

Self-Employed Borrower Schedule Analysis Method or SAM

Part II: Business Tax Returns

May 2017



Objective

Learn to use SAM Form to calculate supportable income for self-employed borrowers using K-1s and business tax returns

- Partnership income and expenses IRS Form 1065 and associated K-1s
- S-Corp income and expenses from IRS Form 1120S and associated K-1s

Fannie Mae policy is different from Freddie Mac

- We will review both in today's session

Does Borrower Own 25% Or More Of A Business?

| | | |
|---------------------------------|--|---|
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Yrs. on this job |
| | | Yrs. employed in this line of work/profession |
| Position/Title/Type of Business | Business Phone (incl. area code) | |

***Can checking the Self-Employed Indicator to yes-
increase the risk of loans when evaluated by DU[®]?
LPA?***



Fannie Mae Updates

SEL 2015-09

- Cash Flow Analysis Form updated
- Sections of Chapter B3-3-2 for Self-Employed Borrowers updated
 - Evidence of liquidity if no distributions made from partnerships or S corps
- DU updated to allow one year personal and business tax returns for certain case files
- Changes effective for applications dated February 1, 2016

Updated Selling Guide Topics

- [B3-3.1-00](#), Other Sources of Income (Schedule K-1 Income)
- [B3-3.2-01](#), Underwriting Factors and Documentation for Self-Employed Borrower (Analysis of Borrower's Personal Income, Income Verification for Self-Employed Co-Borrowers)
- [B3-3.2.1-01](#), General Information on Analyzing Individual Tax Returns (Removed Cash Flow Analysis Form 1084)
- [B3-3.2.1-02](#), Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, Documentation Requirements)
- [B3-3.2.2-01](#), Analyzing Partnership Returns for a Partnership or LLC (Evaluating the Business Income, Borrower's Proportionate Share of Income or Loss, Adjustments to Business Cash Flow, Income from Partnerships, LLCs, Estates, and Trusts)
- [B3-3.2.2-02](#), Analyzing Returns for an S Corporation (Evaluating the Business Income, Borrower's Proportionate Share of Income or Loss, Adjustments to Business Cash Flow)
- [B3-3.3-01](#), Income and Employment Documentation for DU (Self-Employment Income)



Selling Guide Announcement SEL-2015-09

August 25, 2015

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Self-Employed Income
- Project Eligibility Review for Attached Planned Unit Developments
- HomeStyle® Renovation
- Cash Back Pair-offs on Mandatory Whole Loan Commitments
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated August 25, 2015.

Self-Employed Income

Fannie Mae has updated the self-employment income policies published in December 2014 regarding how to calculate and document self-employment income, including the parameters under which business income without a history of distribution may be included to qualify self-employed borrowers.

This policy update provides an alternative approach that lenders may follow for borrowers who do not show a history of receiving distributions of business income provided certain conditions are met. Specifically, in order to include business income to qualify a self-employed borrower who does not have a history of receiving business income, the lender must confirm the borrower has access to the business income and the business must have adequate liquidity to support the withdrawal of earnings.

The approach and instructions published in December 2014 for self-employed borrowers who can provide a documented history of receiving distributions of business income remains in effect, as another approach lenders may follow when qualifying these borrowers.

A minor clarification has been made to broaden a reference to "salaried income" in a section that addresses when lenders need to prepare a written evaluation of self-employment income. We now refer to borrowers who are qualified using only "income that is not derived from self-employment". For example, when qualifying borrowers using only retirement income to qualify, no written evaluation of secondary self-employment income is required.

In addition to these updates, the *Selling Guide* has been updated to reflect that only the most recent year of individual and business federal income tax returns will be required for certain Desktop Underwriter® (DU®) loan casefiles, provided the tax returns show at least 12 months of self-employment income and the lender completes the Fannie Mae *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles. This flexibility will become available in DU in a future release, and will be communicated to lenders in the associated release notes.

Lastly, the December 2014 version of the *Cash Flow Analysis* (Form 1084) has been revised to incorporate these policy updates and improve ease of use.

© 2015 Fannie Mae. Trademarks of Fannie Mae.

SEL-2015-09

Page 1

2016 Fannie Mae Updates

SEL 2016-05

- Updates to Business Income
 - Eliminates requirement to confirm borrower has access to income
 - Guidance for methods lenders may use to determine adequate business liquidity when liquidity assessment is required
 - Two year history required to use guaranteed payments
 - Verbal verifications of employment for a self-employed borrower can be obtained within 120 days prior to note date
- Chapter B3-3-1.07, 09 and B3-3-2 of the *Selling Guide* have been updated
- Effective on or before October 1, 2016



Selling Guide Announcement SEL-2016-05

June 28, 2016

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- HomeReady® Income Limits
- Business Income
- Restructured Loan Policy
- Project Insurance - Mortgagee Clause Update

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated June 28, 2016.

In addition, updates to the following are described in this Announcement:

- Minimum Interest Rate Floor for ARM Notes and Riders
- Wisconsin Security Instrument

HomeReady Income Limits

Fannie Mae continues to assess how to simplify the HomeReady product and incorporate features that enable lenders to expand access to credit in a safe and responsible manner. As a result, a number of product enhancements are planned for later this year.

With this *Guide* update, we are announcing the first change to HomeReady. We are simplifying the way that income limits are applied by establishing a single area median income (AMI) limit of 100% (previously the limit was 80% or 100% depending on the property location). We are maintaining the exception for properties located in low-income census tracts where no limit applies.

Updated *Selling Guide* Topics

- [B6-6-02](#), HomeReady Mortgage Loan and Borrower (Borrower Income Limits and Calculations)

Effective Date

This policy will be implemented in DU the weekend of July 16, 2016, and will apply to all DU Version 9.3 loan casefiles submitted (or resubmitted) on or after that date. For manually underwritten loans, this policy is effective for loans with application dates on or after July 16, 2016. Also note that the 2016 AMIs will be published at the same time.

Business Income

Since the self-employed income policy updates were announced last year, lenders have provided feedback regarding the difficulty in obtaining documentation to evidence a borrower's ongoing access to business income, and asked for additional guidance on how to determine whether the business has adequate liquidity to support the withdrawal of business earnings.

The documentation we currently require may not be readily available or may not directly affirm the borrower's access to income. Furthermore, some lenders may be generally unfamiliar with methods that may be used to determine adequate business liquidity.

Self-Employment Fannie Mae

B3-3.2-01: Underwriting Factors and Documentation for a Self-Employed Borrower (10/24/2016)

This topic contains general information on underwriting factors and documentation for a self-employed borrower, including:

- [Overview](#) >
- [Factors to Consider for a Self-Employed Borrower](#) >
- [Length of Self-Employment](#) >
- [Verification of Income](#) >
- [Analysis of Borrower's Personal Income](#) >
- [Analysis of Borrower's Business Income](#) >
- [Use of Business Assets](#) >
- [Income Verification for Self-Employed Co-Borrowers](#) >
- [Verbal Verification of Employment](#) >

Overview

When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these borrowers to meet their financial obligations.

Self-Employment Fannie Mae

Factors to Consider for a Self-Employed Borrower

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

The following factors must be analyzed before approving a mortgage for a self-employed borrower:

- the stability of the borrower's income,
- the location and nature of the borrower's business,
- the demand for the product or service offered by the business,
- the financial strength of the business, and
- the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.

Length of Self-Employment

Fannie Mae generally requires lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received.

However, a person who has a shorter history of self-employment — 12 to 24 months — may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which he or she had similar responsibilities to those undertaken in connection with the current business. In such cases, the lender must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.

Written Analysis of Income-Fannie Mae

Analysis of Borrower's Personal Income

The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualified using only salaried income (not derived from self-employment) and self-employment is a secondary and separate source of income (or loss).

The lender may use Fannie Mae's *Cash Flow Analysis (Form 1084)* or any other type of cash flow analysis that applies the same principles as Fannie Mae's form.

A copy of the written analysis must be included as part of any loan application package that the lender submits to Fannie Mae for a mortgage that is selected for a post-purchase quality control review.

Fannie Mae 2016 Selling Guide B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower (06/28/2016)

Written Analysis of Income-Fannie Mae

Analysis of Borrower's Business Income

When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the lender to waive business tax returns are not met, the lender must prepare a written evaluation of its analysis of the borrower's business income. The lender must evaluate the borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
- measure year-to-year trends for gross income, expenses, and taxable income for the business;
- determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
- determine a trend for the business based on the change in these percentages over time.

The lender may use Fannie Mae's *Comparative Income Analysis (Form 1088)* or any other method of trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088.

A copy of the written analysis and conclusions must be retained in the individual mortgage file.

Fannie Mae 2016 Selling Guide B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower (06/28/2016)

Form 1088 Trend Analysis

Fannie Mae Comparative Income Analysis

Borrower Name:

Company Name:

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

Gross Income: Gross receipts or Sales (-) Returns and Allowances
Expenses: Cost of goods sold (+) Total deductions
Taxable Income: from
 IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)
 IRS Form 1065 = Ordinary Income or Loss (Partnership)
 IRS Form 1120(S) = Ordinary Income or Loss (S Corporation)
 IRS Form 1120 = Taxable Income (Corporation)

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

Gross Income
 Step 1. Enter the gross income figure from each year's statement where indicated.
 Step 2. Determine the percentage change in gross income from one year to the next by
 (a) calculating the dollar difference between the two years, and then
 (b) dividing the dollar difference by the previous year's gross income.
 Enter the percentage of increase or decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year Year Year

Gross Income 100% 100% 100%

% Change (+) or (-) % change** (+) or (-) % change**

Expenses
 Step 1. Enter the expense income figure from each year's statement where indicated.
 Step 2. Determine what percentage expenses are of gross income by dividing the expense amount by the dollar amount of gross income for each year. Enter the results where indicated.
 Step 3. Determine the percentage change in expenses from one year to the next by
 (a) calculating the dollar difference between the two years, and then
 (b) dividing the dollar difference by the previous year's expenses.
 Enter the percentage of increase and decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year Year Year

Expenses %* %* %*

% Change (+) or (-) % change** (+) or (-) % change**

*The expenses and taxable income each period as a percentage of gross income for that period.
 **The percentage change for each item from the previous period.

Page 1

© 2016 Fannie Mae. Trademarks of Fannie Mae. Form 1088 July 1996

Quick Reference Guide: Fannie Mae's Comparative Analysis Form (Form 1088)

Fannie Mae's Comparative Income Analysis Form (Form 1088) leads the lender through the calculation of percentage increases (or decreases) in gross income, expenses and taxable income, as well as taxable income trend.

This form can be used with any business return, including Sole Proprietor (IRS Form 1040, Schedule C or C-EZ), Partnership (IRS Form 1065), S-Corp (IRS Form 1120S) and Corporate (IRS Form 1120). The guide below shows the line numbers for each form where the information can be found

Fannie Mae Comparative Income Analysis

Borrower Name:

Company Name:

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

Gross Income: Gross receipts or Sales (-) Returns and Allowances
Expenses: Cost of goods sold (+) Total deductions
Taxable Income: from
 IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)
 IRS Form 1065 = Ordinary Income or Loss (Partnership)
 IRS Form 1120(S) = Ordinary Income or Loss (S Corporation)
 IRS Form 1120 = Taxable Income (Corporation)

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

Gross Income
 Step 1. Enter the gross income figure from each year's statement where indicated.
 Step 2. Determine the percentage change in gross income from one year to the next by
 (a) calculating the dollar difference between the two years, and then
 (b) dividing the dollar difference by the previous year's gross income.
 Enter the percentage of increase or decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year Year Year

Gross Income 100% 100% 100%

% Change (+) or (-) % change** (+) or (-) % change**

Expenses
 Step 1. Enter the expense income figure from each year's statement where indicated.
 Step 2. Determine what percentage expenses are of gross income by dividing the expense amount by the dollar amount of gross income for each year. Enter the results where indicated.
 Step 3. Determine the percentage change in expenses from one year to the next by
 (a) calculating the dollar difference between the two years, and then
 (b) dividing the dollar difference by the previous year's expenses.
 Enter the percentage of increase and decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year Year Year

Expenses %* %* %*

% Change (+) or (-) % change** (+) or (-) % change**

*The expenses and taxable income each period as a percentage of gross income for that period.
 **The percentage change for each item from the previous period.

Page 1

© 2016 Fannie Mae. Trademarks of Fannie Mae. Form 1088 July 1996

| Form | 2016, 2015 & 2014 Line |
|---------|------------------------|
| Sched C | 3 |
| C-EZ | 1 |
| P/T | 1c |
| S-Corp | 1c |
| Corp | 1c |

| Form | 2016, 2015 & 2014 Line |
|---------|------------------------|
| Sched C | 4 + 28 |
| C-EZ | 2 |
| P/T | 2 + 21 |
| S-Corp | 2 + 20 |
| Corp | 2 + 27 |

Requirements for Use of Business Assets

B3-3.2-01: Underwriting Factors and Documentation for a Self-Employed Borrower (10/24/2016)

Use of Business Assets

When a borrower intends to use business assets as funds for the down payment, closing costs, and/or financial reserves, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. In order to assess the impact, the lender may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the most recent tax return filing, or the lender's need for information to perform its analysis. See [B3-4.2-02, Depository Accounts](#), for additional information on business assets.

Income Verification for Self-Employed Co-Borrowers

When co-borrower income that is derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income (or loss). Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

Check Your Investor Implementation Date



Bulletin

TO: Freddie Mac Sellers

October 27, 2016 | 2016-19

SUBJECT: REVISIONS TO INCOME QUALIFICATION REQUIREMENTS

This Guide Bulletin announces revisions to our income qualification requirements and guidance, effective for Mortgages with Settlement Dates on and after March 6, 2017.

The revisions provide more comprehensive requirements and guidance with a focus on matters that impact the analysis of stable monthly income such as:

- Industry employment trends (e.g., employment characteristics)
- Determination of stability and calculation of fluctuating earnings
- Self-employment

Freddie Mac considered Seller inquiries and feedback, broad industry practices and internal review and analysis in developing these updated requirements which will provide greater purchase certainty for our Sellers.

We are updating Guide Chapters 5301, 5302, 5303, 5304, 5305 and 5307, and improving the format through the use of charts, as appropriate. Rental income requirements will be addressed in a future Guide Bulletin.

The following information includes highlights of the changes in each chapter. Additional details are available in [Attachment A](#) of this Bulletin, *Detailed Summary of Income Qualification Requirements Updates*.

CHAPTER 5301, GENERAL REQUIREMENTS FOR ALL STABLE MONTHLY INCOME AND ASSET QUALIFICATION SOURCES

Chapter 5301 is being updated to provide more details on Freddie Mac's expectation for Seller's income analysis (e.g., history and continuance), verification, calculation and determination of the stable monthly income qualification amount.

The content of existing Guide Section 5301.1 is split into Section 5301.1 and new Sections 5301.2 and 5301.3.

Guide impact: Chapter 5301

CHAPTER 5302, GENERAL REQUIREMENTS FOR DOCUMENTATION USED TO VERIFY EMPLOYMENT AND INCOME

The revisions to the requirements and guidance in Chapter 5302 include:

- **Signed tax returns** – Adding alternatives for the Borrower's signature on tax returns (e.g., signed Internal Revenue Service (IRS) Form 8879 evidencing electronic filing)
- **IRS transcripts** – Adding guidance for the use of IRS transcripts
- **Unreimbursed employee expenses** – Adding flexibility by specifying that business expenses must be

■ The Effective Date to Previously Announced Income Qualification Requirements

We're extending the effective date for revised income qualification requirements and guidance from March 6, 2017 to July 6, 2017, giving you additional time to prepare. **The extension is effective for mortgages with settlement dates on and after July 6, 2017; however, you may implement for mortgages with settlement dates on and after March 6, 2017. If you choose to implement on and after March 6, you must comply with all, not just some, of the new requirements.**

requirements updates

For a detailed explanation of all changes made with Bulletin 2016-19, please review the following tables:

- [Chapter 5301, General Requirements for All Stable Monthly Income and Asset Qualification Sources](#)
- [Chapter 5302, General Requirements for Documentation Used to Verify Employment and Income](#)
- [Chapter 5303, Employed Income](#)
- [Chapter 5304, Self-Employed Income](#)
- [Chapter 5305, Other Income](#)
- [Chapter 5307, Asset Qualification Sources](#)

CHAPTER 5301, GENERAL REQUIREMENTS FOR ALL STABLE MONTHLY INCOME AND ASSET QUALIFICATION SOURCES

| General requirements for all stable monthly income and asset qualification sources | | |
|--|--|---|
| Guide reference | Subject | Update |
| 5301 | Chapter 5301 | <ul style="list-style-type: none"> • Providing more detail on Freddie Mac's expectation of the Seller's income analysis • Dividing Guide Chapter 5301 into three sections and reformatting each section for specificity |
| 5301.1(a) | Overview: Analysis of stable monthly income amount | Adding an overview of Topic 5300 |
| 5301.1(b) | General requirements for all stable monthly income | Consolidating existing requirements in Sections 5301.1(a) and (b) and renaming the section |
| 5301.1(c) | Income stability and history requirements | <p>Expanding guidance for the determination of income stability and history requirements.</p> <p>Emphasizing the analysis of the historical and future income characteristics, for example whether the amount of monthly income:</p> |

Implementation Of Income Requirements Delayed For Loans With Settlement Dates of July 6, 2017 or After; Loan Product Advisor Updated March 6, 2017

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

| Self-employed Income | |
|---|---|
| Self-employment indicator (Guide Section 5304.1) | <p>A borrower who has an ownership interest of 25% or more in a Partnership, S Corporation and/or Corporation is considered to be self-employed. A borrower who is a sole-proprietor is considered to be a self-employed borrower.</p> <p>The Seller must indicate to Loan Product Advisor that a borrower is self-employed when the borrower meets Freddie Mac's definition of self-employed as stated above. This is required in all cases where the self-employment income and/or loss is used to determine the borrower's stable monthly income for qualifying.</p> |

The following chart contains requirements and guidance for determining self-employment and verifying the Borrower's business ownership percentage:

| Business structure | Self-employment verification of ownership interest percentage |
|--|---|
| Partnerships, S Corporations and Corporations | The ownership interest percentage must be verified by a review of the federal income tax returns for the business, including the IRS Schedule K-1(s) or IRS Form 1125-E, Compensation of Officers. If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the accountant for the business or similar documents |
| Sole Proprietorships | Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return. |

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

| | |
|--|--|
| <p>Self-employment income not used for qualification Guide Section 5304.1(e)</p> | <p>Self-employment disclosed on Uniform Residential Loan Application (or other documentation) but not used to qualify</p> <p>If the Borrower is self-employed and the self-employment is not considered for qualification purposes, pages 1 and 2 of the borrower's tax returns and the applicable schedules (e.g., Schedule C, Schedule E) are still required to determine if there is a business loss that may have an impact on the stable monthly income. Refer to Guide Section 5304.1(e) for complete requirements and guidance.</p> <ul style="list-style-type: none"> ▪ If a business loss is reported and the Borrower qualifies with the loss, then the Seller is not required to obtain any additional documentation relating to the business loss. |
| <p>Self-employment income not used for qualification (continued) Guide Section 5304.1(e)</p> | <ul style="list-style-type: none"> ▪ If a business loss is reported and the Borrower does not qualify with the loss, then the Seller must perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. The Seller must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g. business tax returns (final or otherwise), evidence of a one-time non-recurring event). <p>If the tax returns or other documentation in the Mortgage file (e.g., IRS tax transcripts, additional Schedule K-1s) reflect positive income from self-employment but that income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax return(s)) is not required. The Loan Product Advisor self-employed indicator is not required.</p> |

When Do We Have To Tell Loan Product Advisor Our Borrower Is Self-Employed?

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Business and income analysis

Requirements and guidance

Business review and analysis:

The Seller's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.

- The analysis must include a review of the business tax returns
- The Seller's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered.
- The Seller may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

Freddie Mac Seller/Servicer Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Use of business income not reported on the Borrower's federal individual income tax returns

- Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business

Access to business income

Documentation is not required to verify access to business income for the following:

- Sole proprietorships
- Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations
- W-2 income received from S corporations and corporations,
- Corporations, if the Borrower holds 100% ownership interest

If business income not reported on the Borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the Seller must verify that the Borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.

Freddie Mac Seller/Servicer Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

- For Partnerships and S corporations, stable monthly income may be based on the Borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the Borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income.

| Topic | Documentation Requirements (Streamlined and Standard Documentation Levels) | | |
|---|--|--|---|
| Effective for Mortgages with Freddie Mac Settlement Dates on or after July 6, 2017; but Sellers may implement for Mortgages with Settlement Dates on or after March 6, 2017 | | | |
| Requirements (continued) Guide Section 5304.1(h) | | Business in existence ≥ 5 years | Business in existence < 5 years |
| | Sole proprietorship | Obtain complete signed federal individual (Form 1040) income tax return for the most recent year. | Obtain complete signed federal individual (Form 1040) income tax returns for the most recent two years. |
| | Partnership | Verify the number of years that the business has been in existence and obtain complete signed federal individual and Partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year. | Verify the number of years that the business has been in existence and obtain complete signed federal individual and Partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years. |
| | S Corporation | Verify the number of years that the business has been in existence and obtain complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year. | Verify the number of years that the business has been in existence and obtain complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-s(s) if applicable, for the most recent two years. |
| | Corporation | Verify the number of years that the business has been in existence and obtain complete signed federal individual and Corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year. | Verify the number of years that the business has been in existence and obtain complete signed federal individual and Corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years. |

- Verification of how long the business has been in existence:
 - For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence
 - For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on [Form 65, Uniform Residential Loan Application](#)

LPA documentation Matrix

Tool to Help document your files

- Updated for loans with settlement dates on or after July 6, 2017.
- If you choose to implement on and after March 6, you must comply with all asset or all the income changes, not just some of the new requirements
- The existing matrix (July 2016) is still available should you or your lender choose to wait to implement until July 6.

Loan Product Advisor SM Documentation Matrix



Effective for Mortgages with Freddie Mac Settlement Dates on or after July 6, 2017; but Sellers may implement for Mortgages with Settlement Dates on or after March 6, 2017

Use the following information as a reference for documenting your Loan Product Advisor loans. For complete documentation information and specific program eligibility requirements, refer to the [Freddie Mac Single-Family Seller/Service Guide \(Guide\)](#). We recommend bookmarking the Guide link (Freddie Mac Guide URL page) for easy access to AllRegs.

Table of Contents

[Income and Employment Documentation](#)

- [General Requirements](#)
- [General Requirements for Documentation Used to Verify Employment and Income](#)
- [Employed Income](#)
 - [Primary Employment](#)
 - [Secondary Employment](#)
 - [Additional Employed Income](#)
 - [Military Income](#)
 - [Employment and income commencing after the Note Date](#)
- [Self-Employed Income](#)
- [Other Income](#)

[Asset Documentation](#)

[Credit and Liabilities](#)

[General Underwriting Requirements](#)

[Verification Requirements](#)

[Requirements for Resubmission to Loan Product Advisor](#)

[Requirements for Resubmission to Loan Product Advisor After the Note Date](#)

Note: Historically, vertical revision bars " | " are used in the margin of this quick reference to highlight new requirements and significant changes, however due to the many revisions and updates for income/employment and assets, we recommend you review the document in its entirety.

February 2017


www.FreddieMac.com/learn/

http://www.freddiemac.com/learn/pdfs/uw/docmatrix_settlement_dates_july_6_2017.pdf

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

Borrower(s) Name(s) Loan Number

Property Address

Genworth 

Calculator and Quick Reference Guide: Schedule Analysis Method (SAM)

Please use the following calculator and quick reference guide to assist you in calculating qualifying income from tax returns. It provides suggested guidance only and does not replace Fannie Mae, Freddie Mac, Lender or Investor instructions or applicable guidelines.

I Form 1040 – Page 1 2015 2014 NOTES

In Case Study Part I We Completed Sections 1-8 Personal Tax Return Review

| | | 2015 | 2014 | NOTES |
|--|---|---------|---------|-------|
| Form 2106 Subtotal | | \$ 0.00 | \$ 0.00 | |
| III Schedule B - Interest and Dividends | | | | |
| 12 | Recurring Interest Income (Line 1 or Line 8a) | + | | |
| 13 | Recurring Dividend Income (Line 5 or Line 9a) | + | | |
| Schedule B Subtotal | | \$ 0.00 | \$ 0.00 | |
| IV Schedule C - Sole Proprietorship | | | | |
| 14 | Net Profit or Loss (Line 31) | +/- | | |
| 15 | Nonrecurring Other (Income) Loss or Expenses (Line 6) | +/- | | |
| 16 | Depletion (Line 12) | + | | |
| 17 | Depreciation (Line 13) | + | | |
| 18 | Meal and Entertainment Exclusion (Line 24b) | - | | |
| 19 | Business Use of Home (Line 30, Form 8829) | + | | |
| 20 | Business Miles, Page 2, Part IV (Line 44a) | | | |
| 20a | x Depreciation Rate (2015 & 2014-22c) | | | |
| 20b | = Total Mileage Depreciation | + | 0.00 | 0.00 |
| 21 | Amortization/Casualty Loss only if noted (Page 2, Part V) | + | | |
| Schedule C Subtotal | | \$ 0.00 | \$ 0.00 | |

You Will Need

ANALYSIS OF THE SELF-EMPLOYED BORROWER CASE STUDY

The Case Study

You will be working with John and Mary Homeowner who:

- Mary owns 50% of an LLC called MHI
 - The business filed a Partnership Return (IRS Form 1065)
 - Mary receives a K-1
- John owns 100% of an S Corporation called Always Watching Security, Inc.
 - John received the business tax returns for an S-Corp Return (IRS Form 1120S)
 - John receives a K-1
 - John receives a W-2 Wage Statement from the business



| | | |
|---|--|--|
|  <p>Find and compare MI rates. Get HARP info. Compare our rates to FHA!</p> <p>Rate Express</p> <p>Rates and Comparisons Tool</p> |  <p>Road to Homeownership</p> <p>Homebuyer Education</p> <p>Online Course</p> <p>Spanish, English and landlord versions available.</p> |  <p>Submit loans. Find rates. Save time!</p> <p>TECH CONNECTIONS</p> |
|---|--|--|

Let's help someone buy a house today.

 **ORDER & EDIT MI**  **LOG IN**

Email Address

Password

LOGIN 

Forgot Password?

RESET PASSWORD 

 **NEW TO THE SITE?**

[Create a user account](#)

Need help? Call the ActionCenter@ at 800 444.5664 Mon – Fri 8 am – 8 pm ET, or email us at Action.Center@Genworth.com.

Quick Reference Guide And Webinars

Genworth Financial

Home | Contact Us | Genworth.com | Site Map Log In

MI | Tech Connections | Lender Services | **Training** | Rates & Guidelines | Resource Center

[Print this Page](#)

TRAINING

Genworth Mortgage Insurance offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line, and serve your borrowers better.

What You Get with Training from Genworth

- Courses Offered In A Variety Of Formats
- Industry Leading Trainers
- Wide Spectrum Of Course Topics
- That MI Guy+
- Customized Training Available

For more information about Genworth Training offerings please contact your [Genworth Representative](#).

Webinar Schedule

Our webinar sessions address topics that are essential to mortgage professionals.

- [August 2016 Webinars](#)
- [September 2016 Webinars](#)
- [Course Catalog](#)

Sign up to receive the monthly training webinar calendar [here](#).

Self-Employed Borrower Calculators

Income Calculation Tools and Reference Guides

Quick Reference Guide And Webinars










- ♦ Genworth MI Tutorials
- ♦ Recorded Webinars
- ♦ [Self-Employed Borrower Calculators](#)
- ♦ TRID Resources
- ♦ Training FAQs
- ♦ Trainer Bios

SELF-EMPLOYED BORROWER CALCULATORS

Use the following calculators and quick reference guides to assist you in calculating and analyzing the average monthly income of a self-employed borrower. It provides suggested guidance only and does not replace Fannie Mae/Freddie Mac instructions or applicable guidelines.

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

Automated Income Calculation Tools

-  [Fannie Mae Form 1084 Calculator \(2015-2016\)](#)
-  [Freddie Mac Form 91 Calculator \(2015-2016\)](#)
-  [Scheduled Analysis Method \(SAM\) Calculator \(2015-2016\)](#)
-  [Rental Income Calculator \(2015-2016\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1037\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1038\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1039\)](#)
-  [Quick Ratio – Liquidity Calculator \(2015-2016\)](#)
-  [Current Ratio – Liquidity Calculator \(2015-2016\)](#)

Previous versions of income calculation forms can be found at our [Forms Library](#).




Easy To Use Reference Guide

-  [Fannie Mae Comparative Analysis Guide \(Form 1088\)](#)

[Print this Page](#)

Webinar Schedule

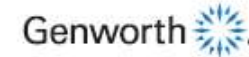
Our webinar sessions address topics that are essential to mortgage professionals.

-  [March Webinar Calendar](#)
-  [April Webinar Calendar](#)
-  [Course Catalog](#)

Sign up to receive the monthly training webinar calendar [here](#).

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

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



Calculator and Quick Reference Guide: Schedule Analysis Method (SAM)

Please use the following calculator and quick reference guide to assist you in calculating qualifying income from tax returns. It provides suggested guidance only and does not replace Fannie Mae, Freddie Mac, Lender or Investor instructions or applicable guidelines.

| I Form 1040 – Page 1 | | 2016 | 2015 | NOTES |
|---|---|------|---------|--|
| 1 | Self-Employed Wages or Similar Income, W-2 (Line 5) | | | *If untaxed income can be grossed up, see calculator on fourth page of this guide. |
| 2 | Tax-Exempt Interest (Line 8b) | + | | |
| 3 | Alimony Received (Line 11) | + | | |
| 4 | IRA Pension/Annuity Distributions (Lines 15a and/or 16a*) | + | | |
| 5 | Recurring Unemployment Compensation (Line 19) | + | | |
| 6 | Social Security Benefits (Line 20a*) | + | | |
| 7 | Other Income (Line 21) | +/- | | |
| 8 | Other: | +/- | | |
| Form 1040 Subtotal | | | \$ 0.00 | \$ 0.00 |
| II Form 2106 – Employee Business Expenses | | 2016 | 2015 | NOTES |
| 9 | Total Expenses (Lines 8a + 8b; or 2106-EZ Lines 6 + 5) | - | | |
| 10 | Depreciation (Line 26, if complete, OR) | + | | |
| 11 | Business Miles (Line 12; or 2106-EZ Line 8a) | | | |
| 11a | X Depreciation Rate (2016 and 2015-24c) | | | |
| 11b | = Total Mileage Depreciation | + | 0.00 | 0.00 |
| Form 2106 Subtotal | | | \$ 0.00 | \$ 0.00 |
| III Schedule B - Interest and Dividends | | 2016 | 2015 | NOTES |
| 12 | Recurring Interest Income (Line 1) or Line 8a from 1040 | + | | |
| 13 | Recurring Dividend Income (Line 5) or Line 9a from 1040 | + | | |
| Schedule B Subtotal | | | \$ 0.00 | \$ 0.00 |
| IV Schedule C - Sole Proprietorship | | 2016 | 2015 | NOTES |
| 14 | Net Profit or Loss (Line 31) | +/- | | |
| 15 | Nonrecurring Other (Income) Loss or Expenses (Line 6) | +/- | | |
| 16 | Depletion (Line 12) | + | | |
| 17 | Depreciation (Line 13) | + | | |
| 18 | Meal and Entertainment Exclusion (Line 24b) | - | | |
| 19 | Business Use of Home (Line 30, Form 8829) | + | | |
| 20 | Business Miles, Page 2, Part IV (Line 44a) | | | |
| 20a | X Depreciation Rate (2016 and 2015-24c) | | | |
| 20b | = Total Mileage Depreciation | + | 0.00 | 0.00 |
| 21 | Amortization/Casualty Loss only if noted (Page 2, Part V) | + | | |
| Schedule C Subtotal | | | \$ 0.00 | \$ 0.00 |

Rev 0217

This calculator can be found at ml.genworth.com/training

Page 1 of 5

Access SAM Reference Guide 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. ←

| IX Partnership Schedule K-1 (Form 1065) | | | 2016 | 2015 | NOTES |
|---|---|-----|----------------|----------------|---|
| 1 | Ordinary Income or Loss (Line 1) | +/- | | | *Obtain Form 8825, Schedule of Rental Properties. |
| 2 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | | | |
| 3 | Guaranteed Payments to Partner (Line 4) | + | | | |
| Subtotal | | | \$ 0.00 | \$ 0.00 | |

Part 2: Partnership (Form 1065) Cash Flow

Check investor guidelines for use of business income to qualify.

| X Partnership (Form 1065) | | | 2016 | 2015 | NOTES |
|--|--|----------|----------------|----------------|---|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- | | | *Only add back eligible "Other" losses. |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- | | | **Follow specific investor guidelines; Adjustments may not be required if there is evidence these roll over regularly, these are verified to be a line of credit or if the business has sufficient assets to cover the liability. |
| 6 | Depreciation (Line 16a) | + | | | |
| 7 | Depletion (Line 17) | + | | | |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + | | | |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - | | | |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - | | | |
| 11 | Subtotal | = | \$ 0.00 | \$ 0.00 | |
| 12 | Multiplied by Ownership Percentage | x | % | % | |
| Partner's Total Share of Income | | | \$ 0.00 | \$ 0.00 | |

Analyzing IRS Form K-1

Selling Guide

Published June 28, 2016

➤ [Guide Table of Contents](#)

B3-3.2.1-08: Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (06/28/2016)

This topic contains information on income or loss reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, including:

[Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#) ➤
[Documentation Requirements](#) ➤



[BACK TO PART B](#) ➤

Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.



The lender must use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided the lender can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then the lender must confirm adequate business liquidity, as discussed below.

Analyzing Partnership Returns

Selling Guide

Published June 28, 2016

➤ [Guide Table of Contents](#)

B3-3.2.2-01: Analyzing Partnership Returns for a Partnership or LLC (06/28/2016)

This topic contains information on analyzing partnership returns for a partnership or LLC, including:

- Overview ➤
- Evaluating the Business Income ➤
- Borrower's Proportionate Share of Income or Loss ➤
- Adjustments to Business Cash Flow ➤
- Income from Partnerships, LLCs, Estates, and Trusts ➤

Search guide content



[BACK TO PART B](#) ➤

Overview

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to IRS Form 1040, Schedule E. See [B3-3.2-02, Business Structures](#), for more information on partnerships and LLCs.

A borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the borrower's proportionate share of income (or loss) reported on the Schedule K-1.

Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business and business tax returns are required, the lender must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether

- income is stable and consistent, and
- sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The lender can only consider the borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Business and income analysis

Requirements and guidance

Business review and analysis:

The Seller's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.

- The analysis must include a review of the business tax returns
- The Seller's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered.
- The Seller may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Business and income analysis

Use of business income not reported on the Borrower's federal individual income tax returns

- Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business

Access to business income

Documentation is not required to verify access to business income for the following:

- Sole proprietorships
- Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations
- W-2 income received from S corporations and corporations,
- Corporations, if the Borrower holds 100% ownership interest

If business income not reported on the Borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the Seller must verify that the Borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.

1065 Partnership

Line 22 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

Partnerships

Check for trends or changes

- Gross Receipts
- Cost of Good Sold
- Gross Profit
- Bottom line “Ordinary Income”

| 1065 | | U.S. Return of Partnership Income | | OMB No. 1545-0123 | |
|---|--|--|-------------------------|-------------------|-------|
| Form Department of the Treasury Internal Revenue Service | | For calendar year 2016, or tax year beginning , 2016, ending , 20 | | 2016 | |
| Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 . | | | | | |
| A Principal business activity | Name of partnership | D Employer identification number | | | |
| Service | MHI LLC | Employer identification number | | 26-1234567 | |
| B Principal product or service | Type of Print | E Date business started | | | |
| Service | 5 Finance Drive | Date business started | | 1/1/2009 | |
| C Business code number | City or town, state or province, country, and ZIP or foreign postal code | F Total assets (see the instructions) | | | |
| 55112 | Dallas, TX 78111 | Total assets (see the instructions) | | \$ 75,757 | |
| G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return (6) <input type="checkbox"/> Technical termination - also check (1) or (2) | | | | | |
| H Check accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ | | | | | |
| I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ | | | | | |
| J Check if Schedules C and M-3 are attached <input type="checkbox"/> | | | | | |
| Caution. Include <i>only</i> 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 | 43,877 | |
| | 1b | Returns and allowances | 1b | | |
| | 1c | 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 | | 43,877 | |
| Deductions (see the instructions for limitations) | 9 | Salaries and wages (other than to partners) (less employment credits) | 9 | | 9,754 |
| | 10 | Guaranteed payments to partners | 10 | | 0 |
| | 11 | Repairs and maintenance | 11 | | |
| | 12 | Bad debts | 12 | | |
| | 13 | Rent | 13 | | 6,000 |
| | 14 | Taxes and licenses | 14 | | 554 |
| | 15 | Interest | 15 | | |
| | 16a | Depreciation (if required, attach Form 4562) | 16a | 2,147 | |
| | 16b | Less depreciation reported on Form 1125-A and elsewhere on return | 16b | | 2,147 |
| | 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 | SL #1 | 4,174 | |
| 21 | Total deductions. Add the amounts shown in the far right column for lines 9 through 20. | 21 | | 22,629 | |
| 22 | Ordinary business income (loss). Subtract line 21 from line 8 | 22 | | 21,248 | |
| 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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge. | | | | | |
| Sign Here | | Signature of general partner or limited liability company member manager | | Date | |
| Paid Preparer Use Only | | Print/type preparer's name | Preparer's signature | Date | |
| | | Tom Taxman | | | |
| | | Firm's name ▶ Taxman & Lawless LLC | Firm's EIN ▶ 27-1234765 | PTIN | |
| | | Firm's address ▶ 10 Main Street, Dallas, TX | Phone no. 972-555-1212 | | |
| For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2016) | | | | | |

1065 Partnership

Line 22 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

Partnership K-1

| J Partner's share of profit, loss, and capital (see instructions): | | | | |
|--|-----------|--|--------|--|
| | Beginning | | Ending | |
| Profit | 50 % | | 50 % | |
| Loss | 50 % | | 50 % | |
| Capital | 50 % | | 50 % | |

651113
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2016

Department of the Treasury Internal Revenue Service For calendar year 2016, or tax year beginning _____, 2016 ending _____, 20_____

Final K-1 Amended K-1

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

| | | | | |
|----|--------------------------------------|--------|--|---------------|
| 1 | Ordinary business income (loss) | 15 | Credits | |
| 2 | Net rental real estate income (loss) | 10,624 | | |
| 3 | Other net rental income (loss) | 16 | Foreign transactions | |
| 4 | Guaranteed payments | | | |
| 5 | Interest income | | | |
| 6a | Ordinary dividends | 23 | | |
| 6b | Qualified dividends | | | |
| 7 | Royalties | | | |
| 8 | Net short-term capital gain (loss) | | | |
| 9a | Net long-term capital gain (loss) | 17 | Alternative minimum tax (AMT) items | |
| 9b | Collectibles (28%) gain (loss) | | | |
| 9c | Unrecaptured section 1250 gain | | | |
| 10 | Net section 1231 gain (loss) | 18 | Tax-exempt income and nondeductible expenses | |
| 11 | Other income (loss) | C | 9 | |
| 12 | Section 179 deduction | | 19 | Distributions |
| 13 | Other deductions | | | |
| A | 2 | 20 | Other information | |
| A | | 23 | | |
| 14 | Self-employment earnings (loss) | | | |

*See attached statement for additional information.

Part I Information About the Partnership

A Partnership's employer identification number 26-1224567

B Partnership's name, address, city, state, and ZIP code
MHI LLC
5 Finance Drive
Dallas, TX 78111

C IRS Center where partnership filed return e-filed

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

Part II Information About the Partner

E Partner's identifying number 99-99-1111

F Partner's name, address, city, state, and ZIP code
Mary Homeowner
7 Galloping Hill Road
Dallas, TX 75432

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? Individual

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

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

| | Beginning | | Ending | |
|---------|-----------|--|--------|--|
| Profit | 50 % | | 50 % | |
| Loss | 50 % | | 50 % | |
| Capital | 50 % | | 50 % | |

K Partner's share of liabilities at year end:

| | | |
|---------------------------------|----|--------|
| Nonrecourse | \$ | |
| Qualified nonrecourse financing | \$ | |
| Recourse | \$ | 13,540 |

L Partner's capital account analysis:

| | | |
|-------------------------------------|----|--------|
| Beginning capital account | \$ | 14,558 |
| Capital contributed during the year | \$ | |
| Withdrawals & distributions | \$ | 1,000 |

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

For IRS Use Only

Tax basis GAAP Section 704(b) book
 Other (explain)

For Paperwork Reduction Act Notice, see Instructions for Form 1065. IRS.gov/form1065 Cat. No. 11094R Schedule K-1 (Form 1065) 2016

Rental Income - Partnership or S Corps

Form 8825 Rental Real Estate Income and Expenses of a Partnership or an S Corporation
 Filed October 2010 Department of the Treasury Internal Revenue Service
 See instructions on back. Attach to Form 1065, Form 1065-B, or Form 1120S. OMB No. 1545-1198

Name _____ EIN/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 1-9; see page 2 for list | Fair Rental Days | Personal Use Days |
|---|--|------------------|-------------------|
| A | | | |
| B | | | |
| C | | | |
| D | | | |

| | Properties | | | | |
|--|---|---|---|---|-----|
| | A | B | C | D | |
| 2 Gross rents | | | | | |
| 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 D | | | | | 18a |
| b Total expenses. Add total expenses from line 16, columns A through D | | | | | 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 |
| b 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: | | | | | |
| (i) Name _____ | (ii) 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 |

For Paperwork Reduction Act Notice, see back of form. Cat. No. 101062 Form 8825 (12-2010)

No Example

1065 Partnership

Line 22 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

Schedule E Partnerships and S Corps

Schedule E (Form 1040) 2016

Attachment Sequence No. **13**

Page **2**

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

Your social security number

John & Mary Homeowner

300-50-1234

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

| 28 | (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 | MHI LLC | P | <input type="checkbox"/> | 26-1234567 | <input type="checkbox"/> |
| B | Always Watching Security Inc. | S | <input type="checkbox"/> | 27-1234567 | <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 | | | | 10,624. |
| B | | | | 32,901. |
| C | | | | |
| D | | | | |
| 29a Totals | | | | 43,525. |
| b Totals | | | | |
| 30 | Add columns (g) and (j) of line 29a | | | 30 43,525. |
| 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 43,525. |

1065 Partnership

Line 22 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

| 1040 Department of the Treasury - Internal Revenue Service [99] 2016 U.S. Individual Income Tax Return | | OMB No. 1545-0074 | IRS Use Only - Do not write or staple in this space. | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|------------------------|--|---|--|-----------|--|-------------------------------------|--|--|--|--|--|--------------------------|--|--|--|--|--------------------------|--|--|--|--|--------------------------|--|--|--|--|--------------------------|
| For the year Jan. 1-Dec. 31, 2016, or other tax year beginning , 2016, ending , 20. | | See separate instructions. | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Your first name and initial John | Last name Homeowner | Your social security number 300-50-1234 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| If a joint return, spouse's first name and initial Mary | Last name Homeowner | Spouse's social security number 300-22-1111 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Home address (number and street). If you have a P.O. box, see instructions. 7 Galloping Hill Road | | Apt. no. | ▲ Make sure the SSN(s) above and on line 6c are correct. Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$5 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse | | | | | | | | | | | | | | | | | | | | | | | | | |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Dallas TX 75432 | | Foreign country name | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Foreign province/state/country | | Foreign postal code | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Filing Status 1 <input type="checkbox"/> Single 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 5 <input type="checkbox"/> Qualifying widow(er) with dependent child 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exemptions 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. 2 b <input checked="" type="checkbox"/> Spouse c Dependents: <table border="1"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table> If more than four dependents, see instructions and check here <input type="checkbox"/> d Total number of exemptions claimed Add numbers on lines above ▶ 2 | | | | (1) First name | Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) | | | | | <input type="checkbox"/> | | | | | <input type="checkbox"/> | | | | | <input type="checkbox"/> | | | | | <input type="checkbox"/> |
| (1) First name | Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | <input type="checkbox"/> | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | <input type="checkbox"/> | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | <input type="checkbox"/> | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | <input type="checkbox"/> | | | | | | | | | | | | | | | | | | | | | | | | |
| Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 5,000. 8a Taxable interest. Attach Schedule B if required 8a 1,710. 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 8,559. 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 13 -3,000. 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a b Taxable amount 15b 16 Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 37,302. 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 49,571. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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 27 605. 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 Tuition and fees. Attach Form 8917 34 35 Domestic production activities deduction. Attach Form 8803 35 36 Add lines 23 through 35 36 605. 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37 48,966. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. BAA REV 01/25/17 TTW Form 1040 (2016) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Remember We Must Confirm Liquidity

There was not a distribution so...

Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtains documentation, such as the 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.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
Quick Ratio = $(\text{current assets} - \text{inventory}) \div \text{current liabilities}$
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
Current Ratio = $\text{current assets} \div \text{current liabilities}$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

Fannie Mae 2016 Selling Guide B3-3.2.2-01, Analyzing Partnership Returns for a Partnership or LLC (6/28/2016)

Freddie Mac Seller/Service Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Business and income analysis

Requirements and guidance

Business review and analysis:

The Seller's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.

- The analysis must include a review of the business tax returns
- The Seller's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered.
- The Seller may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

Freddie Mac Seller/Servicer Guide

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (Future effective date 07/06/17)

Use of business income not reported on the Borrower's federal individual income tax returns

- Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business

Access to business income

Documentation is not required to verify access to business income for the following:

- Sole proprietorships
- Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations
- W-2 income received from S corporations and corporations,
- Corporations, if the Borrower holds 100% ownership interest

If business income not reported on the Borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the Seller must verify that the Borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.

Balance Sheet

| Schedule L Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|-------------------------------------|--|-----------------------|---------------|-----------------|---------------|
| | | (a) | (b) | (c) | (d) |
| Assets | | | | | |
| 1 | Cash | | 10,142 | | 10,308 |
| 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) | | 63,192 | | 65,449 |
| 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 | | 73,334 | | 75,757 |
| Liabilities and Capital | | | | | |
| 15 | Accounts payable | | | | |
| 16 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 17 | Other current liabilities (attach statement) | | 6,000 | | 0 |
| 18 | All nonrecourse loans | | | | |
| 19a | Loans from partners (or persons related to partners) | | | | |
| b | Mortgages, notes, bonds payable in 1 year or more | | 38,217 | | 27,080 |
| 20 | Other liabilities (attach statement) | | | | |
| 21 | Partners' capital accounts | | 29,117 | | 48,677 |
| 22 | Total liabilities and capital | | 73,334 | | 75,757 |

Quick Reference Guide And Webinars

Genworth Financial

Home | Contact Us | Genworth.com | Site Map Log In

MI | Tech Connections | Lender Services | **Training** | Rates & Guidelines | Resource Center

[Print this Page](#)

- ◆ Mortgage Insurance
- ◆ Recorded Webinars
- ◆ Sales & Marketing
- ◆ Self-Employed Borrower Calculators
- ◆ TRID Resources
- ◆ Training FAQs
- ◆ Trainer Bios

TRAINING

Genworth Mortgage Insurance offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line, and serve your borrowers better.

What You Get with Training from Genworth

- Courses Offered In A Variety Of Formats
- Industry Leading Trainers
- Wide Spectrum Of Course Topics
- That MI Guy+
- Customized Training Available

For more information about Genworth Training offerings please contact your [Genworth Representative](#).

Webinar Schedule

Our webinar sessions address topics that are essential to mortgage professionals.

- [August 2016 Webinars](#)
- [September 2016 Webinars](#)
- [Course Catalog](#)

Sign up to receive the monthly training webinar calendar [here](#).

Self-Employed Borrower Calculators

Income Calculation Tools and Reference Guides

Liquidity Calculators










- ♦ Genworth MI Tutorials
- ♦ Recorded Webinars
- ♦ [Self-Employed Borrower Calculators](#)
- ♦ TRID Resources
- ♦ Training FAQs
- ♦ Trainer Bios

SELF-EMPLOYED BORROWER CALCULATORS

Use the following calculators and quick reference guides to assist you in calculating and analyzing the average monthly income of a self-employed borrower. It provides suggested guidance only and does not replace Fannie Mae/Freddie Mac instructions or applicable guidelines.

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

Automated Income Calculation Tools

-  [Fannie Mae Form 1084 Calculator \(2015-2016\)](#)
-  [Freddie Mac Form 91 Calculator \(2015-2016\)](#)
-  [Scheduled Analysis Method \(SAM\) Calculator \(2015-2016\)](#)
-  [Rental Income Calculator \(2015-2016\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1037\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1038\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1039\)](#)
-  [Quick Ratio – Liquidity Calculator \(2015-2016\)](#)
-  [Current Ratio – Liquidity Calculator \(2015-2016\)](#)

Previous versions of income calculation forms can be found at our [Forms Library](#).




Easy To Use Reference Guide

-  [Fannie Mae Comparative Analysis Guide \(Form 1088\)](#)

[Print this Page](#)

Webinar Schedule

Our webinar sessions address topics that are essential to mortgage professionals.

-  [March Webinar Calendar](#)
-  [April Webinar Calendar](#)
-  [Course Catalog](#)

Sign up to receive the monthly training webinar calendar [here](#).

Solvency and Liquidity

Generally Accepted Accounting Principles

Calculator and Quick Reference Guide: Liquidity (Acid Test or Quick Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business returns. It provides suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please note all lines referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule L (check Form 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Acid Test or Quick Ratio) | | 2016 | 2015 |
|--|--|---|---|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | | |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | | |
| 3 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | | |
| 4 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | | |
| 5 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | | |
| 6 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | | |
| 7 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | | |
| Acid Test Ratio A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | $\frac{0.00}{0.00}$ <input type="button" value=""/> | $\frac{0.00}{0.00}$ <input type="button" value=""/> |

*Check your lender/investor policy on whether to include Government Obligations, Tax-Exempt Securities and/or Other Marketable Securities.

Click gray buttons to calculate result.
Please note: If Lines 5, 6 and 7 total zero, the calculator will show an error message, but the business is solvent.

Liquidity-Current Ratio

Generally Accepted Accounting Principles

Borrower(s) Name(s) Loan Number

Property Address



Calculator and Quick Reference Guide: Liquidity (Current or Working Capital Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business returns. It provides suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please note all lines referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule L (check Form 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Current or Working Capital Ratio) | | 2015 | 2014 |
|--|--|--|--|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | | |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | | |
| 3 | Inventories (Line 3) | | |
| 4 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | | |
| 5 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | | |
| 6 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | | |
| 7 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | | |
| 8 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | | |
| Current Ratio A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | 0.0 0.0 <input type="button" value=""/> | 0.0 0.0 <input type="button" value=""/> |

*Check your lender/investor policy on whether to include Government Obligations, Tax-Exempt Securities and/or Other Marketable Securities.

Click gray buttons to calculate result.
Please note: if Lines 6, 7 and 8 total zero, the calculator will show an error message, but the business is solvent.

Balance Sheet

Quick Ratio or Acid Test

Current Assets : (Cash #1 + Acct Receivable #2 + #4+ #5 +Other Current Assets #6)

Current Liabilities: (Acct Pay. #15 + MNB #16 + Other Current Liabilities #17)

| Schedule L Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|-------------------------------------|---|-----------------------|--------|-----------------|--------|
| | | (a) | (b) | (c) | (d) |
| Assets | | | | | |
| 1 | Cash | | 10,142 | → | 10,308 |
| 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) | | | → | |
| Liabilities and Capital | | | | | |
| 15 | Accounts payable | | | → | |
| 16 | Mortgages, notes, bonds payable in less than 1 year | | | → | |
| 17 | Other current liabilities (attach statement) | | 6,000 | → | |

Current Assets: $\$10,308 + 0 + 0 + 0 + 0 = \$10,308$

Current Liabilities: $\$0 + \$0 + \$0 = \0

Solvency and Liquidity

Generally Accepted Accounting Principles

Calculator and Quick Reference Guide: Liquidity (Acid Test or Quick Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business returns. It provides suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please note all lines referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule L (check Form 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Acid Test or Quick Ratio) | | 2016 | 2015 |
|--|--|-----------------------------------|---------------------|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | \$ 10,308.00 | |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | | |
| 3 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | | |
| 4 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | | |
| 5 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | \$ 1.00 | |
| 6 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | | |
| 7 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | | |
| Acid Test Ratio A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | $\frac{10,308.00}{1.00} = 10,308$ | $\frac{0.00}{0.00}$ |

*Check your lender/investor policy on whether to include Government Obligations, Tax-Exempt Securities and/or Other Marketable Securities.

Click gray buttons to calculate result.
 Please note: If Lines 5, 6 and 7 total zero, the calculator will show an error message, but the business is solvent.

Quick Reference Guide

Access

- SAM Quick Reference Guide Section IX
- Partnership K-1

| IX Partnership Schedule K-1 (Form 1065) | | 2016 | 2015 | NOTES |
|---|---|------|---------|---|
| 1 | Ordinary Income or Loss (Line 1) | +/- | | *Obtain Form 8825, Schedule of Rental Properties. |
| 2 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | | |
| 3 | Guaranteed Payments to Partner (Line 4) | + | | |
| Subtotal | | | \$ 0.00 | \$ 0.00 |

Schedule K-1 (Form 1065) 2016
 Department of the Treasury Internal Revenue Service
 For calendar year 2016, or tax year beginning _____, 2016 ending _____, 20____

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

Part I Information About the Partnership

A Partnership's employer identification number: 26-1234567

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

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

| | | | | |
|----|--------------------------------------|--------|----|--|
| 1 | Ordinary business income (loss) | 10,624 | 15 | Credits |
| 2 | Net rental real estate income (loss) | | | |
| 3 | Other net rental income (loss) | | 16 | Foreign transactions |
| 4 | Guaranteed payments | | | |
| 5 | Interest income | | 23 | |
| 10 | Net section 1231 gain (loss) | | 18 | Tax-exempt income and nondeductible expenses |
| 11 | Other income (loss) | | C | 9 |
| 12 | Section 179 deduction | | 19 | Distributions |
| 13 | Other deductions | | 20 | Other information |
| A | | | A | 23 |
| 14 | Self-employment earnings (loss) | | | |

L Partner's capital account analysis:

| | | |
|-------------------------------------|----|--------|
| Beginning capital account | \$ | 14,558 |
| Capital contributed during the year | \$ | |
| Current year increase (decrease) | \$ | 9,781 |
| Withdrawals & distributions | \$ | |
| Ending capital account | \$ | 24,339 |

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

For Paperwork Reduction Act Notice, see Instructions for Form 1065. IRS.gov/form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2016

Partnership K-1

| | | |
|---|--------------------------------------|--------|
| 1 | Ordinary business income (loss) | 10,624 |
| 2 | Net rental real estate income (loss) | |
| 3 | Other net rental income (loss) | |

| | | |
|---|---|--------|
| L | Partner's capital account analysis: | |
| | Beginning capital account | 14,558 |
| | Capital contributed during the year | |
| | Current year income (deductions) | 9,781 |
| | Withdrawals & distributions | |
| | Ending capital account | 24,339 |
| | <input checked="" type="checkbox"/> Tax basis | |
| | <input type="checkbox"/> GAAP | |
| | <input type="checkbox"/> Section 754(b) basis | |
| | <input type="checkbox"/> Other (specify) | |
| M | Did the partner contribute property with a built-in gain or loss? | |
| | <input type="checkbox"/> Yes | |
| | <input checked="" type="checkbox"/> No | |
| | If "Yes," attach statement (see instructions) | |

651113
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2016
Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning _____, 2016 ending _____, 20__

Final K-1 Amended K-1

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

| | | | | |
|----|--------------------------------------|--------|----|--|
| 1 | Ordinary business income (loss) | 10,624 | 15 | Credits |
| 2 | Net rental real estate income (loss) | | | |
| 3 | Other net rental income (loss) | | 16 | Foreign transactions |
| 4 | Guaranteed payments | | | |
| 5 | Interest income | 23 | | |
| 6a | Ordinary dividends | | | |
| 6b | Qualified dividends | | | |
| 7 | Royalties | | | |
| 8 | Net short-term capital gain (loss) | | | |
| 9a | Net long-term capital gain (loss) | | 17 | Alternative minimum tax (AMT) items |
| 9b | Collectibles (28%) gain (loss) | | | |
| 9c | Unrecaptured section 1250 gain | | | |
| 10 | Net section 1231 gain (loss) | | 18 | Tax-exempt income and nondeductible expenses |
| 11 | Other income (loss) | | C | 9 |
| 12 | Section 179 deduction | | 19 | Distributions |
| 13 | Other deductions | | | |
| A | | 2 | 20 | Other information |
| | | A | | 23 |
| 14 | Self-employment earnings (loss) | | | |

Part I Information About the Partnership

A Partnership's employer identification number: 26-1234567

B Partnership's name, address, city, state, and ZIP code: MHI LLC, 5 Finance Drive, Dallas, TX 78111

C IRS Center where partnership filed return: e-filed

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

Part II Information About the Partner

E Partner's identifying number: 300-22-1111

F Partner's name, address, city, state, and ZIP code: Mary Homeowner, 7 Galloping Hill Road, Dallas, TX 75432

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? Individual

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

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

| | Beginning | Ending |
|---------|-----------|--------|
| Profit | 50 % | 50 % |
| Loss | 50 % | 50 % |
| Capital | 50 % | 50 % |

K Partner's share of liabilities at year end:

| | |
|---------------------------------|-----------|
| Nonrecourse | \$ |
| Qualified nonrecourse financing | \$ |
| Recourse | \$ 13,540 |

L Partner's capital account analysis: Beginning capital account: 14,558

"See attached statement for additional information."

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

For Paperwork Reduction Act Notice, see Instructions for Form 1065. IRS.gov/form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2016

Can We Use Ordinary Income/Rental Income From K-1?
Was There A Distribution? Was Liquidity Verified?

Quick Reference Guide Partnership K-1

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.

| IX Partnership Schedule K-1 (Form 1065) | | | 2016 | 2015 | NOTES |
|---|---|-----|---------------------|----------------|---|
| 1 | Ordinary Income or Loss (Line 1) | +/- | 10,624.00 | | *Obtain Form 8825, Schedule of Rental Properties. |
| 2 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0.00 | | |
| 3 | Guaranteed Payments to Partner (Line 4) | + | | | |
| Subtotal | | | \$ 10,624.00 | \$ 0.00 | |

Genworth Calculator Is A Tool. Lenders/Underwriters Review Each Loan File And Determine Compliance With Fannie Mae Or Investor Guidelines.

Partnership K-1

| | |
|----------|----------------------------|
| 4 | Guaranteed payments |
|----------|----------------------------|

651113
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2016
 Department of the Treasury
 Internal Revenue Service

For calendar year 2016, or tax year beginning _____, 2016 ending _____, 2016

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

| Part I Information About the Partnership | | Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items | | | | | | | | | | | |
|--|---|---|--------|--------|------|------|------|------|------|---------|------|------|--|
| A Partnership's employer identification number 26-1234567 | 1 Ordinary business income (loss) 15 Credits 10,624 | | | | | | | | | | | | |
| B Partnership's name, address, city, state, and ZIP code MHI LLC 5 Finance Drive Dallas, TX 78111 | 2 Net rental real estate income (loss) | | | | | | | | | | | | |
| C IRS Center where partnership filed return e-filed | 3 Other net rental income (loss) 16 Foreign transactions | | | | | | | | | | | | |
| D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP) | 4 Guaranteed payments | | | | | | | | | | | | |
| Part II Information About the Partner | 5 Interest income 23 | | | | | | | | | | | | |
| E Partner's identifying number 300-22-1111 | 6a Ordinary dividends | | | | | | | | | | | | |
| F Partner's name, address, city, state, and ZIP code Mary Homeowner 7 Galloping Hill Road Dallas, TX 75432 | 6b Qualified dividends | | | | | | | | | | | | |
| G <input checked="" type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member | 7 Royalties | | | | | | | | | | | | |
| H <input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner | 8 Net short-term capital gain (loss) | | | | | | | | | | | | |
| I1 What type of entity is this partner? <u>Individual</u> | 9a Net long-term capital gain (loss) 17 Alternative minimum tax (AMT) items | | | | | | | | | | | | |
| I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/> | 9b Collectibles (28%) gain (loss) | | | | | | | | | | | | |
| J Partner's share of profit, loss, and capital (see instructions): <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Beginning</th> <th style="text-align: center;">Ending</th> </tr> </thead> <tbody> <tr> <td>Profit</td> <td style="text-align: center;">50 %</td> <td style="text-align: center;">50 %</td> </tr> <tr> <td>Loss</td> <td style="text-align: center;">50 %</td> <td style="text-align: center;">50 %</td> </tr> <tr> <td>Capital</td> <td style="text-align: center;">50 %</td> <td style="text-align: center;">50 %</td> </tr> </tbody> </table> | | Beginning | Ending | Profit | 50 % | 50 % | Loss | 50 % | 50 % | Capital | 50 % | 50 % | 9c Unrecaptured section 1250 gain |
| | Beginning | Ending | | | | | | | | | | | |
| Profit | 50 % | 50 % | | | | | | | | | | | |
| Loss | 50 % | 50 % | | | | | | | | | | | |
| Capital | 50 % | 50 % | | | | | | | | | | | |
| K Partner's share of liabilities at year end: Nonrecourse \$ _____ Qualified nonrecourse financing \$ _____ Recourse \$ _____ 13,540 | 10 Net section 1231 gain (loss) 18 Tax-exempt income and nondeductible expenses | | | | | | | | | | | | |
| L Partner's capital account analysis: Beginning capital account \$ _____ 14,558 Capital contributed during the year \$ _____ Current year increase (decrease) \$ _____ 9,781 Withdrawals & distributions \$ (_____) Ending capital account \$ _____ 24,339 | 11 Other income (loss) C 9 | | | | | | | | | | | | |
| <input checked="" type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book <input type="checkbox"/> Other (explain) | 12 Section 179 deduction | | | | | | | | | | | | |
| M Did the partner contribute property with a built-in gain or loss? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach statement (see instructions) | 13 Other deductions 20 Other information A 23 | | | | | | | | | | | | |
| 14 Self-employment earnings (loss) | 19 Distributions | | | | | | | | | | | | |
| *See attached statement for additional information. | | | | | | | | | | | | | |
| For IRS Use Only | 2 | | | | | | | | | | | | |

For Paperwork Reduction Act Notice, see Instructions for Form 1065. IRS.gov/form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2016

Quick Reference Guide Partnership K-1

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.

| IX Partnership Schedule K-1 (Form 1065) | | | 2016 | 2015 | NOTES |
|---|--|-----|---------------------|----------------|---|
| 1 | Ordinary Income or Loss (Line 1) | +/- | 10,624.00 | | *Obtain Form 8825, Schedule of Rental Properties. |
| 2 | Net Rental Income (Loss)(Lines 2 and 3)* | +/- | 0.00 | | |
| 3 | Guaranteed Payments to Partner (Line 4) | + | 0.00 | | |
| Subtotal | | | \$ 10,624.00 | \$ 0.00 | |

Guaranteed Payments Can Be Used; Follow Investor Policy If Two Year History Is Required Or Only A History Of Receipt And Likely To Continue

SAM Form Section XI, IRS Form 1065

| | | | |
|---|--|--|----------------------------------|
| 1065 Form Department of the Treasury Internal Revenue Service | U.S. Return of Partnership Income For calendar year 2016, or tax year beginning _____, 2016, ending _____, 20____ | | OMB No. 1545-0123 2016 |
| | Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 . | | |
| A Principal business activity Service | Name of partnership MHI LLC | | E Date business started |
| B Principal product or service | Type | Number, street, and room or suite no. If a P.O. box, see the instructions. | |

Part 2: Partnership (Form 1065) Cash Flow

Check investor guidelines for use of business income to qualify.

| X Partnership (Form 1065) | | | 2016 | 2015 | NOTES |
|--|--|-----|----------------|----------------|---|
| → | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- | | | *Only add back eligible "Other" losses. |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- | | | |
| 6 | Depreciation (Line 16a) | + | | | **Follow specific investor guidelines; Adjustments may not be required if there is evidence these roll over regularly, these are verified to be a line of credit or if the business has sufficient assets to cover the liability. |
| 7 | Depletion (Line 17) | + | | | |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + | | | |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - | | | |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - | | | |
| 11 | Subtotal | = | \$ 0.00 | \$ 0.00 | |
| 12 | Multiplied by Ownership Percentage | X | % | % | |
| Partner's Total Share of Income | | | \$ 0.00 | \$ 0.00 | |

ZZ Ordinary business income (loss), subtract line 21 from line 8

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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager _____ Date _____

Print/type preparer's name: **Tom Taxman** Preparer's signature: _____ Date: _____ Check if self-employed PTIN: _____

Firm's name: **Taxman & Lawless LLC** Firm's EIN: **27-1234765**

Firm's address: **10 Main Street, Dallas, TX** Phone no.: **972-555-1212**

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2016)

Partnership Form 1065

1065 U.S. Return of Partnership Income

OMB No. 1545-0123

Form Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning 2016, ending 2016

Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.

A Principal business activity
Service MHI LLC

B Principal product or service
Service 5 Finance Drive

C Business code number
 55112

D Employer identification number
 26-1234567

E Date business started
 1/1/2009

F Total assets (see the instructions)
 \$ 75,757

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.

| | 1a | 1b | 1c |
|---|--------|-------|--------|
| 1a Gross receipts or sales | 43,877 | | |
| b Returns and allowances | | | |
| c Balance. Subtract line 1b from line 1a | | | |
| 2 Cost of goods sold (attach Form 1125-A) | | | |
| 3 Gross profit. Subtract line 2 from line 1c | | | |
| 4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) | | | |
| 5 Net farm profit (loss) (attach Schedule F (Form 1040)) | | | |
| 6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | |
| 7 Other income (loss) (attach statement) | | | |
| 8 Total income (loss). Combine lines 3 through 7 | | | 43,877 |
| 9 Salaries and wages (other than to partners) (less employment credits) | | | 9,754 |
| 10 Guaranteed payments to partners | | | 0 |
| 11 Repairs and maintenance | | | |
| 12 Bad debts | | | |
| 13 Rent | | | 6,000 |
| 14 Taxes and licenses | | | 554 |
| 15 Interest | | | |
| 16a Depreciation (if required, attach Form 4562) | | 2,147 | |
| b Less depreciation reported on Form 1125-A and elsewhere on return | | | 2,147 |
| 17 Depletion (Do not deduct oil and gas depletion.) | | | |
| 18 Retirement plans, etc. | | | |
| 19 Employee benefit programs | | | |
| 20 Other deductions (attach statement) | | | 4,174 |
| 21 Total deductions. Add the amounts on lines 9 through 20 | | | 12,475 |
| 22 Ordinary business income (loss). Subtract line 21 from line 8 | | | 21,248 |

Sign Here
 Signature of general partner or limited liability company member manager _____ Date _____

Paid Preparer Use Only
 Print/type preparer's name: Tom Taxman
 Preparer's signature: _____ Date: _____
 Firm's name: Taxman & Lawless LLC
 Firm's EIN: 27-1234765
 Firm's address: 10 Main Street, Dallas, TX
 Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2016)


| X Partnership (Form 1065) | | 2016 | |
|--|--|------|-------------|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- | 0.00 |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- | 0.00 |
| 6 | Depreciation (Line 16a) | + | 2,147.00 |
| 7 | Depletion (Line 17) | + | 0.00 |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + | 0.00 |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - | |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - | |
| 11 | Subtotal | = | \$ 2,147.00 |
| 12 | Multiplied by Ownership Percentage | X | % |
| Partner's Total Share of Income | | | \$ 0.00 |

Partnership Form 1065

FEDERAL STATEMENTS
2015 MHI, LLC

STATEMENT 1
FORM 1065 LINE 20
OTHER DEDUCTIONS

| | |
|------------------------|----------------|
| Legal and Professional | 865 |
| Printing | 102 |
| Office Expense | 337 |
| Telephone | 965 |
| Insurance | 764 |
| Bank Charges | 225 |
| Casualty Loss | 916 |
| TOTAL | \$4,174 |



Partnership Form 1065

1065 U.S. Return of Partnership Income

OMB No. 1545-0123

Form Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning 2016, ending 2016

Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.

A Principal business activity
Service MHI LLC

B Principal product or service
Service 5 Finance Drive

C Business code number
 55112

D Employer identification number
 26-1234567

E Date business started
 1/1/2009

F Total assets (see the instructions)
 \$ 75,757

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.

| | | 1a | 1b | 1c |
|---|---|--------|--------|--------|
| Income | 1a Gross receipts or sales | 43,877 | | |
| | b Returns and allowances | | | |
| | c Balance. Subtract line 1b from line 1a | | | |
| | 2 Cost of goods sold (attach Form 1125-A) | | | |
| | 3 Gross profit. Subtract line 2 from line 1c | | | |
| | 4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) | | | |
| | 5 Net farm profit (loss) (attach Schedule F (Form 1040)) | | | |
| | 6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | |
| 7 Other income (loss) (attach statement) | | | | |
| 8 Total income (loss). Combine lines 3 through 7 | | 43,877 | | |
| Deductions | 9 Salaries and wages (other than to partners) (less employment credits) | | | 9,754 |
| | 10 Guaranteed payments to partners | | | 0 |
| | 11 Repairs and maintenance | | | |
| | 12 Bad debts | | | |
| | 13 Rent | | | 6,000 |
| | 14 Taxes and licenses | | | 554 |
| | 15 Interest | | | |
| | 16a Depreciation (if required, attach Form 4562) | 2,147 | | |
| | b Less depreciation reported on Form 1125-A and elsewhere on return | | | 2,147 |
| | 17 Depletion (Do not deduct oil and gas depletion.) | | | |
| | 18 Retirement plans, etc. | | | |
| | 19 Employee benefit programs | | | |
| | 20 Other deductions (attach statement) | | | 4,174 |
| | 21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20. | | | 22,629 |
| 22 Ordinary business income (loss). Subtract line 21 from line 8 | | | 21,248 | |

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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

May the IRC discuss this return with the preparer (except as allowed by instructions)? Yes No

Signature of general partner or limited liability company member manager _____ Date _____

Paid Preparer Use Only

Print/type preparer's name: Tom Taxman
 Preparer's signature: _____ Date: _____
 Firm's name: Taxman & Lawless LLC
 Firm's EIN: 27-1234765
 Firm's address: 10 Main Street, Dallas, TX
 Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2016)

| X Partnership (Form 1065) | | 2016 |
|--|--|---------------|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- 0.00 |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- 0.00 |
| 6 | Depreciation (Line 16a) | + 2,147.00 |
| 7 | Depletion (Line 17) | + 0.00 |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + 916.00 |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - 0.00 |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - |
| 11 | Subtotal | = \$ 3,044.00 |
| 12 | Multiplied by Ownership Percentage | X % |
| Partner's Total Share of Income | | \$ 0.00 |

Partnership Form 1065

| Schedule L | | Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|--------------------------------|--|---------------------------------|--------|-----------------------|--------|-----------------|--|
| | | (a) | (b) | (c) | (d) | | |
| Assets | | | | | | | |
| 1 | Cash | | 10,142 | | 10,308 | | |
| 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) | | 63,192 | | 65,449 | | |
| 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 | | 73,334 | | 75,757 | | |
| Liabilities and Capital | | | | | | | |
| 15 | Accounts payable | | | | | | |
| 16 | Mortgages, notes, bonds payable in less than 1 year | | | | | | |
| 17 | Other current liabilities (attach statement) | | 6,000 | | | | |
| 18 | All nonrecourse loans | | | | | | |
| 19a | Loans from partners (or persons related to partners) | | | | | | |
| b | Mortgages, notes, bonds payable in 1 year or more | | 38,217 | | 27,080 | | |
| 20 | Other liabilities (attach statement) | | | | | | |
| 21 | Partners' capital accounts | | 29,117 | | 48,677 | | |
| 22 | Total liabilities and capital | | 73,334 | | 75,757 | | |

Partnership Form 1065

1065 U.S. Return of Partnership Income

OMB No. 1545-0123

Form Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning 2016, ending 2016

Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.

A Principal business activity
Service Name of partnership: MHI LLC
B Principal product or service
Service Type of Print: 5 Finance Drive
C Business code number: 55112
 City or town, state or province, country, and ZIP or foreign postal code: Dallas, TX 78111

D Employer identification number: 26-1234567
E Date business started: 1/1/2009
F Total assets (see the instructions): \$ 75,757

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 | 1b | 1c |
|--|--|--------|--------|--------|
| 1a | Gross receipts or sales | 43,877 | | |
| b | Returns and allowances | | | |
| c | Balance. Subtract line 1b from line 1a | | | |
| 2 | Cost of goods sold (attach Form 1125-A) | | | |
| 3 | Gross profit. Subtract line 2 from line 1c | | | |
| 4 | Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) | | | |
| 5 | Net farm profit (loss) (attach Schedule F (Form 1040)) | | | |
| 6 | Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | |
| 7 | Other income (loss) (attach statement) | | | |
| 8 | Total income (loss). Combine lines 3 through 7 | 43,877 | | |
| Deductions (see the instructions for limitations) | | | | |
| 9 | Salaries and wages (other than to partners) (less employment credits) | | 9,754 | |
| 10 | Guaranteed payments to partners | | 0 | |
| 11 | Repairs and maintenance | | | |
| 12 | Bad debts | | | |
| 13 | Rent | | 6,000 | |
| 14 | Taxes and licenses | | 554 | |
| 15 | Interest | | | |
| 16a | Depreciation (if required, attach Form 4562) | 2,147 | | |
| b | Less depreciation reported on Form 1125-A and elsewhere on return | | | |
| 16c | | | 2,147 | |
| 17 | Depletion (Do not deduct oil and gas depletion.) | | | |
| 18 | Retirement plans, etc. | | | |
| 19 | Employee benefit programs | | | |
| 20 | Other deductions (attach statement) | | | |
| 21 | Total deductions. Add the amounts shown in the far right column for lines 9 through 20. | | 22,629 | |
| 22 | Ordinary business income (loss). Subtract line 21 from line 8 | | | 21,248 |

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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

May the IRC discuss this return with the preparer (see instructions)? Yes No

Signature of general partner or limited liability company member manager _____ Date _____

Paid Preparer Use Only

Print/type preparer's name: Tom Taxman
 Preparer's signature: _____ Date: _____
 Firm's name: Taxman & Lawless LLC
 Firm's EIN: 27-1234765
 Firm's address: 10 Main Street, Dallas, TX
 Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2016)

| X Partnership (Form 1065) | | 2016 |
|--|--|---------------|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- 0.00 |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- 0.00 |
| 6 | Depreciation (Line 16a) | + 2,147.00 |
| 7 | Depletion (Line 17) | + 0.00 |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + 916.00 |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - 0.00 |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - |
| 11 | Subtotal | = \$ 3,044.00 |
| 12 | Multiplied by Ownership Percentage | X % |
| Partner's Total Share of Income | | \$ 0.00 |

Partnership Form 1065

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 | 19,560 | 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 \$ 19 | 19 | 9 | Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5 . | 19,579 |
| 5 | Add lines 1 through 4 | 19,579 | | | |

Partnership Form 1065

1065 U.S. Return of Partnership Income
 Form 1065, 2015
 Department of the Treasury
 Internal Revenue Service

For calendar year 2015, or tax year beginning _____, 2015, ending _____, 20____
 Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.

OMB No. 1545-0047
2015

A Principal business activity
 Service
 MH LLC

B Principal product or service
 Type or Print
 Finance Drive

C Business code number
 55112

D Employer identification number
 26-1234567

E Date business started
 1/12/09

F Total assets (see the instructions)
 \$ 75,757

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

| | 1a | 1b | 1c |
|---|--------|----|--------|
| 1a Gross receipts or sales | 43,877 | | |
| b Returns and allowances | | | |
| c Balance. Subtract line 1b from line 1a | | | |
| 2 Cost of goods sold (attach Form 1125-A) | | | |
| 3 Gross profit. Subtract line 2 from line 1c | | | |
| 4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) | | | |
| 5 Net farm profit (loss) (attach Schedule F (Form 1040)) | | | |
| 6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | |
| 7 Other income (loss) (attach statement) | | | |
| 8 Total income (loss). Combine lines 3 through 7 | | | |
| 9 Salaries and wages (other than to partners) (less employment credits) | | | |
| 10 Guaranteed payments to partners | | | |
| 11 Repairs and maintenance | | | |
| 12 Bad debts | | | |
| 13 Rent | | | |
| 14 Taxes and licenses | | | |
| 15 Interest | | | |
| 16a Depreciation (if required, attach Form 4562) | 2,147 | | |
| b Less depreciation reported on Form 1125-A and elsewhere on return | | | |
| 17 Depletion (Do not deduct oil and gas depletion.) | | | |
| 18 Retirement plans, etc. | | | |
| 19 Employee benefit programs | | | |
| 20 Other deductions (attach statement) | | | |
| 21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20. | | | |
| 22 Ordinary business income (loss). Subtract line 21 from line 8 | | | 21,249 |

| X Partnership (Form 1065) | | | 2016 |
|--|--|-----|----------------|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- | 0.00 |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- | 0.00 |
| 6 | Depreciation (Line 16a) | + | 2,147.00 |
| 7 | Depletion (Line 17) | + | 0.00 |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + | 916.00 |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - | 0.00 |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - | 19.00 |
| 11 | Subtotal | = | \$ 3,044.00 |
| 12 | Multiplied by Ownership Percentage | X | % |
| Partner's Total Share of Income | | | \$ 0.00 |

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 general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager _____ Date _____

Print/type preparer's name: Tom Taxman Preparer's signature: _____ Date: _____ Check if self-employed. PIN: _____

Firm's name: Taxman & Lawless LLC Firm's EIN: 27-1234765

Firm's address: 10 Main Street, Dallas TX Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2015)

Partnership K-1

651113
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2016
Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning _____, 2016 ending _____, 2016

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
26-1234567

B Partnership's name, address, city, state, and ZIP code
MHI LLC
5 Finance Drive
Dallas, TX 78111

C IRS Center where partnership filed return
e-filed

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

Part II Information About the Partner

E Partner's identifying number
300-22-1111

F Partner's name, address, city, state, and ZIP code
Mary Homeowner
7 Galloping Hill Road
Dallas, TX 75432

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? Individual

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

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

| | Beginning | Ending |
|---------|-----------|--------|
| Profit | 50 % | 50 % |
| Loss | 50 % | 50 % |
| Capital | 50 % | 50 % |

K Partner's share of liabilities at year end:

Nonrecourse \$ _____
Qualified nonrecourse financing \$ _____
Recourse \$ _____ 13,540

L Partner's capital account analysis:

| | | |
|-------------------------------------|----|--------|
| Beginning capital account | \$ | 14,558 |
| Capital contributed during the year | \$ | |
| Current year increase (decrease) | \$ | 9,781 |
| Withdrawals & distributions | \$ | () |
| Ending capital account | \$ | 24,339 |

Tax basis GAAP Section 704(b) book
 Other (explain)

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

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

| | | |
|---|--------|--|
| 1 Ordinary business income (loss) | 10,624 | 15 Credits |
| 2 Net rental real estate income (loss) | | |
| 3 Other net rental income (loss) | | 16 Foreign transactions |
| 4 Guaranteed payments | | |
| 5 Interest income | 23 | |
| 6a Ordinary dividends | | |
| 6b Qualified dividends | | |
| 7 Royalties | | |
| 8 Net short-term capital gain (loss) | | |
| 9a Net long-term capital gain (loss) | | 17 Alternative minimum tax (AMT) items |
| 9b Collectibles (28%) gain (loss) | | |
| 9c Unrecaptured section 1250 gain | | |
| 10 Net section 1231 gain (loss) | | 18 Tax-exempt income and nondeductible expenses |
| 11 Other income (loss) | | C 9 |
| 12 Section 179 deduction | | 19 Distributions |
| 13 Other deductions | | |
| A | 2 | 20 Other information |
| | | A 23 |
| 14 Self-employment earnings (loss) | | |

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see instructions for Form 1065. IRS.gov/form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2016



SAM Form Section XI, IRS Form 1065

| X Partnership (Form 1065) | | | 2016 |
|--|--|-----|--------------------|
| 4 | Passthrough (Income) Loss from Other Partnerships (Line 4) | +/- | 0.00 |
| 5 | Nonrecurring Other (Income) Loss (Lines 5, 6 and 7) | +/- | 0.00 |
| 6 | Depreciation (Line 16a) | + | 2,147.00 |
| 7 | Depletion (Line 17) | + | 0.00 |
| 8 | Amortization/Casualty Loss (Line 20 - only if noted on attached statement)* | + | 916.00 |
| 9 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 16, Column d)** | - | 0.00 |
| 10 | Travel and Entertainment Exclusion (Schedule M-1, Line 4b) | - | 19.00 |
| 11 | Subtotal | = | \$ 3,044.00 |
| 12 | Multiplied by Ownership Percentage | x | 50 % |
| Partner's Total Share of Income | | | \$ 1,522.00 |

Calculator and Quick Reference Guide

SAM Quick Reference Guide Form – Page 2 Section XI S-Corp K-1s

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.

| XI S Corporation Schedule K-1 (Form 1120S) | | | 2016 | 2015 | NOTES |
|--|---|-----|---------|---------|---|
| 13 | Ordinary Income or Loss (Line 1) | +/- | | | *Obtain Form 8825, Schedule of Rental Properties. |
| 14 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0 | | |
| Subtotal | | | \$ 0.00 | \$ 0.00 | |

Part 2: S Corporation (Form 1120S) Cash Flow

Check investor guidelines for use of business income to qualify.

| XII S Corporation (Form 1120S) | | | 2016 | 2015 | NOTES |
|--|--|-----|---------|---------|--|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | | | *Only add back eligible "Other" losses. |
| 16 | Depreciation (Line 14) | + | | | |
| 17 | Depletion (Line 15) | + | | | ** Follow specific investor guidelines; Adjustments may not be required if there is evidence these roll over regularly, these are verified to be a line of credit or if the business has sufficient assets to cover the liability. |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | | | |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | | | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | | | |
| 21 | Subtotal | = | \$ 0.00 | \$ 0.00 | |
| 22 | Multiplied by Ownership Percentage | x | % | % | |
| Shareholder's Total Share of Income | | | \$ 0.00 | \$ 0.00 | |

Analyzing IRS Form K-1

Selling Guide

Published June 28, 2016

➤ [Guide Table of Contents](#)

B3-3.2.1-08: Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (06/28/2016)

This topic contains information on income or loss reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, including:

[Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#) ➤
[Documentation Requirements](#) ➤

Search guide content



[BACK TO PART B](#) ➤

Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.



The lender must use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided the lender can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then the lender must confirm adequate business liquidity, as discussed below.

S Corporation Income

Selling Guide

Published June 28, 2016

> [Guide Table of Contents](#)

B3-3.2.2-02: Analyzing Returns for an S Corporation (06/28/2016)

This topic contains information on analyzing returns for an S corporation, including:

- Overview >
- Evaluating the Business Income >
- Borrower's Proportionate Share of Income or Loss >
- Adjustments to Business Cash Flow >

Search guide content



[BACK TO PART B](#) >

Overview

S corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder's share of income or loss is carried over to IRS Form 1040, Schedule E. See [B3-3.2-02, Business Structures](#), for more information on S corporations. A borrower with an ownership interest in an S corporation or LLC may receive income in the form of wages or dividends in addition to his or her proportionate share of business income (or loss) reported on Schedule K-1.

Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business, the lender must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm

- the business income is stable and consistent, and
- the sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation 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.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

S Corporation Income

Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation 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.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
Quick Ratio = $(\text{current assets} - \text{inventory}) \div \text{current liabilities}$
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
Current Ratio = $\text{current assets} \div \text{current liabilities}$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

1120S Corporation

Line 21 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss

Net Income/Loss \$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income Sch.E

* \$ _____

* *Taxed at a personal rate*

S Corps

Check for trends or changes

- Gross receipts
- Cost of goods sold
- Gross profit
- Bottom line "Ordinary Income"
- Were W-2 wages paid to borrower?



U.S. Income Tax Return for an S Corporation
 Form **1120S** 2016
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Information about Form 1120S and its separate instructions is at www.irs.gov/form1120s.

For calendar year 2016 or tax year beginning 2016, ending 20

A Selection effective date: 1/1/14
B Business activity code number (see instructions): 54199
C Check if S-1 attached:
D Employer identification number: 27-1234567
E Date incorporated: 1/1/14
F Total assets (see instructions): 8,972
G Is the corporation electing to be an S corporation beginning with this tax year? Yes No
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.

| | | | |
|---|-----|---------|------------------|
| 1a Gross receipts or sales | 1a | 361,725 | |
| b Returns and allowances | 1b | | |
| c Balance. Subtract line 1b from line 1a | | | 1c 361,725 |
| 2 Cost of goods sold (attach Form 1125-A) | | | 2 116,536 |
| 3 Gross profit. Subtract line 2 from line 1c | | | 3 245,189 |
| 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 | | | 6 245,189 |
| 7 Compensation of officers (see instructions—attach Form 1125-E) | | | 7 5,000 |
| 8 Salaries and wages (less employment credits) | | | 8 19,600 |
| 9 Repairs and maintenance | | | 9 705 |
| 10 Bad debts | | | 10 |
| 11 Rents | | | 11 1,056 |
| 12 Taxes and licenses | | | 12 5,348 |
| 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 10,673 |
| 17 Pension, profit-sharing, etc., plans | | | 17 |
| 18 Employee benefit programs | | | 18 |
| 19 Other deductions (attach statement) | | | 19 St #1 169,906 |
| 20 Total deductions. Add lines 7 through 19 | | | 20 212,228 |
| 21 Ordinary business income (loss). Subtract line 20 from line 6 | | | 21 32,901 |
| 22a Excess net passive income or LIFO recapture tax (see instructions) | 22a | | |
| b Tax from Schedule D (Form 1120S) | 22b | | |
| c Add lines 22a and 22b (see instructions for additional taxes) | | | 22c |
| 23a 2016 estimated tax payments and 2015 overpayment credited to 2016 | 23a | | |
| b Tax deposited with Form 7004 | 23b | | |
| c Credit for federal tax paid on fuels (attach Form 4136) | 23c | | |
| d Add lines 23a through 23c | | | 23d |
| 24 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/> | | | 24 |
| 25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed | | | 25 0 |
| 26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid | | | 26 |
| 27 Enter amount from line 26 Credited to 2017 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/> | | | 27 |

Under penalty 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: Tom Taxman Preparer's signature: _____ Date: _____
 Firm's name: Taxman & Lawless LLC Firm's EIN: 27-1234785
 Firm's address: 10 Main Street, Dallas, TX Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120S (2016)

S Corps

Review for W-2 paid from business

- Is this salary income or self employed income?
- Did we give credit for this income already?

| | | | | | | |
|---|----------------------------|--|---|---|----------------------------|-------------------------|
| a Employee's SSN 300-50-1234 | | b Employer ID No. (EIN) 27-1234567 | | | OMB No. 1545-0008 | |
| c Employer's name, address, and ZIP code JOHN HOMEOWNER ALWAYS WATCHING SECURITY INC. 2 CORPORATE CT DALLAS TX 75432 | | 1 Wgs, tips, other comp 5000.00 | 2 Fed inc tax withheld 426.55 | 3 Social security wages 5000.00 | | |
| | | 4 SS tax withheld 310.00 | 5 Medicare wages & tips 5000.00 | 6 Medicare tax withheld 72.50 | | |
| | | 7 Social security tips | 8 Allocated tips | 9 | | |
| d Control No. | | 10 Depndt care benefits | 11 Nonqualified plans | 12a | | |
| e Employee's name, address, and ZIP code JOHN HOMEOWNER 7 GALLOPING HILL ROAD DALLAS TX 75432 | | 13 Statutory employee <input type="checkbox"/> | 14 Other | 12b | | |
| | | Retirement plan <input type="checkbox"/> | | 12c | | |
| | | Third-party sick pay <input type="checkbox"/> | | 12d | | |
| 15 State | Employer's state ID number | 16 State wages, tips, etc | 17 State income tax | 18 Local wages, tips, etc | 19 Local income tax | 20 Locality name |

Department of the Treasury — IRS

Form **W-2**
Wage and Tax Statement 2016

Copy B To Be Filed with Employee's FEDERAL Tax Return
This information is being furnished to the Internal Revenue Service.

1120S S Corp

Line 21 Ordinary Income/Loss
\$ _____

K1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

S Corp K-1

| | | |
|---|--------------------------------------|--------|
| 1 | Ordinary business income (loss) | 32,901 |
| 2 | Net rental real estate income (loss) | |
| 3 | Other net rental income (loss) | |
| 4 | Interest income | |

| | | |
|----|-----------------------------------|--------|
| 16 | Items affecting shareholder basis | |
| C | | 339 |
| D | | 78,891 |
| | | |
| | | |

671113
OMB No. 1545-0123

Final K-1 Amended K-1

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

2016

For calendar year 2016, or tax year beginning _____, 20____, and ending _____, 20____

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

| | | | | |
|----|--------------------------------------|--------|----|-------------------------------------|
| 1 | Ordinary business income (loss) | 32,901 | 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 1251 gain (loss) | | | |
| 10 | Other income (loss) | | 15 | Alternative minimum tax (AMT) items |
| 11 | Section 179 deduction | | 16 | Items affecting shareholder basis |
| 12 | Other deductions | | C | 339 |
| | | | D | 78,891 |
| | | | 17 | Other information |

Part I Information About the Corporation

A Corporation's employer identification number: 27-1234567

B Corporation's name, address, city, state, and ZIP code:
Always Watching Security Inc.
2 Corporate Court
Dallas, TX 75432

C IRS Center where corporation filed return:
e-filed

Part II Information About the Shareholder

D Shareholder's identifying number: 300-50-1234

E Shareholder's name, address, city, state, and ZIP code:
John Homeowner
7 Galloping Hill Road
Dallas, TX 75432

Shareholder's percentage of stock ownership for tax year: 100 %

For IRS Use Only

Did John Get A Distribution?

Page 2 of K-1 and Page 3 of Form 1120S

16. Items affecting shareholder basis

- A** Tax-exempt interest income
- B** Other tax-exempt income
- C** Nondeductible expenses
- D** Distributions
- E** Repayment of loans from shareholders

Form 1040, line 8b

See the Shareholder's Instructions

Schedule K-1 (Form 1120S) 2016

Page 2

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040. For detailed reporting and filing information, see the separate Shareholder's instructions for Schedule K-1 and the instructions for your income tax return.

| Code | Report on | |
|--|---|------------------------------------|
| 1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows: | | |
| Passive loss | Report on See the Shareholder's instructions | |
| Passive income | Schedule E, line 28, column (g) | |
| Nonpassive loss | Schedule E, line 28, column (h) | |
| Nonpassive income | Schedule E, line 28, column (i) | |
| 2. Net rental real estate income (loss) | See the Shareholder's instructions | |
| 3. Other net rental income (loss) | | |
| Net income | Schedule E, line 28, column (g) | |
| Net loss | See the Shareholder's instructions | |
| 4. Interest income | Form 1040, line 8a | |
| 5a. Ordinary dividends | Form 1040, line 9a | |
| 5b. Qualified dividends | Form 1040, line 9b | |
| 6. Royalties | Schedule E, line 4 | |
| 7. Net short-term capital gain (loss) | Schedule D, line 5 | |
| 8a. Net long-term capital gain (loss) | Schedule D, line 12 | |
| 8b. Collectibles (28%) gain (loss) | 28% Rate Gain Worksheet, line 4 (Schedule D instructions) | |
| 8c. Unrecaptured section 1250 gain | See the Shareholder's instructions | |
| 9. Net section 1231 gain (loss) | See the Shareholder's instructions | |
| 10. Other income (loss) | | |
| Code | See the Shareholder's instructions | |
| A Other portfolio income (loss) | See the Shareholder's instructions | |
| B Involuntary conversions | See the Shareholder's instructions | |
| C Sec. 1256 contracts & straddles | Form 6781, line 1 | |
| D Mining exploration costs recapture | See Pub. 535 | |
| E Other income (loss) | See the Shareholder's instructions | |
| 11. Section 179 deduction | See the Shareholder's instructions | |
| 12. Other deductions | | |
| A Cash contributions (50%) | See the Shareholder's instructions | |
| B Cash contributions (30%) | | |
| C Noncash contributions (50%) | | |
| D Noncash contributions (30%) | | |
| E Capital gain property to a 50% organization (50%) | | |
| F Capital gain property (20%) | | |
| G Contributions (100%) | | |
| H Investment interest expense | | |
| I Deductions—royalty income | | |
| J Section 56(a)(2) expenditures | | |
| K Deductions—portfolio (2% floor) | Form 4952, line 1 | |
| L Deductions—portfolio (other) | Schedule E, line 19 | |
| M Physiological period expenses | See the Shareholder's instructions | |
| N Commercial rehabilitation deduction from rental real estate activities | See Form 5882 instructions | |
| O Reforestation expense deduction | See the Shareholder's instructions | |
| P Domestic production activities information | See Form 8903 instructions | |
| Q Qualified production activities income | Form 8903, line 7b | |
| R Employer's Form W-2 wages | Form 8903, line 17 | |
| S Other deductions | See the Shareholder's instructions | |
| 13. Credits | | |
| A Low-income housing credit (section 42(i)(5) from pre-2008 buildings) | See the Shareholder's instructions | |
| B Low-income housing credit (other) from pre-2008 buildings | | |
| C Low-income housing credit (section 42(i)(5) from post-2007 buildings) | | |
| D Low-income housing credit (other) from post-2007 buildings | | |
| E Qualified rehabilitation expenditures (rental real estate) | | |
| F Other rental real estate credits | Form 1040, line 73, box a | |
| G Other rental credits | | |
| H Undistributed capital gains credit (taxical producer credit) | | |
| I Work opportunity credit | | |
| K Disabled access credit | | |
| L Empowerment zone employment credit | | |
| M Credit for increasing research activities | | |
| N Credit for employer social security and Medicare taxes | | See the Shareholder's instructions |
| O Backup withholding | | |
| P Other credits | | |
| 14. Foreign transactions | | |
| A Name of country or U.S. possession | Form 1116, Part I | |
| B Gross income from all sources | | |
| C Gross income earned at shareholder level | | |
| D Foreign gross income accrued at corporate level | Form 1116, Part I | |
| E Passive category | | |
| F General category | | |
| G Deductions allocated and apportioned at shareholder level | Form 1116, Part I | |
| H Interest expense | | |
| I Other | Form 1116, Part I | |
| J Deductions allocated and apportioned at corporate level to foreign source income | | |
| K Other | Form 1116, Part I | |
| L Other information | | |
| M Total foreign taxes paid | Form 1116, Part II | |
| N Total foreign taxes accrued | Form 1116, Part II | |
| O Reduction in taxes available for credit | Form 1116, line 12 | |
| P Foreign trading gross receipts | Form 9873 | |
| Q Computational income adjustment | Form 9873 | |
| R Other foreign transactions | See the Shareholder's instructions | |
| 15. Alternative minimum tax (AMT) items | | |
| A Post-1986 depreciation adjustment | See the Shareholder's instructions and the instructions for Form 6251 | |
| B Adjusted gain or loss | | |
| C Deduction (other than oil & gas) | | |
| D Oil, gas, & geothermal—gross income | | |
| E Oil, gas, & geothermal—deductions | | |
| F Other AMT items | | |
| 16. Items affecting shareholder basis | | |
| A Tax-exempt interest income | Form 1040, line 8b | |
| B Other tax-exempt income | See the Shareholder's instructions | |
| C Nondeductible expenses | | |
| D Distributions | | |
| E Repayment of loans from shareholders | | |
| 17. Other information | | |
| A Investment income | Form 4952, line 4a | |
| B Investment expenses | Form 4952, line 5 | |
| C Qualified rehabilitation expenditures (other than rental real estate) | See the Shareholder's instructions | |
| D Basis of energy property | See the Shareholder's instructions | |
| E Recapture of low-income housing credit (section 42(i)(5)) | Form 8611, line 8 | |
| F Recapture of low-income housing credit (other) | Form 8611, line 8 | |
| G Recapture of investment credit | See Form 4255 | |
| H Recapture of other credits | See the Shareholder's instructions | |
| I Look-back interest—compelled long-term contracts | See Form 8607 | |
| J Look-back interest—income tax cost method | See Form 8866 | |
| K Dispositions of property with section 179 deductions | See the Shareholder's instructions | |
| L Recapture of section 179 deduction | | |
| M Section 453(i)(3) information | | |
| N Section 453A(c) information | | |
| O Section 1280(b) information | | |
| P Interest allocable to production expenditures | | |
| Q CCF nonqualified withdrawals | | |
| R Depletion information—oil and gas | | |
| S Reserved | | |
| T Section 108(i) information | | |
| U Net investment income | | |
| V Other information | | |

1120S S Corp

Line 21 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

Schedule E Partnerships and S Corps

Schedule E (Form 1040) 2016

Attachment Sequence No. **13**

Page **2**

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

Your social security number

John & Mary Homeowner

300-50-1234

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

| 28 | (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 | MHI LLC | P | <input type="checkbox"/> | 26-1234567 | <input type="checkbox"/> |
| B | Always Watching Security Inc. | S | <input type="checkbox"/> | 27-1234567 | <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 | | | | | 10,624. |
| B | | | | | 32,901. |
| C | | | | | |
| D | | | | | |
| 29a | Totals | | | | 43,525. |
| b | Totals | | | | |
| 30 | Add columns (g) and (j) of line 29a | | | | 43,525. |
| 31 | Add columns (f), (h), and (i) of line 29b | | | | () |
| 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 | | | | 43,525. |

1120S S Corp

Line 21 Ordinary Income/Loss
\$ _____

K-1

%

Line 1 Ordinary Income/Loss
\$ _____

Schedule E page 2

Part II

1040

Line 17 Net Income/Loss Sch.E
Taxed at a personal rate
\$ _____

1040 Department of the Treasury—Internal Revenue Service (99) **2016** CMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning , 2016, ending , 20. See separate instructions.

Your first name and initial: **John** Last name: **Homeowner** Your social security number: **300-50-1234**

If a joint return, spouse's first name and initial: **Mary** Last name: **Homeowner** Spouse's social security number: **300-22-1111**

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.

7 Galloping Hill Road

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

Dallas TX 75432

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

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.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
 5 Qualifying widow(er) with dependent child

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) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) |
|----------------|-----------|--|-------------------------------------|---|
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |

If more than four dependents, see instructions and check here

Boxes checked on 6a and 6b: **2**
 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 **2**

d Total number of exemptions claimed **2**

Income

| | | | |
|-----|---|-----|---------|
| 7 | Wages, salaries, tips, etc. Attach Form(s) W-2 | 7 | 5,000. |
| 8a | Taxable interest. Attach Schedule B if required | 8a | 1,710. |
| 8b | Tax-exempt interest. Do not include on line 8a | 8b | |
| 9a | Ordinary dividends. Attach Schedule B if required | 9a | |
| 9b | 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 | 8,559. |
| 13 | Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> | 13 | -3,000. |
| 14 | Other gains or (losses). Attach Form 4797 | 14 | |
| 15a | IRA distributions | 15a | |
| 15b | Taxable amount | 15b | |
| 16a | Pensions and annuities | 16a | |
| 16b | Taxable amount | 16b | |
| 17 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | 17 | 37,302. |
| 18 | Farm income or (loss). Attach Schedule F | 18 | |
| 19 | Unemployment compensation | 19 | |
| 20a | Social security benefits | 20a | |
| 20b | 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 | 49,571. |

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 | 605. |
| 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 | Tuition and fees. Attach Form 8917 | 34 | |
| 35 | Domestic production activities deduction. Attach Form 8803 | 35 | |
| 36 | Add lines 23 through 35 | 36 | 605. |
| 37 | Subtract line 36 from line 22. This is your adjusted gross income ▶ | 37 | 48,966. |



For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. BAA REV 01/25/17 TTW Form **1040** (2016)

Solvency and Liquidity

Generally Accepted Accounting Principles

Calculator and Quick Reference Guide: Liquidity (Acid Test or Quick Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business returns. It provides suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please note all lines referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule L (check Form 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Acid Test or Quick Ratio) | | 2016 | 2015 |
|--|--|--|--|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | | |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | | |
| 3 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | | |
| 4 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | | |
| 5 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | | |
| 6 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | | |
| 7 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | | |
| Acid Test Ratio | | 0.00 | 0.00 |
| A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | 0.00  | 0.00  |

*Check your lender/investor policy on whether to include Government Obligations, Tax-Exempt Securities and/or Other Marketable Securities.

Click gray buttons to calculate result.
Please note: If Lines 5, 6 and 7 total zero, the calculator will show an error message, but the business is solvent.

Liquidity-Current Ratio

Generally Accepted Accounting Principles

Borrower(s) Name(s) Loan Number

Property Address



Calculator and Quick Reference Guide: Liquidity (Current or Working Capital Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business returns. It provides suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please note all lines referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule L (check Form 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Current or Working Capital Ratio) | | 2015 | 2014 |
|--|--|--|--|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | | |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | | |
| 3 | Inventories (Line 3) | | |
| 4 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | | |
| 5 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | | |
| 6 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | | |
| 7 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | | |
| 8 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | | |
| Current Ratio A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | 0.0 0.0 <input type="button" value=""/> | 0.0 0.0 <input type="button" value=""/> |

*Check your lender/investor policy on whether to include Government Obligations, Tax-Exempt Securities and/or Other Marketable Securities.

Click gray buttons to calculate result.
Please note: if Lines 6, 7 and 8 total zero, the calculator will show an error message, but the business is solvent.

Balance Sheet

| Schedule L Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|---|--|-----------------------|---------------|-----------------|--------------|
| Assets | | (a) | (b) | (c) | (d) |
| 1 | Cash | | 41,470 | | 8,972 |
| 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) | | St #2 11,908 | | 0- |
| 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 | | 53,378 | | 8,972 |
| Liabilities and Shareholders' Equity | | | | | |
| 16 | Accounts payable | | | | |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 | Other current liabilities (attach statement) | | 2,363 | St #3 | 4,286 |
| 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 | | 51,015 | | 4,686 |
| 25 | Adjustments to shareholders' equity (attach statement) | | | | |
| 26 | Less cost of treasury stock | () | | () | |
| 27 | Total liabilities and shareholders' equity | | 53,378 | | 8,972 |

Form 1120S (2016)

Balance Sheet

Quick Ratio or Acid Test

Current Assets : $(\text{Cash \#1} + \text{Acct Receivable \#2} + \text{\#4} + \text{\#5} + \text{Other Current Assets \#6})$

Current Liabilities: $(\text{Acct Pay. \#15} + \text{MNB \#16} + \text{Other Current Liabilities \#17})$

| Schedule L Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|---|---|-----------------------|--------------|-----------------|-------------|
| | | (a) | (b) | (c) | (d) |
| Assets | | | | | |
| 1 | Cash | | 41,470 | → | 8,972 |
| 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) | | St #2 11,908 | → | 0- |
| Liabilities and Shareholders' Equity | | | | | |
| 16 | Accounts payable | | | → | |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | → | |
| 18 | Other current liabilities (attach statement) | | 2,363 | → | St #3 4,286 |

Current Assets: $\underline{\$8,972 + 0 + 0 + 0 + 0 = \$8,972}$

Current Liabilities: $\$0 + \$0 + \$4,286 = \$4,286$

2.09 - Solvency

Quick Ratio

Calculator and Quick Reference Guide: Liquidity (Acid Test or Quick Ratio)

Please use the following calculator and quick reference guide to assist you in evaluating liquidity from business return suggested guidance only and does not replace Lender, Investor or GSE instructions or applicable guidelines. Please referenced below are from the applicable business return's Schedule L. If a Partnership did not complete a Schedule 1065, Schedule B, Question 6 to verify one was not required), you cannot calculate liquidity from the tax form.

| Liquidity (Acid Test or Quick Ratio) | | 2016 |
|--|--|-----------------------------|
| 1 | Cash (P/Tship, S-C and Corp: Line 1d) | \$ 8,972.00 |
| 2 | Tradenotes/Accounts Receivable Without Bad Debt (P/Tship, S-C and Corp: Line 2b[d]) | |
| 3 | US Government Obligations and/or Tax-Exempt Securities (Lines 4 and 5)* | |
| 4 | Other Current Assets (Other Marketable Securities; P/Tship, S-C and Corp: Line 6d)* | |
| <hr/> | | |
| 5 | Accounts Payable (P/Tship: Line 15d, S-C or Corp: Line 16d) | |
| 6 | Mortgages, Notes or Bonds Payable in Less Than 1 Year (P/Tship: Line 16d, S-C or Corp: Line 17d) | |
| 7 | Other Current Liabilities (P/Tship: Line 17d, S-C or Corp: Line 18d) | \$ 4,286.00 |
| Acid Test Ratio | | 8,972.00 / 4,286.00 = 2.093 |
| A result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings. | | |

S Corp K-1

Let's put numbers on our tool!

671113
OMB No. 1545-0123

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

2016

For calendar year 2016, or tax year beginning _____, 2016
ending _____, 2016

Final K-1 Amended K-1

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 | | |

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
27-1234567

B Corporation's name, address, city, state, and ZIP code
Always Watching Security Inc.
2 Corporate Court
Dallas, TX 75432

XI S Corporation Schedule K-1 (Form 1120S)

| | 2016 | 2015 | NOTES |
|--|------|---------|---|
| 13 Ordinary Income or Loss (Line 1) | +/- | | *Obtain Form 8825, Schedule of Rental Properties. |
| 14 Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0 | |
| Subtotal | | \$ 0.00 | \$ 0.00 |

For IRS Use Only

| | | | |
|----|-----------------------|----|-----------------------------------|
| 11 | Section 179 deduction | 16 | Items affecting shareholder basis |
| 12 | Other deductions | C | 339 |
| | | D | 78,891 |
| | | 17 | Other information |

* See attached statement for additional information.

For Paperwork Reduction Act Notice, see Instructions for Form 1120S. IRS.gov/form1120s Cat. No. 11520D Schedule K-1 (Form 1120S) 2016



S Corp K-1

S Corp K-1 review

– Was there a distribution?

| | | |
|---|--------------------------------------|--------|
| 1 | Ordinary business income (loss) | 32,901 |
| 2 | Net rental real estate income (loss) | |
| 3 | Other net rental income (loss) | |

| | | |
|----|-----------------------------------|--------|
| 16 | Items affecting shareholder basis | 339 |
| C | | |
| D | | 78,891 |

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

2016

For calendar year 2016, or tax year beginning _____, 2016 ending _____, 2016

OMB No. 1545-0123

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

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

Part I Information About the Corporation

A Corporation's employer identification number
27-1234567

B Corporation's name, address, city, state, and ZIP code
Always Watching Security Inc.
2 Corporate Court
Dallas, TX 75432

C IRS Center where corporation filed return
e-filed

Part II Information About the Shareholder

D Shareholder's identifying number
300-50-1234

E Shareholder's name, address, city, state, and ZIP code
John Homeowner
7 Galloping Hill Road
Dallas, TX 75432

F Shareholder's percentage of stock ownership for tax year 100 %

| | | | | |
|----|--------------------------------------|--------|----|-------------------------------------|
| 1 | Ordinary business income (loss) | 32,901 | 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 1251 gain (loss) | | | |
| 10 | Other income (loss) | | 15 | Alternative minimum tax (AMT) items |
| 11 | Section 179 deduction | | 16 | Items affecting shareholder basis |

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.

| XI S Corporation Schedule K-1 (Form 1120S) | | | 2016 | 2015 | NOTES |
|--|---|-----|---------------------|----------------|---|
| 13 | Ordinary Income or Loss (Line 1) | +/- | 32,901.00 | | *Obtain Form 8825, Schedule of Rental Properties. |
| 14 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0.00 | | |
| Subtotal | | | \$ 32,901.00 | \$ 0.00 | |

S Corp K-1

S Corp K-1 review

– Was there a distribution?

671113
OMB No. 1545-0123

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

2016

For calendar year 2016, or tax year beginning _____, 2016
ending _____, 2016

Final K-1 Amended K-1

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) | 32,901 | |
| | 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) | | |
| | 9c | Unrecaptured section 1250 gain | | |
| | 9 | Net section 1251 gain (loss) | | |
| | 10 | Other income (loss) | | 15 Alternative minimum tax (AMT) items |

Part I Information About the Corporation

A Corporation's employer identification number
27-1234567

B Corporation's name, address, city, state, and ZIP code
Always Watching Security Inc.
2 Corporate Court
Dallas, TX 75432

C IRS Center where corporation filed return
e-filed

Part II Information About the Shareholder

D Shareholder's identifying number
300-50-1234

E Shareholder's name, address, city, state, and ZIP code
John Homeowner
7 Galloping Hill Road
Dallas, TX 75432

F Shareholder's percentage of stock ownership for tax year _____ 100 %

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.

| XI S Corporation Schedule K-1 (Form 1120S) | | | 2016 | 2015 | NOTES |
|--|---|-----|---------------------|----------------|---|
| 13 | Ordinary Income or Loss (Line 1) | +/- | 32,901.00 | | *Obtain Form 8825, Schedule of Rental Properties. |
| 14 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0.00 | | |
| Subtotal | | | \$ 32,901.00 | \$ 0.00 | |

* See attached statement for additional information.

For Paperwork Reduction Act Notice, see Instructions for Form 1120S. IRS.gov/form1120s Cat. No. 11520D Schedule K-1 (Form 1120S) 2016

S Corporation IRS Form 1120S

Form 1120S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0123
 2016
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Information about Form 1120S and its separate instructions is at www.irs.gov/form1120s.

For calendar year 2016 or tax year beginning . 2016, ending . 20

A S election effective date 1/1/14
 B Business activity code number (see instructions) 54199
 C Check if Sec. M-3 attached
 D Employer identification number 27-1234567
 E Date incorporated 1/1/14
 F Total assets (see instructions) \$ 8,972

TYPE Name Always Watching Security, Inc.
 OR Number, street, and room or suite no. if a P.O. box, see instructions.
 PRINT 2 Corporate Court
 City or town, state or province, country, and ZIP or foreign postal code Dallas, TX 75432

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.

| | | |
|-----|-------------------------|---------|
| 1 a | Gross receipts or sales | 361,225 |
|-----|-------------------------|---------|

| XII S Corporation (Form 1120S) | | 2016 | 2015 | NOTES |
|--------------------------------|--|------|---------|--|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | | *Only add back eligible "Other" losses. |
| 16 | Depreciation (Line 14) | + | | |
| 17 | Depletion (Line 15) | + | | |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | | ** Follow specific investor guidelines; Adjustments may not be required if there is evidence these roll over regularly, these are verified to be a line of credit or if the business has sufficient assets to cover the liability. |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | | |
| 21 | Subtotal | = | \$ 0.00 | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % | % |
| | Shareholder's Total Share of Income | | \$ 0.00 | \$ 0.00 |

25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed . . . 25 0
 26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid . . . 26
 27 Enter amount from line 26 Credited to 2017 estimated tax ▶ Refunded ▶ 27

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
 Preparer's name: Tom Taxman
 Preparer's signature: _____ Date: _____
 Firm's name: Taxman & Lawless LLC
 Firm's address: 10 Main Street, Dallas, Tx
 Firm's EIN: 27-1234785
 Phone no.: 972-555-1212

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120S (2016)

S Corporation IRS Form 1120S

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

| | | | | |
|--|---|-----------|---------|---------|
| Income | 1a Gross receipts or sales | 1a | 361,725 | |
| | b Returns and allowances | 1b | | |
| | c Balance. Subtract line 1b from line 1a | 1c | | 361,725 |
| | 2 Cost of goods sold (attach Form 1125-A) | 2 | | 116,536 |
| | 3 Gross profit. Subtract line 2 from line 1c | 3 | | 245,189 |
| | 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 | | 245,189 | |
| Deductions (see instructions for limitations) | 7 Compensation of officers (see instructions—attach Form 1125-E) | 7 | | 5,000 |
| | 8 Salaries and wages (less employment credits) | 8 | | 19,600 |
| | 9 Repairs and maintenance | 9 | | 705 |
| | 10 Bad debts | 10 | | |
| | 11 Rents | 11 | | 1,056 |
| | 12 Taxes and licenses | 12 | | 5,348 |
| | 13 Interest | | | |
| | 14 Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562) | | | |
| | 15 Depletion (Do not deduct oil and gas depletion.) | | | |
| | 16 Advertising | | | |
| | 17 Pension, profit-sharing, etc., plans | | | |
| | 18 Employee benefit programs | | | |
| | 19 Other deductions (attach statement) | | | |
| | 20 Total deductions. Add lines 7 through 19 | | | |
| | 21 Ordinary business income (loss). Subtract line 20 from line 6 | | | |

Check investor guidelines for use of business income to quality.

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|----------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | |
| 17 | Depletion (Line 15) | + | |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | |
| 21 | Subtotal | = | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |

S Corporation IRS Form 1120S

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

| | | | | |
|--|---|-----------|---------|---------|
| Income | 1a Gross receipts or sales | 1a | 361,725 | |
| | b Returns and allowances | 1b | | |
| | c Balance. Subtract line 1b from line 1a | 1c | | 361,725 |
| | 2 Cost of goods sold (attach Form 1125-A) | 2 | | 116,536 |
| | 3 Gross profit. Subtract line 2 from line 1c | 3 | | 245,189 |
| | 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 | | 245,189 | |
| Deductions (see instructions for limitations) | 7 Compensation of officers (see instructions—attach Form 1125-E) | 7 | | 5,000 |
| | 8 Salaries and wages (less employment credits) | 8 | | 19,600 |
| | 9 Repairs and maintenance | 9 | | 705 |
| | 10 Bad debts | 10 | | |
| | 11 Rents | 11 | | 1,056 |
| | 12 Taxes and licenses | 12 | | 5,348 |
| | 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 | | |

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|----------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| → | Depletion (Line 15) | + | |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | |
| 21 | Subtotal | = | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |

S Corporation IRS Form 1120S

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

| | | | | |
|--|---|-----------|------------------|-------------------|
| Income | 1a Gross receipts or sales | 1a | 361,725 | |
| | b Returns and allowances | 1b | | |
| | c Balance. Subtract line 1b from line 1a | | | 1c 361,725 |
| | 2 Cost of goods sold (attach Form 1125-A) | | | 2 116,536 |
| | 3 Gross profit. Subtract line 2 from line 1c | | | 3 245,189 |
| | 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 | | | 6 245,189 | |
| Deductions <small>(see instructions for limitations)</small> | 7 Compensation of officers (see instructions—attach Form 1125-E) | | | 7 5,000 |
| | 8 Salaries and wages (less employment credits) | | | 8 19,600 |
| | 9 Repairs and maintenance | | | 9 705 |
| | 10 Bad debts | | | 10 |
| | 11 Rents | | | 11 1,056 |
| | 12 Taxes and licenses | | | 12 5,348 |
| | 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 | |

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|----------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | |
| 21 | Subtotal | = | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |

S Corporation IRS Form 1120S

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

| | | | | | |
|--|---|-----------|----------|-----------|---------|
| Income | 1a Gross receipts or sales | 1a | 361,725 | | |
| | b Returns and allowances | 1b | | | |
| | c Balance. Subtract line 1b from line 1a | | | 1c | 361,725 |
| | 2 Cost of goods sold (attach Form 1125-A) | | | 2 | 116,536 |
| | 3 Gross profit. Subtract line 2 from line 1c | | | 3 | 245,189 |
| | 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 | 245,189 | |
| Deductions (see instructions for limitations) | 7 Compensation of officers (see instructions—attach Form 1125-E) | | | 7 | 5,000 |
| | 8 Salaries and wages (less employment credits) | | | 8 | 19,600 |
| | 9 Repairs and maintenance | | | 9 | 705 |
| | 10 Bad debts | | | 10 | |
| | 11 Rents | | | 11 | 1,056 |
| | 12 Taxes and licenses | | | 12 | 5,348 |
| | 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 | 10,673 |
| | 17 Pension, profit-sharing, etc., plans | | | 17 | |
| | 18 Employee benefit programs | | | 18 | |
| | 19 Other deductions (attach statement) | | | 19 | 169,906 |
| | 20 Total deductions. Add lines 7 through 19 | | | 20 | 212,228 |
| | 21 Ordinary business income (loss). Subtract line 20 from line 6 | | | 21 | 32,901 |

S Corporation IRS Form 1120S

FEDERAL STATEMENTS

2015 ALWAYS WATCHING SECURITY, INC.

STATEMENT 1

FORM 1120S LINE 19

OTHER DEDUCTIONS

| | |
|-------------------------|----------------|
| Auto and Truck Expenses | 10,291 |
| Bank Charges | 6,019 |
| Delivery & Freight | 883 |
| Dues & Subscriptions | 2,862 |
| Insurance | 3,940 |
| LEGAL & PROFESSIONAL | 6,329 |
| MEALS & ENTERTAINMENT | 339 |
| Office Expense | 5,862 |
| Outside Services | 123,801 |
| Printing | 515 |
| Security | 1,236 |
| Supplies | 401 |
| Telephone | 5,957 |
| Travel | 206 |
| Uniform | 1,265 |
| Total | 169,906 |

S Corporation IRS Form 1120S

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

| | | 1a | 361,725 | | |
|--|---|-----------|---------|---------|--|
| Income | 1a Gross receipts or sales | 1a | 361,725 | | |
| | b Returns and allowances | 1b | | | |
| | c Balance. Subtract line 1b from line 1a | 1c | | 361,725 | |
| | 2 Cost of goods sold (attach Form 1125-A) | 2 | | 116,536 | |
| | 3 Gross profit. Subtract line 2 from line 1c | 3 | | 245,189 | |
| | 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 | | 245,189 | | |
| Deductions (see instructions for limitations) | 7 Compensation of officers (see instructions—attach Form 1125-E) | 7 | | 5,000 | |
| | 8 Salaries and wages (less employment credits) | 8 | | 19,600 | |
| | 9 Repairs and maintenance | 9 | | 705 | |
| | 10 Bad debts | 10 | | | |
| | 11 Rents | 11 | | 1,056 | |
| | 12 Taxes and licenses | 12 | | 5,348 | |
| | 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.) | | | | |
| | 16 Advertising | | | | |
| | 17 Pension, profit-sharing, etc., plans | | | | |
| | 18 Employee benefit programs | | | | |
| | 19 Other deductions (attach statement) | | | | |
| | 20 Total deductions. Add lines 7 through 19 | | | | |
| | 21 Ordinary business income (loss). Subtract line 20 from line 6 | | | | |

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|----------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | 0.00 |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | |
| 21 | Subtotal | = | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |



S Corporation IRS Form 1120S

| Schedule L Balance Sheets per Books | | Beginning of tax year | | End of tax year | |
|---|--|-----------------------|--------------|-----------------|-------|
| | | (a) | (b) | (c) | (d) |
| Assets | | | | | |
| 1 | Cash | | 41,470 | | 8,972 |
| 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) | | St #2 11,908 | | 0- |
| 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 | | 53,378 | | 8,972 |
| Liabilities and Shareholders' Equity | | | | | |
| 16 | Accounts payable | | | | |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 | Other current liabilities (attach statement) | | 2,363 | St #3 | 4,286 |
| 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 | | 51,015 | | 4,686 |
| 25 | Adjustments to shareholders' equity (attach statement) | | | | |
| 26 | Less cost of treasury stock | () | | () | |
| 27 | Total liabilities and shareholders' equity | | 53,378 | | 8,972 |

Form 1120S (2016)

S Corporation IRS Form 1120S

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

| | | 1a | 361,725 | |
|--|--|-----------|---------|--|
| Income | 1a Gross receipts or sales | 1a | 361,725 | |
| | b Returns and allowances | 1b | | |
| | c Balance. Subtract line 1b from line 1a | 1c | 361,725 | |
| | 2 Cost of goods sold (attach Form 1125-A) | 2 | 116,536 | |
| | 3 Gross profit. Subtract line 2 from line 1c | 3 | 245,189 | |
| | 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 | 245,189 | | |
| Deductions (see instructions for limitations) | 7 Compensation of officers (see instructions—attach Form 1125-E) | 7 | 5,000 | |
| | 8 Salaries and wages (less employment credits) | 8 | 19,600 | |
| | 9 Repairs and maintenance | 9 | 705 | |
| | 10 Bad debts | 10 | | |
| | 11 Rents | 11 | 1,056 | |
| | 12 Taxes and licenses | 12 | 5,348 | |
| | 13 Interest | 13 | | |
| | 14 Depreciation not claimed on Form 1125-A or elsewhere on return | | | |
| | 15 Depletion (Do not deduct oil and gas depletion.) | | | |
| | 16 Advertising | | | |
| | 17 Pension, profit-sharing, etc., plans | | | |
| | 18 Employee benefit programs | | | |
| | 19 Other deductions (attach statement) | | | |
| | 20 Total deductions. Add lines 7 through 19 | | | |
| | 21 Ordinary business income (loss). Subtract line 20 from line 6 | | | |

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|----------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | 0.00 |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | 0.00 |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | |
| 21 | Subtotal | = | \$ 0.00 |
| 22 | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |



S Corporation IRS Form 1120S

Form 1120S (2016)

Page 5

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

Note: The corporation may be required to file Schedule M-3 (see instructions)

| | | | | | |
|----------|--|---------------|----------|---|---------------|
| 1 | Net income (loss) per books | 32,562 | 5 | Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize): | |
| 2 | Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize) _____ | | a | Tax-exempt interest \$ _____ | |
| 3 | Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize): | | 6 | Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize): | |
| a | Depreciation \$ _____ | | a | Depreciation \$ _____ | |
| b | Travel and entertainment \$ 339 | | | | |
| | | 339 | 7 | Add lines 5 and 6 | 0 |
| 4 | Add lines 1 through 3 | 32,901 | 8 | Income (loss) (Schedule K, line 18). Line 4 less line 7 | 32,901 |

S Corporation IRS Form 1120S

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|--------------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | 0.00 |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | 0.00 |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | 339.00 |
| 21 | Subtotal | = | (\$ 339.00) |
| 22 → | Multiplied by Ownership Percentage | x | % |
| Shareholder's Total Share of Income | | | \$ 0.00 |

S Corp K-1

How much does John own?

671113
OMB No. 1545-0123

Final K-1 Amended K-1

Schedule K-1 (Form 1120S) **2016**

Department of the Treasury
Internal Revenue Service

For calendar year 2016, or tax year beginning _____, 2016
ending _____, 2016

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 1251 gain (loss) | | |
| 10 | Other income (loss) | 15 | Alternative minimum tax (AMT) items |
| 11 | Section 179 deduction | 16 | Items affecting shareholder basis |
| 12 | Other deductions | C | 339 |
| | | D | 78,891 |
| | | 17 | Other information |

* See attached statement for additional information.

For Paperwork Reduction Act Notice, see Instructions for Form 1120S. IRS.gov/form1120s Cat. No. 11520D Schedule K-1 (Form 1120S) 2016

S Corporation IRS Form 1120S

| Part 2: S Corporation (Form 1120S) Cash Flow | | | |
|--|--|-----|--------------------|
| Check investor guidelines for use of business income to qualify. | | | |
| XII S Corporation (Form 1120S) | | | 2016 |
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | 0.00 |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | 0.00 |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | 339.00 |
| 21 | Subtotal | = | (\$ 339.00) |
| 22 | Multiplied by Ownership Percentage | x | 100 % |
| Shareholder's Total Share of Income | | | (\$ 339.00) |

This Must Be Subtracted From The Qualifying Income Used From This Business

S Corporation IRS Form 1120S

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

| XI S Corporation Schedule K-1 (Form 1120S) | | | 2016 | 2015 | NOTES |
|--|---|-----|---------------------|----------------|---|
| 13 | Ordinary Income or Loss (Line 1) | +/- | 32,901.00 | | *Obtain Form 8825, Schedule of Rental Properties. |
| 14 | Net Rental Income (Loss) (Lines 2 and 3)* | +/- | 0.00 | | |
| Subtotal | | | \$ 32,901.00 | \$ 0.00 | |

| XII S Corporation (Form 1120S) | | | 2016 |
|--|--|-----|--------------------|
| 15 | Nonrecurring Other (Income) Loss (Lines 4 and 5) | +/- | 0.00 |
| 16 | Depreciation (Line 14) | + | 0.00 |
| 17 | Depletion (Line 15) | + | 0.00 |
| 18 | Amortization/Casualty Loss (Line 19 - only if noted on attached statement)* | + | 0.00 |
| 19 | Mortgages or Notes Payable in Less Than 1 Year (Schedule L, Line 17, Column d)** | - | 0.00 |
| 20 | Travel and Entertainment Exclusion (Schedule M-1, Line 3b) | - | 339.00 |
| 21 | Subtotal | = | (\$ 339.00) |
| 22 | Multiplied by Ownership Percentage | X | 100 % |
| Shareholder's Total Share of Income | | | (\$ 339.00) |

| | | | |
|--|--|----------------------------------|-----------------------------|
| a Employee's SSN 300-50-1234 | | b Employer ID No. (EIN) 27-12345 | |
| c Employer's name, address, and ZIP code JOHN HOMEOWNER ALWAYS WATCHING SECURITY INC. 2 CORPORATE CT DALLAS TX 75432 | | | |
| 1 Wgs, tps, other comp 5000.00 | 2 Fed inc tax withheld 426.55 | 3 Social sec 5 | 4 SS tax withheld 310.00 |
| 5 Medicare wages & tps 5000.00 | 6 Medicare | 7 Social security tps | 8 Allocated tps |
| d Control No. | 10 Depnd care benefi | 11 Nonqualified plans | 12a |
| e Employee's name, address, and ZIP code JOHN HOMEOWNER 7 GALLOPING HILL ROAD DALLAS TX 75432 | 13 Statutory employee <input type="checkbox"/> | 14 Other | 12b |
| | Retirement plan <input type="checkbox"/> | | 12c |
| | Third-party sick pay <input type="checkbox"/> | | 12d |
| 15 State Employer's state ID number | 16 State wages, tps, etc | 17 State income tax | 18 Local wages, tps, etc |
| | | | 19 Local income tax |
| | | | 20 Locality name |


Department of the Treasury — IRS

This Must Be Subtracted From The Qualifying Income Used From This Business



| | | |
|---|--|--|
|  Find and compare MI rates. Get HARP info. Compare our rates to FHA! Rate Express Rates and Comparisons Tool |  Road to Homeownership Homebuyer Education Online Course Spanish, English and landlord versions available. |  Submit loans. Find rates. Save time! TECH CONNECTIONS |
|---|--|--|

Let's help someone buy a house today.


 

Email Address

Password



Forgot Password?


 **NEW TO THE SITE?**

[Create a user account](#)
Need help? Call the ActionCenter® at 800 444.5664 Mon – Fri 8 am – 8 pm ET, or email us at Action.Center@Genworth.com.

[Print this Page](#)

- ◆ [Rate Cards](#)
- ◆ [Rate Express Rates & Comparisons Tool](#)
- ◆ [Guidelines](#)
- ◆ [Making Home Affordable](#)
- ◆ [Find My Rep](#)

RATES & GUIDELINES

Access our mortgage insurance rates and get Genworth Mortgage Insurance Underwriting Guidelines at the click of a mouse.

[Rate Cards](#)

View and print our rates in Adobe PDF format.

[Rate Express Rates and Comparisons Tool](#)

Find rates and compare them fast! Use Rate Express online or on-the-go using our mobile app!

- Find an MI Rate
- Compare MI Products
- Compare MI to FHA
- Get HARP info (online only)

 [Rate Express](#) (426K)

 [Downloading Our Mobile App](#) (268K)

 [Mobile App User Guide](#) (1,728K)

[Guidelines](#)

View and print our mortgage insurance underwriting guidelines in Adobe PDF format... as a complete set or as you need them.

[Making Home Affordable](#)

Access the information and tools you need for submitting to Genworth under the Home Affordable Refinance Program and the Home Affordable Modification Program.

Order & Edit MI

Login to order online.

Email Address

[Forgot Username?](#)

Password

[Forgot Password?](#)

LOGIN



NEW TO THE SITE?

[Create a user account](#)

Introducing the Rate Express Mobile App

[Watch](#) a video about the making of the Rate Express mobile app for smartphone and tablet users and learn about its features and benefits.

Underwriting Guidelines

Genworth Mortgage Insurance underwritten by:
Genworth Mortgage Insurance Corporation



Let's help someone buy a house today.

Genworth 

Add the Expertise of Genworth to Your Support Team

Genworth Mortgage Insurance is working to make sure you have the resources you need, when you need them. These seasoned professionals will help you with Genworth's expanding suite of mortgage insurance solutions and demonstrate why MI is a better way to buy a home in today's market. Easy to reach. Easy to work with. Every time.

Please address questions to one of Genworth's Expert Underwriters:



Heidi Almen
Regional Underwriter Manager for:
MI, MN, ND, SD & WI
800 866.1624, ext. 3084 (Phone)
800 993.1640 (Fax)
heidi.almen@genworth.com



Amy Hopkins
Regional Underwriter Manager for:
AL, FL, GA, NC, SC & TN
800 289.4364, ext. 3226 (Phone)
800 937.2960 (Fax)
amy.hopkins@genworth.com



Patti Esswein
Regional Underwriter Manager for:
IA, KS, MO & NE
800 671.6754, ext. 4412 (Phone)
800 688.0145 (Fax)
patti.esswein@genworth.com



Robert Grolmund
Regional Underwriter Manager for:
DC, KY, MD, OH, VA & WV
800 336.3756, ext. 4178 (Phone)
800 249.2424 (Fax)
robert.grolmund@genworth.com



Elizabeth Monteiro
Regional Underwriter Manager for:
CT, MA, ME, NH, RI & VT
800 225.2430, ext. 2378 (Phone)
800 253.5470 (Fax)
elizabeth.monteiro@genworth.com



Pat Norr
Regional Underwriter Manager for:
IL & IN
800 873.4314, ext. 2710 (Phone)
800 944.2042 (Fax)
pat.norr@genworth.com



Donna Muratalla
Regional Underwriter Manager for:
CA Bay Area, HI, ID, MT, NV, OR, UT & WA
800 866.8683, ext. 4423 (Phone)
800 799.7938 (Fax)
donna.muratalla@genworth.com



Kitty Clark
Regional Underwriter Manager for:
AR, CO, LA, MS, OK & TX
800 866.4406, ext. 4578 (Phone)
800 846.1244 (Fax)
kitty.clark@genworth.com



Tina Townsend-Locken
Regional Underwriter Manager for:
CA (except Bay Area)
800 866.8683, ext. 2179 (Phone)
800 346.7961 (Fax)
tina.townsend-locken@genworth.com



Eileen Strouse
Regional Underwriter Manager for:
DE, NJ & PA
800 288.4364, ext. 3152 (Phone)
800 272.1235 (Fax)
eileen.strouse@genworth.com



Bill Wippich
Regional Underwriter Manager for NY
800 548.0884, ext. 4151 (Phone)
800 346.7961 (Fax)
branch.albany@genworth.com



Natalie Stokes
Regional Underwriter Manager for:
AK, AZ, NM & WY
800 866.8683, ext. 2066 (Phone)
800 799.7938 (Fax)
natalie.stokes@genworth.com

To deliver a full package for underwriting, simply log on to mi.genworth.com, locate the appropriate underwriting section and select the applicable option for your file.

We look forward to serving you, and welcome any feedback that will help us make your loan submission process as fast and easy as possible.

Genworth 

mi.genworth.com/LenderServices/Underwriting



| | | |
|---|--|--|
|  <p>Find and compare MI rates. Get HARP info. Compare our rates to FHA!</p> <p>Rate Express</p> <p>Rates and Comparisons Tool</p> |  <p>Road to Homeownership</p> <p>Homebuyer Education</p> <p>Online Course</p> <p>Spanish, English and landlord versions available.</p> |  <p>Submit loans. Find rates. Save time!</p> <p>TECH CONNECTIONS</p> |
|---|--|--|

Let's help someone buy a house today.

 [LOG IN](#)

Email Address

Password

[LOGIN](#)

Forgot Password?

[RESET PASSWORD](#)

 [NEW TO THE SITE?](#)

[Create a user account](#)

Need help? Call the ActionCenter@ 800 444.5664 Mon – Fri 8 am – 8 pm ET, or email us at Action.Center@Genworth.com.

Quick Reference Guide and Webinars

Genworth Financial

Home | Contact Us | Genworth.com | Site Map Log In

MI | Tech Connections | Lender Services | **Training** | Rates & Guidelines | Resource Center

[Print this Page](#)

- ◆ Mortgage Insurance
- ◆ Recorded Webinars
- ◆ Sales & Marketing
- ◆ Self-Employed Borrower Calculators
- ◆ TRID Resources
- ◆ Training FAQs
- ◆ Trainer Bios

TRAINING

Genworth Mortgage Insurance offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line, and serve your borrowers better.

What You Get with Training from Genworth

For more information about Genworth Training offerings please contact your [Genworth Representative](#).

Mortgage Insurance discussed in this website is underwritten by Genworth Mortgage Insurance Corporation.

Webinar Schedule

Our webinar sessions address topics that are essential to mortgage professionals.

- [Monthly Webinar Calendars](#)
- [Course Catalog](#)

Sign up to receive the monthly training webinar calendar [here](#).

Self-Employed Borrower Calculators

Income Calculation Tools and Reference Guides

Privacy and Security | Terms of Use | Predatory Lending Guidelines © 2006–2015 Genworth Financial Inc. All rights reserved.

Quick Reference Guide and Webinars

- ♦ Genworth MI Tutorials
- ♦ Recorded Webinars
- ♦ [Self-Employed Borrower Calculators](#)
- ♦ TRID Resources
- ♦ Training FAQs
- ♦ Trainer Bios










[Print this Page](#)

SELF-EMPLOYED BORROWER CALCULATORS

Use the following calculators and quick reference guides to assist you in calculating and analyzing the average monthly income of a self-employed borrower. It provides suggested guidance only and does not replace Fannie Mae/Freddie Mac instructions or applicable guidelines.

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

Automated Income Calculation Tools

-  [Fannie Mae Form 1084 Calculator \(2015-2016\)](#)
-  [Freddie Mac Form 91 Calculator \(2015-2016\)](#)
-  [Scheduled Analysis Method \(SAM\) Calculator \(2015-2016\)](#)
-  [Rental Income Calculator \(2015-2016\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1037\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1038\)](#)
-  [Fannie Mae Rental Guide \(Calculator 1039\)](#)
-  [Quick Ratio – Liquidity Calculator \(2015-2016\)](#)
-  [Current Ratio – Liquidity Calculator \(2015-2016\)](#)


Previous versions of income calculation forms can be found at our [Forms Library](#).


Easy To Use Reference Guide

-  [Fannie Mae Comparative Analysis Guide \(Form 1088\)](#)

Webinar Schedule

Our webinar sessions address topics that are essential to mortgage professionals.

 [March Webinar Calendar](#)

 [April Webinar Calendar](#)

Sign up to receive the monthly training webinar calendar [here](#).

Genworth Rate Express[®] Updated!

Genworth Financial 

CONTACT US: 800.444.5664

MI | Tech Connections | Lender Services | Training | Rates & Guidelines | Resource Center



Here's the Genworth Rate Quote for the Smith loan!

Amazing!

Rate Express

Quote and Text

Text rate quote results...
to yourself or a colleague!

ANDROID APP ON Google play | Download on the App Store



IMPROVED!

Find and compare MI rates. Save and share results!

Rate Express

Rates and Comparisons Tool

Underwriting Services


Write where you need us.

- Underwriting processes.
- Short turn times.
- Contract services.

Submit loans. Find rates. Save time!

TECH CONNECTIONS

Let's help someone buy a house today.



ORDER & EDIT MI **LOG IN**

Email Address

Password

LOGIN

Forgot Password?

RESET PASSWORD

NEW TO THE SITE?

[Create a user account](#)

Need help? Call the ActionCenter[®] at 800.444.5664 Mon – Fri 8 am – 8 pm ET, or email us at Action_Center@Genworth.com

Rate *Express*

Access Genworth Rates Using Rate *Express* Mobile App Or Desktop

- Only 5 Required Fields
- Find Our MI Rates And Products And Compare Them To FHA
- Find Previous Quotes With “Scenario ID”
- Like The Rate? Order MI Directly From The Results Screen
- Compare Up To 4 Quotes!

The screenshot displays the 'Rate Express' web interface. At the top, there are two tabs: 'Rate Express' (active) and 'HARP Info'. Below the tabs, there are two main sections:

- Find previous scenario:** This section contains a 'Scenario ID' input field, a 'Find >' button, and a 'View Demo' link.
- Find and compare rates:** This section is divided into two main parts:
 - User Information:** Labeled 'Complete for most accurate quote'. It includes a 'User Org ID' field with a help icon (?), a text input field containing 'B22222', an 'OR' separator, and a 'Login >' button.
 - Loan Information:** This section contains several input fields:
 - 'Loan Amount': A text input field with a '\$' symbol to its left.
 - 'State': A dropdown menu.
 - 'Representative Credit Score': A text input field with a help icon (?). Below it is a checkbox labeled 'Nontraditional Credit'.
 - 'LTV': A dropdown menu with a help icon (?) and a '%' symbol to its right.
 - 'Loan Purpose': A dropdown menu.

Visit mi.genworth.com To Run A Rate Today!

Genworth Rate *Express*

Compare MI to FHA

HARP Info

Scenario ID: FC022CCDA

Your results:

| | Monthly Premium MI - Nonrefundable | FHA |
|----------------------------|------------------------------------|------------|
| Premium Payment Type | BPMI | BPMI |
| Interest Rate | 4.000% | 3.875% |
| Loan Amount | \$200,000 | \$200,000 |
| Upfront/Initial MI Rate | 0.0000 | 0.0175 |
| Upfront/Initial MI Premium | \$0.00 | \$3,500.00 |
| Total Loan Amount | \$200,000 | \$203,500 |
| Monthly/Annual MI Rate | 0.0041 | 0.0080 |
| Monthly MI Premium | \$68.33 | \$133.33 |

Order your preferred premium MI now!

Order >

Your totals:

| | | |
|---------------------------------------|-------------|-------------|
| Total Monthly P&I and MI * | \$1,023.16 | \$1,090.27 |
| Total MI Payment over 5 Years * | \$4,099.80 | \$11,200.48 |
| MI Savings with Genworth | \$7,100.68 | |
| Estimated # months until cancellation | 105 or less | Never |

This calculator does not consider underwriting program acceptability. Contact our Loan Scenario Hotline Monday through Friday 8am-8pm EST. Call 800 444.5664, Option 6 or email us at Action.Center@Genworth.com with any questions.

Your inputs:

| | |
|--------------------------------------|--------------------------|
| Loan Amount | \$200,000 |
| State | MS |
| Representative Credit Score | 760 |
| LTV | 95%-90.01% |
| Property Type | Single Family |
| Loan Term | 30 years |
| Loan Type | Fixed Rate/Fixed Payment |
| Loan Purpose | Purchase |
| Affordable Housing Program | N/A |
| Coverage % | 30% |
| AUS Results | DU Approve/Eligible |
| Occupancy | Primary Residence |
| DTI | 38.00% |
| Renewal | Level |
| Interest Rate | 4.000% |
| FHA Interest Rate | 3.875% |
| Will Upfront MI Payment be Financed? | FHA Only |
| Special Features | None |
| NMLS ID | |
| Email Address | |
| Lender Loan Number | |

GENWORTH RESOURCES

ActionCenter®: 800 444.5664

Your Local Genworth Underwriting Manager

Your Genworth Account Executive or Manager

Legal Disclaimer

Genworth Mortgage Insurance is happy to provide you with these training materials. While we strive for accuracy, we also know that any discussion of laws and their application to particular facts is subject to individual interpretation, change, and other uncertainties. Our training is not intended as legal advice, and is not a substitute for advice of counsel. You should always check with your own legal advisors for interpretations of legal and compliance principles applicable to your business.

GENWORTH EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THESE MATERIALS AND THE RELATED TRAINING. IN NO EVENT SHALL GENWORTH BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES OF ANY KIND WHATSOEVER WITH RESPECT TO THE TRAINING AND THE MATERIALS.

Collateral Underwriter[®] or CU[™], Home Ready[®] and Desktop Underwriter[®] or DU are registered Trademarks of Fannie Mae

Home Value Explorer (HVE) is a registered trademark of Freddie Mac

Loan Product AdvisorSM and Loan Collateral AdvisorSM are registered Service Marks of Freddie Mac

ActionCenter[®] and Rate *Express*[®] are registered trademarks of Genworth Mortgage Insurance

Simply UnderwriteSM is a service mark of Genworth Mortgage Insurance

Genworth Mortgage Insurance Offers A Comprehensive Suite Of Training Opportunities To Boost Your Know-How, Benefit Your Bottom Line, And Serve Your Borrowers Better. Visit mi.genworth.com To Learn More.