



Evaluating Self-Employed Borrowers During Tough Economic Times

Presented by: Sandra Sweeney, Senior Customer Trainer



Legal disclaimer



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Although MGIC believes the information set forth in this publication is generally accurate, the information may be outdated due to the rapidly changing nature of the residential mortgage industry, and MGIC does not warrant the accuracy, reliability or completeness of any information contained in this publication.

The information in this publication is culled from a variety of business and mortgage industry sources. Attribution is given where deemed necessary. Opinions and insights expressed herein do not necessarily represent the views of MGIC.

What we're covering today

- The 5-step process to evaluating income
- Assessing the impact
- Documentation conundrums
- Case study
- What might you see in the future?
- Your questions



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**The more things change,
the more they stay the same.**

~ Jean-Baptiste Alphonse Karr



Purpose of business analysis

Verify qualifying income that is

- ✓ Stable
- ✓ Likely to continue



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Subjectivity or “gray areas” in lending

- Fuzzy
- Vague
- Ambiguous
- Opportunity for error or question
- Difference of opinion
- Time-consuming ... easier to say “no”

What's the intent?

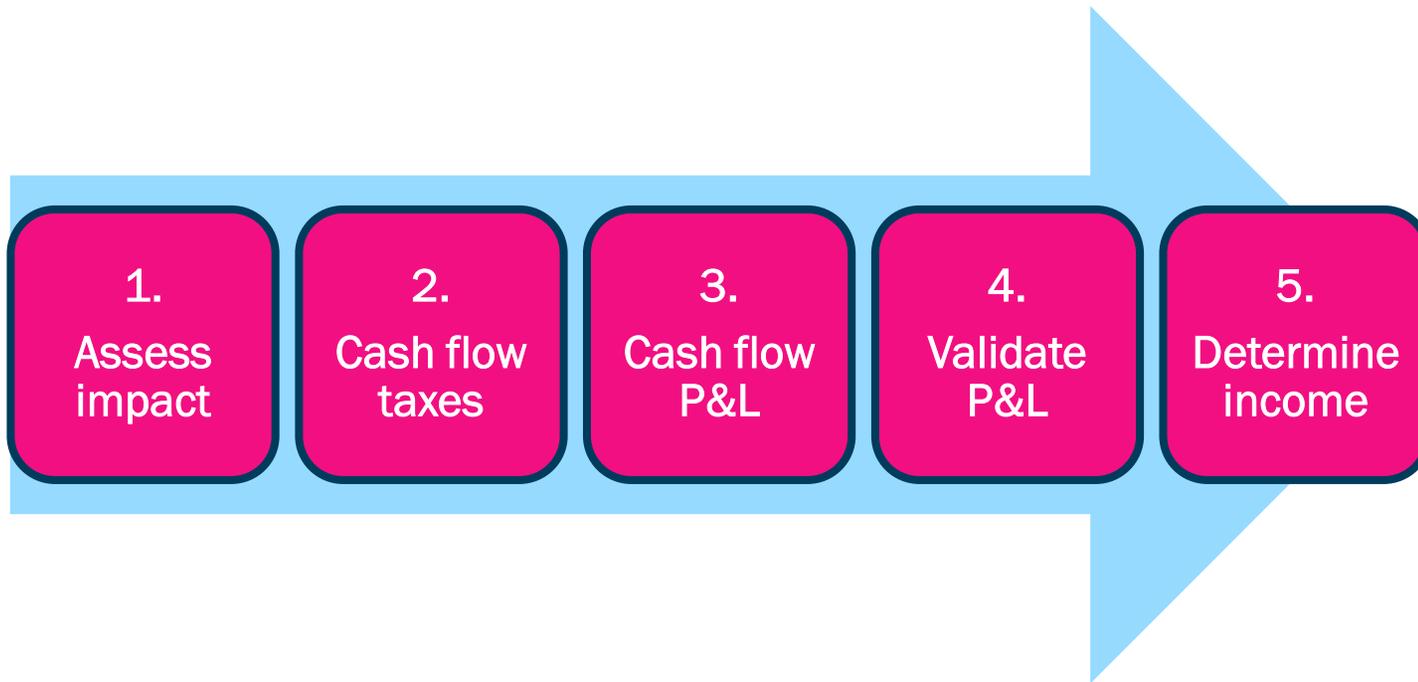
Intent or spirit of guideline

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- Easier to identify questions and additional documentation
- Easier to explain to others
- Easier to present to next level with recommendation
- Grows base of understanding and experience
- Directs explanation of decision for future review

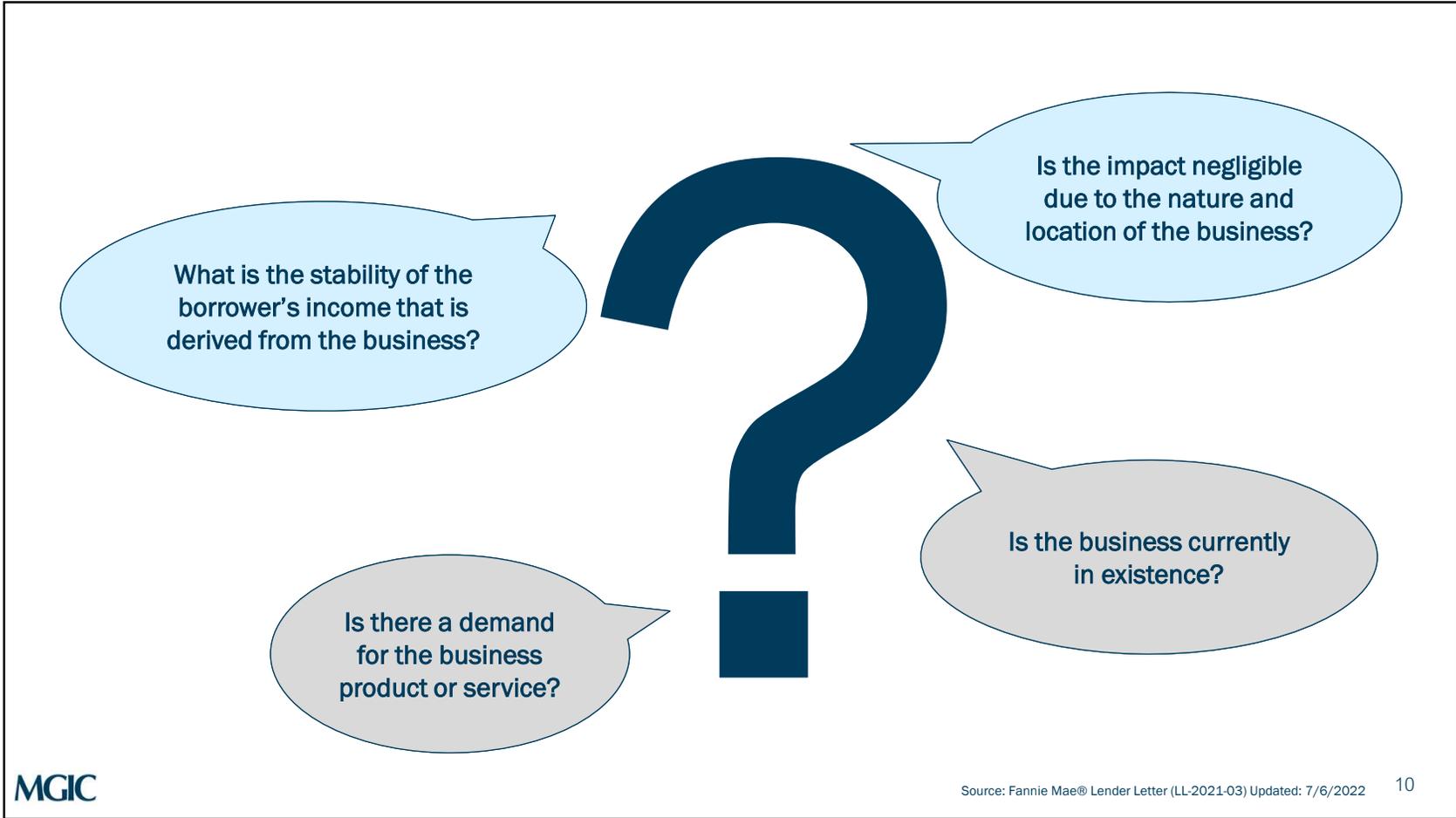
Evaluate the “why.”

5-step process



1.
Assess impact

Will the business continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage?



Is the business open?

The business must be currently operating within ~~30~~ days of note date.

- Verification of current work
- Evidence of current business receipts
- Lender certification
- Business website



Schedule K-1



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Schedule K-1 (Form 1065) 2022
 Department of the Treasury Internal Revenue Service

OMB No. 1545-0123 651121

For calendar year 2022, or tax year beginning / / 2022 ending / /

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

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits

Part I Information About the Corporation

A Corporation's employer identification number

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

C IRS Center where corporation filed return

D Corporation's total number of shares
 Beginning of tax year
 End of tax year

Part II Information About the Shareholder

E Shareholder's identifying number

F Shareholder's name, address, city, state, and ZIP code

G Current year allocation percentage %

H Shareholder's number of shares
 Beginning of tax year
 End of tax year

I Loans from shareholder
 Beginning of tax year \$
 End of tax year \$

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

1	Ordinary dividends	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	Schedule K-3 is attached if checked
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
11	Section 179 deduction		
12	Other deductions		
17	Other information		

18 More than one activity for at-risk purposes*
 19 More than one activity for passive activity purposes*

* See attached statement for additional information.

Which tax returns are needed?



Most recent tax returns filed with the IRS

Tax returns – most recent calendar year not yet available

1. Obtain IRS response from filing of IRS Form 4506-C
2. Obtain a copy of the extension
 - Analysis of financial statement since last tax filing
 - Review of most recent three months' business bank statements
 - Review of tax liability on IRS Form 4768 (Extension)
 - Review of W-2s, 1099s and/or K-1s
 - Signed IRS Form 941 (Quarterly filing)

Extension Form 4868

Form 4868		Application for Automatic Extension of Time To File U.S. Individual Income Tax Return		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		For calendar year 2022, or other tax year beginning _____, 2022, and ending _____, 20____.		2022
Part I Identification			Part II Individual Income Tax	
1 Your name(s) (see instructions)			4 Estimate of total tax liability for 2022 . . . \$ _____	
Address (see instructions)			5 Total 2022 payments	
City, town, or post office			6 Balance due. Subtract line 5 from line 4. See instructions	
State			7 Amount you're paying (see instructions)	
ZIP code			8 Check here if you're "out of the country" and a U.S. citizen or resident. See instructions <input type="checkbox"/>	
2 Your social security number		3 Spouse's social security number	9 Check here if you file Form 1040-NR and didn't receive wages as an employee subject to U.S. income tax withholding <input type="checkbox"/>	
For Privacy Act and Paperwork Reduction Act Notice, see instructions later.				
			Cat. No. 13141W	Form 4868 (2022)



Freddie Mac Loan Product Advisor[®] messaging

Self-employed income for ~BORR name~ must be supported by complete signed federal individual and business tax returns. If the business has been in existence five years or more, provide individual and business tax returns for the most recent year. If the business has been in existence for less than five years, provide individual and business tax returns for the most recent two years. The file must also contain Freddie Mac Form 91 or equivalent.



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Freddie Mac – Tax return documentation

Business in operation
Borrower's ownership
> 5 years



Most recent year's 1040s
Most recent year's business returns

Business in operation
Borrower's ownership
< 5 years



Most recent 2 years' 1040s
Most recent 2 years' business returns

Slide 16

SS0

New Slide - new guideline

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Scenario – loan approved through LPA Which tax returns are needed?

1. Borrower has worked for family business for 6 years and then received ownership interest of 25 percent 3 years ago.
2. Business has been operating for 10 years. The borrower purchased the business 4 years ago.
3. Business was a sole proprietorship for 4 years and then same business was put into an S Corporation for the last 2 years.

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SSO

Fannie Mae Desktop Underwriting®



If any of Alice Firstimer's self-employed income is being used for qualifying purposes, the income may be supported by personal tax returns covering the most recent two-year period (including all tax schedules), provided the tax returns reflect at least 12 months of self-employment income and the Cash Flow Analysis (Form 1084) or equivalent has been completed. Refer to the Selling Guide for additional information. (MSG ID 3731)

If the self-employed income from any of the businesses listed below is being used for qualifying purposes, the income may be supported by business tax returns covering the most recent period as specified in the table below (including all tax schedules). The tax returns must reflect at least 12 months of self-employment income, the borrower must have had 25% or greater ownership in the business for at least five years for the use of one-year of returns, and the Cash Flow Analysis (Form 1084) or equivalent must have been completed. The requirement for business tax returns for each specific business listed below can be waived if personal returns covering the most recent two-year period are obtained, and (1) the borrower has been self-employed in the same business for at least five years, (2) the borrower's individual tax returns show an increase in self-employment income over the last two years, and (3) the borrower is paying the down payment and closing costs with his or her own funds, and is not using any funds from the business account to fund the transaction or satisfy applicable reserve requirements. Refer to the Selling Guide for additional information. (MSG ID 3733)

BUSINESS NAME	YEARS OF TAX RETURNS REQUIRED
Me.com	Two-years
You.com	One-year

Slide 18

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New Slide - guideline change

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Fannie Mae – Tax return documentation

Business in operation/Borrower's ownership
> 5 years



Most recent year's 1040s
Most recent year's business returns

Business in operation/Borrower's ownership
< 5 years



Most recent 2 years' 1040s
Most recent 2 years' business returns

Lender may waive business returns if:

1. The borrower is using personal funds for down payment and closing costs
2. Borrower has been SE for at least 5 years in same business
3. Individual tax returns show an increase over past two years

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Slide 19

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New Slide - new guideline

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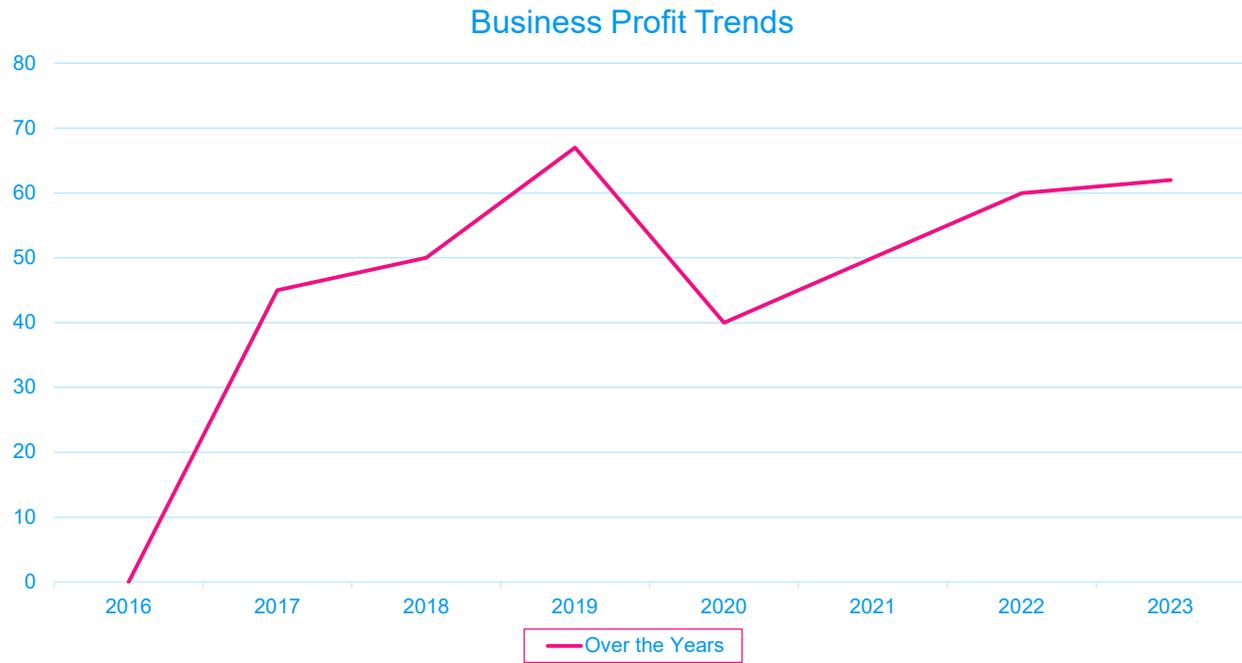
Scenario – loan approved through DU

Can business returns be waived?

2021	2022
W2 income from business = \$60,000	W2 income from business = \$35,000
Business income from S-Corp = \$90,000	Business income from S-Corp = \$105,000
Total = \$150,000	Total = \$140,000



Why is this important?



Freddie Mac
Selling Guide – Section 5304.1(e)
Effective 02/07/24

Secondary self-employment

Self-employed income not used to qualify



Freddie Mac Single-Family Seller/Service Guide

Guide Home Seller/Service Relationship **Selling** Servicing

Refer to [Form 91](#) for the appropriate treatment and calculation of the Borrower's proportionate share of the net rental real estate income or loss.

(e) Self-employment income not used for qualification

The following chart contains requirements and guidance pertaining to self-employment income not used for qualification:

Self-employment income not used for qualification	
Subject	Requirements and guidance
Self-employment disclosed on Form 65, Uniform Residential Loan Application (or other documentation) but not used to qualify	<p>The Seller is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each Borrower on the Mortgage who:</p> <ul style="list-style-type: none"> Has a primary source of income, other than self-employment, used for qualifying for the Mortgage (e.g., salaried income from primary employment), and Is self-employed and self-employment income is a secondary source of income <p>For each Borrower on the Mortgage who is self-employed and does not have another source of income that is used in qualifying for the Mortgage, the following requirements apply:</p> <ul style="list-style-type: none"> The Seller must obtain pages 1 and 2 of the Borrower's federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income. Refer to Section 5302.4(b) for information about using IRS tax transcripts to meet certain portions of this requirement. <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 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). If the tax returns or other documentation in the Mortgage file (e.g., IRS tax transcripts, additional Schedule K-1's) 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

Secondary self-employment



The screenshot shows the Fannie Mae 'Ask Poli for Sellers' interface. At the top, the Fannie Mae logo and 'Saved' indicator are visible. The main header reads 'Ask Poli for Sellers'. A search bar contains the query: 'Can business loss or income from self-employment income that is secondary and separate be disregarded?'. Below the search bar, the search result title is 'Can business loss or income from self-employment income that is secondary and separate be disregarded?'. The result text states: 'Fannie Mae does not require lenders to review or document income from secondary sources when that income is not needed to qualify. Business-related debt for which the borrower or co-borrower is personally obligated would likely be on their credit report and therefore already included in the debt-to-income (DTI) ratio.' It continues: 'As a practical consideration, borrowers with a primary source of income that is not derived from self-employment and is sufficient to cover the obligation have more flexibility and could discontinue a secondary self-employment activity should it prove unprofitable. Consequently, it is our view that if the income not derived from self-employment is sufficient to qualify the borrower, no further inquiry regarding any secondary business losses is required.' The final paragraph reads: 'The provisions of the Truth in Lending Act's Ability to Repay (ATR) provisions require verification of the amounts of income, assets, or debt obligations that the creditor relies on to determine a borrower's ability to repay using third-party records that provide reasonably reliable evidence of the borrower's income or assets. As a general rule, there is no ATR requirement for creditors to identify and examine losses or expenses related to income that the borrower does not declare as income for the purposes of obtaining a mortgage loan.'

Scenario

- The borrower is a self-employed designer and owns an Amazon store. Their earnings declined from 2022 to 2023.
- The 2024 YTD is still low, but the borrower's LOE explained that spring is their busy season, and they expect to recover to previous volume.
- Subject transaction is cash out to put money into business with marginal credit history.

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- What is your primary concern?
- Where does YTD P&L fall in trending?
- How does overall layering of risk impact your evaluation?

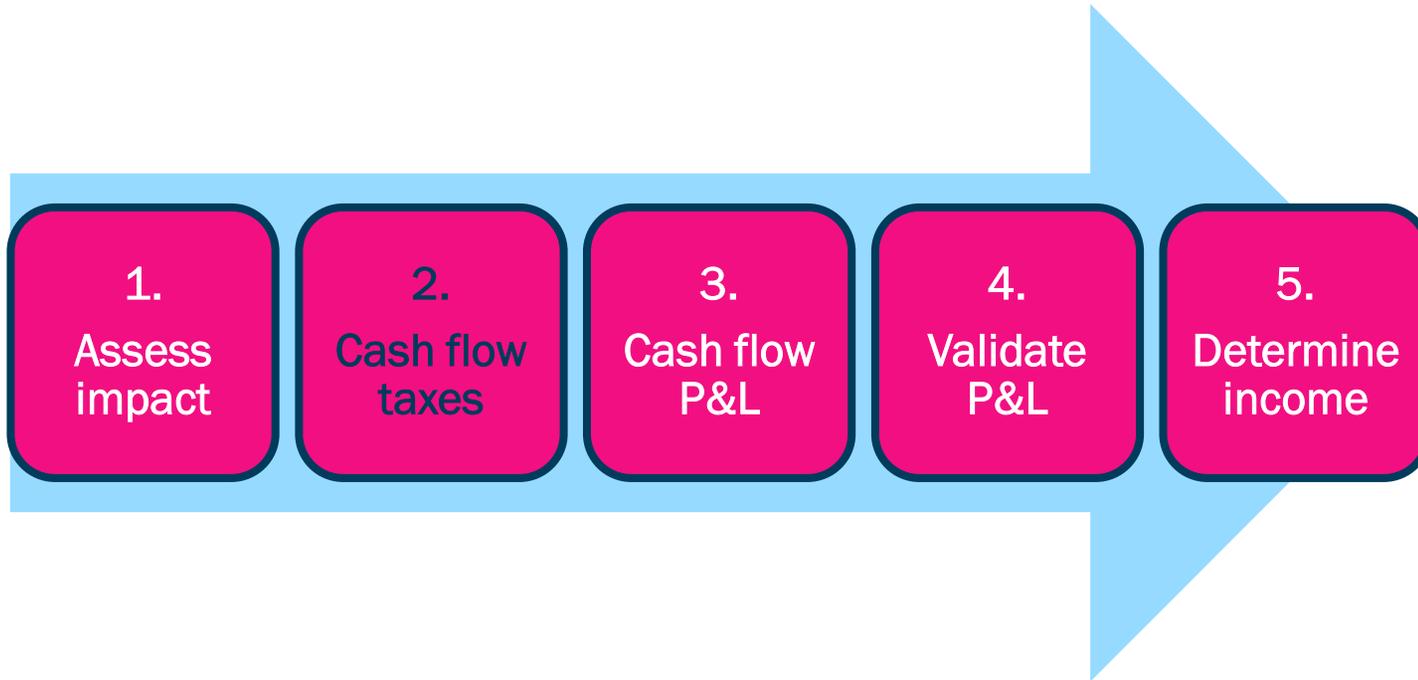
John & Ginny Borrower

- Married, no dependents
- John has an interest in 3 companies
- Ginny has an interest in 2 companies
- Own 3 rental properties

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5-step process



SSO

All-in-one self-employed income calculator

- Excel XLSM – macro-enabled
- Excel XLSX – macro-free
- Excel XLSX – macro-free short



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Slide 27

SS0

New Slide - Using Magic Minutes format

Sandra Sweeney, 2024-01-29T17:42:19.115

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mgic.com/seb

The screenshot displays the MGIC website's landing page for self-employed borrower and income analysis calculators. The page features a dark blue header with the MGIC logo and navigation links: Rates, Underwriting, Origination/ Servicing, Training, Tools, Mortgage Counselors, and About MGIC. A pink button labeled 'Get a quick quote' is positioned in the top right corner. The main content area has a light blue background with the title 'Self-employed borrower and income analysis calculators' and a sub-headline: 'Editable and auto-calculating worksheets fitted specifically for loan officers and mortgage pros.' To the right of the text is a colorful geometric logo. Below this, a breadcrumb trail reads 'MGIC > underwriting >'. A photograph shows a person using a laptop displaying a calculator interface. To the right of the photo, the text reads: 'Gain instant access to MGIC's enhanced self-employed borrower and income analysis calculators'. Below this, it states: 'Equipped for speed and accuracy, our editable and auto-calculating worksheets are now available in macro-enabled and macro-free versions:'. Two update sections are listed: 'Updated for tax year 2023:' with bullet points for 'All-in-one self-employed income calculator' and 'Rental income calculator'; and 'Updated for 2024:' with a bullet point for 'Employment and other income calculator'. A 'Gain access now >' link is at the bottom.

Slide 28

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Replace with new web screen shot

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Lender must provide support that the business has sufficient **liquidity** and is financially capable of producing monthly income for the borrower.

https://guide.freddie.mac.com/app/guide/section/5304.1

Freddie Mac Home Single-Family Division Multifamily Division Capital Markets Division Renters, Buyers and Owners

Freddie Mac Single-Family Seller/Service Guide

Guide Home Seller/Service Relationship **Selling** Servicing

Search the Guide View All

same level in the new location

(d) Business and income analysis

The following chart contains requirements and guidance pertaining to business and income analysis:

Analysis	
Topic	Requirements and guidance
Business and income analysis	<p>Business review and analysis:</p> <p>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.</p> <ul style="list-style-type: none"> 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
Selling Guide –
Section 5304.1(d)
Effective 02/07/2024**

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2.
Cash flow
taxes

SAM Cash Flow Analysis Worksheet with P&L		MGIC		
S Corporation Cash Flow				
Evaluate business income as required by your investor.				
X	S CORPORATION	Name: Digital Network Systems	2022	2021
SCHEDULE K-1				
35	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.		\$ 32,550.00	\$ 36,900.00
36	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.			
	SUBTOTAL		\$ 32,550.00	\$ 36,900.00
FORM W-2				
37	Wages: W-2, Box 5 (in general)			
FORM 1120S				
38	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5			
39	Depreciation: LINE 14		\$ 15,000.00	\$ 20,000.00
40	Depreciation (FORM 8825): LINE 14			
41	Depletion: LINE 15			
42	Amortization/Casualty Loss (only if noted): LINE 19 from attached statement			
43	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d		()	()
44	Travel and Entertainment Exclusion: Schedule M-1, LINE 3b		(\$ 1,000.00)	(\$ 1,000.00)
	SUBTOTAL		\$ 14,000.00	\$ 19,000.00
45	Multiplied by Ownership Percentage		50%	50%
	Shareholder's Total Share of Income (Loss)		\$ 7,000.00	\$ 9,500.00
			\$39,550.00	\$46,400
			/12 = \$3,296	/12 = \$3,867

DECLINING INCOME



Declining income ... Now what?



If the trend is declining, the income may not be stable. You must conduct **additional analysis** to determine if any income should be used, but in no instance may it be averaged over the period when the decline occurred.

The image features a large blue rectangular area on the left containing the text "MGIC" in white, bold, sans-serif font at the top right and "Financial statements" in white, bold, sans-serif font below it. To the right of this blue area is a vertical decorative graphic composed of several horizontal sections: a top section with dark blue and white horizontal stripes, a section with dark blue and light blue triangles, a section with blue and grey triangles, a section with dark blue and light blue circles, and a bottom section with a dark blue circle and a light blue circle. The number "35" is printed in small white text at the bottom right corner of the decorative graphic.

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Financial statements

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Audited or not ... what's the big deal?

- Unaudited statements
 - ▶ Majority of time
 - ▶ Self prepared or third-party prepared
 - ▶ Used for supporting documentation
- Audited statements
 - ▶ Rarely received
 - ▶ Requires third-party verification of information by examining records – costly and time-consuming
 - ▶ May be used for qualifying

Support with LOE/balance sheet/bank statements if needed



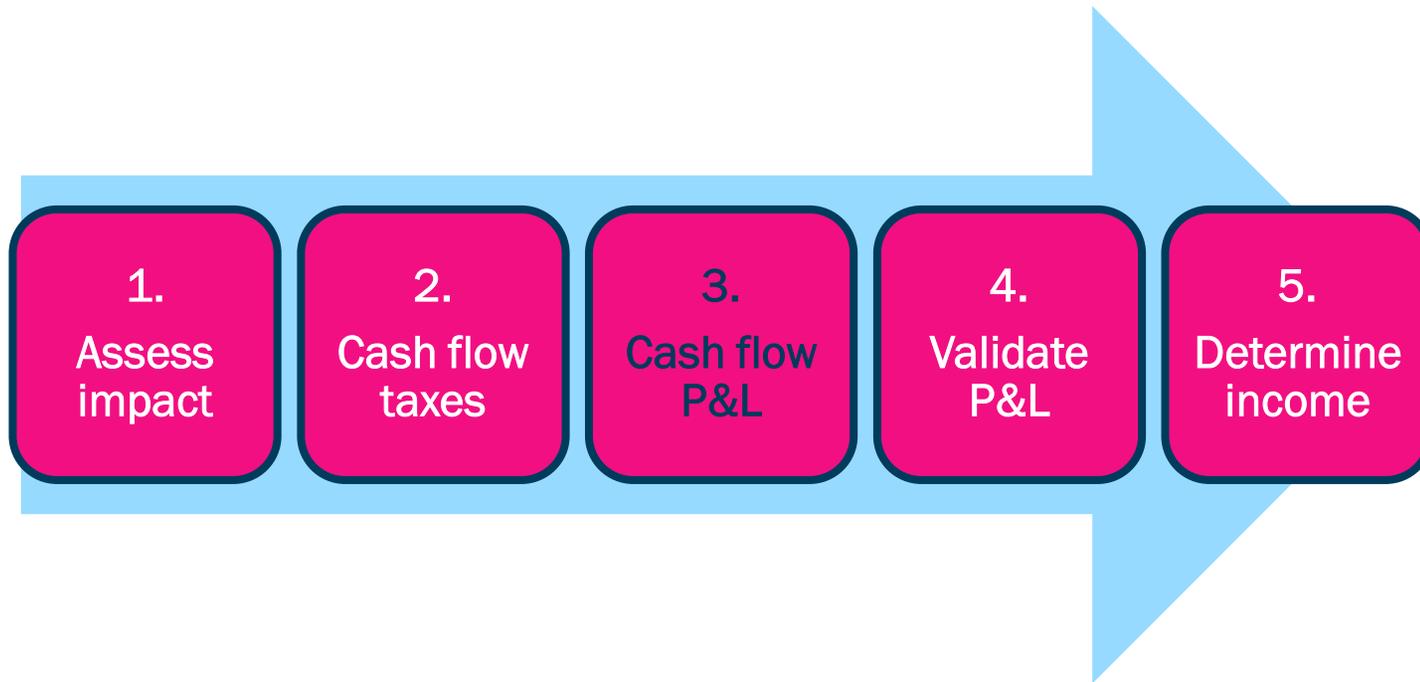
Profit & Loss



**Digital Network Systems
Income Statement**
Date: 5/30/2023

Sales	\$ 151,750	
Discounts & allowances	<u>500</u>	
Net sales	151,250	
Cost of Goods Sold	<u>80,300</u>	
Gross Profit		70,950
 Other income		
Interest income	<u>1,300</u>	1,300
 Expenses		
Salaries	14,300	
Employee benefits	6,270	
Licenses	1,155	
Travel and entertainment	1,100	
Insurance	4,125	
Maintenance	4,400	
Interest	1,595	
Depreciation	<u>7,500</u>	
Total Expenses		40,445
 Net Income		<u>\$ 31,805</u>

5-step process



3.
Cash flow
P&L

MGIC's P&L Cash Flow Analysis Form

X S CORPORATION			
Time Frame (i.e., YTD, quarterly):			+ -
Date From:			
Date Paid Through:			
Net Income:			
Deduct nonrecurring income:	()	()
Add nonrecurring loss:			
Depreciation:			
Depletion:			
Amortization/Casualty Loss:			
Other:			
SUBTOTAL	\$	-	\$ -
Multiplied by Ownership Percentage:			
Shareholder's Share of Income (Loss)	\$	-	\$ -
Wages:			
Total Income:	\$	-	\$ -
Monthly Income:	\$	-	\$ -

SAM P&L Statement +



Cash Flow P&L

Digital Network Systems Income Statement Date: 5/30/2023		
Sales	\$ 151,750	
Discounts & allowances	500	
Net sales	151,250	
Cost of Goods Sold	80,300	
Gross Profit		70,950
Other income		
Interest income	1,300	1,300
Expenses		
Salaries	14,300	
Employee benefits	6,270	
Licenses	1,155	
Travel and entertainment	1,100	
Insurance	4,125	
Maintenance	4,400	
Interest	1,595	
Depreciation	7,500	
Total Expenses		40,445
Net income		<u>\$ 31,805</u>

Profit and Loss Statement Analysis **MGIC**

S Corporation Cash Flow

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

X	S CORPORATION	Digital Network Systems	
	Time Frame (i.e., YTD, quarterly):	YTD	
	Date From:	1/1/2023	
	Date Paid Through:	5/30/2023	
	Net Income:	\$ 31,805.00	
	Deduct nonrecurring income:	(\$ 1,300.00)	()
	Add nonrecurring loss:		
	Depreciation:	\$ 7,500.00	
	Depletion:		
	Amortization/Casualty Loss:		
	Other:		
	SUBTOTAL	\$ 38,005.00	\$ -
	Multiplied by Ownership Percentage:	50%	
	Shareholder's Share of Income (Loss):	\$ 19,002.50	\$ -
	Wages:		
	Total Income:	\$ 19,002.50	\$ -
	Monthly Income:	\$ 3,823.44	\$ -

Determining if income has stabilized



SAM Cash Flow Analysis Worksheet with P&L				MGIC		
S Corporation Cash Flow						
Evaluate business income as required by your investor.						
X	S CORPORATION	Name: Digital Network Systems	2022	2021		
SCHEDULE K-1						
35	Ordinary Income (Loss): LINE 1 If Distributions see additional requirements.		\$ 32,550.00	\$ 36,900.00		
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	SUBTOTAL		\$ 32,550.00	\$ 36,900.00		
FORM W-2						
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44	Travel and Entertainment Exclusion: Schedule M-1, LINE 3b		(\$ 1,000.00)	(\$ 1,000.00)		
	SUBTOTAL		\$ 14,000.00	\$ 19,000.00		
45	Multiplied by Ownership Percentage		50%	50%		
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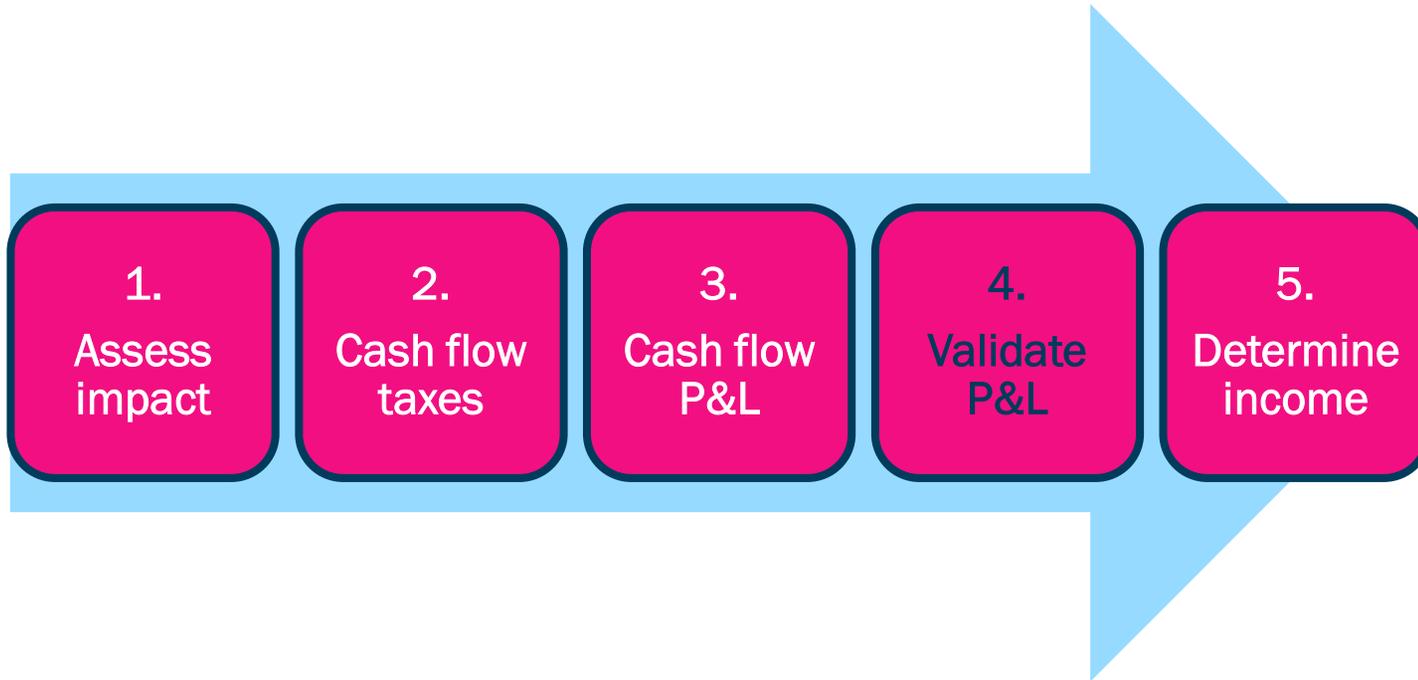
/12 = \$3,296

/12 = \$3,867

Profit and Loss Statement Analysis				MGIC	
S Corporation Cash Flow					
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.					
X	S CORPORATION	Digital Network Systems			
	Time Frame (i.e., YTD, quarterly):	YTD			+ -
	Date From:	1/1/2023			
	Date Paid Through:	5/30/2023			
	Net income:	\$ 31,805.00			
	Deduct nonrecurring income:	(\$ 1,300.00)	()		
	Add nonrecurring loss:				
	Depreciation:	\$ 7,500.00			
	Depletion:				
	Amortization/Casualty Loss:				
	Other:				
	SUBTOTAL	\$ 38,005.00	\$ -		
	Multiplied by Ownership Percentage:	50%			
	Shareholder's Share of Income (Loss):	\$ 19,002.50	\$ -		
	Wages:				
	Total Income:	\$ 19,002.50	\$ -		
	Monthly Income:	\$ 3,823.44	\$ -		

INCOME HAS STABILIZED

5-step process



Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123

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

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

2022

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

A S election effective date		Name DIGITAL NETWORK SYSTEMS	D Employer identification number 00-0000000
B Business activity code number (see instructions)	TYPE OR	Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated 09/01/2011
C Check if S corp. M-1 attached <input type="checkbox"/>	PRINC	City or town, state or province, country, and ZIP or foreign postal code JACKSON, TN 38301	F Total assets (see instructions) \$ 373,220

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. Yes No

H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year: _____

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

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

Income	1a Gross receipts or sales	276,000
	1b Returns and allowances	1,000
	1c Balance. Subtract line 1b from line 1a	275,000
	2 Cost of goods sold (attach Form 1125-A)	146,000
	3 Gross profit. Subtract line 2 from line 1c	129,000
	4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)	-
Deductions (see instructions for limitations)	5 Other income (loss) (see instructions - attach statement)	10,000
	6 Total income (loss). Add lines 3 through 5	139,000
	7 Compensation of officers (see instructions - attach Form 1125-E)	-
	8 Salaries and wages (less employment credits)	26,000
	9 Repairs and maintenance	8,000
	10 Bad debts	-
	11 Rents	-
	12 Taxes and licenses	2,100
	13 Interest (see instructions)	2,900
	14 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	15,000
	15 Depletion (Do not deduct oil and gas depletion)	-
Tax and Payments	16 Advertising	-
	17 Pension, profit-sharing, etc. plans	3,400
	18 Employee benefit programs	8,000
	19 Other deductions (attach statement)	INSURANCE 7,500 LEGAL FEES 1,000
	20 Total deductions. Add lines 7 through 19	73,900
	21 Ordinary business income (loss). Subtract line 20 from line 6	65,100
	22a Excess net passive income or LIFO recapture tax (see instructions)	-
22b Tax from Schedule D (Form 1120-S)	-	
22c Add lines 22a and 22b (see instructions for additional taxes)	-	
23a 2022 estimated tax payments and 2021 overpayment credited to 2022	-	
23b Tax deposited with Form 7004	-	
23c Credit for federal tax paid on fuels (attach Form 4136)	-	
23d Add lines 23a through 23c	-	
24 Estimated tax penalty (see instructions). Check if Form 2220 is attached	-	
25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed	-	
26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid	-	
27 Enter amount from line 26. Credited to 2023 estimated tax. Refunded	-	

Sign Here

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

Signature of officer	Date	Title	May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed
Firm's name V.I.P. TAX INC.	Firm's EIN 00-0000000		
Firm's address 3 PEACHTREE LANE, JACKSON, TN 38305	Phone no.		

For Paperwork Reduction Act Notice, see separate instructions. Form 1120-S (2022)

Digital Network Systems	
Income Statement	
Date:	5/30/2023
Sales	\$ 151,750
Discounts & allowances	500
Net sales	151,250
Cost of Goods Sold	80,300
Gross Profit	70,950
Other Income	
Interest income	1,300
	1,300
Expenses	
Salaries	14,300
Employee benefits	6,270
Licenses	1,155
Travel and entertainment	1,100
Insurance	4,125
Maintenance	4,400
Interest	1,595
Depreciation	7,500
Total Expenses	40,445
Net Income	\$ 31,805

4.
Validate P&L

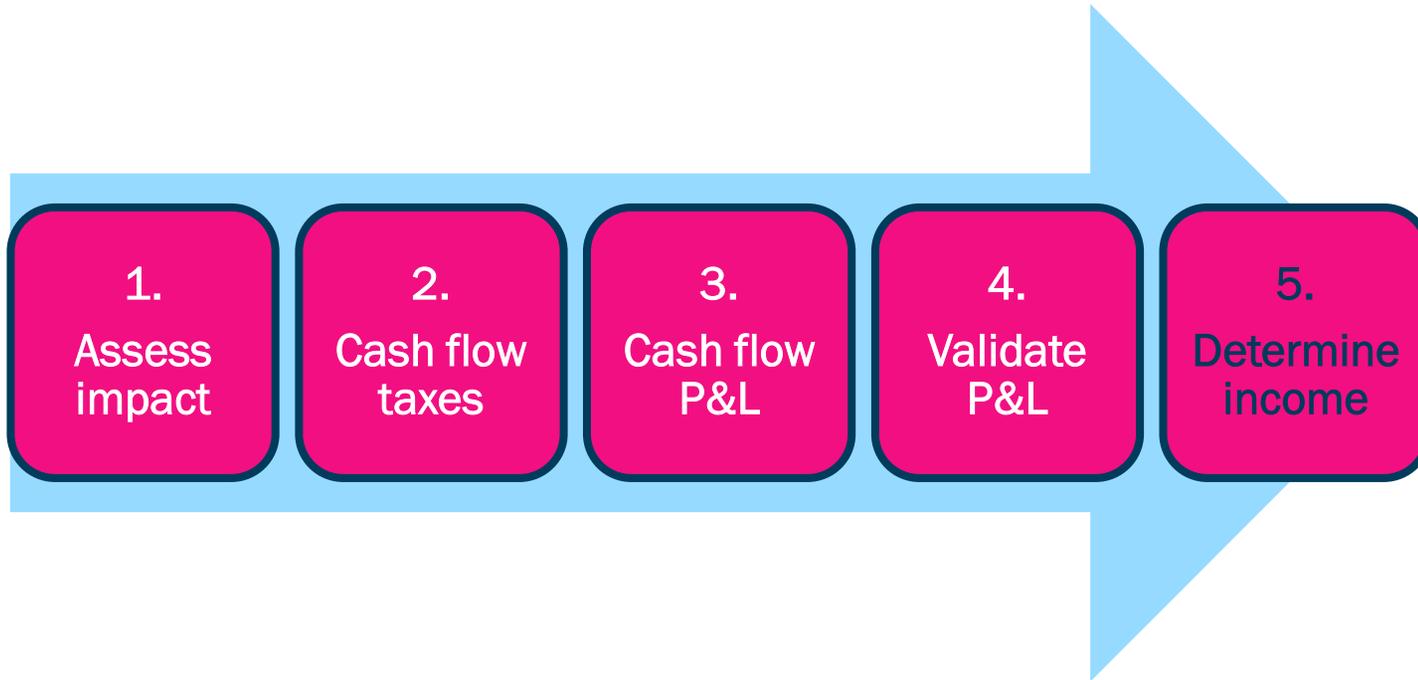
support with LOE /
bank statements if needed

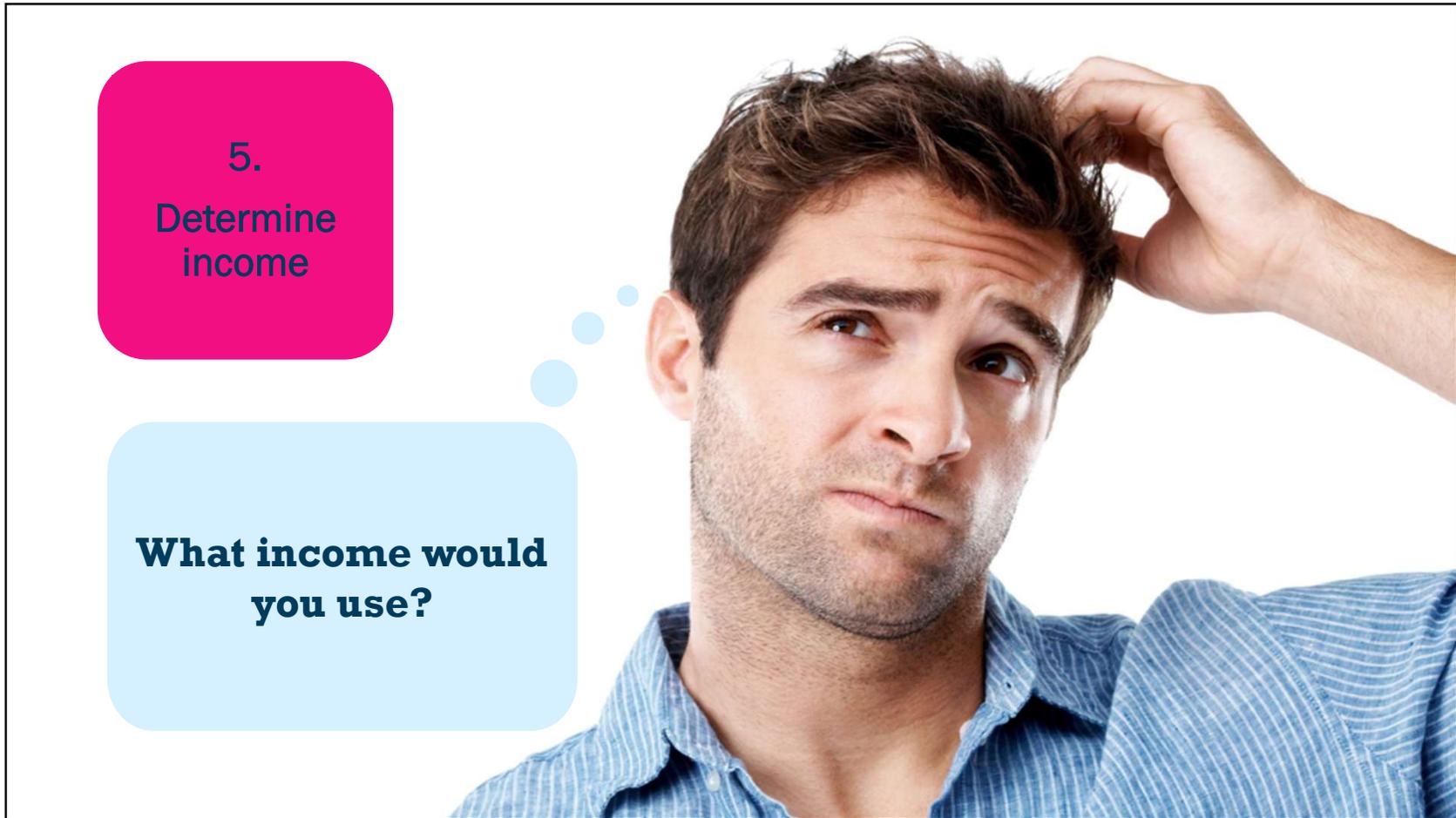
Digital Network Systems
Income Statement
Date: 5/30/2023

Sales	\$ 151,750	
Discounts & allowances	500	
Net sales	151,250	
Cost of Goods Sold	80,300	
Gross Profit		70,950
Other Income		
Interest income	1,300	1,300
Expenses		
Salaries	14,300	
Employee benefits	6,270	
Licenses	1,155	
Travel and entertainment	1,100	
Insurance	4,125	
Maintenance	4,400	
Interest	1,595	
Depreciation	7,500	
Total Expenses		40,445
Net income		<u>\$ 31,805</u>



5-step process





5.
Determine
income

**What income would
you use?**

SAM Cash Flow Analysis Summary



SAM Cash Flow Analysis Worksheet with P&L										MGIC
<ul style="list-style-type: none"> To modify the Total No. of Months select the applicable number from the # mo. drop-down box. To exclude a Subtotal from Qualifying Income, select the box to the left of the dollar amount. 										
Subtotal										
<input checked="" type="checkbox"/> \$ 10,000.00 <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 20px;">All business subtotals</div>										
PERSONAL CASH FLOW SUBTOTALS:										
		Subtotal	# mo.		Subtotal	# mo.	Qualifying Income	Total No. of Months		
<input type="checkbox"/>	Schedule C	\$ 38,520.00	12	<input type="checkbox"/>	\$ 36,240.00	12	\$ 3,115.00	24		
PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:										
<input type="checkbox"/>	Schedule K-1 Tanglewood Realty	\$ (3,800.00)	12	<input type="checkbox"/>	\$ (10,000.00)	12	\$ (575.00)	24		
<input type="checkbox"/>	W-2 Wages Tanglewood Realty	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24		
<input type="checkbox"/>	Form 1065 Tanglewood Realty	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24		
	Partnership Tanglewood Realty Subtotal	\$ (3,800.00)			\$ (10,000.00)		\$ (575.00)			
<input type="checkbox"/>	Schedule K-1 Westchester Development	\$ 21,000.00	12	<input type="checkbox"/>	\$ 20,000.00	12	\$ 1,708.33	24		
<input type="checkbox"/>	W-2 Wages Westchester Development	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24		
<input type="checkbox"/>	Form 1065 Westchester Development	\$ 1,200.00	12	<input type="checkbox"/>	\$ 1,000.00	12	\$ 91.67	24		
	Partnership Westchester Development Subtotal	\$ 22,200.00			\$ 21,000.00		\$ 1,800.00			
<input type="checkbox"/>	Schedule K-1 Digital Network Systems	\$ 32,550.00	12	<input checked="" type="checkbox"/>	\$ 36,900.00	0	\$ 2,712.50	12		
<input type="checkbox"/>	W-2 Wages Digital Network Systems	\$ -	12	<input checked="" type="checkbox"/>	\$ -	0	\$ -	12		
<input type="checkbox"/>	Form 1120S Digital Network Systems	\$ 7,000.00	12	<input checked="" type="checkbox"/>	\$ 9,500.00	0	\$ 583.33	12		
	S Corporation Digital Network Systems Subtotal	\$ 39,550.00			\$ -		\$ 3,295.83			
CORPORATION CASH FLOW SUBTOTALS:										
<input type="checkbox"/>	W-2 Wages Interior Innovations	\$ 54,000.00	12	<input type="checkbox"/>	\$ 43,000.00	12	\$ 4,041.67	24		
<input type="checkbox"/>	Form 1120 Interior Innovations	\$ 12,470.00	12	<input type="checkbox"/>	\$ 7,650.00	12	\$ 838.33	24		
	Corporation Interior Innovations Subtotal	\$ 66,470.00			\$ 50,650.00		\$ 4,880.00			
	Average Monthly Cash Flow (Total)						\$ 12,515.83	47		

Analysis and decision as to what income to use



SAM Cash Flow Analysis Worksheet with P&L



Cash Flow Analysis Summary

- To modify the Total No. of Months select the applicable number from the # mo. drop-down box.
- To exclude a Subtotal from Qualifying Income, select the box to the left of the dollar amount.

Subtotal
 \$ 10,000.00

PERSONAL CASH FLOW SUBTOTALS:		2022		2021		Qualifying Income		Total No. of Months	
		Subtotal	# mo.	Subtotal	# mo.				
PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:									
<input type="checkbox"/>	Schedule K-1 Digital Network Systems	\$ 32,550.00	12	<input checked="" type="checkbox"/> \$ 36,900.00	0	\$	2,712.50	12	
<input type="checkbox"/>	W-2 Wages Digital Network Systems	\$ -	12	<input checked="" type="checkbox"/> \$ -	0	\$	-	12	
<input type="checkbox"/>	Form 1120S Digital Network Systems	\$ 7,000.00	12	<input checked="" type="checkbox"/> \$ 9,500.00	0	\$	583.33	12	
	S Corporation Digital Network Systems Subtotal	\$ 39,550.00		\$ -		\$	3,295.83		
CORPORATION CASH FLOW SUBTOTALS:									
	Average Monthly Cash Flow (Total)						\$	3,295.83	

Comments / Notes (For a new line hold Alt and press Enter)

2022 average of income used due to declining income. YTD P&L as of 5/30/23 shows earnings have stabilized and are now at previous levels.



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Fannie Mae – Guidance

Selling Guide – B3-3.2-01: Underwriting Factors and Documentation for a Self-Employed Borrower (12/13/2023)



The screenshot shows the Fannie Mae website interface. At the top, there is a navigation bar with the Fannie Mae logo and links for About Us, Business Partners, Homeowners & Renters, Research & Insights, Newsroom, Careers, Contact Us, and Login. Below this is a secondary navigation bar with 'SINGLE FAMILY' and various service categories like Originating & Underwriting, Pricing & Execution, Servicing, Delivering, Learning Center, Apps & Technology, and News & Events. The main content area features a large heading 'Selling Guide' and a sub-section 'Analysis of Borrower's Business Income'. The text under this section explains the requirements for lenders when a borrower's self-employed income is used for qualification. A bulleted list highlights key considerations for the analysis, such as the recurring nature of income, year-to-year trends, and the percentage of income attributed to expenses. The page concludes with a note on the use of Fannie Mae's Comparative Income Analysis (Form 1088) and a retention requirement for the written analysis.

Fannie Mae

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SINGLE FAMILY Originating & Underwriting Pricing & Execution Servicing Delivering Learning Center Apps & Technology News & Events

Selling Guide

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.

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Freddie Mac - Guidance

Selling Guide -

5304.1(d): Stable monthly income and documentation requirements for self-employed Borrowers - Business and income analysis

Effective 02/07/2024



Freddie Mac Single-Family

Guide Home Seller/Service Relationship Selling Servicing

THE SINGLE-FAMILY SELLER/SERVICER GUIDE

Search the Guide

What can we help you find?

(d) Business and income analysis

The following chart contains requirements and guidance pertaining to business and income analysis:

Analysis	
Topic	Requirements and guidance
Business and income analysis	<p>Business review and analysis:</p> <p>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.</p> <ul style="list-style-type: none"> 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. <p>Use of business income reported on the Borrower's federal individual income tax returns</p> <ul style="list-style-type: none"> For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the Borrower's federal individual income tax returns 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

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Comparative Income Analysis

Line items entered in table Auto-calculate in matrix:

- % Changes
- Comparisons



Comparative Income Analysis Worksheet



Business Name:	Digital Network Systems		Date:				Annualization date:	6/30/2023	
Completed by:			Select the Year(s):						
	2021	2022	2023						
Gross Receipt/Sales	\$ 264,000	\$ 276,000	\$ 303,500						
Returns & Allowances	\$ 1,000	\$ 1,000	\$ 1,000						
Cost of Goods Sold	\$ 141,000	\$ 146,000	\$ 160,600						
Total deductions/Total expenses	\$ 73,200	\$ 73,900	\$ 80,890						
- Total deductions for Partnership, S Corporation or Corporation									
- Total expenses for Sole Proprietorship									
Taxable Income	\$ 53,800	\$ 65,100	\$ 63,610						
- Ordinary Income (Loss) for Partnership/S Corporation									
- Taxable Income (Loss) for Corporation									
- Net Profit (Loss) for Sole Proprietorship									

Gross Receipts/Sales	\$	264,000	\$	276,000	\$	303,500		
% Change				+5%		+10%		
Gross Income	\$	263,000	\$	275,000	\$	302,500		
(Gross Receipts/Sales - Returns & Allowances)								
% Change				+5%		+10%		
Cost of Goods Sold (CGS)	\$	141,000	\$	146,000	\$	160,600		
% Change				+4%		+10%		
Expenses	\$	214,200	81% *	\$	219,900	80% *	\$	241,490 80% *
(CGS + Total deductions/Total expenses)								
% Change				+3%		+10%		
Gross Profits	\$	122,000	\$	129,000	\$	141,900		
(Gross Receipts/Sales - Returns & Allowances - CGS)								
% Change				+6%		+10%		
Taxable Income	\$	53,800	20% **	\$	65,100	24% **	\$	63,610 21% **
% Change				+21%		-2%		

*Annual % of Expenses compared to Gross Income **Annual % of Taxable Income compared to Gross Income

A look into the future based on the present

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Casualty losses ... Now what?

Casualty losses

- A casualty occurs when your property is damaged as a result of a disaster such as a storm, fire, car accident or similar event
- A theft occurs when someone steals your property

A sudden event * Unexpected * Unanticipated * Unintended * Unusual



Per the IRS

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The screenshot shows the IRS website interface. At the top left is the IRS logo. To the right are links for 'Help', 'News', 'English', 'Charities & Nonprofits', and 'Tax Pros'. Below this is a navigation bar with 'File', 'Pay', 'Refunds', 'Credits & Deductions', and 'Forms & Instructions', along with a search box. The breadcrumb trail reads: Home / File / Businesses and Self-Employed / Small Business and Self-Employed / Disaster assistance and emergency relief for individuals and businesses. The main heading is 'Disaster assistance and emergency relief for individuals and businesses'. Below this is a section titled 'Casualty Losses' with the following text: 'Affected taxpayers in a federally declared disaster area have the option of claiming disaster-related casualty losses on their federal income tax return for either the year in which the event occurred, or the prior year. Taxpayers choosing to claim their losses on their 2022 return have extra time, until Oct. 15, 2024, to make this election. See Publication 547 for details. Individuals may deduct personal property losses that are not covered by insurance or other reimbursements. For details, see Form 4684, Casualties and Thefts PDF and its instructions PDF. Affected taxpayers claiming the disaster loss on their return should put FEMA disaster declaration number, 4756-DR on any return. See Publication 547 for details.'

Source: www.irs.gov

Effect of a temporary closure of a business



- A business must be open and operating
- A gap in employment or a reduction of income cannot be excluded from the calculation, and the year-to-date income must continue to be calculated over the entire period





Net operating losses ... Now what?

Net operating loss (NOL)

- For income tax purposes, a net operating loss (NOL) is the result when a company's allowable deductions exceed its taxable income within a tax period. The NOL can generally be used to offset a company's tax payments in other tax periods through an IRS provision called a loss carryforward.

Total Operating Expenses > **Total Operating Income** = **Net Operating Loss**



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Why worry about NOLs?

Prior business

- Not as concerning
- Still need LOE

Current business

- When?
- Why?
- How much?



Question:

Can you always add
back in NOLs?

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NOL
On Schedule C



SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)

OMB No. 1545-0074
2022
Attachment Sequence No. 09

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

Name of proprietor: _____ Social security number (SSN): _____

A Principal business or profession, including product or service (see instructions) **B** Enter code from instructions _____

C Business name, if no separate business name, leave blank. **D** Employer ID number (EIN) (see instr.) _____

E Business address (including suite or room no.), city, town or post office, state, and ZIP code _____

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

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

H If you started or acquired this business during 2022, check here Yes No

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

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

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	60,000
2	Returns and allowances	2
3	Subtract line 2 from line 1	3
4	Cost of goods sold (from line 42)	4
5	Gross profit. Subtract line 4 from line 3	5
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7	Gross income. Add lines 5 and 6	60,000

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

8	Advertising	8	18	Office expense (see instructions)	18
9	Car and truck expenses (see instructions)	9	19	Pension and profit-sharing plans	19
10	Commissions and fees	10	20	Rent or lease (see instructions):	20a
11	Contract labor (see instructions)	11	a	Vehicles, machinery, and equipment	20a
12	Depreciation	12	b	Other business property	20b
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21	Repairs and maintenance	21
14	Employee benefit programs (other than on line 19)	14	22	Supplies (not included in Part III)	22
15	Insurance (other than health)	15	23	Taxes and licenses	23
16	Interest (see instructions):	16a	24	Travel and meals:	24
a	Mortgage (paid to banks, etc.)	16a	a	Travel	24a
b	Other	16b	b	Deductible meals (see instructions)	24b
17	Legal and professional services	17	25	Utilities	25
18	Legal and professional services	18	26	Wages (less employment credits)	26
19	Legal and professional services	19	27a	Other expenses (from line 48)	27a
20	Legal and professional services	20	b	Reserved for future use	27b
21	Legal and professional services	21	28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28
22	Legal and professional services	22	29	Tentative profit or (loss). Subtract line 28 from line 7	29
23	Legal and professional services	23	30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30
24	Legal and professional services	24	31	Net profit or (loss). Subtract line 30 from line 29	31
25	Legal and professional services	25			
26	Legal and professional services	26			
27	Legal and professional services	27			
28	Legal and professional services	28			
29	Legal and professional services	29			
30	Legal and professional services	30			
31	Legal and professional services	31			
32	Legal and professional services	32			
33	Legal and professional services	33			
34	Legal and professional services	34			
35	Legal and professional services	35			
36	Legal and professional services	36			
37	Legal and professional services	37			
38	Legal and professional services	38			
39	Legal and professional services	39			
40	Legal and professional services	40			
41	Legal and professional services	41			
42	Legal and professional services	42			
43	Legal and professional services	43			
44	Legal and professional services	44			
45	Legal and professional services	45			
46	Legal and professional services	46			
47	Legal and professional services	47			
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92	Legal and professional services	92			
93	Legal and professional services	93			
94	Legal and professional services	94			
95	Legal and professional services	95			
96	Legal and professional services	96			
97	Legal and professional services	97			
98	Legal and professional services	98			
99	Legal and professional services	99			
100	Legal and professional services	100			

31 **40,000**

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

For Paperwork Reduction Act Notice, see the separate instructions. Cit. No. 1133AP Schedule C (Form 1040) 2022

Schedule C (Form 1040) 2022 Page 2

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a <input type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)	
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes <input type="checkbox"/> No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35
36	Purchases less cost of items withdrawn for personal use	36
37	Cost of labor. Do not include any amounts paid to yourself	37
38	Materials and supplies	38
39	Other costs	39
40	Add lines 35 through 39	40
41	Inventory at end of year	41
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42

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

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

44 Of the total number of miles you drove your vehicle during 2022, enter the number of miles you used your vehicle for:
a Business _____ b Commuting (see instructions) _____ c Other _____

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

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

47a Do you have evidence to support your deduction? Yes No
b If "Yes," is the evidence written? Yes No

Part V Net Operating Loss (2020) included on lines 8-26 or line 30 **-25,000**

NOL
On Form 1120

MGIC

1120 U.S. Corporation Income Tax Return
 Department of the Treasury Internal Revenue Service
 For calendar year 2022 or tax year beginning _____, 2022, ending _____, 20 **2022**
 Go to www.irs.gov/Form1120 for instructions and the latest information.

OMB No. 1545-0123

A Check if:
 1a Consolidated return (attach Form 951)
 b Lifeoflife consolidated return
 2 Personal holding co. (attach Sch. 547)
 3 Personal service corp. (see instructions)
 4 Schedule M-3 attached

TYPE OR PRINT

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

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

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

1a	Gross receipts or sales	1a	
b	Returns and allowances	1b	
c	Balance. Subtract line 1b from line 1a	1c	
2	Cost of goods sold (attach Form 1125-A)	2	
3	Gross profit. Subtract line 2 from line 1c	3	
4	Dividends and inclusions (Schedule C, line 23)	4	
5	Interest	5	
6	Gross rents	6	
7	Gross royalties	7	
8	Capital gain net income (attach Schedule D (Form 1120))	8	
9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9	
10	Other income (see instructions—attach statement)	10	
11	Total income. Add lines 3 through 10	11	
12	Compensation of officers (see instructions—attach Form 1125-E)	12	
13	Salaries and wages (less employment credits)	13	
14	Repairs and maintenance	14	
15	Bad debts	15	
16	Rents	16	
17	Taxes and licenses	17	
18	Interest (see instructions)	18	
19	Charitable contributions	19	
20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	
21	Depletion	21	
22	Advertising	22	
23	Pension, profit-sharing, etc., plans	23	
24	Employee benefit programs	24	
25	Reserved for future use	25	
26	Other deductions (attach statement)	26	
27	Total deductions. Add lines 12 through 26	27	
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	
29a	Net operating loss deduction (see instructions)	29a	-25,000
b	Special deductions (Schedule C, line 24)	29b	
c	Add lines 29a and 29b	29c	
30	Taxable income. Subtract line 29c from line 28. See instructions	30	
31	Total tax (Schedule J, Part I, line 11)	31	
32	Reserved for future use	32	
33	Total payments and credits (Schedule J, Part III, line 23)	33	
34	Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	34	
35	Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed	35	
36	Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid	36	
37	Enter amount from line 36 you want: Credited to 2023 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	37	

Sign Here
 Signature of officer _____ Date _____ Title _____
 Print/type preparer's name _____ Preparer's signature _____ Date _____ Check if PTIN self-employed
 Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11450Q Form 1120 (2022)

NOL

On Schedule 1



SCHEDULE 1
(Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074
2022
Attachment Sequence No. 01

Department of the Treasury
Internal Revenue Service

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR _____ Your social security number _____

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	25,000
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	
k	Stock options	8k	
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n	Section 951(a) inclusion (see instructions)	8n	
o	Section 951A(a) inclusion (see instructions)	8o	
p	Section 461(f) excess business loss adjustment	8p	
q	Taxable distributions from an ABL account (see instructions)	8q	
r	Scholarship and fellowship grants not reported on Form W-2	8r	
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u	Wages earned while incarcerated	8u	
z	Other income. List type and amount:	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2022

Is it associated with the business?

Does it affect cash flow?

Purpose of cash flow analysis

MGIC

Verify qualifying income that is

- ✓ Stable
- ✓ Likely to continue





SS0

mgic.com/seb

The screenshot displays the MGIC website's landing page for self-employed borrower and income analysis calculators. The page features a dark blue header with the MGIC logo and navigation links: Rates, Underwriting, Origination/ Servicing, Training, Tools, Mortgage Counselors, and About MGIC. A pink button labeled 'Get a quick quote' is positioned in the top right. The main content area has a light blue background with the title 'Self-employed borrower and income analysis calculators' and a sub-headline: 'Editable and auto-calculating worksheets fitted specifically for loan officers and mortgage pros.' To the right is a colorful geometric logo. Below this is a breadcrumb trail 'MGIC > underwriting >'. A photograph shows a person using a laptop displaying a calculator interface. The text below the photo reads: 'Gain instant access to MGIC's enhanced self-employed borrower and income analysis calculators'. It further states: 'Equipped for speed and accuracy, our editable and auto-calculating worksheets are now available in macro-enabled and macro-free versions.' Two update sections are listed: 'Updated for tax year 2023' with bullet points for 'All-in-one self-employed income calculator' and 'Rental income calculator'; and 'Updated for 2024' with a bullet point for 'Employment and other income calculator'. A 'Gain access now' link is at the bottom.

Slide 67

SS0

Replace with new web screen shot

Sandra Sweeney, 2024-01-29T16:48:44.963

MGIC Rates Underwriting Ordering / Servicing Training Tools Mortgage Connects About MGIC [Get a quick quote](#)

SEB and income analysis calculators and resources

Explore and download MGIC's editable, auto-calculating self-employed borrower and employment and other income worksheets and resources.

MGIC > Underwriting > seb >

[Overview video](#) [Updated calculators](#) [Additional resources](#) [FAQs](#)

Updated cash flow analysis worksheets for tax year 2023

Now available for downloading, MGIC's popular income analysis worksheets include:

- All-in-one self-employed income calculator, including 4 worksheets to analyze your borrower's income
- Employment and other income calculator
- Rental income calculator

[Watch our overview video](#) ▶

[Download the calculators below](#) ▶

Overview & demo: All-in-one self-employed income calculator

Updated calculators - available in macro-enabled or macro-free versions

All-in-one self-employed income calculator

Incorporates 4 worksheets, including SAM cash flow analysis, liquidity, comparative income analysis and P&L analysis. (2/16/2024)

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All-in-one self-employed income calculator - Short

A condensed version of our macro-free self-employed calculator with just one of each type of business entity. (2/16/2024)

[Download and save](#)

Employment & other income calculator

Designed to calculate salaried borrowers' monthly qualifying income (fixed and variable) and gross-up non-taxable income. (2/16/2024)

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Rental income calculator

Cash flow income from a principal residence (2-4 Unit), investment property or business rental by review of tax returns or leases. (2/16/2024)

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Evaluating & Calculating Borrowers' Income

Watch this training series on evaluating and calculating borrowers' income, broken down into 6 individual modules that each focus on a specific type of income.

Explore the series >

<https://www.mgic.com/training/magic-minutes-training-series>

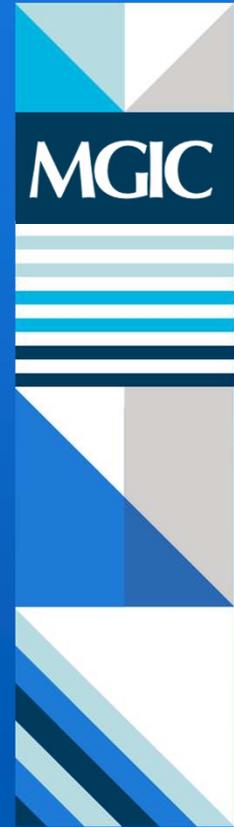
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