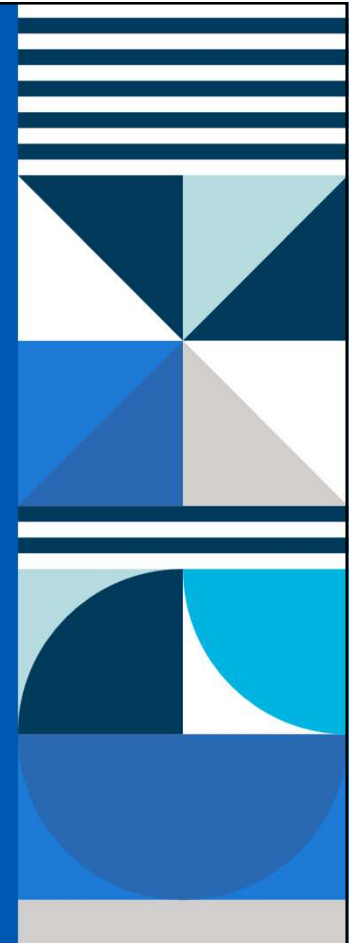


**MGIC**

# **Evaluating Self-Employed Borrowers TAX YEAR 2022**

Corporations and Financial Statements



## Legal disclaimer



The materials included in this presentation are intended for general information only. This presentation is not intended to be complete or all-inclusive regarding the matters discussed herein, and nothing contained in this presentation is intended, or should be relied upon, as legal, accounting, compliance or other professional advice.

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## Objectives

- Convert tax entries into cash flow:
  - ▶ Corporation
    - 1120 Corporation Form
    - SEB W-2
- Review components of financial statements
- Trend Analysis using Comparative Income Analysis tool
- Your questions





## Business structures

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Sole proprietorship	Partnership	S corporation	Corporation
<p>Unincorporated business with one owner with unlimited liability</p> <p>Schedule C</p> <p>(No business returns)</p> <p>Taxed at individual rate</p>	<p>Business arrangement between 2 or more people/partners (General or Limited)</p> <p>Schedule K-1</p> <p>Guaranteed payments</p> <p>Business files IRS Form 1065</p> <p>Each partner pays tax on their share of income</p>	<p>A legal entity that has a limited number of stockholders</p> <p>Schedule K-1</p> <p>SEB W-2</p> <p>Business files IRS Form 1120-S</p> <p>Each stockholder pays tax on their share of income</p>	<p>A legal entity that exists separate from owners who are shareholders</p> <p>IRS Form 1099-DIV</p> <p>SEB W-2</p> <p>Business files IRS Form 1120</p> <p>Corporation pays taxes</p>

\*A limited liability company (LLC) is a hybrid business and can file using the above IRS forms based on structure

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## Documentation matrix

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

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

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

# Corporations

## How the money flows



## Corporation

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Form 1120

Form 1125-E  
if gross receipts > \$500,000

Dividends (Schedule B)  
and W-2 wages (page 1)  
reported on 1040s





# Form 1125-E

## Missing Form 1125-E? Try these options:

- Articles of incorporation
- Secretary of State website
- Follow YOUR internal guidance

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[illegible]



## Taxable income vs. cash flow

- 3 Key Concepts
  - Non-cash expenses
  - IRS limited expenses
  - Non-recurring income/expenses



**Corporation  
Form 1120/SEB W-2**



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## Form 1120 – Corporation

- Corporation
  - ▶ Legal entity
    - Separate and distinct from its owners (shareholders)
  - ▶ Profit (and loss) reported on Form 1120
  - ▶ Taxed on its profits
  - ▶ Profits distributed to shareholders via dividends
  - ▶ Commonly, shareholders compensated via Form W-2



# SAM Cash Flow Worksheet

[mgic.com/seb](http://mgic.com/seb)

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Corporation Cash Flow		
Evaluate business income as required by your investor.		
X	CORPORATION	Name:
FORM W-2		
46	Wages: W-2, Box 5 (in general)	
FORM 1120		
47	Taxable Income: LINE 30	
48	Total Tax: LINE 31	( )
49	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9	( )
50	Deduct nonrecurring income/add nonrecurring loss: LINE 10	( )
51	Depreciation: LINE 20	( )
52	Depletion: LINE 21	( )
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule	( )
54	Net Operating Loss and Special Deductions: LINES 29a & b	( )
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	( )
SUBTOTAL		
57	Multiplied by Ownership Percentage	\$
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	( )
Corporation's Total Share of Income (Loss)		









## Meet Ginny Borrower

- 50% partner in Westchester Development, LLC
  - ▶ Schedule E, page 2
  - ▶ Partnership Schedule K-1
  - ▶ Form 1065
  - ▶ Form 8825
- 100% owner of Interior Innovations, Inc.
  - ▶ SEB W-2
  - ▶ Form 1120

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## Form 1040

## Case study, page 16

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**Form 1040** Department of the Treasury—Internal Revenue Service **2022** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status** ☐ Single ☒ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial John	Last name Borrower	Your social security number 000-00-0000
If joint return, spouse's first name and middle initial Ginny	Last name Borrower	Spouse's social security number 000-00-0001

Home address (number and street). If you have a P.O. box, see instructions.  
3412 W Silverwood Dr

City, town, or post office. If you have a foreign address, also complete spaces below.  
Jackson

State  
TN

ZIP code  
38305

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

**Presidential Election Campaign**  
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.  
☐ You ☐ Spouse

**Digital Assets** At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☒ No

**Standard Deduction** ☐ Spouse itemizes on a separate return or you were a dual-status alien ☐ You as a dependent ☐ Your spouse as a dependent

**Age/Blindness** You: ☐ Were born before January 2, 1958 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1958 ☐ Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Income**

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	50,000.
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 29	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	0.
i	Nontaxable combat pay election (see instructions)	1i	
z	Add lines 1a through 1h	1z	50,000.
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	3,000.
4a	IRA distributions	4a	
5a	Pensions and annuities	5a	
6a	Social security benefits	6a	
c	If you elect to use the lump-sum election method, check here (see instructions)		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	-1,000.
8	Other income from Schedule 1, line 10	8	102,490.
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	9	156,190.
10	Adjustments to income from Schedule 1, line 26	10	6,703.
11	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	11	149,487.
12	<b>Standard deduction or itemized deductions</b> (from Schedule A)	12	25,300.
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	18,997.
14	Add lines 12 and 13	14	44,297.
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>	15	104,590.

**Standard Deduction for—**

- Single or Married filing separately, \$12,950
- Married filing jointly or Qualifying surviving spouse, \$25,900
- Head of household, \$19,400
- If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Form **1040** (2022)



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# Form 1120

## Case study, page 66

X	CORPORATION	Name: Interior Innovations Inc.	2022
FORM W-2			
46	Wages: W-2, Box 5 (in general)	\$	54,000.00
FORM 1120			
47	Taxable Income: LINE 30	\$	24,900.00
48	Total Tax: LINE 31	( \$	5,230.00 )
49	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9		
50	Deduct nonrecurring income/add nonrecurring loss: LINE 10		
51	Depreciation: LINE 20		
52	Depletion: LINE 21		
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		
54	Net Operating Loss and Special Deductions: LINES 29a & b		
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	(	)
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	(	)
	SUBTOTAL	\$	19,670.00
57	Multiplied by Ownership Percentage		
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	(	)
	Corporation's Total Share of Income (Loss)	\$	-

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

**A Check if:**  
☐ 1 Consolidated return (attach Form 990)  
☐ 2 Life insurance consolidated return  
☐ 3 Personal holding company (see instructions)  
☐ 4 Schedule M-1

**TYPE OR PRINT**  
 Name: INTERIOR INNOVATIONS, INCORPORATED  
 Number, street, and room or suite no. if a P.O. box, see instructions: 1000 HEAVEN'S WAY  
 City or town, state or province, country, and ZIP or foreign postal code: JACKSON, TN 38301

**B Employer identification number**  
 00-0000000  
**C Date incorporated**  
 01/31/2012  
**D Total assets (see instructions)**  
 \$ 235,336

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

Line	Description	Amount
1a	Gross receipts or sales	534,000
1b	Returns and allowances	19
2	Balance. Subtract line 1b from line 1a	534,000
3	Cost of goods sold (attach Form 1125-A)	390,000
4	Gross profit. Subtract line 2 from line 3	144,000
5	Dividends and inclusions (Schedule C, line 23)	
6	Interest	
7	Gross rents	
8	Gross royalties	
9	Capital gain net income (attach Schedule D (Form 1120))	
10	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	
11	Other income (see instructions - attach statement)	
12	Total income. Add lines 3 through 10	144,000
13	Compensation of officers (see instructions - attach Form 1125-E)	54,000
14	Salaries and wages (less employment credits)	40,000
15	Repairs and maintenance	
16	Bad debts	1,000
17	Rents	1,200
18	Taxes and licenses	7,200
19	Interest (see instructions)	100
20	Charitable contributions	7,000
21	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	
22	Depletion	1,000
23	Advertising	3,000
24	Pension, profit-sharing, etc., plans	1,800
25	Employee benefit programs	
26	Reserved for future use	
27	Other deductions (attach statement). SEE STATEMENT	2,800
28	Total deductions. Add lines 12 through 26	119,100
29a	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	24,900
29b	Net operating loss deduction (see instructions)	
29c	Special deductions (Schedule C, line 24)	
30	Taxable income. Subtract line 29b from line 28. See instructions	24,900
31	Total tax (Schedule J, Part I, line 11)	5,230
32	Reserved for future use	
33	Total payments and credits (Schedule J, Part III, line 23)	2,400
34	Estimated tax penalty. See instructions. Check if Form 2220 is attached	
35	Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed	2,830
36	Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid	
37	Enter amount from line 36 you want credited to 2023 estimated tax. Refunded	

**Sign Here**  
 Signature of officer: \_\_\_\_\_ Date: \_\_\_\_\_ Title: \_\_\_\_\_  
 Print/Type preparer's name: \_\_\_\_\_ Preparer's signature: \_\_\_\_\_ Date: \_\_\_\_\_  
 Firm's name: V.I.P. TAX INC.  
 Firm's address: 3 PEACHTREE LANE, JACKSON, TN 38305  
 Check ☐ if self-employed  
 Firm's EIN: 00-0000000  
 Phone no.: \_\_\_\_\_

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

# Form 1120, page 1

## Case study, page 66

### Corporation Cash Flow

Evaluate business income as required by your investor.

<input checked="" type="checkbox"/>	<b>CORPORATION</b>	Name: Interior Innovations Inc.
FORM W-2		
46	Wages: W-2, Box 5 (in general)	\$ 54,000.00
FORM 1120		
47	Taxable Income: LINE 30	\$ 24,900.00
48	Total Tax: LINE 31	( \$ 5,230.00 )
49	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9	
50	Deduct nonrecurring income/add nonrecurring loss: LINE 10	
51	Depreciation: LINE 20	\$ 7,000.00
52	Depletion: LINE 21	
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule	\$ 1,200.00
54	Net Operating Loss and Special Deductions: LINES 29a & b	
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	( )
SUBTOTAL		\$ 27,870.00
57	Multiplied by Ownership Percentage	
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	( )
Corporation's Total Share of Income (Loss)		\$ -

<b>1120</b>		<b>U.S. Corporation Income Tax Return</b>		OMB No. 1545-0023
Form Department of the Treasury Internal Revenue Service		For calendar year 2022 or tax year beginning _____, ending _____		<b>2022</b>
Go to <a href="https://www.irs.gov/Form1120">www.irs.gov/Form1120</a> for instructions and the latest information.				
<b>A</b> Check if:	<b>NAME</b>	<b>B</b> Employer identification number		
1a Consolidated return (attach Form 990)	<input type="checkbox"/>	00-0000000		
1b Lifesite consolidated return	<input type="checkbox"/>			
2 Personal holding company (attach Form 990)	<input type="checkbox"/>			
<b>TYPE OR PRINT</b>	<b>Number, street, and room or suite no. If a P.O. box, see instructions.</b>	<b>C</b> Date incorporated		
	INTERIOR INNOVATIONS, INCORPORATED	01/31/2012		
	1000 HEAVEN'S WAY			

### Form 1120, Page 1 Detail

#### Line 26 - Other Deductions

Amortization	1,200
Meals	400
Travel & Lodging	1,200
<b>Total</b>	<b>2,800</b>

<b>21</b>	Depletion	<b>21</b>	
<b>22</b>	Advertising	<b>22</b>	1,000
<b>23</b>	Pension, profit-sharing, etc., plans	<b>23</b>	3,000
<b>24</b>	Employee benefit programs	<b>24</b>	1,800
<b>25</b>	Reserved for future use	<b>25</b>	
<b>26</b>	Other deductions (attach statement) SEE STATEMENT	<b>26</b>	2,800
<b>27</b>	<b>Total deductions.</b> Add lines 12 through 26	<b>27</b>	119,100
<b>28</b>	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	<b>28</b>	24,900
<b>29a</b>	Net operating loss deduction (see instructions)	<b>29a</b>	
<b>29b</b>	Special deductions (Schedule C, line 24)	<b>29b</b>	
<b>c</b>	Add lines 29a and 29b	<b>29c</b>	0
<b>30</b>	<b>Taxable income.</b> Subtract line 29c from line 28. See instructions	<b>30</b>	24,900
<b>31</b>	<b>Total tax (Schedule J, Part I, line 11).</b>	<b>31</b>	5,230
<b>32</b>	Reserved for future use	<b>32</b>	
<b>33</b>	Total payments and credits (Schedule J, Part III, line 23)	<b>33</b>	2,400
<b>34</b>	Estimated tax penalty. See instructions. Check if Form 2220 is attached	<b>34</b>	
<b>35</b>	<b>Amount owed.</b> If line 33 is smaller than the total of lines 31 and 34, enter amount owed	<b>35</b>	2,830
<b>36</b>	<b>Overpayment.</b> If line 33 is larger than the total of lines 31 and 34, enter amount overpaid	<b>36</b>	
<b>37</b>	Enter amount from line 36 you want credited to 2023 estimated tax	<b>Refunded</b>	<b>37</b>

<b>Sign Here</b>	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	
<b>Preparer Use Only</b>	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.  
JSA 2C1110 1.000

Form 1120 (2022)

# Form 1120 Schedule L

Case study, page 71

Corporation Cash Flow			
Evaluate business income as required by your investor.			
X	CORPORATION	Name: Interior Innovations	2022
FORM W-2			
46	Wages: W-2, Box 5 (in general)		\$ 54,000.00
FORM 1120			
47	Taxable income: LINE 30		\$ 24,900.00
48	Total Tax: LINE 31		( \$ 5,230.00 )
49	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9		
50	Deduct nonrecurring income/add nonrecurring loss: LINE 10		
51	Depreciation: LINE 20		\$ 7,000.00
52	Depletion: LINE 21		
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		\$ 1,200.00
54	Net Operating Loss and Special Deductions: LINES 29a & b		
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d		( \$ 15,000.00 )
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c		( \$ 400.00 )
	SUBTOTAL		\$ 12,470.00
57	Multiplied by Ownership Percentage		
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5		( )
	Corporation's Total Share of Income (Loss)		\$ -

Form 1120 (2022) Page 6

**Schedule L** Balance Sheets per Books

	Beginning of tax year	End of tax year
	(a)	(b)
<b>Assets</b>		
1. Cash	40,000	28,336
2. Other assets (attach statement)		
14. Less accumulated amortization	1,000	2,000
15. Total assets	208,636	235,336
<b>Liabilities and Shareholders' Equity</b>		
16. Accounts payable	10,000	15,000
17. Mortgages, notes, bonds payable in less than 1 year	12,363	15,963
18. Other current liabilities (attach statement)		
19. Loans from shareholders		
20. Mortgages, notes, bonds payable in 1 year or more		
21. Other liabilities (attach statement)		
22. Capital stock: a. Preferred stock	30,000	30,000
b. Common stock	30,000	30,000
23. Additional paid-in capital		
24. Retained earnings - Appropriated (attach statement)	156,273	174,373
25. Retained earnings - Unappropriated		
26. Adjustments to shareholders' equity (attach statement)		
27. Less cost of treasury stock		
28. Total liabilities and shareholders' equity	208,636	235,336

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

Note: The corporation may be required to file Schedule M-3. See instructions.

1. Net income (loss) per books	20,600	7. Income recorded on books this year not included on this return (itemize):	
2. Federal income tax per books	4,900	Tax-exempt interest	
3. Excess of capital losses over capital gains			
4. Income subject to tax not recorded on books this year (itemize):		8. Deductions on this return not charged against book income this year (itemize):	
5. Expenses recorded on books this year not deducted on this return (itemize):		a. Depreciation	1,000
a. Depreciation		b. Charitable contributions	
b. Charitable contributions	400		1,000
c. Travel and entertainment	400	9. Add lines 7 and 8	24,900
6. Add lines 1 through 5	25,900	10. Income (page 1, line 28) - line 6 less line 9	

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

1. Balance at beginning of year	156,273	5. Distributions:	
2. Net income (loss) per books	20,600	a. Cash	2,500
3. Other increases (itemize):		b. Stock	
		c. Property	
4. Add lines 1, 2, and 3	176,873	6. Other decreases (itemize):	
		7. Add lines 5 and 6	2,500
		8. Balance at end of year (line 4 less line 7)	174,373

Form 1120 (2022)

# Form 1120, page 6

## Case study, page 71

### Corporation Cash Flow

Evaluate business income as required by your investor.

X CORPORATION	Name: Interior Innovations	2022
FORM W-2		
46 Wages: W-2, Box 5 (in general)		\$ 54,000.00
FORM 1120		
47 Taxable Income: LINE 30		\$ 24,900.00
48 Total Tax: LINE 31		( \$ 5,230.00 )
49 Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9		
50 Deduct nonrecurring income/add nonrecurring loss: LINE 10		
51 Depreciation: LINE 20		\$ 7,000.00
52 Depletion: LINE 21		
53 Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		\$ 1,200.00
54 Net Operating Loss and Special Deductions: LINES 29a & b		
55 Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d		( \$ 15,000.00 )
56 Travel and Entertainment Exclusion: Schedule M-1, LINE 5c		( \$ 400.00 )
SUBTOTAL		\$ 12,470.00
57 Multiplied by Ownership Percentage		100%
58 Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5		( \$ 2,500.00 )
Corporation's Total Share of Income (Loss)		\$ 9,970.00

Form 1120 (2022) **Schedule L** Balance Sheets per Books Page 6

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
<b>Assets</b>				
1 Cash, . . . . .		40,000		29,227
2a Trade notes and accounts receivable . . . . .	95,327		96,000	81,000
b Less allowance for bad debts . . . . .	( NONE )		( 15,000 )	
3 Inventories . . . . .		40,000		25,000
4 U.S. government obligations . . . . .				
5 Tax-exempt securities (see instructions) . . . . .				
6 Other current assets (attach statement) . . . . .		15,000		15,000
7 Loans to shareholders . . . . .		3,000		3,000
8 Mortgage and real estate loans . . . . .				
9 Other investments (attach statement) . . . . .				
10a Buildings and other depreciable assets . . . . .	18,854		72,854	
b Less accumulated depreciation . . . . .	( 5,345 )	13,509	( 11,345 )	61,509
11a Depletable assets . . . . .				
b Less accumulated depletion . . . . .				
12 Land (net of any amortization) . . . . .		( NONE )		20,000
13a Intangible assets (amortizable only) . . . . .	3,400		3,400	
b Less accumulated amortization . . . . .	( 1,600 )	1,800	( 2,800 )	600
14 Other assets (attach statement) . . . . .				
15 Total assets . . . . .		208,636		235,336
<b>Liabilities and Shareholders' Equity</b>				
16 Accounts payable . . . . .				
57 Multiplied by Ownership Percentage				100%
58 Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5				
Corporation's Total Share of Income (Loss)				\$
Reminder: Include corporate earnings in cash flow only if the borrower is a 100% owner, as generally required by investors.				
0 CORPORATION	Name:		20	
Note: The corporation may be required to file Schedule M-3. See instructions.				
1 Net income (loss) per books . . . . .	20,600	7 Income recorded on books this year not included on this return (itemize):		
2 Federal income tax per books . . . . .	4,900	Tax-exempt interest \$		
3 Excess of capital losses over capital gains . . . . .				
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize):		
5 Expenses recorded on books this year not deducted on this return (itemize):		a Depreciation . . . . . \$ 1,000		
a Depreciation . . . . . \$		b Charitable contributions . . . . . \$		
b Charitable contributions . . . . . \$			1,000	
c Travel and entertainment . . . . . \$ 400				
6 Add lines 1 through 5 . . . . .	25,900	9 Add lines 7 and 8 . . . . .	1,000	
<b>Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Schedule L, Line 25)</b>		10 Income (page 1, line 28) - line 6 less line 9	24,900	
1 Balance at beginning of year . . . . .	156,273	5 Distributions: a Cash . . . . .		
2 Net income (loss) per books . . . . .	20,600	b Stock . . . . .		
3 Other increases (itemize):		c Property . . . . .		
		6 Other decreases (itemize):		
		7 Add lines 5 and 6 . . . . .	2,500	
4 Add lines 1, 2, and 3 . . . . .	176,873	8 Balance at end of year (line 4 less line 7)	174,373	

Form 1120 (2022)



# **Schedule B Interest and Dividends**



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## Schedule B

- Interest from self-employment
- Dividends from self-employment
- Other interest and dividends
  - ▶ Use tax return as supporting documentation
  - ▶ Follow investor documentation guidelines



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# Form 1040 Schedule B

MGIC

SCHEDULE B (Form 1040)		Interest and Ordinary Dividends		OMB No. 1545-0074 2022 Attachment Sequence No. 08	
Department of the Treasury Internal Revenue Service		Go to <a href="https://www.irs.gov/ScheduleB">www.irs.gov/ScheduleB</a> for instructions and the latest information. Attach to Form 1040 or 1040-SR.		Your social security number 000-00-0000	
Name(s) shown on return John & Ginny Borrower					
<b>Part I Interest</b> (See instructions and the Instructions for Form 1040, line 2b.) <b>Note:</b> If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.		<b>1</b> List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address: Colonial Federal Digital Network Systems		<b>Amount</b> 500. 1,200.	
		<b>2</b> Add the amounts on line 1		<b>2</b> 1,700.	
		<b>3</b> Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815		<b>3</b>	
		<b>4</b> Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b		<b>4</b> 1,700.	
		<b>Note:</b> If line 4 is over \$1,500, you must complete Part III.			
<b>Part II Ordinary Dividends</b> (See instructions and the Instructions for Form 1040, line 3b.) <b>Note:</b> If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.		<b>5</b> List name of payer: IBM Interior Innovations, Inc		<b>Amount</b> 500. 2,500.	
		<b>6</b> Add the amounts on line 5. Enter the total here and on Form 1040 or 1040-SR, line 3b		<b>6</b> 3,000.	
		<b>Note:</b> If line 6 is over \$1,500, you must complete Part III.			
<b>Part III Foreign Accounts and Trusts</b> <b>Caution:</b> If required, failure to file FinCEN Form 114 may result in substantial penalties. Additionally, you may be required to file Form 8938, Statement of Specified Foreign Financial Assets. See instructions.		<b>7a</b> At any time during 2022, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements If you are required to file FinCEN Form 114, list the name(s) of the foreign country(-ies) where the financial account(s) are located:		<b>Yes</b> <b>No</b> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
		<b>8</b> During 2022, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		<input type="checkbox"/> <input checked="" type="checkbox"/>	
For Paperwork Reduction Act Notice, see your tax return instructions. BAA REV 01/28/23 TTW Schedule B (Form 1040) 2022					

## Effect on cash flow analysis

MGIC

Form 1120 (2022) Page **6**

**Schedule L** Balance Sheets per Books

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
<b>Assets</b>				
1 Cash		40,000		29,227
2a Trade notes and accounts receivable	95,327		96,000	
2b Less allowance for bad debts	(NONE)		15,000	
3 Inventories		40,000		25,000
4 U.S. government obligations				
5 Tax-exempt securities (see instructions)				
6 Other current assets (attach statement)		15,000		15,000
7 Loans to shareholders		3,000		3,000
8 Mortgage and real estate loans				
9 Other investments (attach statement)				
10a Buildings and other depreciable assets	18,854		72,854	
10b Less accumulated depreciation	(5,345)	13,509	(11,345)	61,509
11a Depletable assets				
11b Less accumulated depletion				
12 Land (net of any amortization)		NONE		20,000
13a Intangible assets (amortizable only)	3,400		3,400	
13b Less accumulated amortization	(1,600)	1,800	(2,800)	600
14 Other assets (attach statement)				
15 <b>Total assets</b>		208,636		235,336
<b>Liabilities and Shareholders' Equity</b>				
16 Accounts payable				
17 Mortgages, notes, bonds payable in less than 1 year		10,000		15,000
18 Other current liabilities (attach statement)				
19 Loans from shareholders				
20 Mortgages, notes, bonds payable in 1 year or more		12,363		15,963

X	SCHEDULE B - INTEREST AND DIVIDENDS FROM SELF-EMPLOYMENT	2022	2021
1	Recurring Interest Income: <b>LINE 1 or 1040 LINE 2b</b>	\$ 1,200.00	\$ 1,200.00
2	Recurring Dividend Income: <b>LINE 5 or 1040 LINE 3b</b>	\$ 2,500.00	\$ 2,400.00
	<b>SUBTOTAL</b>	\$ 3,700.00	\$ 3,600.00

Form 1120 (2022)

1 Net income (loss) per books	20,600	7 Income recorded on books this year not included on this return (itemize):	
2 Federal income tax per books	4,900	Tax-exempt interest	
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize):	
5 Expenses recorded on books this year not deducted on this return (itemize):		a Depreciation	\$ 1,000
a Depreciation		b Charitable contributions	
b Charitable contributions			
c Travel and entertainment	400		
6 Add lines 1 through 5	25,900	9 Add lines 7 and 8	1,000
		10 Income (page 1, line 28) - line 6 less line 9	24,900
<b>Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Schedule L, Line 25)</b>			
1 Balance at beginning of year	156,273	5 Distributions:	
2 Net income (loss) per books	20,600	a Cash	2,500
3 Other increases (itemize):		b Stock	
		c Property	
4 Add lines 1, 2, and 3	176,873	6 Other decreases (itemize):	
		7 Add lines 5 and 6	2,500
		8 Balance at end of year (line 4 less line 7)	174,373

Form **1120** (2022)

# Schedule B

## Case study, page 23

MGIC

**SCHEDULE B**  
(Form 1040)

Department of the Treasury  
Internal Revenue Service

**Interest and Ordinary Dividends**

Go to [www.irs.gov/ScheduleB](https://www.irs.gov/ScheduleB) for instructions and the latest information.  
Attach to Form 1040 or 1040-SR.

OMB No. 1545-0074  
**2022**  
Attachment  
Sequence No. 08

Name(s) shown on return  
John & Ginny Borrower

Your social security number  
000-00-0000

**Part I**  
**Interest**  
(See instructions and the instructions for Form 1040, line 2b.)

**Note:** If you received a Form 1099-INT, Form 1099-DIV, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address:  
Colonial Federal  
Digital Network Systems

**Amount**

500.  
1,200.

2 Add the amounts on line 1 . . . . . 1,700.

3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 . . . . .

4 Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b . . . . . 1,700.

**Note:** If line 4 is over \$1,500, you must complete Part III.

**Part II**  
**Ordinary Dividends**  
(See instructions and the instructions for Form 1040, line 3b.)

5 List name of payer: IBM  
Interior Innovations, Inc

**Amount**

500.  
2,500.

X	SCHEDULE B - INTEREST AND DIVIDENDS FROM SELF-EMPLOYMENT	2022	2021
1	Recurring Interest Income: LINE 1 or 1040 LINE 2b	\$ 1,200.00	\$ 1,200.00
2	Recurring Dividend Income: LINE 5 or 1040 LINE 3b	\$ 2,500.00	\$ 2,400.00
	<b>SUBTOTAL</b>	<b>\$ 3,700.00</b>	<b>\$ 3,600.00</b>

**and Trusts**

**Caution:** If required, failure to file FinCEN Form 114 may result in substantial penalties. Additionally, you may be required to file Form 8938, Statement of Specified Foreign Financial Assets. See instructions.

7a At any time during 2022, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions . . . . . X

b If you are required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements . . . . .

8 During 2022, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions . . . . . X

For Paperwork Reduction Act Notice, see your tax return instructions. BAA REV 01/28/23 TTW Schedule B (Form 1040) 2022

## Effect on cash flow analysis

**MGIC**

Corporation Cash Flow				
Evaluate business income as required by your investor.				
X	CORPORATION	Name: Interior Innovations	2022	2021
FORM W-2				
46	Wages: W-2, Box 5 (in general)		\$ 54,000.00	\$ 49,000.00
FORM 1120				
47	Taxable Income: LINE 30		\$ 24,900.00	\$ 11,900.00
48	Total Tax: LINE 31		( \$ 5,230.00 )	( \$ 1,950.00 )
49	Deduct nonrecurring gains/add nonrecurring losses: LINES 8 & 9			
50	Deduct nonrecurring income/add nonrecurring loss: LINE 10			
51	Depreciation: LINE 20		\$ 7,000.00	\$ 4,000.00
52	Depletion: LINE 21			
53	Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		\$ 1,200.00	\$ 1,200.00
54	Net Operating Loss and Special Deductions: LINES 29a & b			\$ 3,000.00
55	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d		( \$ 15,000.00 )	( )
56	Travel and Entertainment Exclusion: Schedule M-1, LINE 5c		( \$ 400.00 )	( )
	SUBTOTAL		\$ 12,470.00	\$ 18,150.00
57	Multiplied by Ownership Percentage		100%	100%
58	Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5		( \$ 2,500.00 )	( \$ 2,400.00 )
	Corporation's Total Share of Income (Loss)		\$ 9,970.00	\$ 15,750.00
			\$63,970.00	\$64,750.00
			/12 = \$5,331	/12 = \$5,396
			Avg. of 2022 = \$5,331	

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# Cash flow analysis summary

MGIC

SAM Cash Flow Analysis Worksheet with P&L										MGIC	
PERSONAL CASH FLOW SUBTOTALS:											
		2022		2021		Qualifying Income		Total No. of Months			
		Subtotal	# mo.	Subtotal	# mo.						
Schedule B	<input type="checkbox"/>	\$ 3,700.00	12	<input type="checkbox"/>	\$ 3,600.00	12	\$ 304.17	24			
Schedule C Tech in a Sec	<input type="checkbox"/>	\$ 49,460.00	12	<input type="checkbox"/>	\$ 36,390.00	12	\$ 3,577.08	24			
PARTNERSHIP & S CORPORATION CASH FLOW SUBTOTALS:											
Schedule K-1 Tanglewood Realty	<input type="checkbox"/>	\$ (3,800.00)	12	<input type="checkbox"/>	\$ (10,000.00)	12	\$ (575.00)	24			
W-2 Wages Tanglewood Realty	<input type="checkbox"/>	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24			
Form 1065 Tanglewood Realty	<input type="checkbox"/>	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24			
Partnership Tanglewood Realty Subtotal		\$ (3,800.00)		\$ (10,000.00)		\$ (575.00)					
Schedule K-1 Westchester Development	<input type="checkbox"/>	\$ 21,000.00	12	<input type="checkbox"/>	\$ 20,000.00	12	\$ 1,708.33	24			
W-2 Wages Westchester Development	<input type="checkbox"/>	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24			
Form 1065 Westchester Development	<input type="checkbox"/>	\$ 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					
Schedule K-1 Digital Network Systems	<input type="checkbox"/>	\$ 32,550.00	12	<input type="checkbox"/>	\$ 26,900.00	12	\$ 2,477.08	24			
W-2 Wages Digital Network Systems	<input type="checkbox"/>	\$ -	12	<input type="checkbox"/>	\$ -	12	\$ -	24			
Form 1120S Digital Network Systems	<input type="checkbox"/>	\$ 7,000.00	12	<input type="checkbox"/>	\$ 10,000.00	12	\$ 708.33	24			
S Corporation Digital Network Systems Subtotal		\$ 39,550.00		\$ 36,900.00		\$ 3,185.41					
CORPORATION CASH FLOW SUBTOTALS:											
W-2 Wages Interior Innovations	<input type="checkbox"/>	\$ 54,000.00	12	<input checked="" type="checkbox"/>	\$ 49,000.00	0	\$ 4,500.00	12			
Form 1120 Interior Innovations	<input type="checkbox"/>	\$ 9,970.00	12	<input checked="" type="checkbox"/>	\$ 15,750.00	0	\$ 830.83	12			
Corporation Interior Innovations Subtotal		\$ 63,970.00		\$ -		\$ 5,330.83					
Average Monthly Cash Flow (Total)						\$ 13,622.50					

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# Financial Statements



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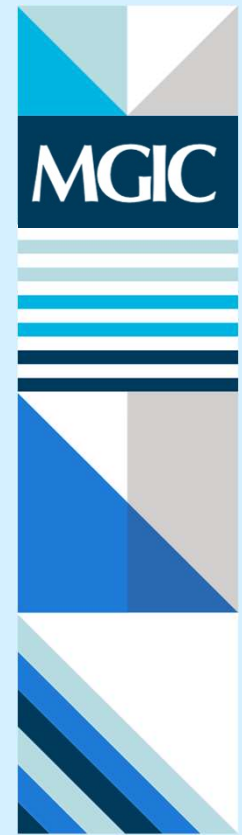
## Commonly used financial statements

- Income statement
  - ▶ Specific period of time
    - Annual
    - Quarterly
    - YTD
- Balance sheet
  - ▶ Specific date
    - March 31, 2023



## Who prepares the financial statements?

- Accountant
- Tax professional
- Borrower



## 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



## Documentation matrix

**MGIC**

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

## When are financial statements typically needed?

- Loan application is dated > 120 days after the end of the business's tax year
- Tax returns are on extension
- Significant income/loss difference between 2 years of tax returns



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## Financial statements

### Income statement

Profitability and growth

Summary over time

- ▶ Revenues
- ▶ Costs/expenses
- ▶ Net profit

$$\text{Revenue} - \text{Cost/Expenses} = \text{Net Profit}$$

### Balance sheet

Financial well-being

Snapshot picture

- ▶ Assets
- ▶ Liabilities
- ▶ Owners' equity

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

# Digital Network Systems

## Balance Sheet

**MGIC**

### Assets

#### Current Assets

Cash	\$ 23,650	
California State municipal bond	6,000	
Accounts receivable	45,900	
Less allowance for bad debt	(4,590)	
US Bank Certificate of Deposit	17,400	
Inventory	73,195	
<b>Total Current Assets</b>		161,555

#### Fixed Assets

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

#### Other Assets

Investment in Maddox	128,500	
US Treasury Bill	5,000	
<b>Total Other Assets</b>		133,500

**Total Assets** \$ 429,655

### Liabilities

#### Current Liabilities

Accounts payable	19,300	
Mortgage payable	21,850	
Credit card payable	3,610	
<b>Total Current Liabilities</b>		44,760

#### Other Liabilities

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

**Total Liabilities** 157,390

### Equity

#### Equity

Capital stock	2,000	
Additional paid-in capital	50,000	
Retained earnings	220,265	
<b>Total Equity</b>		272,265

**Total Liabilities and Equity** \$ 429,655

**Assets = Liabilities + Owners' Equity**

# Schedule L Balance Sheet

MGIC

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash . . . . .		15,400		16,100
2	Trade notes and accounts receivable . . . . .	27,600		39,800	
3	Less allowance for bad debts . . . . .	(2,760)	24,840	(3,980)	35,820
4	Inventories . . . . .		30,000		25,000
5	U.S. government obligations . . . . .				
6	Tax-exempt securities (see instructions) . . . . .		6,000		6,000
7	Other current assets (attach statement) . . . . .		15,000		17,400
8	Loans to shareholders . . . . .				
9	Mortgage and real estate loans . . . . .		100,400		130,800
10	Other investments (attach statement) . . . . .				
11	Buildings and other depreciable assets . . . . .	190,000		190,000	
12	Less accumulated depreciation . . . . .	(32,900)	157,100	(47,900)	142,100
13	Depletable assets . . . . .				
14	Less accumulated depletion . . . . .	( )		( )	
15	Land (net of any amortization) . . . . .				
16	Intangible assets (amortizable only) . . . . .				
17	Less accumulated amortization . . . . .	( )		( )	
18	Other assets (attach statement) . . . . .				
19	Total assets . . . . .		348,740		373,220
Liabilities and Shareholders' Equity					
20	Accounts payable . . . . .		18,800		19,200
21	Mortgages, notes, bonds payable in less than 1 year . . . . .		22,000		21,900
22	Other current liabilities (attach statement) . . . . .		1,780		3,000
23	Loans from shareholders . . . . .				
24	Mortgages, notes, bonds payable in 1 year or more . . . . .		119,100		78,660
25	Other liabilities (attach statement) . . . . .		13,100		10,000
26	Capital stock . . . . .		2,000		2,000
27	Additional paid-in capital . . . . .		50,000		50,000
28	Retained earnings . . . . .		121,960		188,460
29	Adjustments to shareholders' equity (attach statement) . . . . .				
30	Less cost of treasury stock . . . . .	( )		( )	
31	Total liabilities and shareholders' equity . . . . .		348,740		373,220

Form 1120-S (2022)

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$



## Digital Network Systems

### Income Statement

Case study, page 63

**MGIC**

Digital Network Systems Income Statement		
Date: _____		
<b>Sales</b>	\$ 151,750	
Discounts & allowances	500	
Net sales	<u>151,250</u>	
Cost of Goods Sold	<u>80,300</u>	
<b>Gross Profit</b>		70,950
<b>Other Income</b>		
Interest income	<u>1,300</u>	1,300
<b>Expenses</b>		
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>	
<b>Total Expenses</b>		40,445
<b>Net income</b>		<u>\$ 31,805</u>

**Revenue - Cost/Expenses = Net Profit**

## Digital Network Systems

### Income Statement

- Revenue
- Sales
- Other income sources

<b>Sales</b>	\$ 151,750	
Discounts & allowances	<u>500</u>	
Net sales	151,250	
Cost of Goods Sold	<u>80,300</u>	
<b>Gross Profit</b>		70,950
<b>Other income</b>		
Interest income	<u>1,300</u>	
		1,300

**MGIC**

## Digital Network Systems

### Income Statement

- Expenses

#### 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

**MGIC**

## Digital Network Systems

### Income Statement

- Net profit

**MGIC**

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><u>\$ 31,805</u></u>

$$\text{Revenue} - \text{Cost/Expenses} = \text{Net Profit}$$

# 1120-S Income Statement

MGIC

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](http://www.irs.gov/Form1120S) for instructions and the latest information.

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

**A** S election effective date

**B** Business activity code number (see instructions)

**C** Check if Sub. M-3 attached

**D** Employer identification number

**E** Date incorporated

**F** Total assets (see instructions)

**G** Is the corporation electing to be an S corporation beginning with this tax year? See instructions.

**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.

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

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

**Sign Here**

Signature of officer Date Title

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

**Paid Preparer Use Only**

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)

# Fannie Mae – Guidance

Selling Guide –  
Published 03/01/2023

B3-3.2-01: Underwriting  
Factors and Documentation  
for a Self-Employed Borrower  
(12/14/2022)

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**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.

**Use of Business Assets**

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

**Income Verification for Self-Employed Co-Borrowers**


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

# Freddie Mac – Guidance

Selling Guide –  
Published 03/01/2023

5304.1(d): Stable monthly  
income and documentation  
requirements for self-  
employed borrowers –  
Business and income analysis  
(02/05/2023)

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THE SINGLE-FAMILY SELLER/SERVICER GUIDE

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### (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"> <li>The analysis must include a review of the business tax returns</li> <li>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.</li> <li>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.</li> </ul> <p>Use of business income reported on the Borrower's federal individual income tax returns</p> <ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>



**Both are looking for  
year-over-year trends,  
but of different things...**

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# Comparative Income Analysis Worksheet

Line items entered in table  
Auto-calculate in matrix:

- % Changes
- Comparisons

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## Comparative Income Analysis Worksheet

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An effective way to measure and compare the profitability or growth of a business is to calculate the trend ratios, which compare income statement accounts from one year to the next.

Using the business's tax returns, select the appropriate tax year and enter the applicable line items in the table below.

NOTE: If using YTD for 2020, when entering the date of the Income Statement, the entries will auto-calculate as annualized figures.

The % Change (increase or decrease) in the various categories automatically populates in the matrix, eliminating the need for any manual calculation.

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

Business Name:

Select the Years:

Gross Receipts/Sales  
Returns & Allowances  
Cost of Goods Sold  
Total deductions/Total expenses  
- Total deductions for Partnership, S Corporation or Corporation  
- Total expenses for Sole Proprietorship

Taxable Income  
- Ordinary Income (Loss) for Partnership/S Corporation  
- Taxable Income (Loss) for Corporation  
- Net Profit (Loss) for Sole Proprietorship

Gross Receipts/Sales	\$	-		\$	-		\$	-
% Change			-					-
Gross Income	\$	-		\$	-		\$	-
(Gross Receipts/Sales - Returns & Allowances)								
% Change			-					-
Cost of Goods Sold (CGS)	\$	-		\$	-		\$	-
% Change			-					-
Expenses	\$	-	n/a*	\$	-	n/a*	\$	- n/a*
(CGS + Total deductions/Total expenses)								
% Change			-					-
Gross Profits	\$	-		\$	-		\$	-

# Comparative Income Analysis Worksheet

YTD entries  
automatically  
annualize

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## Comparative Income Analysis Worksheet

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An effective way to measure and compare the profitability or growth of a business is to calculate the trend ratios, which compare income statement accounts from one year to the next.

Using the business's tax returns, select the appropriate tax year and enter the applicable line items in the table below.

NOTE: If using YTD for 2020, when entering the date of the Income Statement, the entries will auto-calculate as annualized figures.

The % Change (increase or decrease) in the various categories automatically populates in the matrix, eliminating the need for any manual calculation.

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

Business Name:

Select the Years:

Gross Receipt/Sales

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

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

Gross Receipts/Sales	\$	-	\$	-	\$	-
% Change		-		-		-
Gross Income	\$	-	\$	-	\$	-
(Gross Receipts/Sales - Returns & Allowances)						
% Change		-		-		-
Cost of Goods Sold (CGS)	\$	-	\$	-	\$	-
% Change		-		-		-
Expenses	\$	-	\$	-	\$	-
(CGS + Total deductions/Total expenses)		n/a*		n/a*		n/a*
% Change		-		-		-
Gross Profits	\$	-	\$	-	\$	-

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# Comparative Income Analysis Worksheet

% Change –  
Gross Income

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## Comparative Income Analysis Worksheet

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Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

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%	

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# Comparative Income Analysis Worksheet

% Change –  
Taxable Income

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## Comparative Income Analysis Worksheet

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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	\$ 219,900	\$ 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				
Taxable Income	\$ 53,800	\$ 65,100	\$ 63,610	21% **
% Change	+21%	-2%		

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

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# Comparative Income Analysis Worksheet

% Change – Expenses

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## Comparative Income Analysis Worksheet

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Calculating trend ratios, which compare income statement accounts from one year to the next, is an effective way to analyze the profitability or growth of a business.

### User Tips:

- Select tax year(s) from business return and enter applicable line items
- Enter date of the YTD P&L; worksheet will automatically annualize
- YOY% Change automatically populates, eliminating need for manual calculations

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

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
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- Taxable Income (Loss) for Corporation			
- Net Profit (Loss) for Sole Proprietorship			

	2021	2022	2023
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	\$ 219,900	\$ 241,490
(CGS + Total deductions/Total expenses)			
% Change	+3%	+10%	
Gross Profits	\$ 122,000	\$ 129,000	\$ 141,900

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# Comparative Income Analysis Worksheet

\*% of Expenses  
compared to  
Gross Income

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## Comparative Income Analysis Worksheet

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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
(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
% Change		+21%		-2%				

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

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# Comparative Income Analysis Worksheet

**\*\*% of Taxable Income compared to Gross Income**

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## Comparative Income Analysis Worksheet

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Business Names: 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					
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Taxable Income	\$ 53,800	\$ 65,100	\$ 63,610		
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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	\$ 219,900	\$ 241,490	81% *	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	\$ 65,100	\$ 63,610	20% **	21% *
% Change	+21%	-2%			

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

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## Purpose of cash flow analysis

Verify qualifying income that is:

- ▶ Stable
- ▶ Likely to continue



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Self-employed borrower and income analysis worksheets

Editable, auto-calculating cash flow analysis worksheets for the 2022 tax year.

MGIC > underwriting >

Updated self-employed borrower and income analysis worksheets

2022 tax year: Outfitted for speed and accuracy, our editable and auto-calculating worksheets are fitted specifically for loan officers and mortgage pros. MGIC's self-employed borrower (SEB) and income analysis worksheets are uniquely suited for analyzing:

- Cash flow and YTD profit and loss (P&L)
- Comparative income
- Liquidity ratios
- Base/variable income
- Rental income

Get the worksheets >

"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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58

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# MGIC worksheets

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## SEB and income analysis worksheets and resources

Updated for tax year 2022.

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### Cash flow analysis worksheets for tax year 2022

Choose from MGIC's editable, auto-calculating worksheets to analyze self-employed borrower cash flow, income from employment and non-employment sources, and rental income. \* In addition to our downloadable worksheets, you can link to line-by-line help explanations for personal and business tax returns following the SAM cash flow method by using our [Schedule Analysis Method \(SAM\) Worksheet Help document](#).

Self-employed borrower worksheets

Income and rental worksheets

Additional resources

PLEASE NOTE: Worksheets must be downloaded and saved before editing.

#### Self-employed borrower worksheets

Our editable and auto-calculating worksheets are uniquely suited for analyzing cash flow and YTD profit and loss (P&L), comparative income and liquidity. PLEASE NOTE: Self-employed borrower worksheets must be downloaded and saved to your computer before editing them.

##### SAM Cash Flow Analysis and P&L

Review cash flow by business type using tax returns and P&L statements. Auto-fills income (loss) and displays current income trending. (2/13/2023)

Download and save the worksheet >

Download and save for Mac (Excel required) >

##### Comparative Income Analysis

Auto-calculates change percentages from one year to the next. (2/13/2023)

Download and save the worksheet >

Download and save for Mac (Excel required) >

##### Liquidity

Auto-calculates current and quick ratios. (2/13/2023)

Download and save the worksheet >

Download and save for Mac (Excel required) >

#### Income and rental worksheets

Calculate income (base, overtime, bonus, commission, etc.) and review the cash flow of rental and investment properties quickly with our auto-calculating worksheets. PLEASE NOTE: Income Analysis and Rental Income worksheets must be downloaded and saved to your computer before editing them.

Income Analysis

Rental Income

## Infographic: Characteristics of 5 common self-employed businesses

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### CHARACTERISTICS OF 5 COMMON SELF-EMPLOYED BUSINESSES

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



**Sole Proprietorship**

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



**Partnership**

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



**S Corporation**

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



**Corporation**

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



**LLC**

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

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

 **Register now at [mgic.com/training/seb](https://mgic.com/training/seb)**

71-43866 2/23

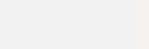
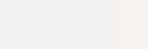
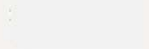
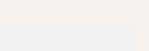
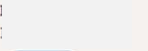
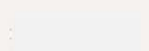
\*Fannie Mae Selling Guide, December 2022



## Training – SEB webinars

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<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Getting Started and the Sole Proprietor</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Partnerships and S Corporations</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Corporations and Financial Statements</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>
<p><b>Special Event</b> 60 minutes</p> <p><b>*Evaluating Self-Employed Income During Tough Economic Times*</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Rental Income</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Special Event</b> 30 minutes</p> <p><b>Can I Use Rental Income From a Business-Owned Property?</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>

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