

Evaluating Self-Employed Borrowers **TAX YEAR 2023**

Overcoming Tough Challenges

MGIC



Legal disclaimer

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What we're covering today

- The “why” behind the guidelines
- Documentation review
- The 5-step process to evaluating income
- Case study
- Your questions

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

Jean-Baptiste Alphonse Karr

Purpose of cash flow analysis

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Verify qualifying income that is:

- Stable
- Likely to continue



Subjectivity or “gray areas” in lending

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

Intent or spirit of guidelines

- 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"

 Fannie Mae®

 Freddie Mac

How many years of tax returns are needed?

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8

Freddie Mac Loan Product Advisor®

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.

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

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 Guild for additional information. (MSG ID 3733)

BUSINESS NAME	YEARS OF TAX RETURNS REQUIRED
me.com	Two-years
you.com	One-year

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 the same business
3. Individual tax returns show an increase over the past 2 years

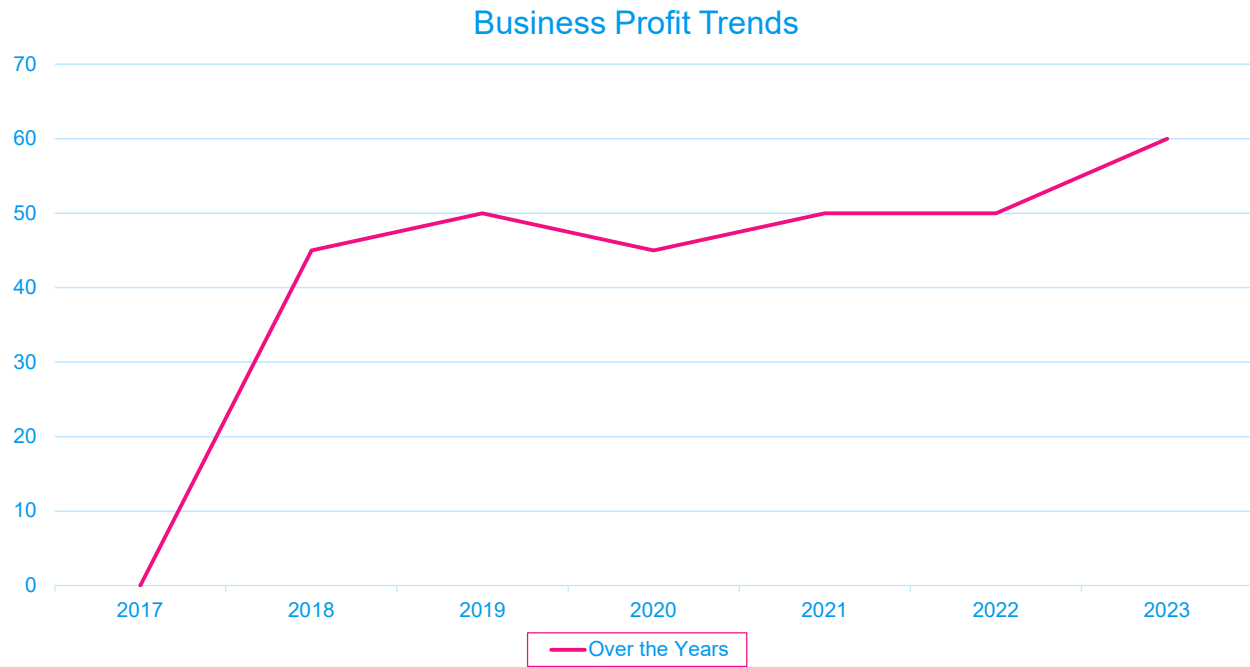
Scenario – loan approved through DU

Can business returns be waived?

2022	2023
W2 income from business = \$55,000	W2 income from business = \$75,000
Business income from S corp = \$105,000	Business income from S corp = \$65,000
Total = \$160,000	Total = \$140,000



Why is this important?



What tax returns are needed?



Most recent tax returns filed with the IRS

Tax returns – most recent calendar year not yet available

1. Obtain a copy of the extension
2. Obtain IRS response from filing of IRS Form 4506-C

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 2023, or other tax year beginning , 2023, and ending , 20 . **2023**

Part I Identification		Part II Individual Income Tax	
1 Your name(s) (see instructions)		4 Estimate of total tax liability for 2023 . . . \$	
Address (see instructions)		5 Total 2023 payments	
City, town, or post office	State ZIP code	6 Balance due. Subtract line 5 from line 4. See instructions	
2 Your social security number	3 Spouse's social security number	7 Amount you're paying (see instructions)	
		8 Check here if you're "out of the country" and a U.S. citizen or resident. See instructions <input type="checkbox"/>	
		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** (2023)

Additional due diligence

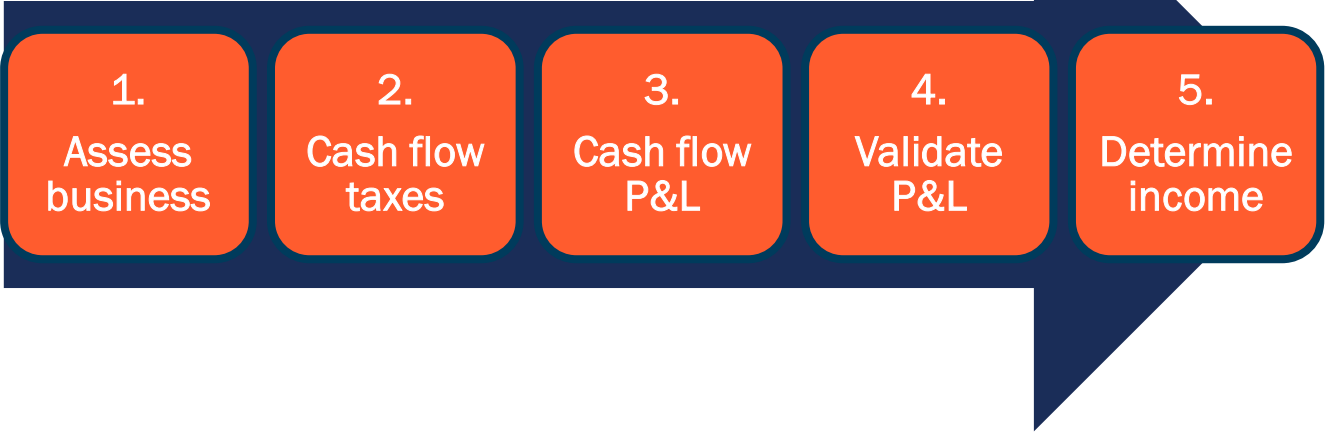
- Review of tax liability on IRS Form 4868 (Extension)
- Analysis of financial statement since last tax filing
- Review of most recent 3 to 6 months' business bank statements
- Review of W-2s, 1099s and/or K-1s

Were you with us during the pandemic?

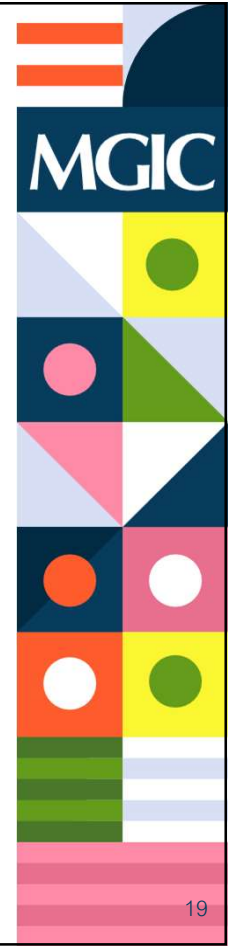
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18

5-step process



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Meet Jay, our loan officer

Loan Application

1b. Current Employment/Self-Employment and Income Does not apply

Employer or Business Name SPEEDY REPAIR SERVICES Phone (999) 999 - 9999

Street 123 MAIN STREET Unit # _____

City ANYTOWN State GA ZIP 99999 Country _____

Position or Title OWNER

Start Date 1 / 15 / 2000 (mm/dd/yyyy)

How long in this line of work? 4 Years _____ Months

Check if you are the Business Owner or Self-Employed I have an ownership share of less than 25%. **Monthly Income (or Loss)** \$ _____

I have an ownership share of 25% or more. \$ _____

Check if this statement applies:
 I am employed by a family member, property seller, real estate agent, or other party to the transaction.

Gross Monthly Income

Base \$ _____ /month

Overtime \$ _____ /month

Bonus \$ _____ /month

Commission \$ _____ /month

Military Entitlements \$ _____ /month

Other \$ _____ /month

TOTAL \$ 0.00/month

Uniform Residential Loan Application
 Freddie Mac Form 65 • Fannie Mae Form 1003
 Effective 1/2021



My borrower is telling me that another lender told him only 1 year of personal and business tax returns were needed because, although he bought the business 4 years ago, the business has been in existence for 10 years. He also has been self-employed in another business for over 20 years. I wanted to confirm what documentation is needed.

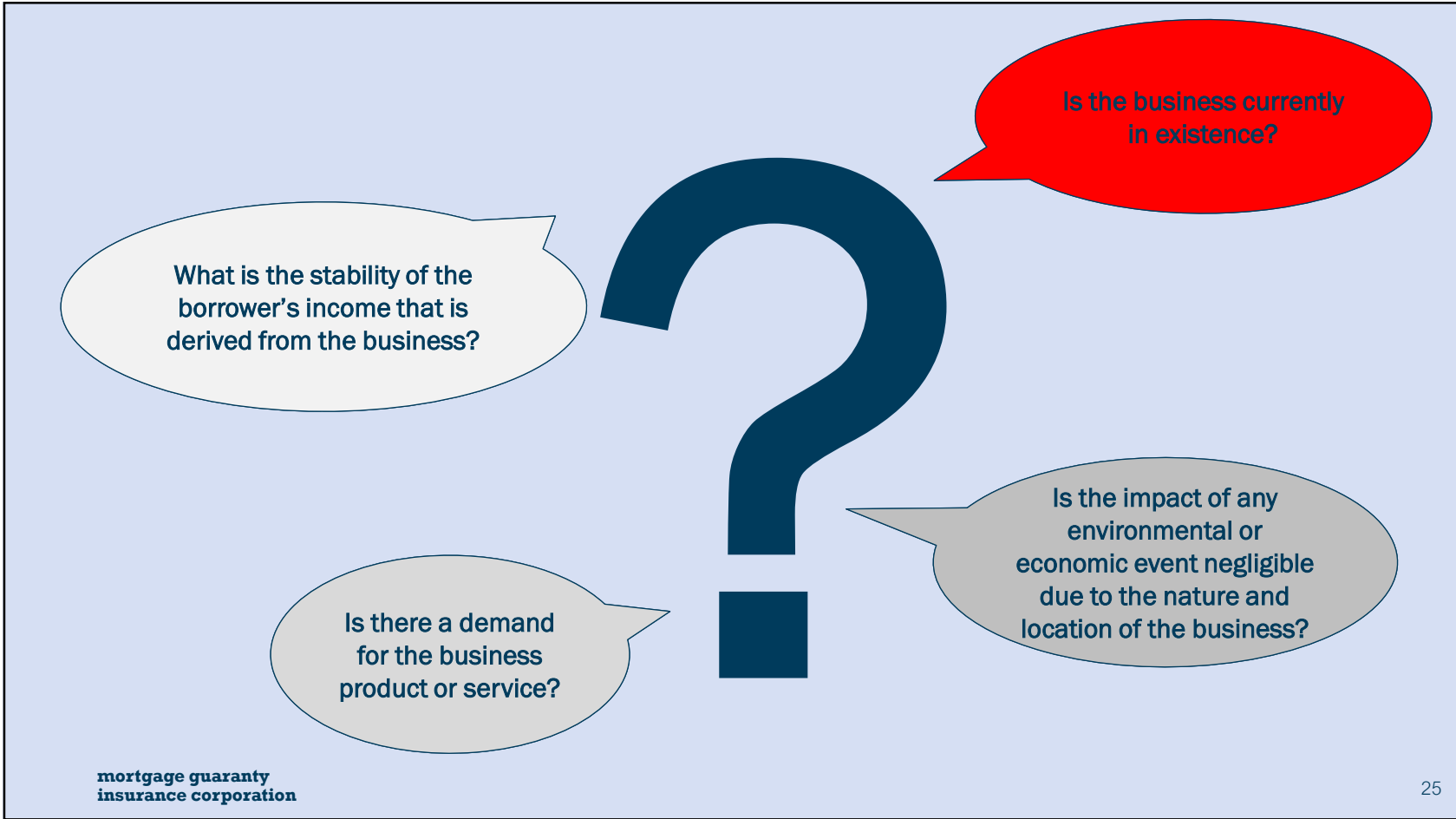
1.
**Assess
business**

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

mortgage questions
business operations



24



NOL

On Schedule 1

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Form **1040** Department of the Treasury—Internal Revenue Service **2023** 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, 2023, or other tax year beginning, 2023, ending, 20 See separate instructions.

Your first name and middle initial Last name Your social security number

Form 1040 (2023) Page **2**

Tax and Credits

16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16
17 Amount from Schedule 2, line 3	17

SCHEDULE 1
(Form 1040)
Department of the Treasury
Internal Revenue Service
Name(s) shown on Form 1040, 1040-SR, or 1040-NR

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

OMB No. 1545-0074
2023
Attachment Sequence No. **01**

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. This is your additional income . 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) 2023

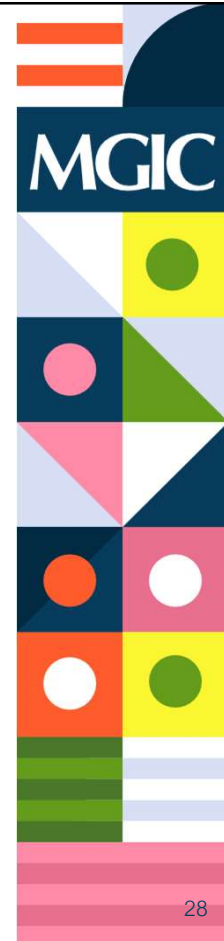


Net operating losses ... Now what?

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.

$$\text{Total Operating Expenses} > \text{Total Operating Income} = \text{Net Operating Loss}$$



MGIC SEB class notes

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When can you add back in NOLs?

1. Unlikely to reoccur
2. Associated with the business
3. Affects business cash flow

NOL

- On Schedule C

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

OMB No. 1545-0047 **2023** Attachment Sequence No. 09

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

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 instructions) _____

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 2023? If "No," see instructions for limit on losses. Yes No

H If you started or acquired this business during 2023, check here _____

I Did you make any payments in 2023 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. 1 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. 7 60,000

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

8 Advertising 8

9 Car and truck expenses (see instructions) 9

10 Commissions and fees 10

11 Contract labor (see instructions) 11

12 Depreciation 12

13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions) 13 14,000

14 Employee benefit programs (other than on line 19) 14

15 Insurance (other than health) 15

16 Interest (see instructions): a Mortgage (paid to banks, etc.) 16a b Other 16b

17 Legal and professional services 17

18 Office expense (see instructions) 18

19 Pension and profit-sharing plans 19

20 Rent or lease (see instructions): a Vehicles, machinery, and equipment 20a b Other business property 20b

21 Repairs and maintenance 21

22 Supplies (not included in Part III) 22

23 Taxes and licenses 23

24 Travel and meals: a Travel 24a b Deductible meals (see instructions) 24b

25 Utilities 25

26 Wages (less employment credits) 26

27a Other expenses (from line 48) 27a b Energy efficient commercial bldgs deduction (attach Form 7205) 27b

28 Total expenses before expenses for business use of home. Add lines 8 through 27b. 28 25,000

29 Tentative profit or (loss). Subtract line 28 from line 7. 29

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. **Simplified method filers only:** Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30. 30

31 Net profit or (loss). Subtract line 30 from line 29. 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. Cat. No. 11334P Schedule C (Form 1040) 2023

Schedule C (Form 1040) 2023 Page 2

Part III Cost of Goods Sold (see instructions)

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

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

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation 35

36 Purchases less cost of items withdrawn for personal use 36

37 Cost of labor. Do not include any amounts paid to yourself. 37

38 Materials and supplies 38

39 Other costs. 39

40 Add lines 35 through 39 40

41 Inventory at end of year 41

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4. 42

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

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

44 Of the total number of miles you drove your vehicle during 2023, enter the number of miles you used your vehicle for: a Business b Commuting (see instructions) c Other

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

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

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

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

Part V Other Expenses. List below business expenses not included on lines 8-26, line 27b, or line 30.

Net Operating Loss (2020) -25,000

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

Schedule C (Form 1040) 2023

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NOL

On Form 1120

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1120 U.S. Corporation Income Tax Return
 For calendar year 2023 or tax year beginning 2023, ending 2023, ending
 Go to www.irs.gov/Form1120 for instructions and the latest information.

OMB No. 1545-0123
2023

Form 1120 Department of the Treasury Internal Revenue Service

A Check if:
 1a Consolidated return (attach Form 991)
 b Life/nonlife consolidated return
 2 Personal holding co. (attach Sch. PH)
 3 Personal service corp. (see instructions)
 4 Schedule M-3 attached

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	Energy efficient commercial buildings deduction (attach Form 7205)	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 II, 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 2024 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 self-employed PTIN _____
 Firm's name _____ Firm's address _____ Firm's EIN _____
 Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11450Q Form 1120 (2023)

NOL

On Schedule 1

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Form 1040 Department of the Treasury—Internal Revenue Service **2023** 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, 2023, or other tax year beginning 2023, ending 20 See separate instructions.

SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income OMB No. 1545-0074 **2023** 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(j) excess business loss adjustment	8p	
q	Taxable distributions from an ABLÉ 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. This is your additional income . 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) 2023

It is not associated with the business.

It does not affect cash flow.



Hello again. My borrower's personal return is showing a NOL on Schedule 1. I know I cannot add this back in, as it has no effect on the cash flowing of the business; however, I wanted to confirm if a LOE is needed.

What is our primary concern with NOLs?

Will it happen again?

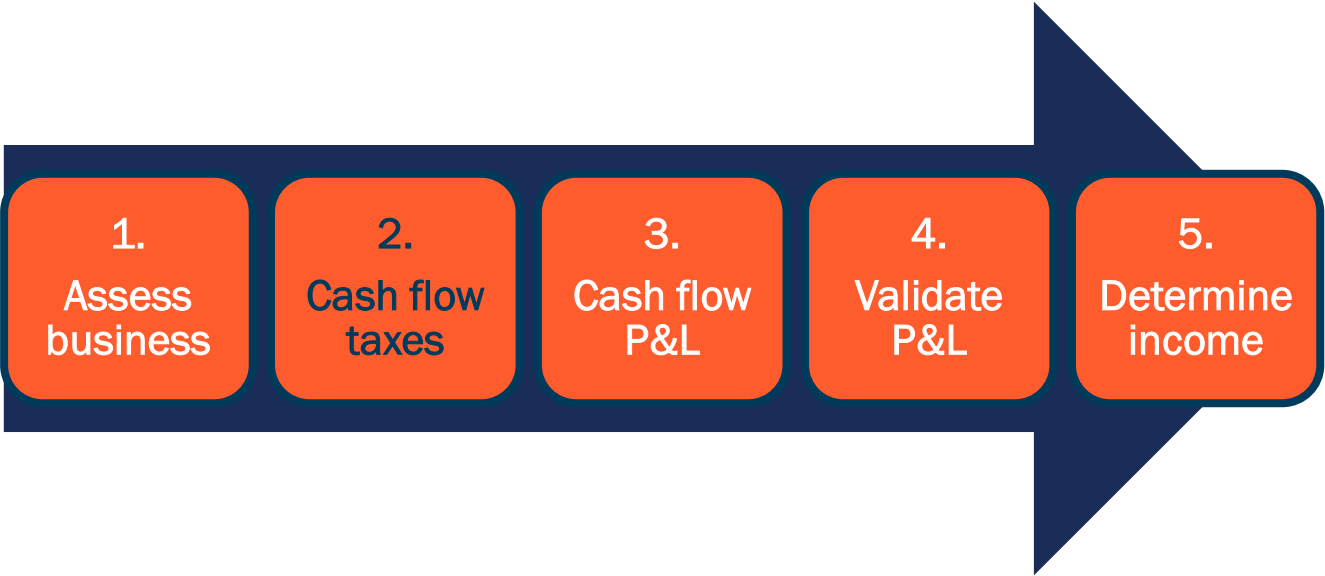
Prior business

- Not as concerning
- Still need LOE

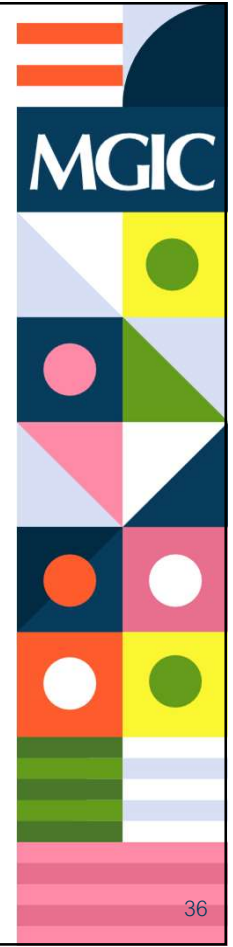
Current business

- When?
- Why?
- How much?

5-step process



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All-in-one self-employed income calculator

Excel XLSM – macro-enabled

Excel XLSX – macro-free

Excel XLSX – macro-free short

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The image displays a stack of overlapping screenshots from a financial analysis software. The top-most screenshot is the 'SAM Cash Flow Analysis Worksheet', which features a table with columns for 'PERSONAL CASH', 'PARTNERSHIP', and 'S-CORPORATION'. The table includes rows for various financial items such as 'Net Profit (Loss)', 'Deduct non-recurring income/add non-recurring loss or expense', 'Depreciation', and 'Business Use of Home'. Below the table, there are sections for 'PARTNERSHIP CASH FLOW' and 'S-CORPORATION CASH FLOW'. Other screenshots in the stack include 'Liquidity Worksheet', 'Comparative Income Analysis Worksheet', and 'Profit and Loss Statement Analysis'. The background shows a 'SAM Worksheet - Help Document' with sections for 'Sole Proprietorship', 'Single-Member LLC', and 'Partnerships'.

Noncash expenses

- Depreciation
- Depletion
- Amortization
- Business use of home

Limited IRS deductions

- Meals
- Travel & entertainment

Nonrecurring

- Other income
- One-time expenses

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SAM Cash Flow Analysis Worksheet

S Corporation Cash Flow

Evaluate business income as required by your investor.

S CORPORATION		Name:		
SCHEDULE K-1				
7	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.			
8	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.			
	SUBTOTAL	\$	-	\$
FORM W-2				
9	Wages: W-2, Box 5 (in general)			
FORM 1120S				
0	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5			
1	Depreciation: LINE 14			
2	Depreciation (FORM 8825): LINE 14			
3	Depletion: LINE 15			
4	Amortization/Casualty Loss (only if noted): LINE 21 from attached statement			
5	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	((
6	Non-Deductible Travel and Entertainment Exclusion: Schedule M-1, LINE 3b	((
	SUBTOTAL	\$	-	\$
7	Multiplied by Ownership Percentage			
	Shareholder's Total Share of Income (Loss)	\$	-	\$

Final K-1



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Schedule K-1 (Form 1120-S) 2023
Department of the Treasury Internal Revenue Service

For calendar year 2023, or tax year beginning / / 2023 ending / /

671121 OMB No. 1545-0123

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)	132,550	
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends		14 Schedule K-3 is attached if checked <input type="checkbox"/>
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		

Part I Information About the Corporation

A Corporation's employer identification number 12-3456789

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

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
REFERRAL BORROWER

G Current year allocation percentage 50 %

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 \$

IRS Use Only

Schedule K-1 (Form 1120-S)

mortgage guaranty
insurance corporation

671121
OMB No. 1545-0123

Schedule K-1 (Form 1120-S) 2023
Department of the Treasury
Internal Revenue Service

For calendar year 2023, or tax year beginning / / 2023 ending / /

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)	132,550	1	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 <input type="checkbox"/>
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			
13	Other information			
14	Other information			
15	Other information			
16	Other information			
17	Other information			
18	<input type="checkbox"/> More than one activity for at-risk purposes*			
19	<input type="checkbox"/> More than one activity for passive activity purposes*			

* See attached statement for additional information.

Part I Information About the Corporation

A Corporation's employer identification number: 12-3456789

B Corporation's name, address, city, state, and ZIP code: SPEEDY AUTO REPAIR

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: REFERRAL BORROWER

G Current year allocation percentage: 50%

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: \$ _____

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 11520D Schedule K-1 (Form 1120-S) 2023

MGIC SEB class notes



When can K-1 income be used?

1. The borrower has accessed the income (OR)
2. The business has adequate liquidity to support the withdrawal of earnings

Schedule K-1 (Form 1120-S)

mortgage guaranty
insurance corporation

671121
OMB No. 1545-0123

2023

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

For calendar year 2023, or tax year

beginning / / 2023 ending / /

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

Final K-1 Amended K-1

1 Ordinary business income (loss)	132,550	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 <input type="checkbox"/>
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 <input type="checkbox"/> More than one activity for at-risk purposes*		
19 <input type="checkbox"/> More than one activity for passive activity purposes*		

* See attached statement for additional information.

Part I Information About the Corporation

A Corporation's employer identification number
12-3456789

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

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
REFERRAL BORROWER


G Current year allocation percentage 50 %

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 \$

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 11520D Schedule K-1 (Form 1120-S) 2023



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



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

Freddie Mac Single-Family Seller/Service Guide

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5304.1 < Prev Next >

Stable monthly income and documentation requirements for self-employed Borrowers

Effective 02/07/2024

(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</p>

- 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.

Schedule L Liquidity test

Liquidity Worksheet

Schedule L - Assets

Input the Year(s):

1	Cash: Line 1, Column d
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d
3	Inventories: Line 3, Column d
4	Other: <input type="text"/>
5	Total Current Assets:
Schedule L - Liabilities	
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d
9	Total Current Liabilities:

**mortgage guaranty
insurance corporation**

Form 1120-S (2023) Page 4

Schedule K Shareholders' Pro Rata Share Items (continued)		Total amount
Other Information	17a Investment income	17a
	b Investment expenses	17b
	c Dividend distributions paid from accumulated earnings and profits	17c
	d Other items and amounts (attach statement)	
Reconciliation	18 Income (loss) reconciliation. Combine the total amounts on lines 1 through 10. From the result, subtract the sum of the amounts on lines 11 through 12d and 16f	18

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash				10,000
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
14	Other assets (attach statement)				
15	Total assets				
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock				
23	Additional paid-in capital				
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
26	Less cost of treasury stock				
27	Total liabilities and shareholders' equity				

Form 1120-S (2023)



When I am completing a liquidity test, can I add in other assets, as shown on Line 6 of Schedule L?

MGIC Liquidity Worksheet

mortgage guaranty
insurance corporation

Liquidity Worksheet		
Schedule L - Assets		Input the Year(s): ➔ 2023
1	Cash: Line 1, Column d	\$ 112,100.00
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d	\$ 122,850.00
3	Inventories: Line 3, Column d	\$ 25,000.00
4	Other: 	
5	Total Current Assets:	\$ 259,950.00
Schedule L - Liabilities		2023
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d	\$ 125,750.00
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d	\$ 65,400.00
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d	\$ 65,000.00
9	Total Current Liabilities:	\$ 256,150.00
Current Ratio		2023
	Total Current Assets: Row 5 - Assets above	\$ 259,950.00
	Total Current Liabilities: Row 9 - Liabilities above	\$ 256,150.00
	Current Ratio: <i>In general, a ratio ≥ 1 demonstrates adequate liquidity</i>	1.01
Quick Ratio		2023
	Cash, notes, accounts receivable (less bad debt) & other: Rows 1, 2 & 4 - Assets above	\$ 234,950.00
	Total Current Liabilities: Row 9 - Liabilities above	\$ 256,150.00
	Quick Ratio: <i>In general, a ratio ≥ 1 demonstrates adequate liquidity</i>	0.92

Current ratio or quick ratio?

Liquidity Worksheet



Determine business liquidity using tax return or interim balance sheet and entering the applicable line items below.

In general:

- Use the *Current Ratio* for a business that doesn't rely on inventory to generate its income (i.e., pest control company)
- Use the *Quick Ratio* for a business that relies heavily on inventory to generate its income (i.e., hardware store)

Typically, a result of 1.00 or greater for either ratio demonstrates adequate liquidity. However, it's important to use the most appropriate ratio, based on how the business operates. Investor guidelines may vary and other liquidity methods may apply. FOLLOW INVESTOR GUIDELINES.

NOTE: If there are no business liabilities, results will reflect N/A, indicating adequate liquidity.

X	Business:	J & J Property Solutions	Completed by:	Lender	Date:	
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Form 1120-S

Other income on Line 5

mortgage guaranty
insurance corporation

Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123
 Department of the Treasury Internal Revenue Service
 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.

For calendar year 2023 or tax year beginning, 2023, ending, 2023

A S election effective date Name **D** Employer identification number

B Business activity code number (see instructions) **TYPE OR PRINT** Number, street, and room or suite no. If a P.O. box, see instructions. **E** Date incorporated

City or town, state or province, country, and ZIP or foreign postal code **F** Total assets (see instructions)

C Check if Sch. M-3 attached

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 22. See the instructions for more information.

1a Gross receipts or sales	b Less returns and allowances	c Balance	1c
2 Cost of goods sold (attach Form 1125-A)			2
3 Gross profit. Subtract line 2 from line 1c			3
4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)			4
5 Other income (loss) (see instructions - attach statement)			5 20,000
6 Total income (loss). Add lines 3 through 5			6
7 Compensation of officers (see instructions - attach Form 1125-E)			7
8 Salaries and wages (less employment credits)			8
9 Repairs and maintenance			9
10 Bad debts			10
11 Rents			11
12 Taxes and licenses			12
13 Interest (see instructions)			13
14 Depreciation from Form 4562 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 Energy efficient commercial buildings deduction (attach Form 7205)			19
20 Other deductions (attach statement)			20
21 Total deductions. Add lines 7 through 20			21
22 Ordinary business income (loss). Subtract line 21 from line 6			22
23a Excess net passive income or LIFO recapture tax (see instructions)	23a		
b Tax from Schedule D (Form 1120-S)	23b		
c Add lines 23a and 23b (see instructions for additional taxes)		23c	
24a Current year's estimated tax payments and preceding year's overpayment credited to the current year	24a		
b Tax deposited with Form 7004	24b		
c Credit for federal tax paid on fuels (attach Form 4136)	24c		
d Elective payment election amount from Form 3800	24d		
z Add lines 24a through 24d		24z	
25 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>		25	
26 Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed		26	
27 Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid		27	
28 Enter amount from line 27: Credited to 2024 estimated tax Refunded		28	

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

Print/Type preparer's name Preparer's signature Date Check if self-employed PTIN

Firm's name Firm's EIN
 Firm's address Phone no.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 115104 Form 1120-S (2023)

MGIC SEB class notes

MGIC

What is needed to retain other income?

1. Other income must be identified
2. Need to understand how it is related to the business
3. Need to have an expectation of continuance or a history

Form 1120-S

Other income on Line 5

**mortgage guaranty
insurance corporation**

Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123
 Department of the Treasury Internal Revenue Service
 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.
2023
 For calendar year 2023 or tax year beginning . 2023, ending . 20

A S election effective date _____ **Name** _____ **D** Employer identification number _____
B Business activity code number (see instructions) _____ **TYPE OR PRINT** _____ **E** Date incorporated _____
 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 _____ **F** Total assets (see instructions) _____
C Check if Sch. M-3 attached _____ **S** _____

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 22. See the instructions for more information.

Income	1a	b	c	1c
1	Gross receipts or sales	Less returns and allowances		
2	Cost of goods sold (attach Form 1125-A)			
3	Gross profit. Subtract line 2 from line 1c			
4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)			
5	Other income (loss) (see instructions—attach statement)			20,000
6	Total income (loss). Add lines 3 through 5			

Form 1120S, Page 1 Detail

Line 5 – Other Income

Ordinary income from partnership – Premier Auto Detailing	20,000
Total	<u>20,000</u>

Here Signature of officer _____ Date _____ Title _____ with the preparer shown below? See instructions. Yes No

Paid Preparer Use Only
 Print/Type preparer's name _____ Preparer's signature _____ Date _____ Check if self-employed PTIN _____
 Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____
 For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form **1120-S** (2023)



I have passthrough income on a 1120-S from another company showing on Line 5. I am trying to retain this income. What documentation is needed, and what should I look for?

Schedule K-1 for company B

651123
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2023
Department of the Treasury
Internal Revenue Service

For calendar year 2023, or tax year beginning / / 2023 ending / /

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

1	Ordinary business income (loss)	20,000	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		15	Credits
3	Other net rental income (loss)		16	Schedule K-3 is attached if checked
4a	Guaranteed payments for services		17	Alternative minimum tax (AMT) items
4b	Guaranteed payments for capital		18	Tax-exempt income and nondeductible expenses
4c	Total guaranteed payments		19	Distributions
5	Interest income		20	Other information
6a	Ordinary dividends		21	Foreign taxes paid or accrued
6b	Qualified dividends		22	Other deductions
6c	Dividend equivalents			
7	Royalties			
8	Net short-term capital gain (loss)			
9a	Net long-term capital gain (loss)			
9b	Collectibles (28%) gain (loss)			
9c	Unrecaptured section 1250 gain			
10	Net section 1231 gain (loss)			
11	Other income (loss)			
12	Section 179 deduction			
13	Other deductions			

Part I Information About the Partnership

A Partnership's employer identification number

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

C IRS center where partnership filed return:
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.
SPEEDY REPAIR SERVICES

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's:
TIN _____ Name _____

I1 What type of entity is this partner?

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

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

	Beginning	Ending
Profit	25 %	25 %
Loss	25 %	25 %
Capital	20 %	20 %

Check if decrease is due to:
 Sale or Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships

K3 Check if any of the above liability is subject to guarantees or other

mortgage guaranty insurance corporation

Schedule L

Mortgages due in less than 1 year

mortgage guaranty insurance corporation

Form 1120-S (2023) Page **4**

Schedule K		Shareholders' Pro Rata Share Items (continued)		Total amount		
Other Information	17a	Investment income		17a		
	b	Investment expenses		17b		
	c	Dividend distributions paid from accumulated earnings and profits		17c		
	d	Other items and amounts (attach statement)				
Reconciliation	18	Income (loss) reconciliation. Combine the total amounts on lines 1 through 10. From the result, subtract the sum of the amounts on lines 11 through 12d and 16f			18	

Schedule L		Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)		
Assets							
1	Cash						
2a	Trade notes and accounts receivable						
b	Less allowance for bad debts	()		()			
3	Inventories						
4	U.S. government obligations						
5	Tax-exempt securities (see instructions)						
6	Other current assets (attach statement)						
7	Loans to shareholders						
8	Mortgage and real estate loans						
9	Other investments (attach statement)						
10a	Buildings and other depreciable assets						
b	Less accumulated depreciation	()		()			
11a	Depletable assets						
b	Less accumulated depletion	()		()			
12	Land (net of any amortization)						
13a	Intangible assets (amortizable only)						
b	Less accumulated amortization	()		()			
14	Other assets (attach statement)						
15	Total assets						
Liabilities and Shareholders' Equity							
16	Accounts payable						
17	Mortgages, notes, bonds payable in less than 1 year					65,400	
18	Other current liabilities (attach statement)						
19	Loans from shareholders						
20	Mortgages, notes, bonds payable in 1 year or more						
21	Other liabilities (attach statement)						
22	Capital stock						
23	Additional paid-in capital						
24	Retained earnings						
25	Adjustments to shareholders' equity (attach statement)						
26	Less cost of treasury stock	()		()			
27	Total liabilities and shareholders' equity						

Form **1120-S** (2023)

MGIC SEB class notes



What are the benefits of determining business liquidity?

1. Supports the use of ordinary income from Schedule K-1
2. Omits mortgages/notes/bonds due in less than 12 months
3. Alleviates concerns of use of business income from cash flowing

MGIC Liquidity Worksheet

mortgage guaranty
insurance corporation

Liquidity Worksheet		
Schedule L - Assets		Input the Year(s): ➔ 2023
1	Cash: Line 1, Column d	\$ 112,100.00
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d	\$ 122,850.00
3	Inventories: Line 3, Column d	\$ 25,000.00
4	Other: <input type="text"/>	
5	Total Current Assets:	\$ 259,950.00
Schedule L - Liabilities		2023
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d	\$ 125,750.00
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d	\$ 65,400.00
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d	\$ 65,000.00
9	Total Current Liabilities:	\$ 256,150.00
Current Ratio		2023
	Total Current Assets: Row 5 - Assets above	\$ 259,950.00
	Total Current Liabilities: Row 9 - Liabilities above	\$ 256,150.00
	Current Ratio: <i>In general, a ratio ≥ 1 demonstrates adequate liquidity</i>	1.01
Quick Ratio		2023
	Cash, notes, accounts receivable (less bad debt) & other: Rows 1, 2 & 4 - Assets above	\$ 234,950.00
	Total Current Liabilities: Row 9 - Liabilities above	\$ 256,150.00
	Quick Ratio: <i>In general, a ratio ≥ 1 demonstrates adequate liquidity</i>	0.92



I have another question on this loan. I am trying to use my calculated liquidity test to not have to deduct mortgages due in less than 1 year. The current ratio is >1 and my quick ratio is <1 . Should inventory be included in this assessment?

2.
Cash flow taxes

S CORPORATION		Name:	2023	2022
SAM Cash Flow Analysis Worksheet MGIC				
Evaluate business income as required by your investor.				
SCHEDULE K-1				
37	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.		\$ 132,550.00	\$ 142,000.00
38	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.			
	SUBTOTAL		\$ 132,550.00	\$ 142,000.00
FORM W-2				
39	Wages: W-2, Box 5 (in general)		\$ 85,750.00	\$ 105,000.00
FORM 1120S				
40	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5			
41	Depreciation: LINE 14		\$ 25,750.00	\$ 17,500.00
42	Depreciation (FORM 8825): LINE 14			
43	Depletion: LINE 15			
44	Amortization/Casualty Loss (only if noted): from attached statement			
45	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d		()	()
46	Non-Deductible Travel and Entertainment Exclusion: Schedule M-1, LINE 3b		(\$ 2,500.00)	(\$ 2,200.00)
	SUBTOTAL		\$ 23,250.00	\$ 15,300.00
47	Multiplied by Ownership Percentage		50.00%	50.00%
	Shareholder's Total Share of Income (Loss)		\$ 11,625.00	\$ 7,650.00
			\$229,925	\$254,650
			/12 = \$19,160	/12 = \$21,221

DECLINING INCOME

61



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.

63

Declining income – What should you request?

1. YTD P&L
2. Balance sheet
3. Letter of explanation
4. Additional tax returns
5. 3-6 months of bank statements
6. Additional supporting documentation

Yikes! The ratios do not meet the guidelines.

III. Underwriting Information			
Underwriter's Name		Appraiser's Name/License #	
Appraisal Company Name			
Stable Monthly Income			
	Borrower	Co-Borrower	Total
Base Income	\$ 19,160.00	\$	\$ 19,160.00
Other Income	\$	\$	\$ 0.00
Positive Cash Flow (subject property)	\$	\$	\$ 0.00
Total Income	\$ 19,160.00	\$ 0.00	\$ 19,160.00
Qualifying Ratios		Loan-to-Value Ratios	
Primary Housing Expense/Income	31.93 %	LTV	80 %
Total Obligations/Income	51.02 %	CLTV/TLTV	80 %
Debt-to-Housing Gap Ratio (Freddie)		HQLTV/HTLTV	
Qualifying Rate		Level of Property Review	
<input type="checkbox"/> Note Rate		<input type="checkbox"/> Exterior/Interior	
<input type="checkbox"/> % Above Note Rate		<input type="checkbox"/> Exterior Only	
<input type="checkbox"/> % Below Note Rate		<input type="checkbox"/> No Appraisal	
<input type="checkbox"/> Bought-Down Rate		Form Number:	
<input type="checkbox"/> Other			
Present Housing Payment:		\$	
Proposed Monthly Payments		\$	
Borrower's Primary Residence		\$	
First Mortgage P&I		\$ 6,621.00	
Second Mortgage P&I		\$	
Hazard Insurance		\$ 437.00	
Taxes		\$ 593.00	
Mortgage Insurance		\$	
HOA Fees		\$	
Lease/Ground Rent		\$	
Other		\$	
Total Primary Housing Expense		\$ 7,651.00	
Other Obligations		\$	
Negative Cash Flow (subject property)		\$	
All Other Monthly Payments		\$ 2,125.00	
Total All Monthly Payments		\$ 9,776.00	
Borrower Funds to Close		\$	

32

51

MGIC

I'm so sorry to bother you, but I'm struggling with a high debt-to-income ratio on this loan. If I obtain a YTD P&L provided by the CPA firm on their letterhead, can I use the P&L income in my income calculation?

**mortgage guaranty
insurance corporation**

66

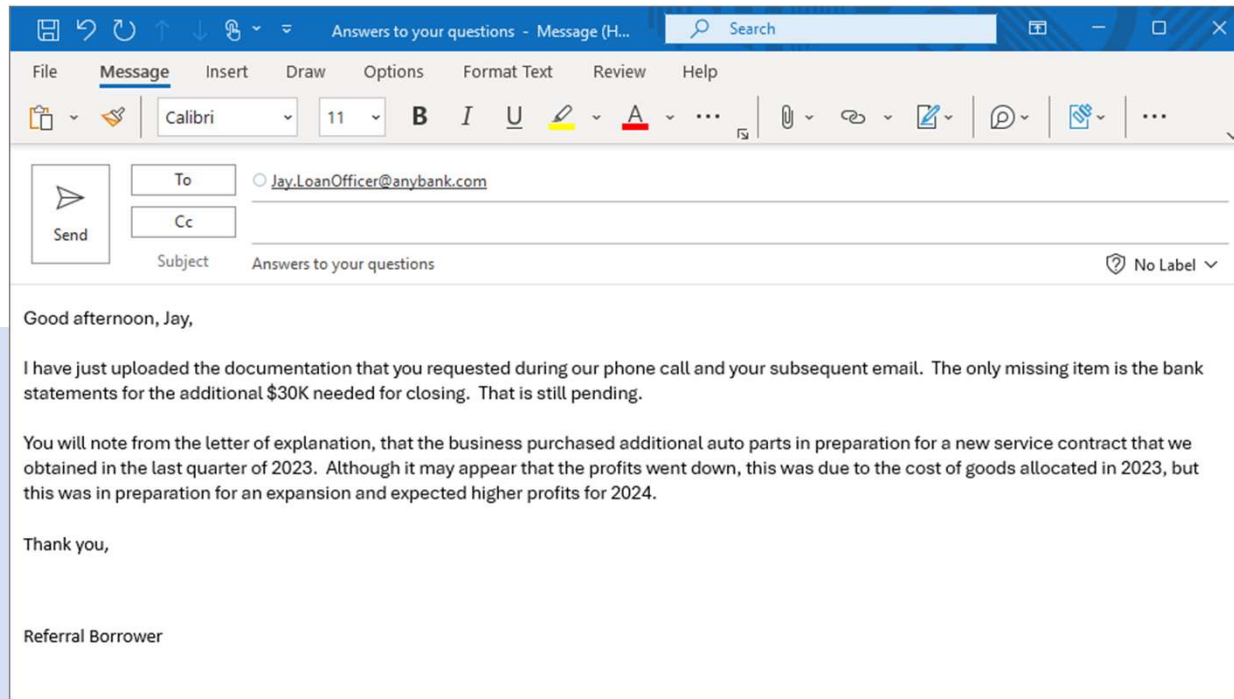


Phone call to borrower

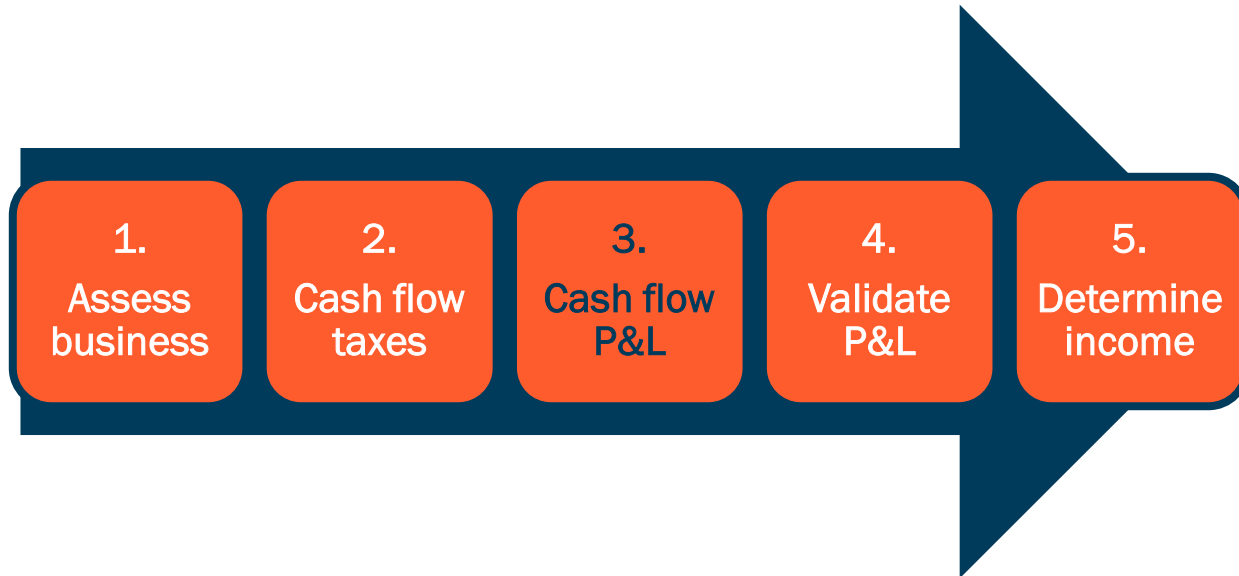
List of items requested from borrower:

1. Explanation of NOL
2. Copy of note (mortgages due < 1 year)
3. Explanation for declining income
4. YTD P&L statement
5. 3 months of business bank statements
6. 12 months of cancelled checks – business pays auto leases
7. 2 months of bank statements verifying an additional \$30K

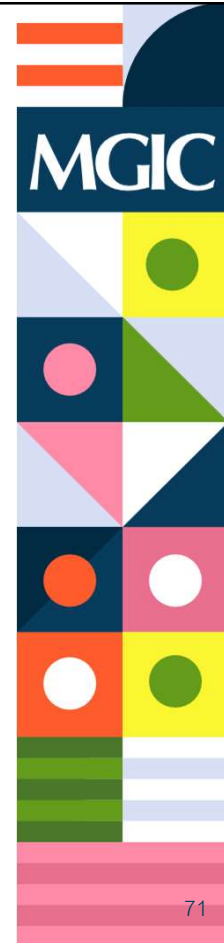
Email from borrower



5-step process



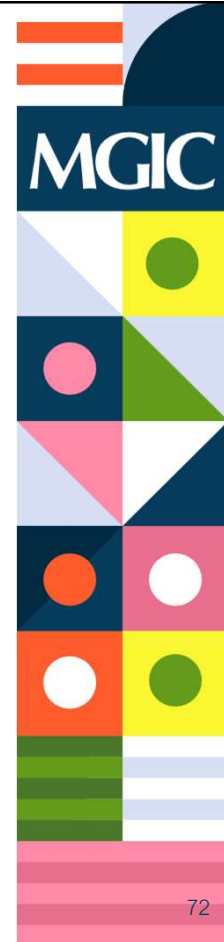
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insurance corporation



3.
Cash flow
P&L

MGIC's P&L Statement Analysis

Profit and Loss Statement Analysis		MGIC		
S Corporation Cash Flow				
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.				
X	S CORPORATION	Speedy		
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:		\$ -	\$ -	\$ -



Cash flow YTD P&L

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Profit and Loss Statement Analysis		
S Corporation Cash Flow		
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.		
S CORPORATION	SPEEDY REPAIR SERVICES	
Time Frame (i.e., YTD, quarterly):	YTD	
Date From:	1/1/2024	
Date Paid Through:	4/15/2024	
Net Income:	\$ 67,250.00	
Deduct nonrecurring income:	()	()
Add nonrecurring loss:		
Depreciation:	\$ 8,750.00	
Depletion:		
Amortization/Casualty Loss:		
Other: Meals	\$ (535.00)	
SUBTOTAL	\$ 75,465.00	\$ -
Multiplied by Ownership Percentage:	50%	
Shareholder's Share of Income (Loss):	\$ 37,732.50	\$ -
Wages:	\$ 40,000.00	
Total Income:	\$ 77,732.50	\$ -
Monthly Income:	\$ 22,209.29	\$ -

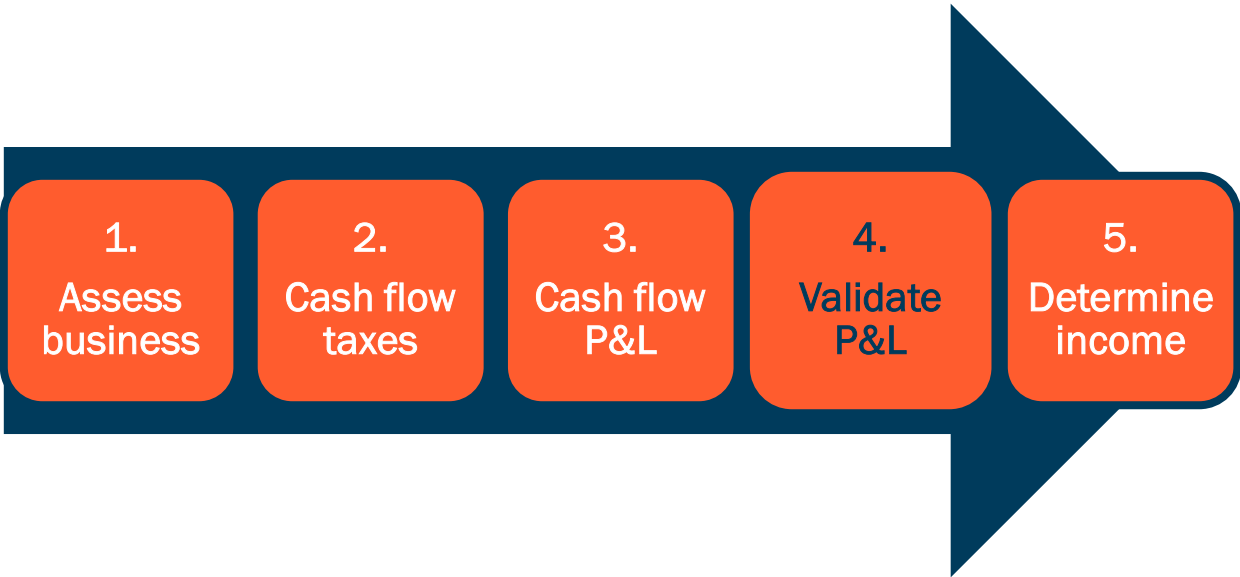
Comparison of YTD and prior years

Profit and Loss Statement Analysis		
S Corporation Cash Flow		
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.		
S CORPORATION	SPEEDY REPAIR SERVICES	
Time Frame (i.e., YTD, quarterly):	YTD	
Date From:	1/1/2024	
Date Paid Through:	4/15/2024	
Net Income:	\$ 67,250.00	
Deduct nonrecurring income:	()	()
Add nonrecurring loss:		
Depreciation:	\$ 8,750.00	
Depletion:		
Amortization/Casualty Loss:		
Other: Meals	\$ (535.00)	
SUBTOTAL	\$ 75,465.00	\$ -
Multiplied by Ownership Percentage:	50%	
Shareholder's Share of Income (Loss):	\$ 37,732.50	\$ -
Wages:	\$ 40,000.00	
Total Income:	\$ 77,732.50	\$ -
Monthly Income:	\$ 22,209.29	\$ -

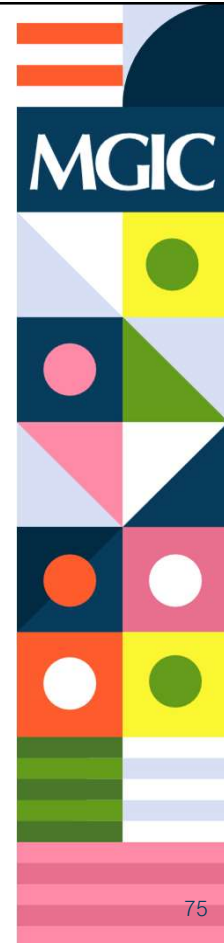
SAM Cash Flow Analysis Worksheet		MGIC	
Evaluate Business Income as Required by your Investor			
S CORPORATION	Name: SPEEDY REPAIR SERVICES	2023	2022
SCHEDULE K-1			
37	Ordinary Income (Loss): LINE 1 If Distributions see additional requirements.	\$ 132,550.00	\$ 142,000.00
38	Net Rental Income (Loss): LINES 2 & 3 If Distributions see additional requirements.	-	-
	SUBTOTAL	\$ 132,550.00	\$ 142,000.00
FORM W-2			
39	Wages: W-2, Box 5 (in general)	\$ 85,750.00	\$ 105,000.00
FORM 1120S			
40	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5	-	-
41	Depreciation: LINE 14	\$ 25,750.00	\$ 17,500.00
42	Depreciation (FORM 8825): LINE 14	-	-
43	Depletion: LINE 15	-	-
44	Amortization/Casualty Loss (only if noted): from attached statement.	-	-
45	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, 2 (column d)	-	-
46	Non-Deductible Travel and Entertainment Exclusion: Schedule M-1, LINE 3b	(\$ 2,500.00)	(\$ 2,200.00)
	SUBTOTAL	\$ 23,250.00	\$ 15,300.00
47	Multiplied by Ownership Percentage	50.00%	50.00%
	Shareholder's Total Share of Income (Loss)	\$ 11,625.00	\$ 7,650.00
		\$229,925	\$254,650
		/12 = \$19,160	/12 = \$21,221

INCOME HAS STABILIZED

5-step process



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4.
Validate P&L

1. Compare to prior year's tax filing
2. Support with LOE if needed
3. Validate with bank statements if needed

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Comparative Income Analysis

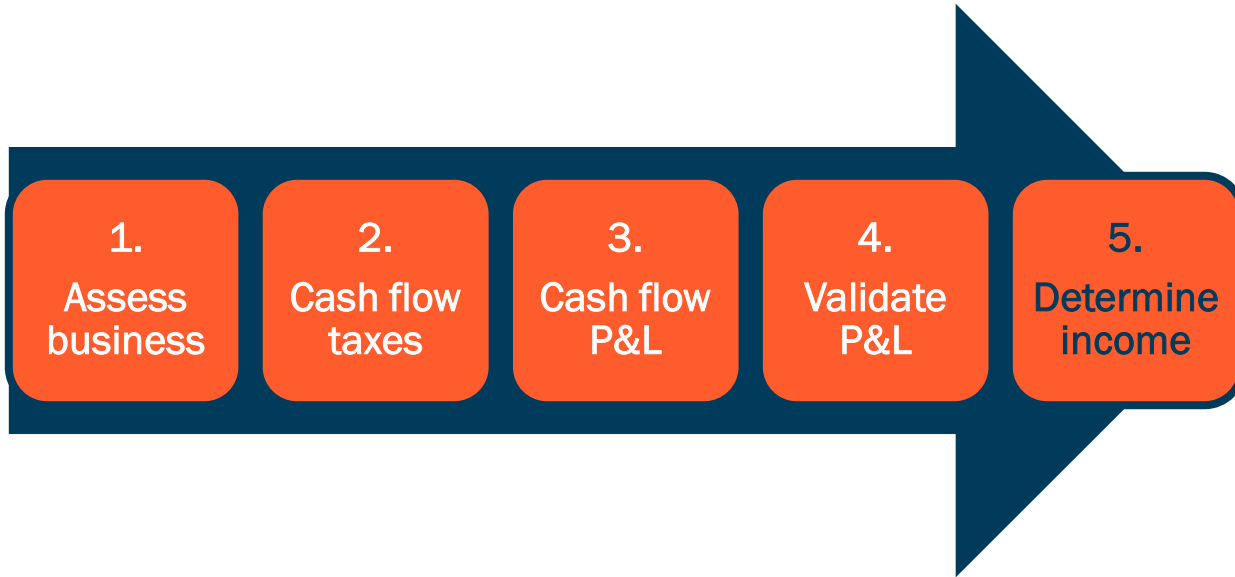
Does this support the LOE provided by the borrower?

Comparative Income Analysis Worksheet		MGIC		
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.				
Business Name:	SPEEDY REPAIR SERVICES	Date:	Annualization Date: 4/15/2024	
Completed by:		Select the Year(s):		
		2022	2023	2024
Gross Receipt/Sales		\$ 425,000	\$ 475,000	\$ 143,250
Returns & Allowances				
Cost of Goods Sold		\$ 75,000	\$ 127,500	\$ 20,750

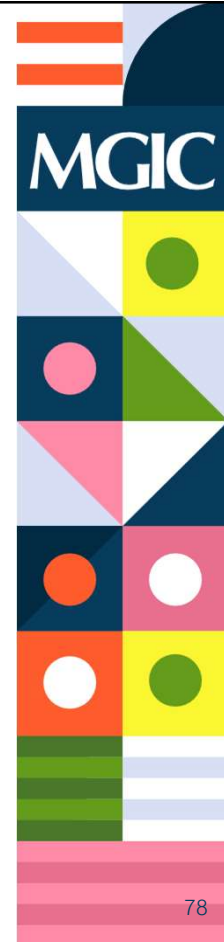
Gross Receipts/Sales	\$	425,000	\$	475,000	\$	491,143	
% Change		+12%		+3%			
Gross Income	\$	425,000	\$	475,000	\$	491,143	
(Gross Receipts/Sales - Returns & Allowances)							
% Change		+12%		+3%			
Cost of Goods Sold (C	\$	75,000	\$	127,500	\$	71,143	
% Change		+70%		-44%			
Expenses	\$	200,000	+47% *	\$	257,500	+54% *	
(CGS + Total deductions/Total expenses)							
% Change		+29%		-16%			
Gross Profits	\$	350,000		\$	347,500	\$	420,000
(Gross Receipts/Sales - Returns & Allowances - CGS)							
% Change		-1%		+21%			
Taxable Income	\$	225,000	+53% **	\$	192,500	+41% **	
% Change		-14%		+42%			

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

5-step process



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What income should I use?

5.
Determine
income

Cash Flow Analysis Summary										MGIC		
Schedule K-1	SPEEDY REPAIR SERVICES	<input type="checkbox"/>	\$	132,550.00	12	<input checked="" type="checkbox"/>	\$	142,000.00		\$	11,045.83	12
W-2 Wages	SPEEDY REPAIR SERVICES	<input type="checkbox"/>	\$	85,750.00	12	<input checked="" type="checkbox"/>	\$	105,000.00		\$	7,145.83	12
Form 1120S	SPEEDY REPAIR SERVICES	<input type="checkbox"/>	\$	11,625.00	12	<input checked="" type="checkbox"/>	\$	7,650.00		\$	968.75	12
S Corporation				SPEEDY REPAIR SERVICES Subtotal	\$	229,925.00		\$	-	\$	19,160.41	
CORPORATION CASH FLOW SUBTOTAL:												
W-2 Wages		<input type="checkbox"/>	\$	-	12	<input type="checkbox"/>	\$	-	12	\$	-	24
Form 1120		<input type="checkbox"/>	\$	-	12	<input type="checkbox"/>	\$	-	12	\$	-	24
Corporation				Subtotal	\$	-		\$	-	\$	-	
Average Monthly Cash Flow (Total)										\$	19,160.42	
Comments / Notes (For a new line, hold Alt and press Enter)												
12 month average of 2023 was used due to declining income. YTD P&L dated 4/15/24 shows business earnings have stabilized. Borrower has provided LOE indicating that year end purchase of goods in 2023 was cause of declining income.												



Do I have everything I need to omit debt?

MGIC

One last question on this loan (I promise). The borrower has provided 12 months of cancelled checks to prove that the business pays the 2 auto leases shown on the credit report. Is that all that is needed to omit these debts?

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82

Form 1120-S U.S. Income Tax Return for an S Corporation OMB No. 1545-0123
 Department of the Treasury Internal Revenue Service
 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.
 2023
 For calendar year 2023 or tax year beginning ., 2023, ending ., 20

A S election effective date _____ **Name** _____ **D** Employer identification number _____

B Business activity code number (see instructions) _____ **TYPE OR PRINT** Number, street, and room or suite no. If a P.O. box, see instructions. _____ **E** Date incorporated _____

C Check if Sch. M-3 attached _____ **City or town, state or province, country, and ZIP or foreign postal code** _____ **F** Total assets (see instructions) _____

G Is the corporation electing to be an S corporation beginning with this tax year? 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 22. See the instructions for more information.

Income	1a Gross receipts or sales	b Less returns and allowances	c Balance	1c
	2 Cost of goods sold (attach Form 1125-A)			2
	3 Gross profit. Subtract line 2 from line 1c			3
	4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)			4
	5 Other income (loss) (see instructions—attach statement)			5
	6 Total income (loss). Add lines 3 through 5			6
Deductions (see instructions for limitations)	7 Compensation of officers (see instructions—attach Form 1125-E)			7
	8 Salaries and wages (less employment credits)			8
	9 Repairs and maintenance			9
	10 Bad debts			10
	11 Rents			11
	12 Taxes and licenses			12
	13 Interest (see instructions)			13
	14 Depreciation from Form 4562 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
Tax and Payments	17 Pension, profit-sharing, etc., plans			17
	18 Employee benefit programs			18
	19 Energy efficient commercial buildings deduction (attach Form 7205)			19
	20 Other deductions (attach statement)			20
	21 Total deductions. Add lines 7 through 20			21
	22 Ordinary business income (loss). Subtract line 21 from line 6			22
	23a Excess net passive income or LIFO recapture tax (see instructions)	23a		23c
	b Tax from Schedule D (Form 1120-S)	23b		
	c Add lines 23a and 23b (see instructions for additional taxes)			
	24a Current year's estimated tax payments and preceding year's overpayment credited to the current year	24a		24z
b Tax deposited with Form 7004	24b			
c Credit for federal tax paid on fuels (attach Form 4136)	24c			
d Elective payment election amount from Form 3800	24d			
z Add lines 24a through 24d			24z	
25 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>			25	
26 Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed			26	
27 Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid			27	
28 Enter amount from line 27: Credited to 2024 estimated tax Refunded			28	

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

Sign Here
 Signature of officer _____ Date _____ Title _____ (May the IRS discuss this return with the preparer shown below? See instructions. Yes No)

Paid Preparer Use Only
 Print/type preparer's name _____ Preparer's signature _____ Date _____ Check if self-employed PTR _____
 Firm's name _____ Firm's EIN _____
 Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S (2023)

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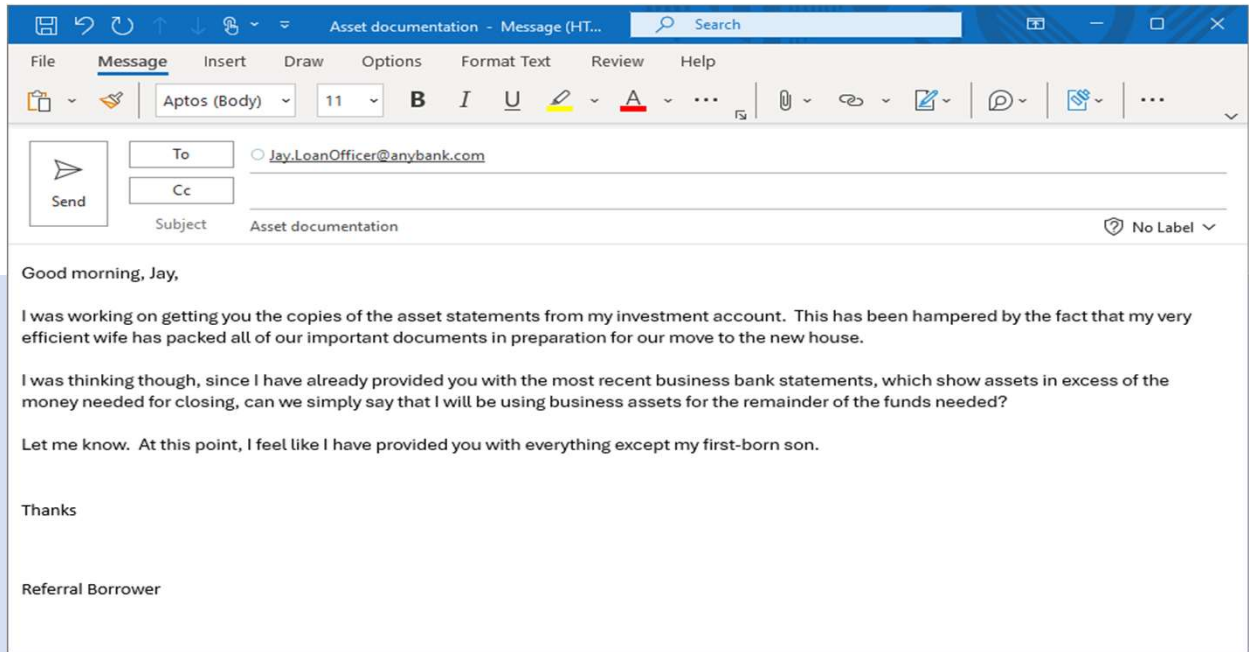
Confirming that the business paid the debt

1. Auto loan payments listed as interest deductions
2. Auto lease payment will be on a separate schedule



What's this? The borrower wants to use business assets for closing!

Email from borrower





Please don't kill me. My borrower now wants to use business assets for the missing \$30K for closing, as he has already provided 3 months of business bank statements. Can we use those funds and get cleared to close?



Thanks for your help!

Time for your questions



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90

I have a freelance photographer who files a Schedule C. Tax returns are self-prepared, and a professional license is not required. FHLMC requires verification of current existence of the business. If the internet is used to verify web presence, is that sufficient?

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91

(g) Verification of current existence of the business

The following chart contains requirements and guidance pertaining to verification of current existence of the business:

Topic	Requirements and guidance
Verification of current existence of business	Verification of the current existence of the business is required when positive income from the business is used as stable monthly income
Acceptable third party sources	Acceptable third party sources include, but are not limited to: <ul style="list-style-type: none"> • Regulatory agency • Phone directory • Internet source (e.g., Better Business Bureau) • Directory assistance • Applicable licensing bureau Verification of current existence of the business obtained verbally from an acceptable third party source must be documented and include all of the following: <ul style="list-style-type: none"> • Name and address of the business • Name of individual and entity contacted to obtain the verification • Date information verified • Name and title of the individual who completed the verification for the Seller
Alternative sources	The Seller may consider alternative sources if the above are not available, such as: <ul style="list-style-type: none"> • Preparer of the tax returns for the business (e.g., accountant), provided the preparer has an arm's length relationship with the Borrower • At least one months' business bank statement that supports the current existence of the business and the level and type of income and expenses reported on the business tax returns

Freddie Mac Selling Guide 5304.1 – effective 2/7/24




Schedule K-1 questions


93

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


Magic Minutes training series



Analyzing Self-Employed Income
Clearing up K-1 confusion



Magic Minutes
by MGIC



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94



Please talk about amortization that is used on self-employed tax returns to boost income. I have asked many times when I attend SEB seminars, and no one wants to address.

Amortization

Accounting for the cost of an item
over a period of time

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Amortization example

Company spent \$100,000 on patent

10-year amortization

\$10,000 annual write-off over the 10 years

Can one-time depreciation be added back in during cash flowing?

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One-time depreciation

Section 179 Depreciation on Schedule K-1

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Section 179 on Schedule K-1

Schedule K-1 (Form 1120-S) 2023
 Department of the Treasury Internal Revenue Service
 For calendar year 2023, or tax year beginning / / 2023 ending / /

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	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	15,000	
17	Other information		

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

Schedule K-1 (Form 1065) 2023
 Department of the Treasury Internal Revenue Service
 For calendar year 2023, or tax year beginning / / 2023 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
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)		
11	Other income (loss)		
12	Section 179 deduction	15,000	
13	Other deductions		
21	Foreign taxes paid or accrued		

Part I Information About the Partnership

A Partnership's employer identification number

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

C IRS center where partnership filed return

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

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager
 Domestic partner
 Foreign partner
 If the partner is a disregarded entity (DE), enter the partner's TIN

H2 What type of entity is this partner?
 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	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to:
 Sale or Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

K2 Check this box if item K1 includes liability amounts from lower tier partnerships

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions

L Partner's Capital Account Analysis

22 More than one activity for all-risk purposes*
 23 More than one activity for passive activity purposes*

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Does it affect the cash flow of the business?



What do I do if my borrower's business changed its name or business formation mid-year?

Business changed formation 6/30/22

SAM Cash Flow Analysis Worksheet **MGIC**

- 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

	2023		2022		Qualifying Income	Total No. of Months
	Subtotal	# mo.	Subtotal	# mo.		
PERSONAL CASH FLOW SUBTOTALS:						
<input type="checkbox"/> Schedule C 6/30/22 - BUSINESS CHANGED FORMATION <input checked="" type="checkbox"/>	-	0	\$ 51,060.00	6	\$ 8,510.00	6
PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:						
<input type="checkbox"/> Schedule K-1 NEW BUSINESS FORMATION	\$ 75,000.00	12	\$ 25,000.00	6	\$ 5,555.56	18
<input type="checkbox"/> W-2 Wages NEW BUSINESS FORMATION	\$ 30,000.00	12	\$ 20,000.00	6	\$ 2,777.78	18
<input type="checkbox"/> Form 1065 NEW BUSINESS FORMATION	\$ 6,900.00	12	\$ 4,750.00	6	\$ 647.22	18
<input type="checkbox"/> Partnership NEW BUSINESS FORMATION Subtotal	\$ 111,900.00		\$ 49,750.00		\$ 8,980.56	
CORPORATION CASH FLOW SUBTOTALS:						
Average Monthly Cash Flow (Total)					\$ 17,490.56	

Comments / Notes (For a new line, hold Alt and press Enter)
 BUSINESS CHANGED FROM AN SOLE PROPRIETOR ON 6/30/22. PARTNERSHIP WAS FORMED - SEE PARTNERSHIP AGREEMENT.

What does a business liquidity test tell us about the business?

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104

Liquidity

Business liquidity refers to a company's ability to easily convert assets into cash to pay off its short-term liabilities

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Liquidity

- How much cash a company can easily generate
- Insight into the business's ability to pay off current debt
- Snapshot of the financial health
- Gauges a company's ability to adapt

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How should we handle liquidity when the borrower is the sole owner and we can see loans from shareholders on Schedule L?

107

Schedule L Liquidity test

Liquidity Worksheet

Schedule L - Assets

Input the Year(s):

1	Cash: Line 1, Column d
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d
3	Inventories: Line 3, Column d
4	Other: <input type="text"/>
5	Total Current Assets:
Schedule L - Liabilities	
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d
9	Total Current Liabilities:

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Form 1120-S (2023) Page 4

Schedule K Shareholders' Pro Rata Share Items (continued)		Total amount		
Other Information	17a	Investment income	17a	
	b	Investment expenses	17b	
	c	Dividend distributions paid from accumulated earnings and profits	17c	
	d	Other items and amounts (attach statement)		
Reconciliation	18	Income (loss) reconciliation. Combine the total amounts on lines 1 through 10. From the result, subtract the sum of the amounts on lines 11 through 12d and 16f		18

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash				
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
14	Other assets (attach statement)				
15	Total assets				
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock				
23	Additional paid-in capital				
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
26	Less cost of treasury stock				
27	Total liabilities and shareholders' equity				

Form 1120-S (2023)

For a C corp, if the borrower DOES NOT own 100%, then outside of W-2 income we can't use cash flowing income from the business returns. But if the company has reported a loss, do we hit them with the loss?

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109

Purpose of cash flow analysis

MGIC

Verify qualifying income that is:

- Stable
- Likely to continue





mgic.com/seb

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The screenshot shows the MGIC website page for 'Self-employed borrower and income analysis calculators'. The page features a navigation bar with links for Rates, Underwriting, Ordering / Servicing, Training, Tools, Mortgage Connects, and About MGIC. A prominent header section includes the title and a colorful geometric graphic. Below this, a section titled 'Gain instant access to MGIC's enhanced self-employed borrower and income analysis calculators' lists updates for tax year 2023 and 2024. A testimonial from Amanda, an Underwriter, is displayed in a pink box. At the bottom, there is a 'Request access to the worksheets' form with a 'First Name' field containing the name 'Emily'.

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Updated for tax year 2023:

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

Updated for 2024:

- Employment and other income calculator

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"I've been using MGIC worksheets for years and think they're fantastic! I haven't found any other worksheets that are as functional or as easy to use as MGIC's."

Amanda, Underwriter

01 / 02

Request access to the worksheets

Complete this form to gain instant access to our SEB worksheets: SAM Cash Flow Analysis with P&L, Comparative Income Analysis and Liquidity. You can also access our Income Analysis and Rental Income worksheets from this page.

First Name:
Emily

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The screenshot shows the MGIC website interface. At the top, there is a navigation bar with the MGIC logo and various menu items like 'Rates', 'Underwriting', 'Ordering / Servicing', 'Training', 'Tools', 'Mortgage Connects', and 'About MGIC'. A 'Get a quick quote' button is also present. The main content area features a large header for 'SEB and income analysis calculators and resources' with a colorful geometric graphic. Below this, there are buttons for 'Overview video', 'Updated calculators', 'Additional resources', and 'FAQs'. A secondary section highlights 'Updated cash flow analysis worksheets for tax year 2023', listing features like 'All-in-one self-employed income calculator' and 'Employment and other income calculator'. A video player for 'All-in-one self-employed income calculator' is also visible. A yellow banner contains a 'PLEASE NOTE: Download and save a copy to your desktop as a template.' Below this, there are sections for 'Updated calculators', 'FEATURED CALCULATOR' (All-in-one self-employed income calculator), and 'OTHER CALCULATORS' (Employment & other income calculator, Rental income calculator).



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