 IRA deduction 32 33 Student loan interest deduction 33 34 Reserved for future use 34 35 Domestic production activities deduction. Attach Form 8903 35 36 Add lines 23 through 35 36 37 Subtract line 36 from line 22. This is your adjusted gross income 37

Form 1040: U.S. Individual Income Tax Return (Page 1)

Before we dive into Form 1040, refer to the borrower's W-2.

In general, use Box 5 to locate wages from self-employment or variable income, e.g., commission income. However, in certain cases, after evaluating the source of income reported in Box 1, it may be appropriate to use that amount. Follow investor guidelines.

Form W-2: Wage and Tax Statement

When income represents money paid to the borrower in the form of salary or wages from self-employment, include it in cash flow.

Also, when income represents money paid to the borrower in the form of commissions that make up 25% of the borrower's total income being used to qualify, include it in cash flow.

Effect on Cash Flow Analysis Worksheet

- Add self-employed wages
- Add variable income, e.g., commission income
Note: Refer to IRS Form 2106 for unreimbursed expenses; see page 19.

Lines 8b through 21

Page 1 of the 1040 identifies other income sources you may or may not be able to use to qualify the borrower.

Include any income the borrower reported on Line 8b through Line 21 if you're able to document it as consistent and ongoing according to investor guidelines.

Look for the following items on page 1 of Form 1040:

- Line 8b: Tax-exempt interest
- Line 11: Alimony received – This will not include child support payments as they aren't taxable
- Line 15a: IRA distributions
 - Nontaxable income – Line 15a minus Line 15b
- Line 16a: Pensions and annuities
 - Nontaxable income – Line 16a minus Line 16b
- Line 19: Unemployment compensation
- Line 20a: Social Security benefits
 - Nontaxable income – Line 20a minus Line 20b
- Line 21: Other income – This may include income from prizes or gambling winnings that, in general, aren't expected to recur

Effect on Cash Flow Analysis Worksheet

- Add these items to cash flow only if you're able to document they're stable and recurring

Tax and Credits

Standard Deduction for—

- People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
• All others: Single or Married filing separately, \$6,350
Married filing jointly or Qualifying widow(er), \$12,700
Head of household, \$9,350

38 Amount from line 37 (adjusted gross income)
39a Check [] You were born before January 2, 1953, [] Blind. Total boxes checked ▶ 39a
if: [] Spouse was born before January 2, 1953, [] Blind.
b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b []
40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)
41 Subtract line 40 from line 38
42 Exemptions. If line 38 is \$156,900 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions
43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
44 Tax (see instructions). Check if any from: a [] Form(s) 8814 b [] Form 4972 c []
45 Alternative minimum tax (see instructions). Attach Form 6251
46 Excess advance premium tax credit repayment. Attach Form 8962
47 Add lines 44, 45, and 46
48 Foreign tax credit. Attach Form 1116 if required
49 Credit for child and dependent care expenses. Attach Form 2441
50 Education credits from Form 8863, line 19
51 Retirement savings contributions credit. Attach Form 8880
52 Child tax credit. Attach Schedule 8812, if required.
53 Residential energy credit. Attach Form 5695
54 Other credits from Form: a [] 3800 b [] 8801 c []
55 Add lines 48 through 54. These are your total credits
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-
57 Self-employment tax. Attach Schedule SE
58 Unreported social security and Medicare tax from Form: a [] 4137 b [] 8919
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
60a Household employment taxes from Schedule H
b First-time homebuyer credit repayment. Attach Form 5405 if required
61 Health care: individual responsibility (see instructions) Full-year coverage []
62 Taxes from: a [] Form 8959 b [] Form 8960 c [] Instructions; enter code(s)
63 Add lines 56 through 62. This is your total tax

Other Taxes

Payments

If you have a qualifying child, attach Schedule EIC.

64 Federal income tax withheld from Forms W-2 and 1099
65 2017 estimated tax payments and amount applied from 2016 return
66a Earned income credit (EIC)
b Nontaxable combat pay election 66b
67 Additional child tax credit. Attach Schedule 8812
68 American opportunity credit from Form 8863, line 8
69 Net premium tax credit. Attach Form 8962
70 Amount paid with request for extension to file
71 Excess social security and tier 1 RRTA tax withheld
72 Credit for federal tax on fuels. Attach Form 4136
73 Credits from Form: a [] 2439 b [] Reserved c [] 8885 d []
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments

Refund

Direct deposit? See instructions.

75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid
76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here
b Routing number
c Type: [] Checking [] Savings
d Account number
77 Amount of line 75 you want applied to your 2018 estimated tax ▶ 77

Amount You Owe

78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶ 78
79 Estimated tax penalty (see instructions) 79

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

Joint return? See instructions. Keep a copy for your records.

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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature Date Your occupation Daytime phone number
Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name Preparer's signature Date Check [] if self-employed PTIN
Firm's name Firm's EIN
Firm's address Phone no.

Form 1040: U.S. Individual Income Tax Return (Page 2)

The borrower's cash flow is based on gross income versus taxable income. Page 2 of Form 1040 determines the borrower's tax liability.

Note: If Line 40 indicates that the borrower took the standard deduction, then, in general, Schedule A, Itemized Deductions, will not be included with the tax return.

Effect on Cash Flow Analysis Worksheet

- No line items on this page affect cash flow

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on Form 1040

Itemized Deductions

▶ Go to www.irs.gov/ScheduleA for instructions and the latest information.
▶ Attach to Form 1040.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.

OMB No. 1545-0074

2017
Attachment
Sequence No. **07**

Your social security number

Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.			
1	Medical and dental expenses (see instructions)			
2	Enter amount from Form 1040, line 38 2			
3	Multiply line 2 by 7.5% (0.075)			
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid	5 State and local (check only one box):			
	a <input type="checkbox"/> Income taxes, or	5		
	b <input type="checkbox"/> General sales taxes			
	6 Real estate taxes (see instructions)	6		
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ▶	8		
	9 Add lines 5 through 8			9
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11		
Note: Your mortgage interest deduction may be limited (see instructions).				
	12 Points not reported to you on Form 1098. See instructions for special rules	12		
	13 Reserved for future use	13		
	14 Investment interest. Attach Form 4952 if required. See instructions	14		
	15 Add lines 10 through 14			15
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16		
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
	18 Carryover from prior year	18		
	19 Add lines 16 through 18			19
	20 Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions			20
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶	21		
	22 Tax preparation fees	22		
	23 Other expenses—investment, safe deposit box, etc. List type and amount ▶	23		
	24 Add lines 21 through 23	24		
	25 Enter amount from Form 1040, line 38 25	25		
	26 Multiply line 25 by 2% (0.02)	26		
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ▶			28
Total Itemized Deductions	29 Is Form 1040, line 38, over \$156,900?			29
	<input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.			
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>			

For Paperwork Reduction Act Notice, see the Instructions for Form 1040.

Cat. No. 17145C

Schedule A (Form 1040) 2017

Schedule A: Itemized Deductions

Borrowers may choose to itemize deductions instead of taking the standard deduction in order to save on taxes. Borrowers must complete Schedule A to support their itemized expenses.

Review the following line items on this schedule:

Line 6: Real Estate Taxes

If borrowers have indicated on the Residential Loan Application (1003) they own real estate (owner-occupied), they will report a deduction for real estate taxes they paid on this line. If they own investment property, they will use Schedule E to report investment property real estate taxes they paid.

Lines 10 and 11: Home Mortgage Interest

If the borrower is a current homeowner, and there is a lien on the property, the borrower will report a deduction for mortgage interest here.

Line 21: Unreimbursed Employee Expenses

These are business expenses the IRS allows as a deduction from taxable income on Schedule A. The borrower typically files Form 2106 to support the deduction.

Effect on Cash Flow Analysis Worksheet

- Use Form 2106 to make adjustments. See pages 19 and 21 in this module

Employee Business Expenses

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR.

2017
Attachment
Sequence No. **129**

▶ Go to www.irs.gov/Form2106 for instructions and the latest information.

Your name	Occupation in which you incurred expenses	Social security number
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Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	
2 Parking fees, tolls, and transportation, including train, bus, etc., that didn't involve overnight travel or commuting to and from work	2	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Don't include meals and entertainment.	3	
4 Business expenses not included on lines 1 through 3. Don't include meals and entertainment	4	
5 Meals and entertainment expenses (see instructions)		
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	

Note: If you weren't reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that weren't reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions).	7	
--	---	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	8	
Note: If both columns of line 8 are zero, you can't deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.)	9	
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . ▶	10	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11700N

Form **2106** (2017)

Form 2106: Employee Business Expenses

Borrowers report reimbursed and unreimbursed business expenses on this form. Examples of typical expenses include vehicle, travel, meals and entertainment.

In general, borrowers may not deduct more than 50% of unreimbursed meals and entertainment expenses incurred during the year.

Line 8: Unreimbursed Expenses

Effect on Cash Flow Analysis Worksheet

- Deduct unreimbursed employee business expenses, Line 8, columns A plus B, from cash flow

Note: This represents all unreimbursed business expenses the borrower paid.

FY! Automobile Allowance

When borrowers report the allowance on their personal tax returns:

- Include allowance in excess of monthly expenses in the monthly qualifying income OR
- Include expenses in excess of the allowance in the total monthly obligation

When borrowers don't report the allowance on their personal tax returns:

- Include the allowance in the monthly qualifying income AND
- Include the automobile payment/lease payment in the total monthly obligation

Part II Vehicle Expenses

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	11 / /	/ /
12	Total miles the vehicle was driven during 2017	12 miles	miles
13	Business miles included on line 12	13 miles	miles
14	Percent of business use. Divide line 13 by line 12	14 %	%
15	Average daily roundtrip commuting distance	15 miles	miles
16	Commuting miles included on line 12	16 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17 miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
19	Do you (or your spouse) have another vehicle available for personal use?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
20	Do you have evidence to support your deduction?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
21	If "Yes," is the evidence written?	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)

22	Multiply line 13 by 53.5¢ (0.535). Enter the result here and on line 1	22
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Section C—Actual Expenses		(a) Vehicle 1		(b) Vehicle 2	
23	Gasoline, oil, repairs, vehicle insurance, etc.	23			
24a	Vehicle rentals	24a			
b	Inclusion amount (see instructions)	24b			
c	Subtract line 24b from line 24a	24c			
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25			
26	Add lines 23, 24c, and 25.	26			
27	Multiply line 26 by the percentage on line 14	27			
28	Depreciation (see instructions)	28			
29	Add lines 27 and 28. Enter total here and on line 1	29			

Section D—Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

		(a) Vehicle 1		(b) Vehicle 2	
30	Enter cost or other basis (see instructions)	30			
31	Enter section 179 deduction and special allowance (see instructions)	31			
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance).	32			
33	Enter depreciation method and percentage (see instructions)	33			
34	Multiply line 32 by the percentage on line 33 (see instructions)	34			
35	Add lines 31 and 34	35			
36	Enter the applicable limit explained in the line 36 instructions	36			
37	Multiply line 36 by the percentage on line 14	37			
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	38			

Form 2106: Employee Business Expenses (Page 2)

Automobile Depreciation

Borrowers can claim automobile depreciation as part of their vehicle expense. If there is depreciation, they will report it in either Section B OR Section C – but not both.

Section B – Standard Mileage Rate

Line 22: Multiply Line 13 by ...

This section estimates the vehicle expense based on the number of miles driven and a depreciation factor.

The depreciation factors for the 3 most recent years are:

- 2015: 24.0¢
- 2016: 24.0¢
- 2017: 25.0¢

Effect on Cash Flow Analysis Worksheet

- If Line 22 is completed:
 - Multiply the business miles driven on Line 13 by the depreciation factor for the appropriate year
 - Add back the amount

Section C – Actual expenses

Line 28: Depreciation

This section reports actual depreciation the borrower claimed.

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- If Line 28 is completed, add back the amount

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

Interest and Ordinary Dividends

▶ **Attach to Form 1040A or 1040.**

▶ **Go to www.irs.gov/ScheduleB for instructions and the latest information.**

OMB No. 1545-0074

2017
Attachment
Sequence No. **08**

Your social security number

Part I		Amount
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 ▶ (See instructions and the instructions for Form 1040A, or Form 1040, line 8a.) 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.	1
2	Add the amounts on line 1	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	
Note: If line 4 is over \$1,500, you must complete Part III.		Amount

Part II		Amount
5	List name of payer ▶ (See instructions and the instructions for Form 1040A, or Form 1040, line 9a.) 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.	5
6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	
Note: If line 6 is over \$1,500, you must complete Part III.		Amount

Part III		Yes	No
You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.			
7a	At any time during 2017, 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, enter the name of the foreign country where the financial account is located ▶		
8	During 2017, 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		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 17146N

Schedule B (Form 1040A or 1040) 2017

Schedule B: Interest and Ordinary Dividends

Schedule B provides the supporting detail for the taxable interest and dividend income the borrower reported on page 1 of Form 1040. Compare the sources of income listed here to the Residential Loan Application (1003).

Note: The borrower needs to complete Schedule B only if interest and dividend income is greater than \$1,500.

Part I – Interest

Line 1: List Name of Payer

Seller-Financed Mortgages

In order to use the income from a seller-financed mortgage (or land contract), there must be 3 or more years remaining in the life of the contract. Document the debtor has made the last 12 months' payments in a timely manner.

Note: For potential additional income, see page 39 for discussion of Form 6252.

Effect on Cash Flow Analysis Worksheet

- Add recurring interest income

Depository Accounts

Before using this income, verify those accounts still exist and the balances have not significantly decreased. Document the income with 2 years' tax returns.

Effect on Cash Flow Analysis Worksheet

- Add recurring interest income. If Schedule B is NOT completed, add recurring interest income from Form 1040, Line 8a

Part II – Ordinary Dividends

Line 5: List Name of Payer

Dividend Income

Before using this income, confirm the borrower still owns the assets that generated it by comparing Schedule B to the Residential Loan Application (1003). Also, check Schedule D for the sale of any assets. Document the income with 2 years' tax returns.

Effect on Cash Flow Analysis Worksheet

- Add recurring dividend income. If Schedule B is NOT completed, add recurring dividend income from Form 1040, Line 9a

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

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

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

OMB No. 1545-0074

2017
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 2017? 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 2017, check here <input type="checkbox"/>	
I Did you make any payments in 2017 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 Forms 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
9 Car and truck expenses (see instructions)	9
10 Commissions and fees	10
11 Contract labor (see instructions)	11
12 Depletion	12
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13
14 Employee benefit programs (other than on line 19)	14
15 Insurance (other than health)	15
16 Interest:	
a Mortgage (paid to banks, etc.)	16a
b Other	16b
17 Legal and professional services	17
18 Office expense (see instructions)	18
19 Pension and profit-sharing plans	19
20 Rent or lease (see instructions):	
a Vehicles, machinery, and equipment	20a
b Other business property	20b
21 Repairs and maintenance	21
22 Supplies (not included in Part III)	22
23 Taxes and licenses	23
24 Travel, meals, and entertainment:	
a Travel	24a
b Deductible meals and entertainment (see instructions)	24b
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. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32. If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.	31
	32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.

Schedule C: Profit or Loss From Business (Sole Proprietorship)

A sole proprietorship is a business with a single owner. Sole proprietorships report profit and loss on Schedule C. All profits from a sole proprietorship flow directly to the owner. The owner pays taxes on these profits.

Schedule C provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Lines A and C: Principal Business and Business Name

Compare the entries for principal business and business name to the Residential Loan Application (1003). Double-check that the borrower is currently in the same line of work as reported on the tax returns.

Line F: Accounting Method

It's important to identify the accounting method that the borrower is using because it affects the interpretation of the income figures.

For example, if the borrower uses the **Accrual Basis** of accounting, cash flow may appear distorted because the business didn't actually receive cash nor did it pay bills on the transaction dates indicated in the business's ledgers. Instead, the actual income the business received and expenses it paid are allocated to the time period in which the business actually earned and incurred them.

If borrowers use the **Cash Basis** of accounting, they report cash the day the business receives it and report bills the day it pays them. The cash method might overstate the income if invoices are held and not paid until after year-end and understate income if the business hasn't received cash it's owed – to the borrower's disadvantage.

Line 31: Net Profit or (Loss)

The amount the borrower has reported on this line is income or loss generated from business operations.

Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

Part I – Income

This section discloses the revenue of a sole proprietorship.

Line 6: Other Income

This amount represents money the business received that was not obtained by the profits of the business, e.g., interest income from notes or accounts receivable, or income from miscellaneous receipts. Analyze this income to determine whether it's stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss or expense

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

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

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

OMB No. 1545-0074

2017
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 2017? 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 2017, check here <input type="checkbox"/>	
I Did you make any payments in 2017 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 Forms 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
9 Car and truck expenses (see instructions)	9
10 Commissions and fees	10
11 Contract labor (see instructions)	11
12 Depletion	12
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13
14 Employee benefit programs (other than on line 19)	14
15 Insurance (other than health)	15
16 Interest:	
a Mortgage (paid to banks, etc.)	16a
b Other	16b
17 Legal and professional services	17
18 Office expense (see instructions)	18
19 Pension and profit-sharing plans	19
20 Rent or lease (see instructions):	
a Vehicles, machinery, and equipment	20a
b Other business property	20b
21 Repairs and maintenance	21
22 Supplies (not included in Part III)	22
23 Taxes and licenses	23
24 Travel, meals, and entertainment:	
a Travel	24a
b Deductible meals and entertainment (see instructions)	24b
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. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.	32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.

Part II – Expenses

This section discloses the cash and noncash expenses of a sole proprietorship. In general, you'll add back noncash expenses to cash flow.

Line 9: Car and Truck Expenses

In most cases, this number represents actual cash expenditures for oil, maintenance and repairs to vehicles.

However, if borrowers elect to claim the standard mileage deduction on their vehicle, they will report that amount on Line 9. See pages 29 (Schedule C, page 2) and 31 (Form 4562) for discussion on potential depreciation add-backs.

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustments

Line 12: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 13: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 24: Travel, Meals, and Entertainment

These cash expenses relate to the cost of business-related meals and entertainment.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on line 24b, which commonly reflects only 50% of expenses paid

Line 30: Expenses for Business Use of Your Home

An individual may operate a business out of the home for which tax deductions for a portion of rent, utilities or maintenance may be available.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: **a** Cost **b** Lower of cost or market **c** Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation Yes No

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36 Purchases less cost of items withdrawn for personal use	36		
37 Cost of labor. Do not include any amounts paid to yourself	37		
38 Materials and supplies	38		
39 Other costs	39		
40 Add lines 35 through 39	40		
41 Inventory at end of year	41		
42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____ / _____ / _____

44 Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:
a Business _____ **b** Commuting (see instructions) _____ **c** Other _____

45 Was your vehicle available for personal use during off-duty hours? Yes No

46 Do you (or your spouse) have another vehicle available for personal use?. Yes No

47a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

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

48 Total other expenses. Enter here and on line 27a	48	

Schedule C: Profit or Loss From Business (Page 2)

Part IV – Information on Your Vehicle

A sole proprietor who uses the standard mileage deduction to estimate vehicle expenses will calculate that expense either here or on Form 4562. The standard deduction includes an estimate for depreciation. Depreciation factors for the 3 most recent years are:

Year	Standard Deduction	Depreciation
2015	57.5¢	24¢
2016	54.0¢	24¢
2017	53.5¢	25¢

Line 44a: Business Miles Driven

Effect on Cash Flow Analysis Worksheet

- Multiply the number of miles on Line 44a by the depreciation factor for the appropriate year. Add back the amount

Part V – Other Expenses

The borrower may list certain expenses here that are either noncash expenses or nonrecurring in nature.

Look for the following items:

Amortization

Amortization is the write-off of initial costs incurred prior to the beginning of formal business operations.

Borrowers can expense these one-time costs over a period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Casualty Loss

Casualty loss is a one-time, extraordinary expense due to damage or destruction of property.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

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 2016 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 2018. 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 168(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 2017 **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

Section B—Assets Placed in Service During 2017 Tax Year Using the

(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
19a 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.	
h Residential rental property			27.5 yrs.	MM
i Nonresidential real property			39 yrs.	MM

Section C—Assets Placed in Service During 2017 Tax Year Using the Alt

20a Class life	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention
b 12-year			12 yrs.	
c 40-year			40 yrs.	MM

Form 4562 (2017) Page 2

Part IV Listed Property (Include automobiles, certain other vehicles, certain aircraft, certain computers, and property used for entertainment, recreation, or amusement.)
 Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? Yes No **24b** If "Yes," is the evidence written? Yes No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)						25		
26 Property used more than 50% in a qualified business use:		%						
27 Property used 50% or less in a qualified business use:		%				S/L -		
		%				S/L -		
		%				S/L -		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1								28
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1								29

Section B—Information on Use of Vehicles
 Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
30 Total business/investment miles driven during the year (don't include commuting miles)						
31 Total commuting miles driven during the year						
32 Total other personal (noncommuting) miles driven						
33 Total miles driven during the year. Add lines 30 through 32						
34 Was the vehicle available for personal use during off-duty hours?	Yes No	Yes No	Yes No	Yes No	Yes No	Yes No
35 Was the vehicle used primarily by a more than 5% owner or related person?						
36 Is another vehicle available for personal use?						

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees
 Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who aren't more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? **Yes No**

38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners

39 Do you treat all use of vehicles by employees as personal use?

40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?

41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," don't complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2017 tax year (see instructions):					
43 Amortization of costs that began before your 2017 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report					44

Form 4562: Depreciation and Amortization

In general, borrowers calculate total depreciation on Form 4562 and transfer the amount to Schedule C, E or F of their tax return. A corporate or partnership tax return includes the deduction in the calculation of taxable income from operations.

The time span over which the IRS allows borrowers to deduct depreciation, depletion or amortization varies greatly. It does not necessarily correspond to the economic life expectancy of the asset.

Note: The IRS doesn't require borrowers to submit Form 4562 unless:

- They are taking an immediate deduction
- They are taking a depreciation deduction for property placed in service in the current year or
- They are depreciating listed property

For these reasons, borrowers may not include Form 4562 in their tax returns.

Effect on Cash Flow Analysis Worksheet

- No line items on this page affect cash flow
- Use Schedules C (page 27), E (page 43) or F (page 49) to make adjustments

**SCHEDULE D
(Form 1040)**

Capital Gains and Losses

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.**
▶ **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.**

2017
Attachment
Sequence No. **12**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

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—Assets Held More Than One Year

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

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2017

Schedule D: Capital Gains and Losses

Schedule D is typically used for reporting capital gains and losses. In most cases, a capital gain or loss is a nonrecurring event. You will not use it to qualify your borrower.

Short-Term Versus Long-Term Assets

The difference between short- and long-term assets is the amount of time the assets were held before they were sold. The distinction has no bearing on our analysis.

Lines 4 and 11: Gains from Form 6252 (Installment Sale Income)

If there is an entry on either of these lines, look for Form 6252, used to report the principal received as part of installment payments on a loan owed to the borrower. See page 39 for specific instructions. (Although Lines 4 and 11 refer to several tax forms, Form 6252 is the only one with potential for additions to income.)

Effect on Cash Flow Analysis Worksheet

- There is no effect; make no adjustments

Lines 6 and 14: Short-term and Long-term Capital Loss Carryovers

These losses occurred in prior tax year(s) and the borrower carries them forward to later years.

Effect on Cash Flow Analysis Worksheet

- In general, add back these losses. Follow investor guidelines

Part III Summary

<p>16 Combine lines 7 and 15 and enter the result</p> <ul style="list-style-type: none"> • If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22. <p>17 Are lines 15 and 16 both gains? <input type="checkbox"/> Yes. Go to line 18. <input type="checkbox"/> No. Skip lines 18 through 21, and go to line 22.</p> <p>18 If you are required to complete the 28% Rate Gain Worksheet (see instructions), enter the amount, if any, from line 7 of that worksheet ▶</p> <p>19 If you are required to complete the Unrecaptured Section 1250 Gain Worksheet (see instructions), enter the amount, if any, from line 18 of that worksheet ▶</p> <p>20 Are lines 18 and 19 both zero or blank? <input type="checkbox"/> Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Don't complete lines 21 and 22 below. <input type="checkbox"/> No. Complete the Schedule D Tax Worksheet in the instructions. Don't complete lines 21 and 22 below.</p> <p>21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of: <ul style="list-style-type: none"> • The loss on line 16 or • (\$3,000), or if married filing separately, (\$1,500) } <p>Note: When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p>22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? <input type="checkbox"/> Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <input type="checkbox"/> No. Complete the rest of Form 1040 or Form 1040NR.</p> </p>	<p>16</p> <p>18</p> <p>19</p> <p>21</p>	
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Schedule D: Capital Gains and Losses

(Page 2)

Line 16: Capital Gains and Losses

The borrower reports total gains and losses on Line 16 of Schedule D. Review the itemized list of short- and long-term gains (Form 8949 on page 37) and compare one year's Schedule D to another to determine whether the income or loss is recurring or not.

Capital Gains

Before using capital gains as qualifying income:

- Document the income with a minimum of 2 years' tax returns
- Verify evidence that the borrower will continue to acquire assets to generate capital gains

Effect on Cash Flow Analysis Worksheet

- Add recurring capital gains

Capital Losses

Treatment of capital losses varies among investors.

Effect on Cash Flow Analysis Worksheet

- Follow investor guidelines

Note: Don't include pass-through income from the Schedule(s) K-1 that the borrower reported on Schedule D, Line 5 and Line 12.

Sales and Other Dispositions of Capital Assets

2017 Attachment Sequence No. 12A

Go to www.irs.gov/Form8949 for instructions and the latest information. File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Name(s) shown on return Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are short term. For long-term transactions, see page 2. Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
(B) Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
(C) Short-term transactions not reported to you on Form 1099-B

Table with 8 columns: (a) Description of property, (b) Date acquired, (c) Date sold or disposed of, (d) Proceeds, (e) Cost or other basis, (f) Code(s) from instructions, (g) Amount of adjustment, (h) Gain or loss.

2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 1a (if Box A above is checked), line 2 (if Box B above is checked), or line 3 (if Box C above is checked).

Note: If you checked Box A above but the basis reported to the IRS was incorrect, enter in column adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat.

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1. Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
(E) Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
(F) Long-term transactions not reported to you on Form 1099-B

Table with 8 columns: (a) Description of property, (b) Date acquired, (c) Date sold or disposed of, (d) Proceeds, (e) Cost or other basis, (f) Code(s) from instructions, (g) Amount of adjustment, (h) Gain or loss.

2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8a (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).

Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949: Sales and Other Dispositions of Capital Assets (Pages 1-2)

Form 8949 provides detail for the amounts the borrower reported on Schedule D. Page 1 of the form lists short-term gains and losses; page 2, long-term gains and losses.

The form provides descriptions for capital asset dispositions (e.g., stocks, bonds, etc.).

Review the itemized lists and compare one year's schedule to another to determine whether the income or loss the borrower reported on Schedule D is recurring or not.

Effect on Cash Flow Analysis Worksheet

- No line items on these pages affect cash flow

Installment Sale Income

▶ **Attach to your tax return.**
 ▶ **Use a separate form for each sale or other disposition of property on the installment method.**
 ▶ **Go to www.irs.gov/Form6252 for the latest information.**

OMB No. 1545-0228

2017
 Attachment
 Sequence No. **79**

Name(s) shown on return _____ Identifying number _____

- 1** Description of property ▶ _____
- 2a** Date acquired (mm/dd/yyyy) ▶ _____ **b** Date sold (mm/dd/yyyy) ▶ _____
- 3** Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4 Yes No
- 4** Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale Yes No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

5 Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5		
6 Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6		
7 Subtract line 6 from line 5	7		
8 Cost or other basis of property sold	8		
9 Depreciation allowed or allowable	9		
10 Adjusted basis. Subtract line 9 from line 8	10		
11 Commissions and other expenses of sale	11		
12 Income recapture from Form 4797, Part III (see instructions)	12		
13 Add lines 10, 11, and 12	13		
14 Subtract line 13 from line 5. If zero or less, don't complete the rest of this form (see instructions)	14		
15 If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0-	15		
16 Gross profit. Subtract line 15 from line 14	16		
17 Subtract line 13 from line 6. If zero or less, enter -0-	17		
18 Contract price. Add line 7 and line 17	18		

Part II Installment Sale Income. Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19 Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions)	19		
20 If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20		
21 Payments received during year (see instructions). Don't include interest, whether stated or unstated	21		
22 Add lines 20 and 21	22		
23 Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23		
24 Installment sale income. Multiply line 22 by line 19	24		
25 Enter the part of line 24 that is ordinary income under the recapture rules (see instructions)	25		
26 Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)	26		

Part III Related Party Installment Sale Income. **Don't** complete if you received the final payment this tax year.

- 27** Name, address, and taxpayer identifying number of related party _____
- 28** Did the related party resell or dispose of the property ("second disposition") during this tax year? Yes No
- 29** If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.
- a** The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy) . . . ▶ _____
- b** The first disposition was a sale or exchange of stock to the issuing corporation.
- c** The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.
- d** The second disposition occurred after the death of the original seller or buyer.
- e** It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).
- | | | | |
|--|-----------|--|--|
| 30 Selling price of property sold by related party (see instructions) | 30 | | |
| 31 Enter contract price from line 18 for year of first sale | 31 | | |
| 32 Enter the smaller of line 30 or line 31 | 32 | | |
| 33 Total payments received by the end of your 2017 tax year (see instructions) | 33 | | |
| 34 Subtract line 33 from line 32. If zero or less, enter -0- | 34 | | |
| 35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale | 35 | | |
| 36 Enter the part of line 35 that is ordinary income under the recapture rules (see instructions) | 36 | | |
| 37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions) | 37 | | |

Form 6252: Installment Sale Income

The borrower uses this form to report the principal portion of installment payments received.

Line 21: Payments Received During the Year

Before using installment sale payments as qualifying income, verify payments will continue for at least 3 years. Refer to the note or contract to find this information. In addition, document the debtor has made the last 12 months' payments in a timely manner.

Effect on Cash Flow Analysis Worksheet

- Add recurring principal payments

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
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, 1040NR, or Form 1041.
▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

OMB No. 1545-0074

2017

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 or C-EZ** (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 2017 that would require you to file Form(s) 1099? (see instructions) **Yes** **No**
B If "Yes," did you or will you file required Forms 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 Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on page 41 on page 2	26			

Schedule E: Supplemental Income and Loss

Part I – Income or Loss from Rental Real Estate and Royalties

If your borrower earns royalty income, look for the following line items.

Line 4: Royalties Received

Royalties are compensation paid for the use of another's property, based on a percentage of profit or production. The "property" is typically copyrighted material or natural resources. If the borrower has listed royalty income, verify whether it's ongoing and consistent before you use it as qualifying income.

Effect on Cash Flow Analysis Worksheet

- Add recurring royalty income/deduct loss

Line 20: Total Expenses

Line 20 represents the sum of Lines 5-19, expenses for royalties.

Effect on Cash Flow Analysis Worksheet

- Deduct royalty expenses

Line 18: Depreciation Expense or Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
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, 1040NR, or Form 1041.
▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

OMB No. 1545-0074

2017

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 or C-EZ** (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 2017 that would require you to file Form(s) 1099? (see instructions) **Yes** **No**
B If "Yes," did you or will you file required Forms 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 Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on page 41 on page 2	26			

Part I – Income or Loss from Rental Real Estate and Royalties

If your borrower earns rental income, look for the following line items.

Note: Be sure to check each property listed on Schedule E against the borrower's Schedule of Real Estate Owned on the Residential Loan Application (1003). If the borrower no longer owns the property, exclude the income (loss) from that property from your analysis.

In general, you only need to analyze the most recent tax year for net rental income.

Schedule E – PITIA Calculation

Use the current PITIA (Principal, Interest, Taxes, Insurance and All other) payment for each rental property to calculate qualifying ratios. Review Schedule E for numerous line item add-backs.

Follow investor guidelines.

Schedule E – Traditional Calculation

Do not use the current PITIA payment for each rental property in calculating qualifying ratios. Review Schedule E for limited line item add-backs.

Follow investor guidelines.

Line 21: Rental Income (Loss)

The amount the borrower reports on this line is income or loss generated from rental real estate after all expenses.

Effect on Rental Income Worksheet

- **PITIA or Traditional Calculation** – Add recurring rental income/deduct loss

Line 18: Depreciation Expense or Depletion

Depreciation is a noncash expense allocated over the useful life of a declared asset. Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Schedule E.

Effect on Rental Income Worksheet

- **PITIA or Traditional Calculation** – Add back the amount

Lines 9, 12, 13 and 16: Insurance, Mortgage Interest, Other Interest and Taxes

The borrower reports insurance, mortgage interest and tax expenses on these lines.

Effect on Rental Income Worksheet

- **PITIA Calculation** – Add back the amounts, regardless of whether the items are escrowed
- **Traditional Calculation** – There is no effect; make no adjustment

Line 19: Other

The borrower may list certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be listed here.

Effect on Rental Income Worksheet

- **PITIA Calculation** – Add back the amount included in the current PITIA payment and any amortization and/or casualty loss
- **Traditional Calculation** – Add back only amortization and/or casualty loss

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 from an at-risk activity for which any amount is not at risk, you must check the box in column (e) on line 28 and attach Form 6198. See instructions.

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

	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A			<input type="checkbox"/>		<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>

Passive Income and Loss			Nonpassive Income and Loss		
(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1	
A					
B					
C					
D					
29a Totals					
b Totals					
30 Add columns (g) and (j) of line 29a					30
31 Add columns (f), (h), and (i) of line 29b					31 ()
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below					32

Part III Income or Loss From Estates and Trusts

(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. Enter the result here and include in the total on line 41 below					37

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

(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	
38					
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 Form 1040, line 17, or Form 1040NR, line 18	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 1120S), box 17, code V; 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 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	

Schedule E: Supplemental Income and Loss (Page 2)

Part II – Income or Loss From Partnerships and S Corporations

In general, don't include this income or loss in the borrower's cash flow. These figures are transferred from the applicable Schedule K-1 (Form 1065 for partnerships and Form 1120S for S Corporations).

Effect on Cash Flow Analysis Worksheet

- In general, no line items on this page affect cash flow
- Use Schedule K-1s to make adjustments. See pages 57-61 or 69-71

Passive Activity Loss Limitations

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1041.

▶ Go to www.irs.gov/Form8582 for instructions and the latest information.

OMB No. 1545-1008

2017
 Attachment
 Sequence No. **88**

Name(s) shown on return

Identifying number

Part I 2017 Passive Activity Loss

Caution: Complete Worksheets 1, 2, and 3 before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see **Special Allowance for Rental Real Estate Activities** in the instructions.)

1a Activities with net income (enter the amount from Worksheet 1, column (a))	1a		
b Activities with net loss (enter the amount from Worksheet 1, column (b))	1b	()
c Prior years' unallowed losses (enter the amount from Worksheet 1, column (c))	1c	()
d Combine lines 1a, 1b, and 1c	1d		

Commercial Revitalization Deductions From Rental Real Estate Activities

2a Commercial revitalization deductions from Worksheet 2, column (a)	2a	()
b Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	2b	()
c Add lines 2a and 2b	2c	()

All Other Passive Activities

3a Activities with net income (enter the amount from Worksheet 3, column (a))	3a		
b Activities with net loss (enter the amount from Worksheet 3, column (b))	3b	()
c Prior years' unallowed losses (enter the amount from Worksheet 3, column (c))	3c	()
d Combine lines 3a, 3b, and 3c	3d		

4 Combine lines 1d, 2c, and 3d. If this line is zero or more, stop here and include this form with your return; all losses are allowed, including any prior year unallowed losses entered on line 1c, 2b, or 3c. Report the losses on the forms and schedules normally used

- If line 4 is a loss and:
- Line 1d is a loss, go to Part II.
 - Line 2c is a loss (and line 1d is zero or more), skip Part II and go to Part III.
 - Line 3d is a loss (and lines 1d and 2c are zero or more), skip Parts II and III and go to line 15.

Caution: If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete Part II or Part III. Instead, go to line 15.

Part II Special Allowance for Rental Real Estate Activities With Active Participation

Note: Enter all numbers in Part II as positive amounts. See instructions for an example.

5 Enter the smaller of the loss on line 1d or the loss on line 4	5		
6 Enter \$150,000. If married filing separately, see instructions	6		
7 Enter modified adjusted gross income, but not less than zero (see instructions)	7		
Note: If line 7 is greater than or equal to line 6, skip lines 8 and 9, enter -0- on line 10. Otherwise, go to line 8.			
8 Subtract line 7 from line 6	8		
9 Multiply line 8 by 50% (0.50). Do not enter more than \$25,000. If married filing separately, see instructions	9		
10 Enter the smaller of line 5 or line 9 If line 2c is a loss, go to Part III. Otherwise, go to line 15.	10		

Part III Special Allowance for Commercial Revitalization Deductions From Rental Real Estate Activities

Note: Enter all numbers in Part III as positive amounts. See the example for Part II in the instructions.

11 Enter \$25,000 reduced by the amount, if any, on line 10. If married filing separately, see instructions	11		
12 Enter the loss from line 4	12		
13 Reduce line 12 by the amount on line 10	13		
14 Enter the smallest of line 2c (treated as a positive amount), line 11, or line 13	14		

Part IV Total Losses Allowed

15 Add the income, if any, on lines 1a and 3a and enter the total	15		
16 Total losses allowed from all passive activities for 2017. Add lines 10, 14, and 15. See instructions to find out how to report the losses on your tax return	16		

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 63704F

Form **8582** (2017)

Form 8582: Passive Activity Loss Limitations

The borrower uses Form 8582 to calculate losses from real estate owned or partnership or S Corporation investments that may not be fully tax deductible. SAM procedures calculate actual losses prior to any limitations imposed by the IRS; therefore no analysis of Form 8582 is necessary.

Note: This is a 3-page form. Pages 2 and 3 are worksheets the IRS requires to be filed. We have not included samples of these pages in this manual.

Effect on Cash Flow Analysis Worksheet

- No line items on this page affect cash flow

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

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

OMB No. 1545-0074

2017
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: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN), (see instr)

E Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2017 that would require you to file Form(s) 1099 (see instructions)? Yes No

G If "Yes," did you or will you file required Forms 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 livestock and other resale items (see instructions)	1a				
b Cost or other basis of 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 2017	6a		6b Taxable amount	6b	
c If election to defer to 2018 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2016		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				
11 Chemicals	11				
12 Conservation expenses (see instructions)	12				
13 Custom hire (machine work)	13				
14 Depreciation and section 179 expense (see instructions)	14				
15 Employee benefit programs other than on line 23	15				
16 Feed	16				
17 Fertilizers and lime	17				
18 Freight and trucking	18				
19 Gasoline, fuel, and oil	19				
20 Insurance (other than health)	20				
21 Interest:					
a Mortgage (paid to banks, etc.)	21a				
b Other	21b				
22 Labor hired (less employment credits)	22				
23 Pension and profit-sharing plans	23				
24 Rent or lease (see instructions):					
a Vehicles, machinery, equipment	24a				
b Other (land, animals, etc.)	24b				
25 Repairs and maintenance	25				
26 Seeds and plants	26				
27 Storage and warehousing	27				
28 Supplies	28				
29 Taxes	29				
30 Utilities	30				
31 Veterinary, breeding, and medicine	31				
32 Other expenses (specify):					
a -----	32a				
b -----	32b				
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 lines 35 and 36.

35 Did you receive an applicable subsidy in 2017? See instructions Yes No

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.

Schedule F: Profit or Loss From Farming

Borrowers with small farming operations typically file Schedule F.

Line 34: Net Farm Profit or (Loss)

The amount the borrower has reported on this line is income or loss generated from farm operations.

Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

Lines 3a through 6

These lines represent sources of cash flow that may or may not be continuous and ongoing. Don't include any of these items if they represent one-time occurrences. If you can document the income is likely to continue, include the nontaxable portion of this income in the borrower's cash flow.

Note: There may be rare instances where it would make sense to allow a nonrecurring item to remain in cash flow. Review these exceptions on a case-by-case basis.

Effect on Cash Flow Analysis Worksheet

- Deduct income that is not consistent and nonrecurring (lines 3b, 4b, 5a, 5c, 6b, 6d); add back the nontaxable portion of recurring income (lines 3a minus 3b, 4a minus 4b, 5b minus 5c, 6a minus 6b)

Line 8: Other Income

The borrower reports income not earned through farm operations here.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 32: Other Expenses

The borrower reports amortization, business use of home, casualty loss and depletion here.

Effect on Cash Flow Analysis Worksheet

- Add back the amount of amortization, business use of home, casualty losses or depletion

Request for Copy of Tax Return

▶ **Do not sign this form unless all applicable lines have been completed.**
▶ **Request may be rejected if the form is incomplete or illegible.**
▶ **For more information about Form 4506, visit www.irs.gov/form4506.**

Tip. You may be able to get your tax return or return information from other sources. If you had your tax return completed by a paid preparer, they should be able to provide you a copy of the return. The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return and usually contains the information that a third party (such as a mortgage company) requires. See **Form 4506-T, Request for Transcript of Tax Return**, or you can quickly request transcripts by using our automated self-help service tools. Please visit us at IRS.gov and click on "Get a Tax Transcript..." or call 1-800-908-9946.

1a Name shown on tax return. If a joint return, enter the name shown first.	1b First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
2a If a joint return, enter spouse's name shown on tax return.	2b Second social security number or individual taxpayer identification number if joint tax return
3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
4 Previous address shown on the last return filed if different from line 3 (see instructions)	
5 If the tax return is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	

Caution: If the tax return is being mailed to a third party, ensure that you have filled in lines 6 and 7 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax return to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your return information, you can specify this limitation in your written agreement with the third party.

6 Tax return requested. Form 1040, 1120, 941, etc. and all attachments as originally submitted to the IRS, including Form(s) W-2, schedules, or amended returns. Copies of Forms 1040, 1040A, and 1040EZ are generally available for 7 years from filing before they are destroyed by law. Other returns may be available for a longer period of time. Enter only one return number. If you need more than one type of return, you must complete another Form 4506. ▶ _____

Note: If the copies must be certified for court or administrative proceedings, check here

7 Year or period requested. Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than eight years or periods, you must attach another Form 4506.

8 Fee. There is a \$50 fee for each return requested. Full payment must be included with your request or it will be rejected. Make your check or money order payable to "United States Treasury." Enter your SSN, ITIN, or EIN and "Form 4506 request" on your check or money order.	
a Cost for each return	\$ 50.00
b Number of returns requested on line 7	
c Total cost. Multiply line 8a by line 8b	\$
9 If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here <input type="checkbox"/>	

Caution: Do not sign this form unless all applicable lines have been completed.

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax return requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer. **Note:** This form must be received by IRS within 120 days of the signature date.

Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506. See instructions.

Signature (see instructions)	Date	Phone number of taxpayer on line 1a or 2a
Title (if line 1a above is a corporation, partnership, estate, or trust)		
Spouse's signature	Date	

Form 4506: Request for Copy of Tax Return

If you are unsure whether a borrower's tax returns are accurate, ask the borrower to sign Form 4506, which provides you a way to obtain filed IRS copies of the tax returns for audit purposes.

This form is not intended to be used as an underwriting tool. There is a fee involved, and it will take approximately 6 to 8 weeks to receive the copies.

Request for Transcript of Tax Return

▶ **Do not sign this form unless all applicable lines have been completed.**
 ▶ **Request may be rejected if the form is incomplete or illegible.**
 ▶ **For more information about Form 4506-T, visit www.irs.gov/form4506t.**

OMB No. 1545-1872

Tip. Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can quickly request transcripts by using our automated self-help service tools. Please visit us at IRS.gov and click on "Get a Tax Transcript..." under "Tools" or call 1-800-908-9946. If you need a copy of your return, use **Form 4506, Request for Copy of Tax Return**. There is a fee to get a copy of your return.

1a Name shown on tax return. If a joint return, enter the name shown first.	1b First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
2a If a joint return, enter spouse's name shown on tax return.	2b Second social security number or individual taxpayer identification number if joint tax return
3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
4 Previous address shown on the last return filed if different from line 3 (see instructions)	
5 If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	

Caution: If the tax transcript is being mailed to a third party, ensure that you have filled in lines 6 through 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax transcript to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your transcript information, you can specify this limitation in your written agreement with the third party.

6 Transcript requested. Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request. ▶ _____

a Return Transcript, which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120-A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days

b Account Transcript, which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 10 business days

c Record of Account, which provides the most detailed information as it is a combination of the Return Transcript and the Account Transcript. Available for current year and 3 prior tax years. Most requests will be processed within 10 business days

7 Verification of Nonfiling, which is proof from the IRS that you **did not** file a return for the year. Current year requests are only available after June 15th. There are no availability restrictions on prior year requests. Most requests will be processed within 10 business days

8 Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript. The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2011, filed in 2012, will likely not be available from the IRS until 2013. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 10 business days

Caution: If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.

9 Year or period requested. Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

| / / | / / | / / | / /

Caution: Do not sign this form unless all applicable lines have been completed.

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer. **Note:** This form must be received by IRS within 120 days of the signature date.

Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506-T. See instructions.

Signature (see instructions)	Date	Phone number of taxpayer on line 1a or 2a
Sign Here		
Title (if line 1a above is a corporation, partnership, estate, or trust)		
Spouse's signature	Date	

Form 4506-T: Request for Transcript of Tax Return

The transcript of the tax return includes most of the line items of a tax return filed with the IRS. Return transcripts are available for the current year and for returns processed during the prior 3 years.



Module 2 Business Returns

As with Module 1, even-numbered pages in this module contain a sample tax form. Odd-numbered pages explain the effect of the applicable line items from the tax form on the borrower's cash flow based on SAM.

When you see the heading, **Effect On Cash Flow Analysis Worksheet** or **Effect On Rental Income Worksheet**, you'll find guidance as to whether you should add/deduct the amount of a line item to/from the borrower's cash flow.

For self-employed borrowers who are a partner or a shareholder in a corporation, once you've analyzed their personal tax returns, the next step in determining cash flow is to analyze their business tax returns.

Using Income From Partnerships, S Corporations and Corporations

If you're using self-employed income from a partnership, S Corporation or corporation to qualify the borrower, conduct an analysis of the business tax returns to confirm:

- The stability and liquidity of the borrower's business

- The business is financially capable to generate future earnings

The information contained in this module and Module 3, will help you conduct your analysis.

Key Concept

In general, add business income to the borrower's cash flow if:

- The business has positive sales and earnings trends AND
- The borrower has accessed the income OR
- The business has adequate liquidity to support the withdrawal

These factors help demonstrate income will likely be recurring and, therefore, is an acceptable source of qualifying income you can add to your borrower's cash flow.

On the other hand, deduct any loss resulting from your analysis from cash flow as it represents a drain on the borrower's income. Follow investor guidelines.

Schedule K-1 (Form 1065)

2017

Department of the Treasury Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number
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 identifying number
F Partner's name, address, city, state, and ZIP code
G General partner or LLC member-manager Limited partner or other LLC member
H Domestic partner Foreign partner
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):
K Partner's share of liabilities at year end:
L Partner's capital account analysis:
M Did the partner contribute property with a built-in gain or loss?

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

Table with 4 columns: Line number, Description, Line number, Description. Rows include: 1 Ordinary business income (loss), 2 Net rental real estate income (loss), 3 Other net rental income (loss), 4 Guaranteed payments, 5 Interest income, 6a Ordinary dividends, 6b Qualified dividends, 7 Royalties, 8 Net short-term capital gain (loss), 9a Net long-term capital gain (loss), 9b Collectibles (28%) gain (loss), 9c Unrecaptured section 1250 gain, 10 Net section 1231 gain (loss), 11 Other income (loss), 12 Section 179 deduction, 13 Other deductions, 14 Self-employment earnings (loss), 15 Credits, 16 Foreign transactions, 17 Alternative minimum tax (AMT) items, 18 Tax-exempt income and nondeductible expenses, 19 Distributions, 20 Other information.

*See attached statement for additional information.

For IRS Use Only

Schedule K-1 (Form 1065): Partner's Share of Income, Deductions, Credits, etc.

A partnership is an arrangement between 2 or more individuals, generally governed by a partnership agreement.

The partnership prepares Schedule K-1 (Form 1065) to inform the individual partners of their share of income (loss), deductions and credits.

Underwriting cash flow for a borrower who is a partner may consist of the following items:

- The borrower's share of:
 - Ordinary business income (loss)
 - Net rental real estate income (loss)
 - Other net rental income (loss)
- Guaranteed payments

PART II – Information About the Partner

Line J: Partner's Share of Profit, Loss, and Capital

This line indicates the borrower's percentage of ownership of profit, loss and capital.

Line L: Partner's Capital Account Analysis

This analysis provides an idea of what the borrower has received from or paid into the partnership.

Partnerships are a pass-through entity. Borrowers report income (loss) passed through the business on their personal returns, regardless of whether the partnership received or distributed money.

Beginning Capital Account

This amount represents money that the borrower had in the account at the beginning of the year.

Capital Contributed During Year

This amount represents the value of the contributions that the borrower made to the partnership during the year.

Current Year Increase (Decrease)

This amount represents the results of the information the borrower reported on Schedule M-2 of Form 1065, which shows what caused the changes in the borrower's capital accounts during the tax year:

- The borrower's share of net income (loss) per books (Line 3)
- Other increases in the capital account (Line 4) and
- Other decreases in the capital account (Line 7)

Ending Capital Account

This amount is the balance the borrower had in the account at the end of the year.

If the amount indicated is a negative figure, the partnership may require the partners to contribute additional capital.

FYI: Final K-1 Box

If this box is checked, this is the final K-1 issued, indicating:

- The borrower's ownership was transferred or sold to another entity, OR
- The partnership itself was dissolved

Schedule K-1 (Form 1065)

2017

Department of the Treasury Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number
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 identifying number
F Partner's name, address, city, state, and ZIP code
G General partner or LLC member-manager / Limited partner or other LLC member
H Domestic partner / Foreign partner
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):
K Partner's share of liabilities at year end:
L Partner's capital account analysis:
M Did the partner contribute property with a built-in gain or loss?

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

Table with 4 columns: Line number, Description, Line number, Description. Rows include: 1 Ordinary business income (loss), 2 Net rental real estate income (loss), 3 Other net rental income (loss), 4 Guaranteed payments, 5 Interest income, 6a Ordinary dividends, 6b Qualified dividends, 7 Royalties, 8 Net short-term capital gain (loss), 9a Net long-term capital gain (loss), 9b Collectibles (28%) gain (loss), 9c Unrecaptured section 1250 gain, 10 Net section 1231 gain (loss), 11 Other income (loss), 12 Section 179 deduction, 13 Other deductions, 14 Self-employment earnings (loss), 15 Credits, 16 Foreign transactions, 17 Alternative minimum tax (AMT) items, 18 Tax-exempt income and nondeductible expenses, 19 Distributions, 20 Other information.

*See attached statement for additional information.

For IRS Use Only

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

Line 1: Ordinary Business Income (Loss)

This represents the partner’s allocated share of ordinary income or loss from the partnership. The partnership allocates portions of income, loss, deductions and credits earned by the business to its partners. Partners pay tax or take deductions on their personal returns for these “pass-through” items.

Because partners pay tax on income earned by the partnership, they are able to take distributions and withdrawals free of income tax consequences.

Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the partnership has positive sales and earnings trends, AND:
 - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 19, Distributions, for Code A cash distributions); OR
 - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
 - But you can document adequate liquidity to support the withdrawal of earnings; OR
 - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss from cash flow. Follow investor guidelines

Line 2: Net Rental Real Estate Income (Loss)

If the borrower has reported income or loss from rental real estate activity on this line, the Partnership Return will, in general, include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation (see page 81).

Effect on Cash Flow Analysis Worksheet

- After analyzing Form 8825, add continuous and ongoing net rental income. In general, deduct any loss. Follow investor guidelines
- After analyzing Form 1065: U.S. Return of Partnership Income (see page 63), add back depreciation expense

Line 3: Other Net Rental Income (Loss)

This line represents income (loss) from all other net rental activity.

Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing other net rental income if conditions from Line 1, Ordinary business income, are met. In general, deduct any loss. Follow investor guidelines

Line 4: Guaranteed Payments

This line displays payments made to the partner for services rendered or for the use of capital. These payments are made without regard to the partnership’s profits and are subject to self-employment tax.

In general, document with 2 years’ tax returns.

Effect on Cash Flow Analysis Worksheet

- Add guaranteed payments

Schedule K-1 (Form 1065)

2017

Department of the Treasury Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number
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 identifying number
F Partner's name, address, city, state, and ZIP code
G General partner or LLC member-manager Limited partner or other LLC member
H Domestic partner Foreign partner
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):
K Partner's share of liabilities at year end:
L Partner's capital account analysis:
M Did the partner contribute property with a built-in gain or loss?

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

Table with 4 columns: Line number, Description, Line number, Description. Rows include: 1 Ordinary business income (loss), 2 Net rental real estate income (loss), 3 Other net rental income (loss), 4 Guaranteed payments, 5 Interest income, 6a Ordinary dividends, 6b Qualified dividends, 7 Royalties, 8 Net short-term capital gain (loss), 9a Net long-term capital gain (loss), 9b Collectibles (28%) gain (loss), 9c Unrecaptured section 1250 gain, 10 Net section 1231 gain (loss), 11 Other income (loss), 12 Section 179 deduction, 13 Other deductions, 14 Self-employment earnings (loss), 15 Credits, 16 Foreign transactions, 17 Alternative minimum tax (AMT) items, 18 Tax-exempt income and nondeductible expenses, 19 Distributions, 20 Other information.

*See attached statement for additional information.

For IRS Use Only

Lines 5-9c: Portfolio Income (Loss)

The borrower reported these items elsewhere on Form 1040; therefore, they are already included in cash flow.

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment

Line 19: Distributions

This amount represents the fair market value of property distributed by the partnership to the borrower.

Typically, this will be cash coded as "A", but other items may be included, such as a forgiven loan to the borrower from the partnership.

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment. Use Code A cash distributions reported on Line 19 to support whether the borrower accessed the business income

See page 107 to learn how to use liquidity ratios to measure the financial health of the business.

Use liquidity ratios when:

- There is no history of the borrower receiving cash distributions or
- Distributions are not consistent with ordinary income

Calculate current and quick ratios with our auto-calculating, editable Liquidity Worksheet at mgic.com/liquid

U.S. Return of Partnership Income

For calendar year 2017, or tax year beginning _____, 2017, ending _____, 20_____
▶ Go to www.irs.gov/Form1065 for instructions and the latest information.

OMB No. 1545-0123

2017

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 the 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 the instructions) \$ _____

- G** Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return (6) Technical termination - also check (1) or (2)
- 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

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. 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 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 the 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				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	

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.

Form 1065: U.S. Return of Partnership Income

Partnerships report profit or loss on Form 1065. The partnership itself does not pay tax. Partnership profit (loss) is passed to individual partners via Schedule K-1 (Form 1065). The partners pay tax on their proportionate share.

As you analyze cash flow from Form 1065, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1065).

Using income from Form 1065 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1065 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Line 4: Ordinary Income (Loss) from Other Partnerships, Estates, and Trusts

Partnerships can be partners in other partnerships. Income earned by a partnership waterfalls to its partners.

Effect on Cash Flow Analysis Worksheet

- To avoid double-counting this income, deduct the income/add back the loss

Lines 5-7: Income (Loss) from Other Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 16c: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 17: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 20: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Line 22: Ordinary Business Income (Loss)

The partnership divides ordinary income (loss) among its partners. The borrower's share is reported on Line 1 of Schedule K-1 (Form 1065).

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment

Form 1065 (2017) Page **2**

Schedule B Other Information

1 What type of entity is filing this return? Check the applicable box:

a <input type="checkbox"/> Domestic general partnership	b <input type="checkbox"/> Domestic limited partnership	Yes	No
c <input type="checkbox"/> Domestic limited liability company	d <input type="checkbox"/> Domestic limited liability partnership		
e <input type="checkbox"/> Foreign partnership	f <input type="checkbox"/> Other ▶		

2 At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person? Yes No

3 At the end of the tax year:

a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership Yes No

b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership Yes No

4 At the end of the tax year, did the partnership:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) Yes No

Form 1065 (2017) Page **3**

Schedule B Other Information (continued)

(i) Name of Corporation

11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions Yes No

12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election. Yes No

b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions Yes No

c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d)) if "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions Yes No

13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) Yes No

14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property? Yes No

15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶ Yes No

16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶ Yes No

17 Enter the number of Forms 8865, Return of U.S. Persons With Respect To Certain Foreign Partnerships, attached to this return. ▶ Yes No

18a Did you make any payments in 2017 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

19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶ Yes No

20 Enter the number of partners that at Yes No

21 During the partnership's tax year, did the partnership file Form 1042-S under chapter 3 (section 1441-1443) Yes No

22 Was the partnership a specified domestic partnership? Yes No

Designation of Tax Matters Partner (see instructions) Enter below the general partner or member-managing partner's name and address.

Name of designated TMP ▶

If the TMP is an entity, name of TMP representative ▶

Address of designated TMP ▶

Form 1065 (2017) Page **4**

Schedule K Partners' Distributive Share Items

		Total amount
1	Ordinary business income (loss) (page 1, line 22)	1
2	Net rental real estate income (loss) (attach Form 8825)	2
3a	Other gross rental income (loss)	3a
3b	Expenses from other rental activities (attach statement)	3b
3c	Other net rental income (loss). Subtract line 3b from line 3a	3c
4	Guaranteed payments	4
5	Interest income	5
6a	Dividends: a Ordinary dividends	6a
6b	b Qualified dividends	6b
7	Royalties	7
8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a
9b	b Collectibles (28%) gain (loss)	9b
9c	c Unrecaptured section 1250 gain (attach statement)	9c
10	Net section 1231 gain (loss) (attach Form 4797)	10
11	Other income (loss) (see instructions) Type ▶	11
12	Section 179 deduction (attach Form 4562)	12
13a	Contributions	13a
13b	b Investment interest expense	13b
13c	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c
13d	d Other deductions (see instructions) Type ▶	13d
14a	Net earnings (loss) from self-employment	14a
14b	b Gross farming or fishing income	14b
14c	c Gross nonfarm income	14c
15a	Low-income housing credit (section 42(j)(5))	15a
15b	b Low-income housing credit (other)	15b
15c	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c
15d	d Other rental real estate credits (see instructions) Type ▶	15d
15e	e Other rental credits (see instructions) Type ▶	15e
15f	f Other credits (see instructions) Type ▶	15f
16a	Name of country or U.S. possession ▶	16a
16b	b Gross income from all sources	16b
16c	c Gross income sourced at partner level	16c
16d	d Foreign gross income sourced at partnership level	16d
16e	e Passive category ▶ f Other ▶	16e
16f	Deductions allocated and apportioned at partner level	16f
16g	g Interest expense ▶ h Other ▶	16g
16h	Deductions allocated and apportioned at partnership level to foreign source income	16h
16i	i Passive category ▶ j General category ▶ k Other ▶	16i
16j	l Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	16j
16k	m Reduction in taxes available for credit (attach statement)	16k
16l	n Other foreign tax information (attach statement)	16l
17a	Post-1986 depreciation adjustment	17a
17b	b Adjusted gain or loss	17b
17c	c Depletion (other than oil and gas)	17c
17d	d Oil, gas, and geothermal properties—gross income	17d
17e	e Oil, gas, and geothermal properties—deductions	17e
17f	f Other AMT items (attach statement)	17f
18a	Tax-exempt interest income	18a
18b	b Other tax-exempt income	18b
18c	c Nondeductible expenses	18c
19a	Distributions of cash and marketable securities	19a
19b	b Distributions of other property	19b
20a	Investment income	20a
20b	b Investment expenses	20b
20c	c Other items and amounts (attach statement)	20c

Form 1065: U.S. Return of Partnership Income (Pages 2-4)

Effect on Cash Flow Analysis Worksheet

- No line items on these pages affect cash flow

Analysis of Net Income (Loss)

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 16l						1	
2	Analysis by partner type:							
	(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 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 16l, 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 16l (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) per books		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				

Form 1065: U.S. Return of Partnership Income (Page 5)

Schedule L – Balance Sheets per Books

This section of Form 1065 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Line 16: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations that are payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause or there are ample liquid assets to cover these obligations, a deduction may not be necessary

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

Line 4b: Travel and Entertainment

These cash expenses relate to the cost of business travel and entertainment.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 4b, which commonly reflects only 50% of expenses paid

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

2017

Department of the Treasury
Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

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

Part I Information About the Corporation	
A Corporation's employer identification number	
B Corporation's name, address, city, state, and ZIP code	
C IRS Center where corporation filed return	
Part II Information About the Shareholder	
D Shareholder's identifying number	
E Shareholder's name, address, city, state, and ZIP code	
F Shareholder's percentage of stock ownership for tax year %	
For IRS Use Only	

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Foreign transactions
6	Royalties		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)		
10	Other income (loss)	15	Alternative minimum tax (AMT) items
11	Section 179 deduction	16	Items affecting shareholder basis
12	Other deductions		
		17	Other information
* See attached statement for additional information.			

Schedule K-1 (Form 1120S): Shareholder's Share of Income, Deductions, Credits, etc.

An S Corporation is a legal entity with a limited number of shareholders.

S Corporations prepare Schedule K-1 (Form 1120S) to inform individual shareholders of their share of income (loss), deductions and credits.

Underwriting cash flow for a borrower who is a shareholder may consist of the following items:

- The borrower's share of:
 - Ordinary business income (loss)
 - Net rental real estate income (loss)
 - Other net rental income (loss)
- Salaries paid to the borrower in an employer-employee relationship
- Dividends paid by the S Corporation to its shareholders

PART II – Information About the Shareholder

Line F: Shareholder's Percentage of Stock Ownership for Tax Year

This line indicates the shareholder's percentage of ownership in the S Corporation.

FYI: Final K-1 Box

If this box is checked, this is the final K-1 issued, indicating:

- The borrower's ownership was transferred or sold to another entity, OR
- The S Corporation itself was dissolved

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

Line 1: Ordinary Business Income (Loss)

This represents the shareholder's allocated share of ordinary income (loss) from the S Corporation. The business allocates S Corporation shareholders portions of income, loss, deductions and credits earned. Shareholders pay tax or take deductions on their personal returns for these "pass-through" items.

Because shareholders pay tax on income earned by the S Corporation, they are able to take distributions and withdrawals free of income tax consequences.

Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the S Corporation has positive sales and earnings trends, AND:
 - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 16, Items affecting shareholder basis, for Code D cash distributions); OR
 - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
 - But you can document adequate liquidity to support the withdrawal of earnings; OR
 - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss. Follow investor guidelines

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

Department of the Treasury
Internal Revenue Service

2017

For calendar year 2017, or tax year

beginning / / 2017 ending / /

Final K-1 Amended K-1

OMB No. 1545-0123

Shareholder's Share of Income, Deductions, Credits, etc.
▶ See back of form and 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)	
		3 Other net rental income (loss)	
		4 Interest income	
C IRS Center where corporation filed return		5a Ordinary dividends	
		5b Qualified dividends	14 Foreign transactions
		6 Royalties	
		7 Net short-term capital gain (loss)	
Part II Information About the Shareholder		8a Net long-term capital gain (loss)	
	D Shareholder's identifying number	8b Collectibles (28%) gain (loss)	
	E Shareholder's name, address, city, state, and ZIP code	8c Unrecaptured section 1250 gain	
F Shareholder's percentage of stock ownership for tax year %		9 Net section 1231 gain (loss)	
	For IRS Use Only		10 Other income (loss)
		11 Section 179 deduction	16 Items affecting shareholder basis
		12 Other deductions	
			17 Other information
* See attached statement for additional information.			

Line 2: Net Rental Real Estate Income (Loss)

If the borrower has reported income or loss from net rental real estate activity on this line, the S Corporation Return will generally include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation (see page 81).

Effect on Cash Flow Analysis Worksheet

- After analyzing Form 8825, add continuous and ongoing net rental income. In general, deduct any loss. Follow investor guidelines
- After analyzing Form 1120S: U.S. Income Tax Return for an S Corporation (see page 73), add back depreciation expense

Line 3: Other Net Rental Income (Loss)

This line represents income or loss from all other net rental activity.

Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing other net rental income if conditions from Line 1, Ordinary business income are met. In general, deduct any loss. Follow investor guidelines

Lines 4-8c: Portfolio Income (Loss)

The borrower reported these items elsewhere on the 1040; therefore, they are already included.

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment

Line 16: Items Affecting Shareholder Basis

This amount represents the fair market value of items distributed by the S Corporation to the borrower. Typically, this will be cash, coded as "D," but other items may be included.

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment. Use Code D cash distributions, reported on Line 16, to support whether the borrower accessed the business income

See page 107 to learn how to use liquidity ratios to measure the financial health of the business.

Use liquidity ratios when:

- There is no history of the borrower receiving cash distributions or
- Distributions are not consistent with ordinary income

Calculate current and quick ratios with our auto-calculating, editable Liquidity Worksheet at mgic.com/liquid

U.S. Income Tax Return for an S Corporation

OMB No. 1545-0123

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

2017

For calendar year 2017 or tax year beginning _____, 2017, 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? Yes No If "Yes," attach Form 2553 if not already filed
H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination or revocation
I Enter the number of shareholders who were shareholders during any part of the tax year _____ ▶

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

Income	1 a	Gross receipts or sales	1 a			
	b	Returns and allowances	1 b			
	c	Balance. Subtract line 1b from line 1a	1 c			
	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	13			
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14			
	15	Depletion (Do not deduct oil and gas depletion.)	15			
	16	Advertising	16			
	17	Pension, profit-sharing, etc., plans	17			
	18	Employee benefit programs	18			
	19	Other deductions (attach statement)	19			
	20	Total deductions. Add lines 7 through 19 ▶	20			
	21	Ordinary business income (loss). Subtract line 20 from line 6	21			
Tax and Payments	22 a	Excess net passive income or LIFO recapture tax (see instructions)	22 a			
	b	Tax from Schedule D (Form 1120S)	22 b			
	c	Add lines 22a and 22b (see instructions for additional taxes)	22 c			
	23 a	2017 estimated tax payments and 2016 overpayment credited to 2017	23 a			
	b	Tax deposited with Form 7004	23 b			
	c	Credit for federal tax paid on fuels (attach Form 4136)	23 c			
	d	Add lines 23a through 23c	23 d			
	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			
	Enter amount from line 26 Credited to 2018 estimated tax ▶	27	Refunded ▶			

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	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No
	Print/Type preparer's name	Preparer's signature	Date	
Paid Preparer Use Only	Firm's name ▶	Firm's EIN ▶	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's address ▶	Phone no.		

Form 1120S: U.S. Income Tax Return for an S Corporation

S Corporations report profit or loss on Form 1120S. The S Corporation itself does not pay tax. S Corporation profit (loss) is passed to individual shareholders via Schedule K-1 1120S. The shareholders pay tax on their proportionate share.

As you analyze cash flow from Form 1120S, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1120S).

Using income from Form 1120S to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120S provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Lines 4-5: Income (Loss) From Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 15: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 19: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Line 21: Ordinary Business Income (Loss)

The S Corporation divides ordinary income (loss) among its shareholders. The borrower's share is reported on Schedule K-1 (Form 1120S).

Effect on Cash Flow Analysis Worksheet

- There is no effect on cash flow; make no adjustment

Schedule B Other Information (see instructions)

1 Check accounting method: a Cash b Accrual
 c Other (specify) ▶

2 See the instructions and enter the:

a Business activity ▶ b Product or service ▶

3 At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation . . .

4 At the end of the tax year, did the corporation:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage of Stock Owned	(v) If Percentage in (iv) is 100%, Enter the Date (if any) a Qualified Subchapter S Subsidiary Election Was Made

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) If Percentage in (iv) is 100%, Enter the Date (if any) a Qualified Subchapter S Subsidiary Election Was Made

Schedule K Shareholders' Pro Rata Share Items

5 a At the end of the tax year, did the corporation have any outstanding shares of restricted stock? . . . If "Yes," complete lines (i) and (ii) below.

(i) Total shares of restricted stock . . . ▶

(ii) Total shares of non-restricted stock . . . ▶

b At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments? . . . If "Yes," complete lines (i) and (ii) below.

(i) Total shares of stock outstanding at the end of the tax year ▶

(ii) Total shares of stock outstanding if all instruments were executed ▶

6 Has this corporation filed, or is it required to file, Form 8918, Material Advisor Disclosure information on any reportable transaction?

7 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Instruments.

8 If the corporation: (a) was a C corporation before it elected to be an S corporation or the asset with a basis determined by reference to the basis of the asset (or the basis of the net gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain reductions) . . . \$

9 Enter the accumulated earnings and profits of the corporation at the end of the tax year.

10 Does the corporation satisfy both of the following conditions?
 a The corporation's total receipts (see instructions) for the tax year were less than \$250,000 . . .
 b The corporation's total assets at the end of the tax year were less than \$250,000 . . .
 If "Yes," the corporation is not required to complete Schedules L and M-1.

11 During the tax year, did the corporation have any non-shareholder debt that was canceled, written off, or otherwise modified so as to reduce the principal amount of the debt? . . .
 If "Yes," enter the amount of principal reduction \$

12 During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," enter the date of termination or revocation

13 a Did the corporation make any payments in 2017 that would require it to file Form(s) 1099? . . .
 b If "Yes," did the corporation file or will it file required Forms 1099?

			Total amount
Income (Loss)	1 Ordinary business income (loss) (page 1, line 21)	1	
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss)	3a	
	b Expenses from other rental activities (attach statement)	3b	
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4 Interest income	4	
	5 Dividends: a Ordinary dividends	5a	
	b Qualified dividends	5b	
	6 Royalties	6	
	7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))	7	
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S))	8a		
b Collectibles (28%) gain (loss)	8b		
c Unrecaptured section 1250 gain (attach statement)	8c		
9 Net section 1231 gain (loss) (attach Form 4797)	9		
10 Other income (loss) (see instructions)	10		
Deductions	11 Section 179 deduction (attach Form 4562)	11	
	12a Charitable contributions	12a	
	b Investment interest expense	12b	
	c Section 59(e)(2) expenditures (1) Type ▶ (2) Amount ▶	12c(2)	
d Other deductions (see instructions)	12d		
Credits	13a Low-income housing credit (section 42(j)(5))	13a	
	b Low-income housing credit (other)	13b	
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	13c	
	d Other rental real estate credits (see instructions) Type ▶	13d	
	e Other rental credits (see instructions)	13e	
	f Biofuel producer credit (attach Form 6478)	13f	
	g Other credits (see instructions)	13g	
Foreign Transactions	14a Name of country or U.S. possession ▶	14a	
	b Gross income from all sources	14b	
	c Gross income sourced at shareholder level	14c	
	d Foreign gross income sourced at corporate level	14d	
	e Passive category	14e	
	f General category	14f	
	g Deductions allocated and apportioned at shareholder level	14g	
	h Other	14h	
	i Deductions allocated and apportioned at corporate level to foreign source income	14i	
	j Passive category	14j	
	k General category	14k	
	l Other (attach statement)	14l	
	l Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	14l	
	m Reduction in taxes available for credit (attach statement)	14m	
n Other foreign tax information (attach statement)	14n		
Alternative Minimum Tax (AMT) Items	15a Post-1986 depreciation adjustment	15a	
	b Adjusted gain or loss	15b	
	c Depletion (other than oil and gas)	15c	
	d Oil, gas, and geothermal properties—gross income	15d	
	e Oil, gas, and geothermal properties—deductions	15e	
	f Other AMT items (attach statement)	15f	
Items Affecting Shareholder Basis	16a Tax-exempt interest income	16a	
	b Other tax-exempt income	16b	
	c Nondeductible expenses	16c	
	d Distributions (attach statement if required) (see instructions)	16d	
	e Repayment of loans from shareholders	16e	

Form 1120S: U.S. Income Tax Return for an S Corporation (Pages 2-3)

Effect on Cash Flow Analysis Worksheet

- No line items on these pages affect cash flow

Schedule K Shareholders' Pro Rata Share Items (continued)		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 14!	18	

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				
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 1120S: U.S. Income Tax Return for an S Corporation (Page 4)

Schedule L – Balance Sheets per Books

This section of Form 1120S provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Line 17: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

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)

<p>1 Net income (loss) per books</p> <p>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)</p> <p>3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14I (itemize):</p> <p style="padding-left: 20px;">a Depreciation \$</p> <p style="padding-left: 20px;">b Travel and entertainment \$</p> <p>4 Add lines 1 through 3</p>		<p>5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):</p> <p style="padding-left: 20px;">a Tax-exempt interest \$</p> <p>6 Deductions included on Schedule K, lines 1 through 12 and 14I, not charged against book income this year (itemize):</p> <p style="padding-left: 20px;">a Depreciation \$</p> <p>7 Add lines 5 and 6</p> <p>8 Income (loss) (Schedule K, line 18). Line 4 less line 7</p>	
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Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of tax year			
2 Ordinary income from page 1, line 21			
3 Other additions			
4 Loss from page 1, line 21	()		
5 Other reductions	()	()	
6 Combine lines 1 through 5			
7 Distributions other than dividend distributions			
8 Balance at end of tax year. Subtract line 7 from line 6			

Form 1120S: U.S. Income Tax Return for an S Corporation (Page 5)

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

Line 3b: Travel and Entertainment

These cash expenses relate to the cost of business
travel and entertainment.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 3b, which commonly
reflects only 50% of expenses paid

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ Attach to Form 1065, Form 1065-B, or Form 1120S.
 ▶ Go to www.irs.gov/Form8825 for the latest information.

OMB No. 1545-0123

Name	Employer identification number
------	--------------------------------

1	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1–8; see page 2 for list	Fair Rental Days	Personal Use Days
A			
B			
C			
D			

Rental Real Estate Income		Properties			
		A	B	C	D
2	Gross rents				
Rental Real Estate Expenses					
3	Advertising				
4	Auto and travel				
5	Cleaning and maintenance				
6	Commissions				
7	Insurance				
8	Legal and other professional fees				
9	Interest				
10	Repairs				
11	Taxes				
12	Utilities				
13	Wages and salaries				
14	Depreciation (see instructions)				
15	Other (list) ▶				
16	Total expenses for each property. Add lines 3 through 15				
17	Income or (loss) from each property. Subtract line 16 from line 2				
18a	Total gross rents. Add gross rents from line 2, columns A through H				18a
18b	Total expenses. Add total expenses from line 16, columns A through H				18b ()
19	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities				19
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)				20a
20b	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed.				
	(1) Name	(2) Employer identification number			
			
			
21	Net rental estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2; or • Form 1065-B: Part I, line 4				21

Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Partnerships and S Corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including taxable income (loss), which flow to the partner/shareholder through Schedule K-1.

When the borrower is personally obligated for related mortgage debt – as evidenced on a credit report – analyze Form 8825 using the Principal, Interest, Taxes, Insurance and All other (PITIA) method on the Rental Income Worksheet to offset the mortgage debt. Follow investor guidelines.

FYI: Rental Income & Cash Flow Analysis Worksheets

Line items reported on Form 8825 affect the borrower's rental income and cash flow.

- Use our Rental Income Worksheet to analyze reported income
- Use the Cash Flow Analysis Worksheet to add back depreciation the borrower reported

Line 17: Income or (Loss) from Each Property

The amount indicated on this line is income or loss generated from rental real estate after all expenses.

Effect on Rental Income Worksheet

- PITIA Calculation - Add recurring rental income/ deduct loss

Line 14: Depreciation

Depreciation is a noncash business expense allocated over the useful life of a declared asset.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Form 8825.

Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Lines 7, 9, 11: Insurance, Interest and Taxes

Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amounts, regardless of whether items are escrowed or not

Line 15: Other

The borrower may report certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be reported here.

Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount included in the current PITIA and any amortization and/or casualty loss

U.S. Corporation Income Tax Return

For calendar year 2017 or tax year beginning _____, 2017, ending _____, 20 _____

OMB No. 1545-0123

2017

▶ Go to www.irs.gov/Form1120 for instructions and the latest information.

A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>	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) \$ _____
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

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 (Schedule C, line 19)			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			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	Domestic production activities deduction (attach Form 8903)			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	b	Net operating loss deduction (see instructions)	29a	
c		Special deductions (Schedule C, line 20)	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	Total payments and refundable credits (Schedule J, Part II, line 21)			32
	33	Estimated tax penalty. See instructions. Check if Form 2220 is attached		<input type="checkbox"/>	33
	34	Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed			34
	35	Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid			35
36	Enter amount from line 35 you want: Credited to 2018 estimated tax ▶		Refunded ▶	36	

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 _____
--------------------	----------------------------	------------	-------------

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. _____			

Form 1120: U.S. Corporation Income Tax Return

A corporation is a legal entity, separate and distinct from its shareholders.

Corporations report profit (loss) on Form 1120. They are taxed on their profits. Corporate profit (loss) is distributed to shareholders in the form of dividends.

As you analyze cash flow from Form 1120, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is usually on Form 1125-E (see page 91).

Using income from the 1120 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Note: In order for corporate earnings to be eligible as qualifying income, investors generally require that the borrower is a 100% owner of the business.

Line 30: Taxable Income

The amount on this line represents the corporation's income after deductions, but before income tax. This is the starting point of the analysis.

Effect on Cash Flow Analysis Worksheet

- Add taxable income

Line 31: Total Tax

Unlike partnerships and S Corporations, regular corporations pay income tax. Deduct taxes before determining cash flow.

Effect on Cash Flow Analysis Worksheet

- Deduct the tax liability

Lines 8-9

Examine any capital and net gains (losses) listed on page 1 of Form 1120, details of which are reported on Schedule D and Form 4797.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring gains/add nonrecurring losses

Line 10: Other Income

Analyze this income to determine whether it's stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 20: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 21: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>	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) \$ _____
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

Income	1a	Gross receipts or sales			
	b	Returns and allowances	1a		
	c	Balance. Subtract line 1b from line 1a	1b		
	2	Cost of goods sold (attach Form 1125-A)		1c	
	3	Gross profit. Subtract line 2 from line 1c		2	
	4	Dividends (Schedule C, line 19)		3	
	5	Interest		4	
	6	Gross rents		5	
	7	Gross royalties		6	
	8	Capital gain net income (attach Schedule D (Form 1120))		7	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		8	
	10	Other income (see instructions—attach statement)		9	
11	Total income. Add lines 3 through 10		10		
			11		

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

Tax, Refundable Credits, and Payments	30	Taxable income. Subtract line 29c from line 28. See instructions			
	31	Total tax (Schedule J, Part I, line 11)		30	
	32	Total payments and refundable credits (Schedule J, Part II, line 21)		31	
	33	Estimated tax penalty. See instructions. Check if Form 2220 is attached		32	
	34	Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed		33	
	35	Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid		34	
36	Enter amount from line 35 you want: Credited to 2018 estimated tax ▶		35		
			36		

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 _____	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. _____			

Line 25: Domestic Production Activities Deduction

IRS guidelines allow a corporation to deduct the expense of certain qualified domestic production activities. This deduction is a noncash expense.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 26: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Line 29a: Net Operating Loss Deduction

When a corporation sustains a loss in one year, it has the ability to offset income earned in future years.

In ensuing years, the corporation may include a previous year's loss on its corporate tax return, even though it might not have experienced the loss that year.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 29b: Special Deductions

A corporation that receives dividend income may be able to take a deduction for a certain percentage of the amount it received. This deduction is a noncash expense.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Form 1120 (2017)		Page 2	
Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80
8	Dividends from wholly owned foreign subsidiaries		100
9	Total. Add lines 1 through 8. See instructions for limitation		

Form 1120 (2017)		Page 3	
Schedule J Tax Computation and Payment (see instructions)		Part I—Tax Computation	
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions	<input type="checkbox"/>	1
2	Income tax. Check if a qualified personal service corporation. See instructions	<input type="checkbox"/>	2
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4
5a	Foreign tax credit (attach Form 1118)	5a	
5b	Credit from Form 8834 (see instructions)	5b	
5c	General business credit (attach Form 3800)	5c	
5d	Credit for prior year minimum tax (attach Form 8827)	5d	
5e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e	6	
7	Subtract line 6 from line 4	7	
8	Personal holding company tax (attach Schedule PH (Form 1120))	8	
9a	Recapture of investment credit (attach Form 4255)	9a	
9b	Recapture of low-income housing credit (attach Form 8611)	9b	
9c	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	9c	
9d	Interest due under the look-back method—income forecast method (attach Form 8868)	9d	
9e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
9f	Other (see instructions—attach statement)	9f	
10	Total. Add lines 9a through 9f	10	
11	Total tax. Add lines 7, 8, and 10. Enter here and on		

Form 1120 (2017)		Page 4	
Schedule K Other Information (continued from page 3)		Yes	No
5	At the end of the tax year, did the corporation:		
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.		
	(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation
			(iv) Percentage Owned in Voting Stock
b	Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.		
	(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization
			(iv) Maximum Percentage Owned in Profit, Loss, or Capital
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? See sections 301 and 316. If "Yes," file Form 5452, Corporate Report of Nondividend Distributions. See the instructions for Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.		
7	At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of the total voting power of all classes of the corporation's stock entitled to vote or at least 25% of the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter: (a) Percentage owned <input type="checkbox"/> and (b) Owner's country <input type="checkbox"/>		
8	The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached <input type="checkbox"/>		
9	Enter the amount of tax-exempt interest received or accrued during the tax year <input type="checkbox"/> \$		
10	Enter the number of shareholders at the end of the tax year (if 100 or fewer) <input type="checkbox"/>		
11	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/> <input type="checkbox"/> If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.		
12	Enter the available NOL carryover from prior tax years (do not reduce it by any deduction reported on page 1, line 29a.) <input type="checkbox"/> \$		
13	Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year <input type="checkbox"/> \$		
14	Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions. If "Yes," complete and attach Schedule UTP.		
15a	Did the corporation make any payments in 2017 that would require it to file Form(s) 1099?		
b	If "Yes," did or will the corporation file required Forms 1099?		
16	During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?		
17	During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?		
18	Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?		
19	During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code?		

Form 1120: U.S. Corporation Income Tax Return (Pages 2-4)

Effect on Cash Flow Analysis Worksheet

- No line items on these pages affect cash flow

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

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

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)	

Form 1120: U.S. Corporation Income Tax Return (Page 5)

Schedule L – Balance Sheets per Books

This section of Form 1120 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Line 17: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column d; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

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

Line 5c: Travel and Entertainment

These cash expenses relate to business travel and entertainment.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount from Line 5c, which commonly reflects only 50% of expenses paid

Schedule M-2 – Analysis of Unappropriated Retained Earnings per Books

This schedule identifies the causes behind the changes in retained earnings from the beginning to the end of the tax year. Line 5, "distributions," is important. Schedule B of the borrower's personal Form 1040 will reflect the borrower's share of these distributions. This amount is also included in the corporation's taxable income. Be mindful not to double-count these dividends.

Effect on Cash Flow Analysis Worksheet

- Deduct dividend income paid by the business that the borrower reported on Form 1040, Schedule B

Compensation of Officers

▶ **Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S.**
 ▶ Information about Form 1125-E and its separate instructions is at www.irs.gov/form1125e.

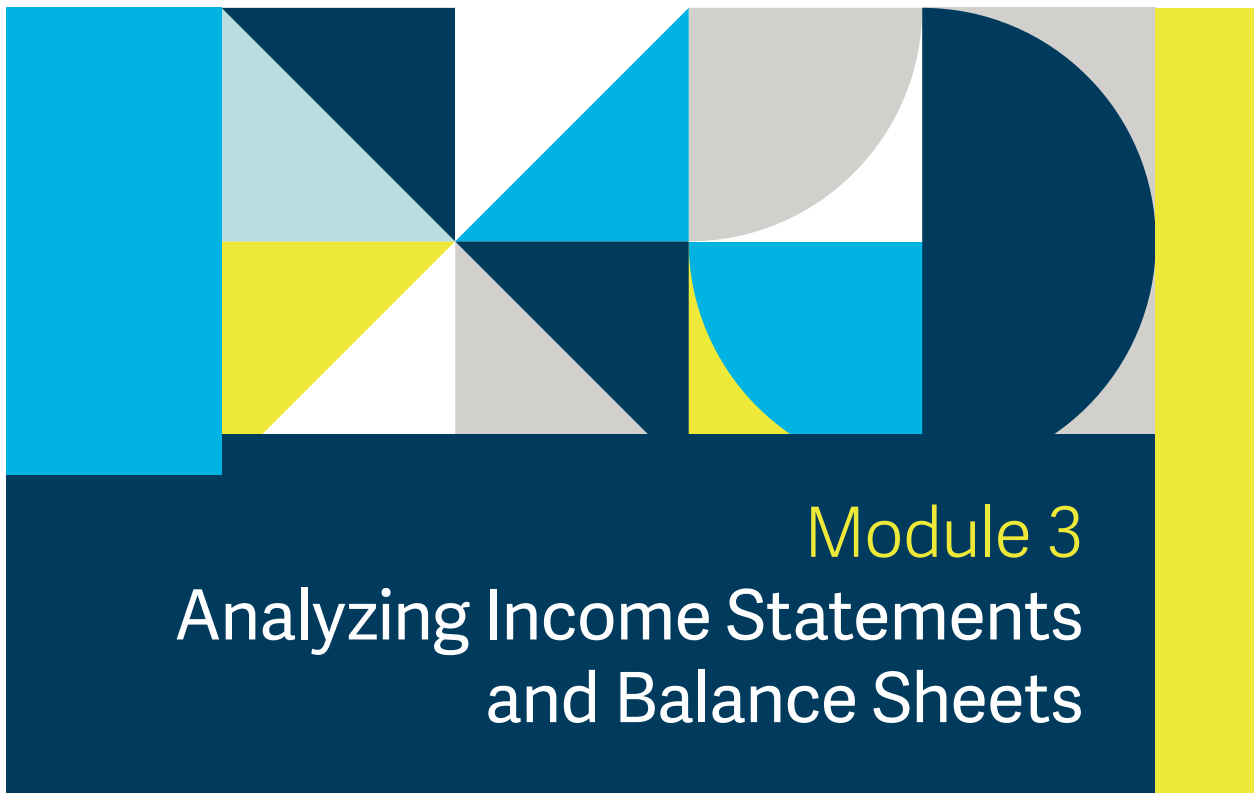
Name	Employer identification number
------	--------------------------------

Note: Complete Form 1125-E only if total receipts are \$500,000 or more. See instructions for definition of total receipts.

(a) Name of officer	(b) Social security number (see instructions)	(c) Percent of time devoted to business	Percent of stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
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		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers					2
3 Compensation of officers claimed on Form 1125-A or elsewhere on return					3
4 Subtract line 3 from line 2. Enter the result here and on Form 1120, page 1, line 12 or the appropriate line of your tax return					4

Form 1125-E: Compensation of Officers

If the entity has total receipts of \$500,000 or more and deducts compensation of officers, Form 1125-E must be completed and attached to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC or 1120S. The borrower's ownership percentage and amount of compensation is usually reported on this form. The ownership percentage will determine the borrower's share of income or losses from Form 1120.



Income statements and balance sheets are financial statements that represent a formal record of the business's financial activities and provide a financial snapshot over a given period of time.

Annual financial statements can cover the span of a calendar year, for example, Jan. 1 through Dec. 31; or a fiscal year, for example, May 1 through April 30.

Financial statements can also cover a portion of a year in the form of a quarterly or a year-to-date statement.

If a loan application is dated more than 120 days after the end of the business's tax year, or if tax returns are on extension, you may choose to request financial statements as additional support of self-employed income.

Borrowers can prepare their own financial statements or hire an accountant or tax professional to prepare them.

Note: In general, use financial statements as supporting documentation; don't use them for qualifying income, unless they're audited. Follow investor guidelines.

**Digital Network Systems
Income Statement
January 1 - December 31**

	2017		2016
Sales	\$ 276,000		\$ 264,000
Discounts & allowances	1,000		1,000
Net sales	275,000		263,000
Cost of Goods Sold	146,000		141,000
Gross Profit	129,000		122,000
 Other income			
Interest income	200		200
	200		200
 Expenses			
Salaries	26,000		26,000
Employee benefits	11,400		11,000
Licenses	2,100		-
Travel and entertainment	2,000		-
Insurance	7,500		7,200
Maintenance	8,000		6,000
Interest	2,900		3,000
Depreciation	15,000		16,000
Total Expenses	74,900		69,200
 Net income	\$ 54,300		\$ 53,000

Income Statement

An income statement – also known as a profit and loss (P&L) statement – summarizes a business's revenues, costs and expenses over a period of time.

The statement follows a general format. It begins with revenue and deducts expenses (the costs of doing business, including cost of goods sold and operating, tax and interest expenses). The difference – or bottom line – is the business's net profit (net income).

You can find variations of income statements right in tax returns. Schedule C, and the first pages of forms 1065, 1120S and 1120 all contain the necessary components of an income statement.

Main Income Statement Categories

Revenue

Revenue is capital flowing into the business.

There are 2 types of revenue accounts:

Sales

Sales are the primary source of revenue a business receives for goods sold or services offered.

Other Sources of Income

Other sources of income is income the business receives that is not generated from normal business operations.

Expenses

Expenses are the costs incurred in order for a business to operate.

There are typically 5 categories of expense accounts:

Selling Expenses

Selling expenses are costs the business incurs in the process of selling and marketing its goods and/or services.

General Administrative Expenses

General administrative expenses are costs of doing business not directly related to the selling process.

Other Expenses

Other expenses are miscellaneous costs not directly related to the main operation of the business.

Federal Income Tax

Federal income taxes are the amount the business owes in federal income taxes.

Cost of Goods Sold, Cost of Sales

Cost of goods sold is the cost of the inventory used to produce the business's goods.

Cost of sales are the costs the business incurs to provide its services.

Net Profit

Net profit is the difference between revenue (capital flowing into the business) and expenses (capital flowing out of the business).

Net profit is not the same as cash flow. Cash flow is net profit plus any noncash expenses. It's cash available to repay debt.

Digital Network Systems
Income Statement
For the Six Months Ending June 30, 2018

Sales	\$ 151,750	
Discounts & allowances	500	
Net sales	151,250	
Cost of Goods Sold	80,300	
Gross Profit		70,950
Other income		
Interest income	100	
		100
Expenses		
Salaries	14,300	
Employee benefits	6,270	
Licenses	1,155	
Travel and entertainment	1,100	
Insurance	4,125	
Maintenance	4,400	
Interest	1,595	
Depreciation	7,500	
Total Expenses		40,445
Net income		\$ 30,605

Year-to-Date (YTD) Income Statement

A YTD income statement is also known as a YTD P&L statement.

For loan applications originated later in the year, even though the borrower has provided tax returns, you may choose to request more recent financial information. For example, borrowers who applied for a loan on July 13, 2018, will have likely submitted their 2017 tax documents. You may wish to request a YTD income statement dated through June 30, 2018, from them to show the business's current income and expenses.

**Digital Network Systems
Income Statement
January 1 – December 31**

	2017		2016	
Sales	\$ 276,000		\$ 264,000	
Discounts & allowances	1,000		1,000	
Net sales	275,000		263,000	
Cost of Goods Sold	146,000		141,000	
Gross Profit	129,000		122,000	
 Other income				
Interest income	200	200	200	200
 Expenses				
Salaries	26,000		26,000	
Employee benefits	11,400		11,000	
Licenses	2,100		-	
Travel and entertainment	2,000		-	
Insurance	7,500		7,200	
Maintenance	8,000		6,000	
Interest	2,900		3,000	
Depreciation	15,000		16,000	
Total Expenses	74,900		69,200	
 Net income	\$ 54,300		\$ 53,000	

Income Statement

By calculating the business's gross profit margin, net profit margin and operating ratio, you will learn a lot about its profitability.

Techniques for Analyzing an Income Statement

Gross Profit Margin

Percentage of gross profit as compared to net sales

$$\frac{\text{Gross Profit}}{\text{Net Sales}} = \text{Gross Profit Margin}$$

Example:

$$\frac{\$129,000}{\$275,000} = .47$$

This means for every \$1 of goods sold after paying production costs, the business's gross profit was \$.47.

By tracking changes to its gross profit margin, a business can see the impacts of price competition or increases to its costs of goods sold relative to the level of its sales revenue.

Net Profit Margin

Percentage of net profit compared to revenue

One of the most important indicators of a business's financial health, as it reports how profitable the business is.

$$\frac{\text{Net Income (After Tax)}}{\text{Revenue}} = \text{Net Profit Margin}$$

Example:

$$\frac{\$54,300}{\$275,200} = .20$$

This means for every \$1 the business collects after paying all of its expenses, its net profit is \$.20.

By tracking increases and decreases in its net profit margin, a business can predict whether a change to the current rate of sales will yield a similar change to future profitability.

Operating Ratio

Percentage of operating expenses (actual cash expenses, except taxes and interest) to net sales

A business's operating ratio is an indicator of profitability because it shows how efficiently it's managing day-to-day operations.

$$\frac{\text{Operating Expenses}^*}{\text{Net Sales}} = \text{Operating Ratio}$$

Example:

$$\frac{\$57,000^*}{\$275,000} = .21$$

Total Expenses	\$74,900
– Depreciation	15,000
– Interest	2,900
*Operating Expenses	\$57,000

So, for every \$1 in sales, the business spent \$.21 in daily operations. When operating ratios are increasing, inefficiencies could possibly exist and may warrant that the business implement cost control efforts.

**Digital Network Systems
Income Statement
January 1 – December 31**

	2017		2016
Sales	\$ 276,000		\$ 264,000
Discounts & allowances	1,000		1,000
Net sales	275,000		263,000
Cost of Goods Sold	146,000		141,000
Gross Profit	129,000		122,000
 Other income			
Interest income	200	200	200
			200
 Expenses			
Salaries	26,000		26,000
Employee benefits	11,400		11,000
Licenses	2,100		-
Travel and entertainment	2,000		-
Insurance	7,500		7,200
Maintenance	8,000		6,000
Interest	2,900		3,000
Depreciation	15,000		16,000
Total Expenses	74,900		69,200
 Net income	\$ 54,300		\$ 53,000

Trend Ratios

An effective way to measure and compare a business's profitability/growth is to calculate trend ratios using its income statement.

A trend ratio compares income statement accounts from one year to the next. Calculate trend ratios by calculating the difference between years and dividing it by the previous year.

Let's start with sales: Take the sales figures from the income statement on page 100 for the past 2 years.

Example:

	2017	2016
Sales	\$276,000	\$264,000

1. Calculate the difference:
 $\$276,000 - \$264,000 = +\$12,000$
2. Divide the difference by the earlier year:
 $\$12,000 \div \$264,000 = + 4.55\%$

Exercise: Determine the trends

Account	2017	2016	\$ Difference	% Change	Increasing/Decreasing
Sales	\$276,000	\$264,000	+\$12,000	+4.55%	Increasing
Cost of Goods Sold	146,000	141,000			
Gross Profit	129,000	122,000			
Expenses	74,900	69,200			
Net Income	54,300	53,000			

Note: Actual account names will vary based on whether you use tax returns or income statements.

If several years of income statements are available, expand your analysis to include additional years.

**Digital Network Systems
Balance Sheet
December 31, 2017**

<u>Assets</u>	2017	2016
Current Assets		
Cash	\$13,700	\$13,000
California State municipal bond	6,000	6,000
Accounts receivable	39,800	27,600
Less allowance for bad debt	(3,980)	(2,760)
Inventory	52,160	30,000
Total Current Assets	107,680	73,840
Fixed Assets		
Building	190,000	190,000
Less accumulated depreciation	(47,900)	(32,900)
Total Fixed Assets	142,100	157,100
Other Assets		
Investment in ABC Corporation	125,800	95,400
US Treasury Bill	5,000	5,000
Total Other Assets	130,800	100,400
Total Assets	\$ 380,580	\$ 331,340
 <u>Liabilities</u>		
Current Liabilities		
Accounts payable	19,000	18,800
Mortgage payable	21,900	22,000
Credit card payable	3,000	1,780
Total Current Liabilities	43,900	42,580
Other Liabilities		
Mortgage payable	105,820	109,100
Profit-sharing liability	10,000	13,100
Total Other Liabilities	115,820	122,200
Total Liabilities	159,720	164,780
 <u>Equity</u>		
Equity		
Capital stock	2,000	2,000
Additional paid-in capital	50,000	50,000
Retained earnings	168,860	114,560
Total Equity	220,860	166,560
Total Liabilities and Equity	\$ 380,580	\$ 331,340

Balance Sheet

A balance sheet provides a snapshot of a business's financial well-being. It summarizes its assets, liabilities and owners' equity as of the date it was prepared.

The balance sheet adheres to the following formula: $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$. These 3 segments show what the business owns and owes and how much its owners have invested in it.

Main Balance Sheet Categories

Assets

Assets are items of value that are owned and are measurable in terms of money.

There are 3 types of assets:

Current Assets

Current assets can reasonably be expected to convert to cash within 1 year from the date of the balance sheet.

Fixed Assets

Fixed assets are long-term assets not intended for sale or easily convertible to cash.

Fixed asset examples include buildings and equipment.

Other Assets

Other assets are either intangible assets or assets acquired for long-term rights and privileges.

Intangible assets have no physical existence. Goodwill is a common example of an intangible asset.

Liabilities

Liabilities are obligations owed by the business.

There are 2 types of liabilities:

Current Liabilities

Current liabilities are debts that are due within 1 year or less from the date of the balance sheet.

This would include the portion of long-term debt (e.g., mortgage debt) that is payable within 1 year.

Long-Term Liabilities

Long-term liabilities are debts that are due more than 1 year from the date of the balance sheet.

Owners' Equity

Owners' equity is the net worth or book value of the business.

$\text{Net Worth} = \text{Assets} - \text{Liabilities}$

There are 3 major classifications to owners' equity:

Capital Stock

Capital stock is an account showing the interest or ownership in a business by its stockholders.

Capital Surplus

Capital surplus is the amount paid for stock above its par value.

For example:

- Par value of stock: \$1.00/share
- Additional stock purchased at \$4.00/share
- Capital surplus: \$3.00/share

Accumulated Retained Earnings

Accumulated retained earnings are the after-tax earnings not distributed by the corporation to its stockholders.

This money is put back into the business to conduct ongoing operations.

**Digital Network Systems
Balance Sheet
June 30, 2018**

Assets

Current Assets

Cash	\$	20,050	
California State municipal bond		6,000	
Accounts receivable		45,900	
Less allowance for bad debt		(4,590)	
Inventory		73,195	
Total Current Assets		140,555	140,555

Fixed Assets

Building		190,000	
Less accumulated depreciation		(55,400)	
Total Fixed Assets		134,600	134,600

Other Assets

Investment in ABC Corporation		128,500	
US Treasury Bill		5,000	
Total Other Assets		133,500	133,500

Total Assets		\$ 408,655	
---------------------	--	-------------------	--

Liabilities

Current Liabilities

Accounts payable		19,100	
Mortgage payable		21,850	
Credit card payable		3,610	
Total Current Liabilities		44,560	44,560

Other Liabilities

Mortgage payable		104,180	
Profit-sharing liability		8,450	
Total Other Liabilities		112,630	112,630

Total Liabilities		157,190	
--------------------------	--	----------------	--

Equity

Equity

Capital stock		2,000	
Additional paid-in capital		50,000	
Retained earnings		199,465	
Total Equity		251,465	251,465

Total Liabilities and Equity		\$ 408,655	
-------------------------------------	--	-------------------	--

Interim Balance Sheet

For loan applications originated later in the year, even though the borrower has provided tax returns, you may choose to request more recent financial information. For example, borrowers who applied for a loan on July 13, 2018 will have likely submitted their 2017 tax returns. You may wish to request an interim balance sheet dated through June 30, 2018 to show:

- The business's current assets and liabilities or
- The Schedule L included in the borrower's tax return did not require completion due to the business's gross receipts and/or assets being less than the minimum required

Note: In general, use the interim balance sheet as supporting documentation; don't use it for qualifying, unless it's reported through audited financial statements. Follow investor guidelines.

**Digital Network Systems
Balance Sheet
December 31, 2017**

<u>Assets</u>	2017	2016
Current Assets		
Cash	\$13,700	\$13,000
California State municipal bond	6,000	6,000
Accounts receivable	39,800	27,600
Less allowance for bad debt	(3,980)	(2,760)
Inventory	52,160	30,000
Total Current Assets	107,680	73,840
Fixed Assets		
Building	190,000	190,000
Less accumulated depreciation	(47,900)	(32,900)
Total Fixed Assets	142,100	157,100
Other Assets		
Investment in ABC Corporation	125,800	95,400
US Treasury Bill	5,000	5,000
Total Other Assets	130,800	100,400
Total Assets	\$ 380,580	\$ 331,340
 <u>Liabilities</u>		
Current Liabilities		
Accounts payable	19,000	18,800
Mortgage payable	21,900	22,000
Credit card payable	3,000	1,780
Total Current Liabilities	43,900	42,580
Other Liabilities		
Mortgage payable	105,820	109,100
Profit-sharing liability	10,000	13,100
Total Other Liabilities	115,820	122,200
Total Liabilities	159,720	164,780
 <u>Equity</u>		
Equity		
Capital stock	2,000	2,000
Additional paid-in capital	50,000	50,000
Retained earnings	168,860	114,560
Total Equity	220,860	166,560
Total Liabilities and Equity	\$ 380,580	\$ 331,340

Techniques for Analyzing the Balance Sheet

By calculating the current ratio or the quick ratio, you will learn a lot more about the solvency/liquidity of the business.

- Use the most appropriate ratio, based on how the business operates, to determine the business has adequate liquidity
- Analyze liquidity based on the norms of the industry the business operates within
- What is considered the norm in one industry, may be different in another
- Generally, a result of 1 or greater for either ratio demonstrates adequate business liquidity

Current Ratio

The current ratio – also known as the working capital ratio – measures the business's ability to pay its current liabilities (debt that is due within 1 year of the date of the balance sheet) with its current assets (assets that can reasonably be converted into cash within 1 year of the date of the balance sheet).

The current ratio is an indicator of a business's financial health: The higher the current ratio, the more capable the business is of paying its obligations because it has a larger proportion of asset value relative to its liabilities.

$$\frac{\text{Current Assets} \\ \text{[Cash \& Equivalents + Marketable} \\ \text{Securities + Accounts Receivable} \\ \text{(Less Bad Debt) + Inventory]}}{\text{Current Liabilities}} = \text{Current Ratio}$$

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

Example:

$$\frac{\$13,700 + \$6,000 + \$35,820 + \$52,160 = \$107,680}{\$43,900} = 2.45$$

This means for every \$1 of current debt, the business has \$2.45 in current assets. So, after it pays its current debt, it has \$1.45 in current assets left over.

The current ratio is appropriate for businesses that don't rely on inventory to generate income, such as an airline or a pest control business.

Quick Ratio

The quick ratio – also known as the acid test ratio – measures the business's ability to meet immediate needs for cash. It is an indicator of a business's ability to pay back its current liabilities with its most liquid assets (assets that can be converted to cash quickly). Since inventories, in general, take a longer time to convert to cash, they're excluded from the quick ratio.

$$\frac{\text{Quick Assets} \\ \text{[Cash and Equivalents + Marketable} \\ \text{Securities + Accounts Receivable} \\ \text{(Less Bad Debt) - Inventory]}}{\text{Current Liabilities}} = \text{Quick Ratio}$$

$$\frac{\text{Quick Assets} \\ \text{(Current Assets - Inventory)}}{\text{Current Liabilities}} = \text{Quick Ratio}$$

Example:

$$\frac{\$13,700 + \$6,000 + \$35,820 = \$55,520}{\$43,900} = 1.26$$

For every \$1 of current debt, the business has \$1.26 in liquid assets. So, after it pays its current debt, it has \$.26 in liquid assets left over.

The quick ratio is appropriate for companies that rely heavily on inventory to generate income, such as a sportswear or footwear retailer or a home improvement store.

Calculate current and quick ratios with our auto-calculating, editable Liquidity Worksheet at mgic.com/liquid

**Digital Network Systems
Balance Sheet
December 31, 2017**

<u>Assets</u>	2017	2016
Current Assets		
Cash	\$13,700	\$13,000
California State municipal bond	6,000	6,000
Accounts receivable	39,800	27,600
Less allowance for bad debt	(3,980)	(2,760)
Inventory	52,160	30,000
Total Current Assets	107,680	73,840
Fixed Assets		
Building	190,000	190,000
Less accumulated depreciation	(47,900)	(32,900)
Total Fixed Assets	142,100	157,100
Other Assets		
Investment in ABC Corporation	125,800	95,400
US Treasury Bill	5,000	5,000
Total Other Assets	130,800	100,400
Total Assets	\$ 380,580	\$ 331,340
 <u>Liabilities</u>		
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Accounts payable	19,000	18,800
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Total Liabilities	159,720	164,780
 <u>Equity</u>		
Equity		
Capital stock	2,000	2,000
Additional paid-in capital	50,000	50,000
Retained earnings	168,860	114,560
Total Equity	220,860	166,560
Total Liabilities and Equity	\$ 380,580	\$ 331,340

Trend Ratios

An effective way to measure and compare a business's wellbeing is to calculate trend ratios using its balance sheet.

A trend ratio compares balance sheet accounts from one year to the next. Calculate trend ratios by calculating the difference between years and dividing it by the previous year.

Begin with cash: Take the cash figures from the balance sheet on page 108 for the past 2 years.

Example:

	2017	2016
Cash	\$13,700	\$13,000

1. Calculate the difference:
 $\$13,700 - \$13,000 = +\$700$
2. Divide the difference by the earlier year:
 $\$700 \div \$13,000 = + 5.38\%$

Exercise: Determine the trends

Account	2017	2016	\$ Difference	% Change	Increasing/Decreasing
Cash	\$13,700	\$13,000	+\$700	+5.38%	Increasing
Accounts Receivable (less Bad Debt)	35,820	24,840			
Current Assets	107,680	73,840			
Total Assets	380,580	331,340			
Accounts Payable	19,000	18,800			
Current Liabilities	43,900	42,580			
Total Liabilities	159,720	164,780			

Note: Account names will vary based on whether you use tax returns or balance sheets.

If several years of balance sheets are available, expand your analysis to include additional years.



Use the resources in this module to make your analysis easier.

The **Documentation Matrix** provides a list of the documents you need from a self-employed borrower in order to conduct your analysis.

The **K-1 Income Flowchart** illustrates the “pass-through” nature of this income.

The **Tax Return Red Flag Review** quickly guides you through a tax return, noting where to look for inconsistencies.

The **Glossary of Terms and Definitions** – from Accounts Payable to Trademark – may help you develop a better understanding of the elements involved in business ownership.

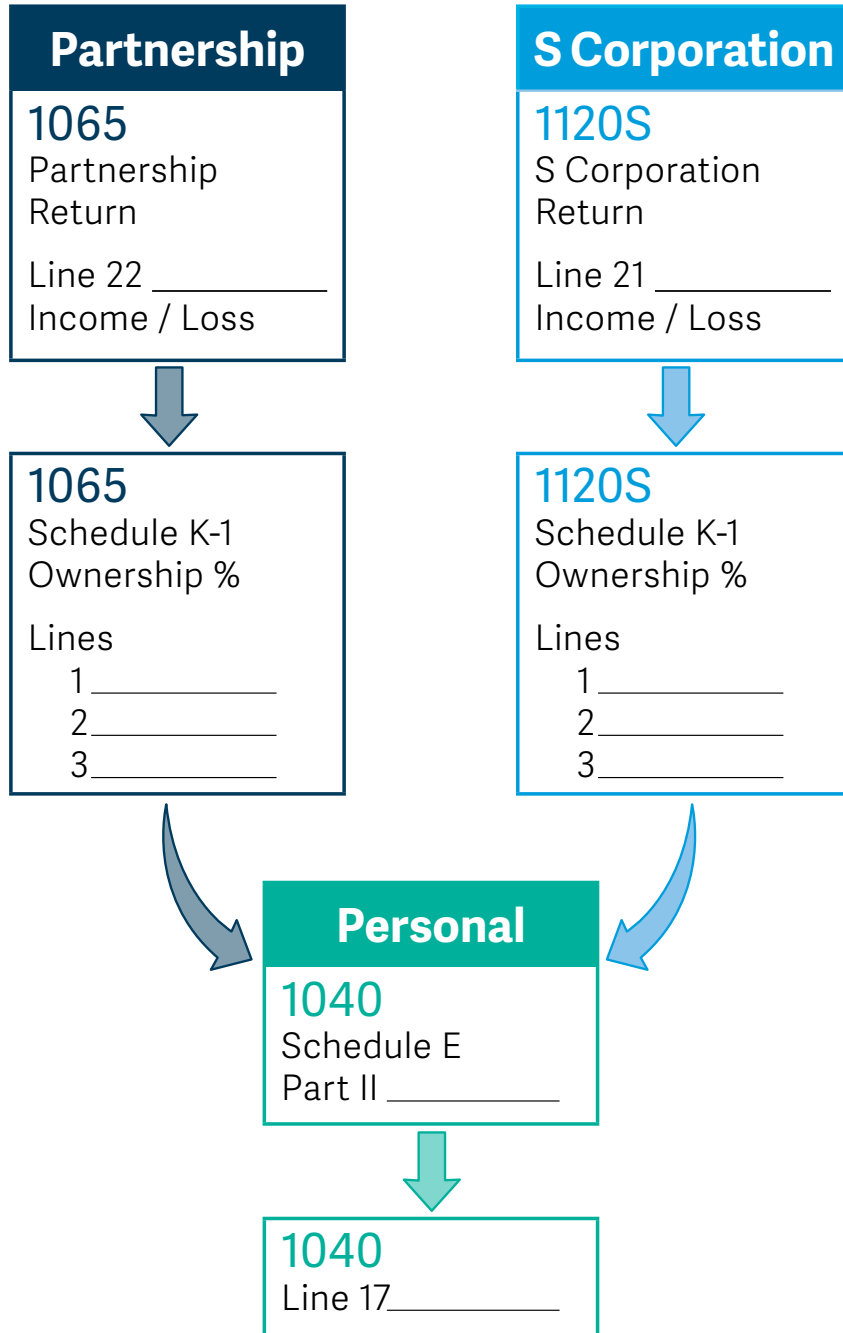
Documentation Matrix

The following matrix identifies the documentation you need from self-employed borrowers to substantiate the various types of income they may receive from different business structures.

NOTE: All documents must be from the most recent 2-year period. The borrower must sign all tax returns and year-to-date information. Request business tax returns when the borrower has 25% or greater ownership interest in a business.

	Sole Proprietorship	Partnership (General, Limited or LLC)	S Corporation	Corporation
Form 1040: U.S. Individual Income Tax Return) with all applicable schedules and W-2s	▼	▼	▼	▼
Schedule C: Profit or Loss from Business	▼			
Schedule E, Part II: Income or Loss From Partnerships or S Corporations		▼	▼	
Schedule K-1 (Form 1065): Partner's Share of Income, Deductions, Credits, etc.		▼		
Form 1065: U.S. Return of Partnership Income with all applicable schedules		▼		
Schedule K-1 (Form 1120S): Shareholder's Share of Income, Deductions, Credits, etc.			▼	
Form 1120S: U.S. Income Tax Return for an S Corporation with all applicable schedules			▼	
Form 1120: U.S. Corporate Income Tax Return with all applicable schedules				▼
Year-to-Date Profit & Loss Statement/ Interim Balance Sheet: as applicable	▼	▼	▼	▼
Partnership Agreement: may be required		▼		
Corporate Resolution: may be required			▼	▼

K-1 Income Flowchart



Tax Return Red Flag Review

Form 1040 – U.S. Individual Income Tax Return

- Personal information does not agree with the information in the loan file
- W-2 information does not match the figures reported on the 1040
- High-income borrower with few or no deductions
- Even dollar amounts for income or deductions
- Borrower indicates self-employed, owner of a sole proprietorship, yet the 1040 discloses wages, salaries, tips, etc.
- Self-employed borrower who does not reflect self-employment tax
- Evidence of whiteout or strikeovers, alterations or varied handwriting within return
- Tax returns are not signed/dated by borrower
- Paid tax preparer does not disclose tax ID
- Handwritten tax returns prepared by a professional tax preparer

Schedule A

- Real estate taxes or mortgage interest reported, but no real estate owned
- Real estate owned, but no deductions taken for real estate taxes or mortgage interest paid
- Unreimbursed employee expenses indicate the borrower may receive commission income

Schedule B

- Interest income reported is not consistent with cash assets in the bank
- Stock owned, but no dividend income reported
- Source and/or amount of income are inconsistent with the Residential Loan Application (1003)

Schedule C

- Gross receipts or sales do not agree with total income on Form 1099(s)
- No “cost of goods sold” on retail type of business
- No deduction for depreciation (usually some type of equipment qualifies)
- Depreciation deduction for real estate is taken, but ownership of real estate is not disclosed (vice versa) on the Residential Loan Application (1003)
- Interest expense, but borrower does not disclose a related loan
- Net profit is significantly higher/lower than the previous year

Schedule E

- Properties listed are not disclosed on the Residential Loan Application (1003)
- Mortgage interest deduction is taken, but debt is not disclosed on the Residential Loan Application (1003)
- Partnership(s) and/or S Corporation(s) are listed on Part II, and there is no reference listed on the Residential Loan Application (1003)
- Income/loss is inconsistent or not disclosed on the Residential Loan Application (1003)

Schedule K-1 (Form 1065) – Partner’s Share of Income, Deductions, Credits, etc.

- Final K-1 Box is checked
- Capital contributed during the year is excessive compared to personal assets

Form 1065 – U.S. Return of Partnership Income

- Income calculation for a fiscal year vs. a calendar year
- May be a partner in another partnership if ordinary income (loss) from other partnerships, etc., is reported

Schedule K-1 (Form 1120S) – Shareholder’s Share of Income, Deductions, Credits, etc.

- Distributions are significantly higher than ordinary income
- The amount shown for ordinary business income (loss) differs from the amount shown for this S Corporation on Form 1040, Schedule E, Part II

Form 1120S – U.S. Income Tax Return for an S Corporation

- Date incorporated differs from years reported on the Residential Loan Application (1003)
- Employer identification number differs from the employer identification number shown on Form 1040 Schedule E, Part II

Form 1120 – U.S. Corporation Income Tax Return

- Final return box is selected on the return
- Compensation of officers doesn’t support borrower’s reported W-2 income from the corporation

Glossary of Terms and Definitions

Accounts Payable – Amounts owed to creditors for items or services purchased from them

Accounts Receivable – Amounts due from customers for goods sold

Accrual Basis of Accounting – An accounting method that matches revenues and expenses incurred whether cash has been received or paid, i.e., revenues are recognized when sales are made or services performed even though cash has not yet been received. Expenses are recognized as incurred whether cash has been paid or not

Accrued Expenses Payable – Debts incurred but not yet paid, such as federal income tax or the current portion of long-term debt

Accumulated Retained Earnings – The after-tax earnings not distributed by the corporation to its stockholders. This money is put back into the business to conduct ongoing operations

Administrative Expenses – Overhead expenses incurred in the overall management of a business, including executive salaries, rent on administrative buildings and insurance

Amortization – The write-off of initial costs incurred by the borrower prior to the beginning of formal business operations. Examples of initial costs include survey fees, goodwill, trademarks, patents, copyrights, customer lists, non-compete agreements and prepayments. Borrowers can expense these one-time costs over a period of time

Assets – Items of value, owned and are measured in terms of money

Balance Sheet – Summarizes a business's assets, liabilities and owners' equity as of a specific date

Capital – Funds belonging to the owners of a business, invested with the expressed intention of remaining permanently in the business. Another source of capital is earnings retained by the business

Capital Gains and Losses – Gains and losses not related to the normal business activity; usually nonrecurring. For example, if a business sells some stock and loses money in the transaction, this would be considered a capital loss

Capitalization Expense – An accounting method that recognizes expenses as intangible assets to be annually expensed, such as organization expenses and research and development

Capital Stock – An account showing the interest or ownership in a business by its stockholders

Capital Surplus – The amount paid for stock over its par value

Cash – Money on hand, demand deposits, undeposited checks, drafts and money orders

Cash Basis of Accounting – An accounting method that recognizes revenues when cash is received and expenses when cash is paid

Cash Flow – Funds the borrower is going to use to repay the mortgage

Casualty Loss – A one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane

Chattel Property – Assets that have a short life span, such as furniture, cars and office equipment

Common Stock – Stock representing residual equity in a corporation. Common stockholders rank behind preferred stockholders for dividend payment and claims against assets in event of liquidation. If only 1 class of stock is issued, it is common stock

Corporation – A legal entity, separate and distinct from its shareholders. It can sue, be sued, hold/convey and receive property and enter into contracts under its own name

Cost of Goods Sold – The cost of the inventory used to produce the goods of the business

Cost of Sales – The costs the business incurs to provide its services

Glossary of Terms and Definitions

Current Assets – Assets that can be reasonably expected to convert to cash within 1 year of the date of the balance sheet

Current Liabilities – Debts due within 1 year from the date on the balance sheet

Current Portion of Long-term Debt – The portion of long-term debt (e.g., mortgage debt) due within 1 year from the date of the balance sheet

Deferred Charge – Debt incurred that will be paid in the future

Deferred Expenses – Expenses incurred that will be paid in the future

Depletion – The exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. The IRS allows a business that exhausts a natural resource in the course of normal operation to allocate the total costs of that natural resource over a given period of time

Depreciation – A noncash expense allocated over the useful life of a declared asset. The “expense” reflects a reasonable allowance for wear and tear of an asset. The depreciated asset wears out, becomes obsolete or gets used-up and eventually needs to be replaced

Dividend and Interest Income – Dividend and interest income is income earned from investments

Expenses – Costs incurred during a period of time from delivering or producing goods, rendering services, or carrying out other activities that constitute a business’s ongoing operations

Federal Income Tax Payable – Debt due to the Internal Revenue Service

Fixed Assets – Long-term assets not intended for sale or easily converted to cash, e.g., buildings and equipment.

General Administrative Expenses – Costs of doing business not directly related to the selling process

General Partnership – A business where at least 2 partners conduct business jointly and have unlimited liability (meaning their personal assets are liable for the partnership’s debts). The partners pay tax on their proportionate share of the partnership income/loss

Goodwill – An intangible asset in a business balance sheet representing a premium paid at time of purchase for the business’s management skill, know-how and favorable reputation with customers

Gross Income – Income derived from all sources before taxes

Income from Operations – Income a business receives as a result of ongoing business operations

Income Statement – Summarizes a business’s revenues, costs and expenses over a period of time

Intangible Assets – Noncurrent, nonphysical assets of a business, such as goodwill, patents and trademarks

Intangible Drilling Costs – Costs incurred for the labor and equipment used in drilling; in general, discretionary expenses

Inventories – Items of tangible property that are (1) held for sale in the ordinary course of business, (2) in process of production for such sale or (3) to be used for producing goods or services that will be available for sale

Land – Ground upon which the buildings of an enterprise are located

Liabilities – Debts or obligations that usually have a known or determinable amount, maturity date and party to whom payment is to be made

Limited Liability Company (LLC) – A business that has the characteristics of both a partnership and a corporation. Its members participate in the management of the company without being personally liable for the debts of the company. The members pay tax on their proportionate share of the company income/loss. In some cases, an LLC may elect to be treated as a corporation and file Form 1120

Limited Partnership – A business where at least 1 general and 1 limited partner conduct business. The general partner typically controls daily operations and makes business decisions; the limited partner is silent but has a financial stake. The liability of the general partner is unlimited, whereas the liability of the limited partner is limited to their investment. The partners pay tax on their proportionate share of the partnership income/loss

Liquid Assets – Cash or those assets that are easily converted into cash, such as marketable securities

Long-Term Liabilities – Debts due more than 1 year from the date of the balance sheet

Machinery – Heavy equipment used in manufacturing a product or performing a service for a customer

Marketable Securities – Readily salable securities easily converted to cash

Modified Accelerated Cost Recovery System (MACRS) – A method of calculating depreciation with a larger portion of the asset expensed in the early years of its estimated useful life

Net Income After Taxes – Income remaining after provision for or payment of taxes

Net Income Before Taxes – Income before provision for taxes

Net Profit – Profit remaining after all expenses and charges have been deducted

Nonrecurring Expense – A one-time expense or loss. For example, a casualty loss is a one-time extraordinary expense due to damage or destruction of property from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, flood or hurricane

Nonrecurring Income – Income from one-time events. Since you can't expect it to continue, you can't consider it as qualifying income toward cash flow. Examples include the sale of an asset or a prize or other windfall

Notes Payable – Written promises to pay sums of money at a future date, usually with interest at a specified rate

Other Assets – Assets that are intangible or are acquired for long-term rights and privileges

Other sources of income – Income the business receives not generated from normal business operations

Owners' Equity – The corporation's net worth (book value of the business) after subtracting liabilities from assets. It is the owners' interest in a corporation, consisting of capital and retained earnings

Preferred Stock – Stock that has certain preference rights over common stock as to dividends and claims against assets in the event of liquidation

Prepayments – Expenses paid before they are used or incurred, such as taxes and rent

Provision for Taxes – The expense provision for state and federal taxes

Real Property – Land and any property attached to land which cannot be moved, e.g., a rental home or commercial property

Recurring Expense – Ongoing expense associated with the day-to-day operation of a business. Examples include wages, insurance, car and truck expenses, etc.

Recurring Income – Ongoing income you can expect to continue for at least the next 3 years in order to consider it as qualifying income for cash flow. Examples of recurring income include earnings from the operation of a business, interest from long-term investments or even lottery winnings paid out over a number of years

Research and Development Costs – Costs of research and development, usually expensed at the time they are incurred

Retained Earnings – Net earnings not distributed by the corporation to its shareholders

Revenue – Capital flowing into the business. There are 2 types of revenue accounts: sales and other sources of income

Glossary of Terms and Definitions

S Corporation – A legal entity with a limited number of shareholders. Its shareholders participate in the management of the corporation without being personally liable for the debts of the corporation. The shareholders pay tax on their proportionate share of the corporate income/loss

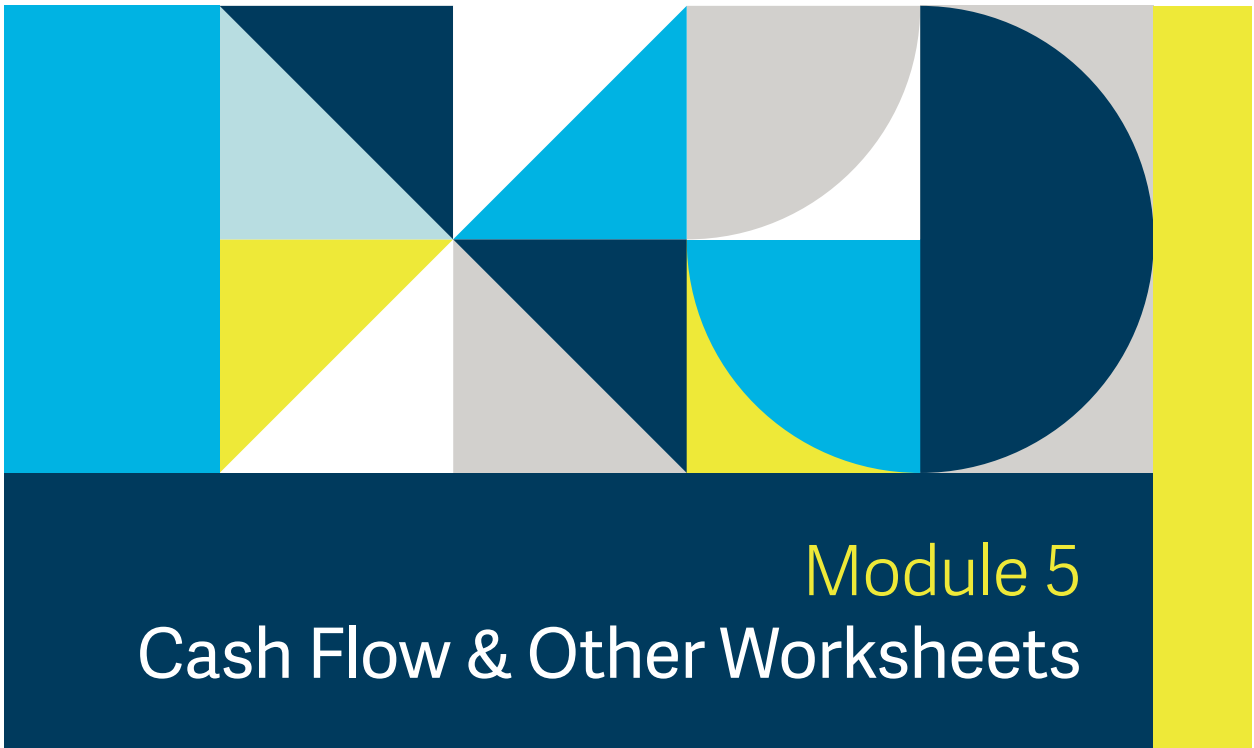
Sales – The primary source of revenue a business receives for goods sold or services offered

Selling Expenses – Costs the business incurs in the process of selling and marketing its goods and/or services

Sole Proprietorship – A business with a single owner. It has no separation between the business entity and its owner

Straight-Line Method of Depreciation – A method to calculate depreciation that distributes the same dollar amount of depreciation to expense each period. For example, a \$10,000 car with a useful life of 10 years would depreciate by \$1,000 each year

Trademark – A symbol, design, brand name or any other indication of easy and ready recognition attributed to a product



There are several resources available to help you calculate self-employed borrower cash flow or the net rental income from a rental property.

This module includes our:

- MGIC SAM Cash Flow Analysis Worksheet
- MGIC Liquidity Worksheet
- MGIC Rental Income Worksheet

Each year, we update our worksheets to reflect the most recent changes in the tax forms. Line-by-line navigation of each tax schedule makes them easy to follow.

This module also includes current Fannie Mae and Freddie Mac worksheets. The Agencies and most investors have **no requirements** about which worksheet to use. However, they all require that you clearly show how you determined qualifying income.

The rationale behind whether you should add/deduct the amount of a line item to/from cash flow is universal. Once you've mastered the concepts, you can apply them to any worksheet (unless investor guidelines or company policy require you to use a certain one).

You can photocopy the worksheets for your calculations right from this manual. But, if you prefer to work online, go to mgic.com/seb to access editable, auto-calculating versions of the MGIC worksheets.

Questions?

If you have questions about our Evaluating the Self-Employed Borrower program, contact your MGIC account representative, mgic.com/contact.

SAM Method Cash Flow Analysis Worksheet - Page 1



BORROWER AND/OR CO-BORROWER NAME:		DATE:	
<input checked="" type="checkbox"/> FORM 1040 - PAGE 1			
1	Self-Employed Wages: W-2, Box 5 (in general)		+ -
Subtotal			
<input checked="" type="checkbox"/> FORM 1040 - PAGE 1 - OTHER INCOME			
2	Variable Income (e.g., Commissions): W-2, Box 5 (in general)		
3	Tax-Exempt Interest: LINE 8b		
4	Alimony Received: LINE 11		
5	IRA Distributions and /or Pension: LINES 15a & 16a		
6	Recurring Unemployment Compensation: LINE 19		
7	Social Security Benefits: LINE 20a		
8	Other Income: LINE 21		
Subtotal			
<input checked="" type="checkbox"/> FORM 2106 - EMPLOYEE BUSINESS EXPENSES			
9	Total Expenses: LINE 8, Columns A & B	()	()
10	Depreciation: LINE 28: if complete, enter amount. ONLY IF BLANK, proceed to Line 13		
11	Business Miles: LINE 13	* Miles: *	*
11a	x Depreciation Rate 2017: \$0.25 2016: \$0.24 2015: \$0.24		
11b	= Total Mileage Depreciation		
Subtotal		\$0.00	\$0.00
<input checked="" type="checkbox"/> SCHEDULE B - INTEREST AND DIVIDENDS			
12	Recurring Interest Income: LINE 1 or 1040 LINE 8a		
13	Recurring Dividend Income: LINE 5 or 1040 LINE 9a		
Subtotal			
<input checked="" type="checkbox"/> SCHEDULE C - SOLE PROPRIETORSHIP			
Name: + -			
14	Net Profit (Loss): LINE 31		
15	Deduct nonrecurring income/add nonrecurring loss or expense: LINE 6		
16	Depletion: LINE 12		
17	Depreciation: LINE 13		
18	Meal and Entertainment Exclusion: LINE 24b	()	()
19	Business Use of Home: LINE 30		
20	Business Miles: page 2, part IV, LINE 44a	* Miles: *	*
20a	x Depreciation Rate 2017: \$0.25 2016: \$0.24 2015: \$0.24		
20b	= Total Mileage Depreciation		
21	Amortization/Casualty Loss (only if noted): page 2, part V		
Subtotal		\$0.00	\$0.00
<input checked="" type="checkbox"/> SCHEDULE D - CAPITAL GAINS AND LOSSES			
22	Recurring Capital Gains (Loss): page 2, LINE 16 (details on FORM 8949)		
Subtotal			
<input checked="" type="checkbox"/> FORM 6252 - INSTALLMENT SALE INCOME			
23	Principal Payments: LINE 21		
Subtotal			
<input checked="" type="checkbox"/> SCHEDULE E - SUPPLEMENTAL INCOME AND LOSS To calculate rental property income (loss), use the Rental Income Worksheet.			
24	Royalty Income (Loss): LINE 4		
25	Total Expenses: LINE 20	()	()
26	Depletion: LINE 18		
Subtotal		\$0.00	\$0.00
<input checked="" type="checkbox"/> SCHEDULE F - FARM INCOME			
27	Net Profit (Loss): LINE 34		
28	Non-Tax Portion Ongoing Co-op & CCC Pmts: LINES 3a minus b through 6a minus b		
29	Deduct nonrecurring income/add nonrecurring loss: LINE 8		
30	Depreciation: LINE 14		
31	Amortization/Casualty Loss/Depletion (only if noted): LINE 32		
32	Business Use of Home (only if noted): LINE 32		
Subtotal			

SAM Method

Cash Flow Analysis Worksheet - Page 2



Partnership Cash Flow

Part 1: Schedule K-1 (Form 1065) Cash Flow

Evaluate the K-1 income and the business income as required by your investor.

PARTNERSHIP SCHEDULE K-1 (FORM 1065)

Name: + -		
1	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.	
2	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.	
3	Guaranteed Payments to Partner: LINE 4	
	Subtotal	

Part 2: Partnership (Form 1065) Cash Flow

Check investor guidelines for use of business income to qualify.

PARTNERSHIP - FORM 1065

Name: + -		
4	Passthrough (Income) Loss from Other Partnerships: LINE 4	
5	Deduct nonrecurring income/add nonrecurring loss: LINES 5, 6 & 7	
6	Depreciation: LINE 16c	
7	Depreciation (FORM 8825): LINE 14	
8	Depletion: LINE 17	
9	Amortization/Casualty Loss (only if noted): LINE 20 from attached statement	
10	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 16, Column d () ()	
11	Travel and Entertainment Exclusion: Schedule M-1, LINE 4b () ()	
12	Subtotal	\$0.00 \$0.00
13	Multiplied by Ownership Percentage	
	Partner's Total Share of Income (Loss)	\$0.00 \$0.00

S Corporation Cash Flow

Part 1: Schedule K-1 (Form 1120S) Cash Flow

Evaluate the K-1 income and the business income as required by your investor.

S-CORPORATION SCHEDULE K-1 (FORM 1120S)

Name: + -		
14	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.	
15	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.	
	Subtotal	

Part 2: S Corporation (Form 1120S) Cash Flow

Check investor guidelines for use of business income to qualify.

S CORPORATION - FORM 1120S

Name: + -		
16	Deduct nonrecurring income/add nonrecurring losses: LINES 4 & 5	
17	Depreciation: LINE 14	
18	Depreciation (FORM 8825): LINE 14	
19	Depletion: LINE 15	
20	Amortization/Casualty Loss (only if noted): LINE 19 from attached statement	
21	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d () ()	
22	Travel and Entertainment Exclusion: Schedule M-1, LINE 3b () ()	
23	Subtotal	\$0.00 \$0.00
24	Multiplied by Ownership Percentage	
	Shareholder's Total Share of Income (Loss)	\$0.00 \$0.00

SAM Method Cash Flow Analysis Worksheet - Page 3



Corporation (Form 1120) Cash Flow

When considering using income from a Corporation, it is important to determine the viability of the business as well as the borrower's ability to access funds that will be used to qualify. In addition, check your investor guidelines.

REGULAR CORPORATION - FORM 1120

Name: _____ + -

25	Taxable Income: LINE 30		
26	Total Tax: LINE 31	()	()
27	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9		
28	Deduct nonrecurring income/add nonrecurring loss: LINE 10		
29	Depreciation: LINE 20		
30	Depletion: LINE 21		
31	Domestic Production Activities Deduction: LINE 25		
32	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		
33	Net Operating Loss and Special Deductions: LINES 29a & b		
34	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	()	()
35	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	()	()
36	Subtotal	\$0.00	\$0.00
37	Multiplied by Ownership Percentage		
38	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	()	()
	Corporation - Total Share of Income (Loss)		

Cash Flow Analysis Summary

- A. To modify the Total No. of Months select the applicable number from the # mo. drop-down box.
- B. To exclude a Subtotal from Qualifying Income, select the box to the left of the dollar amount.

Subtotal
 \$10,000.00

p.1	PERSONAL CASH FLOW SUBTOTALS:	Subtotal		Subtotal		Qualifying Income	Total No. of Months
			# mo.		# mo.		
I	Form 1040 SEB Wages	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
II	Form 1040 Other Income	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
III	Form 2106 (exclude if entering on 1003)	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
IV	Schedule B	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
V	Schedule C	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
VI	Schedule D	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
VII	Form 6252	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
VIII	Schedule E	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
IX	Schedule F	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
p.2	PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:						
X	K-1(Form 1065)	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
XI	Form 1065	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
XII	K-1(Form 1120S)	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
XIII	Form 1120S	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
p.3	CORPORATION CASH FLOW SUBTOTAL:						
XIV	Form 1120	<input type="checkbox"/>	12 <input type="checkbox"/>		12	\$0.00	24
	Average Monthly Cash Flow					\$0.00	

Comments/Notes:

Liquidity Worksheet



Determine business liquidity using S Corporation or Partnership tax returns and entering the applicable line items below.

In general: - Use the **Current Ratio** for a business that doesn't rely on inventory to generate its income.
 - Use the **Quick Ratio** for a business that relies heavily on inventory to generate its income.

Typically, a result of 1.00 or greater for either ratio demonstrates adequate liquidity. However, it's important to use the most appropriate ratio, based on how the business operates. Guidelines may vary and other liquidity methods may apply. FOLLOW INVESTOR GUIDELINES.

NOTE: If there are no business liabilities, results will reflect N/A, indicating adequate liquidity.

Business Name			
Schedule L- Assets			
1	Cash: Line 1, Column d		
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d		
3	Inventories: Line 3, Column d		
4	Other: _____		
5	Total Current Assets:	\$0.00	\$0.00
Schedule L - Liabilities			
6	Accounts Payable: 11205 Line 16 / 1065 Line 15, Column d		
7	Mortgages, notes, bonds payable < 1 year: 11205 Line 17 / 1065 Line 16, Column d		
8	Other current liabilities: 11205 Line 18 / 1065 Line 17, Column d		
9	Total Current Liabilities:	\$0.00	\$0.00
CURRENT RATIO			
	Total Current Assets: Row 5	\$0.00	\$0.00
	Total Current Liabilities: Row 9	\$0.00	\$0.00
	Current Ratio: Generally, a ratio ≥ 1 demonstrates adequate liquidity	N/A	N/A
QUICK RATIO			
	Cash, notes, accounts receivable (less bad debt) and other: Row 1, 2 and 4	\$0.00	\$0.00
	Total Current Liabilities: Row 9	\$0.00	\$0.00
	Quick Ratio: Generally, a ratio ≥ 1 demonstrates adequate liquidity	N/A	N/A

Comments/Notes:



Rental Income Worksheet (For Schedule E or Form 8825)

BORROWER AND/OR CO-BORROWER NAME:

Analysis may be completed using Schedule E or Form 8825 as applicable to your loan file and investor requirements.
 Note: Generally, only the most recent tax year is required to be analyzed for net rental income (loss).

- **For Schedule E - PITIA method - Complete row 1-12:**
 - ▶ When row 12 has income, include row 12 in qualifying income (exclude PITIA from DTI)
 - ▶ When row 12 has loss, include row 12 in DTI, but exclude PITIA from DTI
- **For Form 8825 - Complete row 1-12:**
 - ▶ When row 12 has income, do nothing with row 12, and exclude PITIA from DTI
 - ▶ When row 12 has loss < PITIA, include row 12 in DTI, but exclude PITIA from DTI
 - ▶ When row 12 has loss ≥ PITIA, do nothing with row 12, but include PITIA in DTI
- **For Schedule E - Traditional method - Complete row 1, 2, 3 & 7-9**

Property		+	-
Rental Income (Loss) Calculation			
1	Number of Months: - Maximum 12		
2	Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3	Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4	Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5	Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6	Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8	Annual Gross Rental Income (Loss)		
9	Monthly Gross Rental Income (Loss)	\$0.00	\$0.00
10	Monthly Mortgage Payment - P & I	()	()
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	()	()
12	NET Monthly Rental Income (Loss)	\$0.00	\$0.00

Property		+	-
Rental Income (Loss) Calculation			
1	Number of Months: - Maximum 12		
2	Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3	Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4	Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5	Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6	Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8	Annual Gross Rental Income (Loss)		
9	Monthly Gross Rental Income (Loss)	\$0.00	\$0.00
10	Monthly Mortgage Payment - P & I	()	()
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	()	()
12	NET Monthly Rental Income (Loss)	\$0.00	\$0.00

Property		+	-
Rental Income (Loss) Calculation			
1	Number of Months: - Maximum 12		
2	Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3	Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4	Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5	Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6	Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7	Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8	Annual Gross Rental Income (Loss)		
9	Monthly Gross Rental Income (Loss)	\$0.00	\$0.00
10	Monthly Mortgage Payment - P & I	()	()
11	Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	()	()
12	NET Monthly Rental Income (Loss)	\$0.00	\$0.00



Fannie Mae

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 Meals and Entertainment 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.

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

	Year _____	Year _____
7. Schedule K-1 Form 1065 – Partner’s Share of Income		
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)	_____	_____

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	_____	_____

Fannie Mae Rental Income Worksheet Form 1037

Rental Income Worksheet							
Principal Residence, 2- to 4-unit Property: Monthly Qualifying Rental Income							
Documentation Required:				Address of Principal Residence:			
<ul style="list-style-type: none"> Schedule E (IRS Form 1040) OR Lease Agreement or Fannie Mae Form 1007 or Form 1025 				Enter	Rental Unit	Rental Unit	Rental Unit
Step 1. When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>							
Step 1. Result: The number of months the property was in service:				Result			
Step 2. Calculate monthly qualifying rental income using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1025.							
Step 2 A. Schedule E - Part I For each property complete ONLY 2A or 2B							
A1	Enter total rents received (from the non-owner-occupied units). <i>May enter rent from individual unit(s) or combine.</i>	Enter					
A2	Subtract total expenses.	Subtract					
A3	Add back insurance expense.	Add					
A4	Add back mortgage interest paid.	Add					
A5	Add back tax expense.	Add					
A6	Add back homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add					
A7	Add back depreciation expense or depletion.	Add					
A8	Add back any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add					
	Equals adjusted rental income.	Total	0	0	0	0	
A9	Divide by the number of months the property was in service (Step 1 Result).	Divide	0	0	0	0	
Step 2A. Result: Monthly qualifying rental income (or loss):				Result	0	0	0
Step 2B. Lease Agreement OR Fannie Mae Form 1025 For each property complete ONLY 2A or 2B This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing.							
B1	Enter the gross monthly rent (from the lease agreement) or market rent (from Form 1025) for the applicable rental unit	Enter					
B2	Multiply gross monthly rent or market rent by 75% (.75). <i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75		
	Equals monthly rental income per unit	Total	0	0	0	0	
B3	Combine the monthly rental income of all non-owner-occupied rental units (up to a maximum of 3 rental units since rental income is not eligible on the unit occupied by the borrower).	Add		0			
Step 2B. Result: Monthly qualifying rental income:				Result	0		
Step 3. Determine the qualifying impact using the combined result of Step 2A or Step 2B.							
3A	Add the monthly qualifying rental income to the borrower's monthly qualifying income.			0			
3B	Identify the full amount of the PITIA as the borrower's primary housing expense and include it in the debt-to-income ratio. <i>Use proposed PITIA when the subject property; existing PITIA when not the subject property.</i>						
DU Data Entry	Monthly Income and Combined Housing Expenses			Mortgage Liabilities			
Subject Property	Enter the amount of the monthly qualifying income "Subject Net Cash."			Include as the borrower's primary housing expense. For refinance transactions, identify the mortgage as a subject property lien.			
Non-Subject Property	Enter the amount of the monthly qualifying income "Net Rental."			Include as the borrower's primary housing expense.			

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Fannie Mae Rental Income Worksheet Form 1038

Rental Income Worksheet						
Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)						
Documentation Required: ■ Schedule E (IRS Form 1040) OR ■ Lease Agreement or Fannie Mae Form 1007 or Form 1025		Enter	Investment Property Address	Investment Property Address	Investment Property Address	Investment Property Address
Step 1. When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>						
Step 1. Result: Enter the number of months the property was in service:		Result				
Step 2. Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1025.						
Step 2A. Schedule E - Part I			For each property complete ONLY 2A or 2B			
A1	Enter total rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
	Equals adjusted rental income.	Total	0	0	0	0
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
	Equals adjusted monthly rental income	Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2A. Result: Monthly qualifying rental income (or loss):		Result	0	0	0	0
Step 2B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025			For each property complete ONLY 2A or 2B			
This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing, or the lender has justification for using a lease agreement.						
B1	Enter the gross monthly rent (from the lease agreement) or market rent (reported on Form 1007 or Form 1025). <i>For multi-unit properties, combine gross rent from all rental units.</i>	Enter				
B2	<i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rental income.	Total	0	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2B. Result: Monthly qualifying rental income (loss):		Result	0	0	0	0
Step 3. Determine the qualifying impact using the result of Step 2A or Step 2B.						
If the result of Step 2A or 2B is positive , add the positive amount to the borrower's monthly qualifying income. <i>Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.</i>						
If the result of Step 2A or 2B is negative , include the amount of the loss in the borrower's monthly expenses when calculating the DTI ratio.						
DU Data Entry	Monthly Income and Combined Housing Expenses			Mortgage Liabilities		
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Subject Net Cash."			For refinance transactions, identify the mortgage as a subject property lien.		
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."			Identify the mortgage as a rental property lien.		

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Fannie Mae Rental Income Worksheet Form 1039

Rental Income Worksheet						
Business Rental Income from Investment Property(s): Qualifying Impact of Mortgaged Investment Property PITIA Expense						
Documentation Required: ▪ IRS Form 8825 (filed with either IRS Form 1065 or 1120S) OR ▪ Lease Agreement		Enter	Property Address	Property Address	Property Address	Property Address
Enter the mortgagee and the mortgage loan account number.		Enter	Mortgagee/#	Mortgagee/#	Mortgagee/#	Mortgagee/#
Step 1. When using IRS Form 8825, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.</i>						
Step 1. Result: Enter The number of months the property was in service:		Result				
Step 2. Calculate monthly property cash flow using Step 2A: IRS Form 8825 OR Step 2B: Lease Agreement.						
Step 2A. IRS Form 8825 (IRS Form 1065 or 1120S)			For each property complete ONLY 2A or 2B			
A1	Enter gross rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Form 8825 in order to add it back.</i>	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
	Equals adjusted rental income.	Total	0	0	0	0
A9	The number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
	Equals adjusted monthly rental income	Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2A. Result: Monthly property cash flow:		Result	0	0	0	0
Step 2B. Lease Agreement			For each property complete ONLY 2A or 2B			
<i>This method is used in certain circumstances (e.g., when the property was acquired subsequent to the most recent tax filing or the lender has justification for using a lease agreement).</i>						
B1	Enter the gross monthly rent (from the lease agreement) <i>For multi-unit properties, combine the monthly qualifying income of all rental units.</i>	Enter				
B2	<i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rents.	Total	0	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2B. Result: Monthly property cash flow:		Result	0	0	0	0
Step 3. Determine qualifying impact of the mortgaged investment property PITIA expense.						
If the result of Step 2A or 2B is negative , include this loss, not to exceed the monthly PITIA expense, in the debt-to-income ratio.						
If the result of Step 2A or 2B is positive, the full amount of the PITIA expense has been offset. Do not include it in the debt-to-income ratio..						
Important: This worksheet provides a means of calculating an offset to the monthly PITIA. To add any net income to the borrower's qualifying income, additional requirements apply (e.g., two-year history vs. one-year history). Refer to the Self-Employment Income topic in the Selling Guide.						
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities		Real Estate Owned		
Subject Property	Enter the amount of the negative monthly property cash flow in "Subject Net Cash." If the monthly property cash flow is positive enter \$0.00	For refinance transactions, identify the mortgage as a subject property lien.		If REO Schedule is completed, confirm that the "Net Rental Income" field reflects either ▪ the amount of the property cash flow if it is negative, or ▪ \$0.00 if the monthly property cash flow is positive.		
Non-Subject Property	Enter the amount of the negative monthly property cash flow in "Net Rental." If the monthly property cash flow is positive, enter \$0.00	Identify the mortgage as a rental property lien.				

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Borrower Name: _____



Form 91

Income Calculations

(Schedule Analysis Method)

Form 91 is to be used to document the Seller's calculation of the income for a self-employed Borrower. This form is a tool to help the Seller calculate the income for a self-employed Borrower; the Seller's calculations must be based on the requirements and guidance for the determination of stable monthly income in Topic 5300. This form does not replace the requirements and guidance for the analysis and treatment of the income for self-employed Borrowers as described in Chapters 5304 and 5305.

I. Income Calculations from IRS Form 1040

IRS Form 1040 Federal Individual Income Tax Return	Year:	Year:
---	--------------	--------------

1. W-2 Income from self-employment (reported on IRS Forms 1040 and 1120 or 1120S)		
Name of business: _____		
IRS Form 1040, Line 7 (Section 5304.1(d)) ¹	(+)	(+)
Subtotal of W-2 income from self-employment	\$	\$

¹Validate with business returns and IRS Form 1125-E, Compensation of Officers, as applicable

2. Schedule B – Interest and Ordinary Dividends		
Recurring interest income (Chapter 5305)	(+)	(+)
Recurring dividend income (Chapter 5305)	(+)	(+)
Dividend income from self-employment reported on IRS Form 1120	(-)	(-)
Subtotal of dividends and interest	\$	\$

Borrower Name: _____

3. Schedule C – Profit or Loss from Business (Sole Proprietorship) (Chapter 5304)		
Name of business #1: _____		
Net profit or loss	(+/-)	(+/-)
Non-recurring other income or loss, or expenses	(+/-)	(+/-)
Depletion	(+)	(+)
Depreciation	(+)	(+)
Meals and entertainment exclusion	(-)	(-)
Amortization or casualty loss	(+)	(+)
Business use of home	(+)	(+)
Subtotal from Schedule C, Business #1	\$	\$

4. Schedule C – Profit or Loss from Business (Sole Proprietorship) (Chapter 5304)		
Name of business #2: _____		
Net profit or loss	(+/-)	(+/-)
Non-recurring other income or loss, or expenses	(+/-)	(+/-)
Depletion	(+)	(+)
Depreciation	(+)	(+)
Meals and entertainment exclusion	(-)	(-)
Amortization or casualty loss	(+)	(+)
Business use of home	(+)	(+)
Subtotal from Schedule C, Business #2	\$	\$

5. Schedule D – Capital Gains and Losses (Chapter 5305)		
Recurring capital gains and/or losses	(+/-)	(+/-)
Subtotal from Schedule D, capital gains and losses	\$	\$

Borrower Name: _____

6. Schedule E¹ – Supplemental Income or Loss (Royalties) (Chapter 5305)		
Royalties received	(+)	(+)
Total expenses	(-)	(-)
Depletion	(+)	(+)
Subtotal Schedule E, from royalties	\$	\$

¹Refer to Form 92 for net rental income calculations using IRS Schedule E

7. Schedule F – Profit or Loss from Farming (Chapter 5304)		
Net Farm Profit or Loss	(+/-)	(+/-)
Non-taxable portion of recurring cooperative and CCC payments	(+)	(+)
Non-recurring other income or loss	(+/-)	(+/-)
Depreciation	(+)	(+)
Amortization/Casualty loss/Depletion	(+)	(+)
Business use of home	(+)	(+)
Subtotal from Schedule F, farming	\$	\$

Combined total from IRS Form 1040	\$	\$
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Borrower Name: _____

II. Income Calculations from IRS Schedule K-1 and IRS Form 1065

8. Partnership Income (Refer to Chapter 5304)

Name of business: _____

Partnership – Schedule K-1 (IRS Form 1065)	Year:	Year:
Ordinary Business Income or Loss	(+/-)	(+/-)
Net rental real estate income or loss	(+/-)	(+/-)
Guaranteed Payments	(+)	(+)
Subtotal from Schedule K-1 (IRS Form 1065)	\$	\$

Partnership Income from IRS Form 1065	Year:	Year:
Depreciation (IRS Form 1065)	(+)	(+)
Depreciation (IRS Form 8825) (Guide Section 5304.1(d))	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
Subtotal prior to application of ownership interest percentage	\$	\$
Multiply by total percentage of ownership (on Schedule K-1)	(x) %	(x) %
Subtotal from IRS Form 1065	\$	\$

Combined subtotal from partnership	\$	\$
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Borrower Name: _____

III. Income Calculations from IRS Schedule K-1 and IRS Form 1120S

9. S Corporation Income (Refer to Chapter 5304)

Name of business: _____

S Corporation Schedule K-1 (IRS Form 1120S)	Year:	Year:
Ordinary Business Income or Loss	(+/-)	(+/-)
Net rental real estate income or loss	(+/-)	(+/-)
Subtotal from Schedule K-1 (IRS Form 1120S)	\$	\$

S Corporation Income from IRS Form 1120S	Year:	Year:
Depreciation (IRS Form 1120S)	(+)	(+)
Depreciation (IRS Form 8825) (Guide Section 5304.1(d))	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
Subtotal prior to application of ownership interest percentage	\$	\$
Multiply by total percentage of ownership (on Schedule K-1)	(x) %	(x) %
Subtotal from IRS Form 1120S	\$	\$

Combined subtotal from S corporation	\$	\$
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Borrower Name: _____

IV. Income Calculations from IRS Form 1120

10. Corporation Income (Refer to Chapter 5304)

Name of business: _____

Corporate Income from IRS Form 1120	Year:	Year:
Depreciation	(+)	(+)
Depletion	(+)	(+)
Amortization or casualty loss	(+)	(+)
Net operating loss	(+)	(+)
Taxable income or loss	(+/-)	(+/-)
Total tax	(-)	(-)
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	(-)	(-)
Other nonrecurring income or loss	(+/-)	(+/-)
Travel and entertainment exclusion	(-)	(-)
Subtotal prior to application of ownership interest percentage	\$	\$
Multiply by total percentage of ownership	(x) %	(x) %
Subtotal from IRS Form 1120	\$	\$
Combined subtotal from corporation	\$	\$

Borrower Name: _____

V. SUMMARY OF INCOME FROM SELF-EMPLOYMENT

IRS Form 1040 (Chapters 5304 and 5305)	Year:	Year:
Subtotal of W-2 income from self-employment (Business name: _____)	\$	\$
Subtotal from Schedule B – Interest and Ordinary Dividends	\$	\$
Subtotal from Schedule C – Profit or Loss from Business (Sole Proprietorship) (Business #1 name: _____)	\$	\$
Subtotal from Schedule C – Profit or Loss from Business (Sole Proprietorship) (Business #2 name: _____)	\$	\$
Subtotal from Schedule D – Capital Gains and Losses	\$	\$
Subtotal from Schedule E – Supplemental Income or Loss (Royalties)	\$	\$
Subtotal from Schedule F – Profit or Loss from Farming	\$	\$
Combined total from IRS Form 1040	\$	\$

Partnership Income (Chapter 5304)	Year:	Year:
Subtotal from Schedule K-1 (IRS Form 1065)	\$	\$
Subtotal from IRS Form 1065	\$	\$
Combined subtotal from Partnership (Business name: _____)	\$	\$

S Corporation Income (Chapter 5304)	Year:	Year:
Subtotal from Schedule K-1 (IRS Form 1120S)	\$	\$
Subtotal from IRS Form 1120S	\$	\$
Combined subtotal from S corporation (Business name: _____)	\$	\$

Corporate Income from IRS Form 1120 (Chapter 5304)	Year:	Year:
Subtotal from IRS Form 1120	\$	\$
Combined subtotal from corporation (Business name: _____)	\$	\$

Seller's calculation of stable monthly income	Year:	Year:
Sum of combined subtotals	\$	\$
Total income used to determine stable monthly income¹	\$	
Comments _____		
Divided by _____ months ¹		
Total stable monthly income²	\$	

¹ Manual input: The Seller must determine the appropriate amount of income to use based on the requirements and guidance for the analysis and treatment of income for self-employed Borrowers as described in Chapters 5304 and 5305

²The Seller must determine that the total stable monthly income meets the requirements and guidance for the determination of stable monthly income in Topic 5300.

Borrower Name: _____



Form 92

Net Rental Income Calculations – Schedule E

Form 92 is to be used to document the Seller’s calculation of net rental income from Schedule E. This form is a tool to help the Seller calculate the net rental income from Schedule E; the Seller’s calculations must be based on the requirements and guidance for the determination of stable monthly income in Guide Chapter 5306. This form does not replace the requirements and guidance for the analysis and treatment of rental income as described in Chapter 5306.

I. Net Rental Income from Schedule E (Subject 2- to 4-unit Primary Residence)

SUBJECT 2- TO 4-UNIT PRIMARY RESIDENCE NET RENTAL INCOME CALCULATION – SCHEDULE E ¹ Refinance Transaction owned in the prior year(s)		
IRS 1040 Schedule E – Supplemental Income and Loss	Subject Property Address: _____	
	Year:	Year:
Rents received	(+)	(+)
Less total expenses	(-)	(-)
Insurance ²	(+)	(+)
Mortgage interest paid to banks, etc. ²	(+)	(+)
Taxes (real estate only) ^{2,3}	(+)	(+)
Depreciation and/or depletion	(+)	(+)
Homeowners association (HOA) dues (if specifically reported as an expense) ²	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)
Subtotal(s)	\$	\$
Result: Net Rental Income (calculated to a monthly amount) ⁴ (Sum of subtotal(s) divided by number of applicable months = Net Rental Income)	\$ _____ / _____ = \$ _____	

¹Refer to Section 5306.1(c)(iii) for net rental income calculation requirements

²This expense, if added back, must be included in the monthly housing expense being used to establish the DTI ratio

³ The taxes added back must represent only real estate taxes included in the monthly housing expense

⁴ **Establishing DTI ratio (Section 5306.1(d)):** The monthly housing expense must be added as a liability; the net rental income may be added to the stable monthly income

Freddie Mac Form 92 Net Rental Income Calculations – Schedule E

Borrower Name: _____

II. Net Rental Income from Schedule E (Subject Investment Property)

SUBJECT INVESTMENT PROPERTY NET RENTAL INCOME CALCULATION – SCHEDULE E ¹ Refinance Transaction owned in the prior year(s)		
IRS 1040 Schedule E – Supplemental Income and Loss	Subject Property Address:	
	Year:	Year:
Rents received	(+)	(+)
Less total expenses	(-)	(-)
Insurance ²	(+)	(+)
Mortgage interest paid to banks, etc. ²	(+)	(+)
Taxes (real estate only) ^{2,3}	(+)	(+)
Depreciation and/or depletion	(+)	(+)
HOA dues (if specifically reported as an expense) ²	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)
Subtotal(s)	\$	\$
Result: Net Rental Income (calculated to a monthly amount)⁴ <i>(Sum of subtotal(s) divided by number of applicable months = Net Rental Income)</i>	\$ _____ / _____ = \$ _____	

¹Refer to Section 5306.1(c)(iii) for net rental Income calculation requirements

²This expense, if added back, must be included in the monthly payment amount being used to establish the DTI ratio

³The taxes added back must represent only real estate taxes included in the monthly payment amount

⁴**Establishing DTI ratio (Section 5306.1(d)):** Subtract the monthly payment amount from the net rental income. If the result is positive, it may be added to income; if the result is negative, add it to the monthly liabilities

Borrower Name: _____

III. Net Rental Income from Schedule E (Non-subject investment property(s))

NON-SUBJECT INVESTMENT PROPERTY(S) NET RENTAL INCOME CALCULATION – SCHEDULE E ^{1,2} Refinance Transactions owned in the prior year(s)						
Property Address ³	Property Address #1: _____		Property Address #2: _____		Property Address #3: _____	
IRS 1040 Schedule E – Supplemental Income and Loss	Year:	Year:	Year:	Year:	Year:	Year:
Rents received	(+)	(+)	(+)	(+)	(+)	(+)
Less total expenses	(-)	(-)	(-)	(-)	(-)	(-)
Insurance ⁴	(+)	(+)	(+)	(+)	(+)	(+)
Mortgage interest paid to banks, etc. ⁴	(+)	(+)	(+)	(+)	(+)	(+)
Taxes (real estate only) ^{4,5}	(+)	(+)	(+)	(+)	(+)	(+)
Depreciation and/or depletion	(+)	(+)	(+)	(+)	(+)	(+)
HOA dues (if specifically reported as an expense) ⁴	(+)	(+)	(+)	(+)	(+)	(+)
One time losses (e.g., casualty loss) if documented	(+)	(+)	(+)	(+)	(+)	(+)
Subtotals	\$	\$	\$	\$	\$	\$
Result: Net Rental Income (calculated to a monthly amount) ⁶	\$ _____ / _____ = \$ _____ ⁷		\$ _____ / _____ = \$ _____ ⁷		\$ _____ / _____ = \$ _____ ⁷	

¹ Refer to Section 5306.1(c)(iii) for net rental income calculation requirements

² Refer to Chapter 5304 and Form 91 for the treatment of all rental real estate income or loss reported on IRS Form 8825, regardless of Borrower's percentage of ownership interest in the business or whether the Borrower is personally obligated on the note

³ Review rental properties on Schedule E against Uniform Residential Loan Application ("URLA"). If properties are on the tax return(s) but not on the URLA, provide evidence the Borrower no longer owns the property

⁴ This expense, if added back, must be included in the monthly payment amount used to establish the DTI ratio

⁵ The taxes added back must represent only real estate taxes that are included in the monthly payment amount used to establish the DTI ratio

⁶ **Establishing DTI ratio (Section 5306.1(d)):** Subtract the monthly payment amount from the net rental income. For one property, if the result is positive, add it to the income; if the result is negative, add it to the monthly liabilities. For multiple properties, subtract the monthly payment amount from the net rental income for each property. Combine the results and if the combined result is positive, add it to the income; if the combined result is negative, add it to the monthly liabilities.

⁷ **Net Rental Income** = the sum of the subtotal(s) divided by the number of applicable months



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