CHARACTERISTICS OF 5 COMMON SELF-EMPLOYED BUSINESSES

MGIC

In mortgage lending, a self-employed borrower is a person who owns 25% or more in an active business. Review, analysis and calculation of a self-employed borrower's income can be tricky, but understanding business structures is an important first step.

Sole Proprietorship

- An unincorporated business with one owner
- Unlimited liability
- All profits flow directly to owner
- Taxed at an individual rate
- **Individual:** Files IRS Schedule C
- **Business:** No returns are filed

Partnership

- A business arrangement between 2 or more people/partners
- Profit/loss is passed to individual partners
- Each partner pays tax on their share of income
- **Partner:** Receives Schedule K-1 and may receive guaranteed payments
- **Business:** Files IRS Form 1065

S Corporation

- A legal entity that has a limited number of stockholders
- Profit/loss is passed to individual stockholders
- Each stockholder pays tax on their share of income
- **Stockholder:** Receives Schedule K-1 and may receive W-2 income
- **Business:** Files IRS Form 1120-S

Corporation

- A legal entity that exists separate from owners who are shareholders
- Profits are distributed to shareholders via dividends
- The corporation pays taxes
- **Shareholder:** Can receive 1099-DIV and/or W-2 income
- **Business:** Files IRS Form 1120

LLC

- A limited liability company is a hybrid business
- No associated tax forms
- Can file using any of the structure-based IRS forms

TAKE THE NEXT STEP: Attend an MGIC webinar to gain the critical skills you need to evaluate self-employed borrowers' income.

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