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### INTRODUCTION

Analytical skills and sound judgment are certainly necessary when evaluating self-employed borrowers. Determining whether they can and will repay a loan is difficult – because obtaining an estimate of their earnings from tax returns can be confusing.

The primary problem is that for self-employed borrowers, their accountants are experts at reducing tax liabilities by minimizing current net income, while we as underwriters rely on that same net income as a gauge of their earnings. The tax return reveals the borrower's taxable income. But what you are really looking for is the borrower's CASH FLOW. Cash flow is what is used to pay back the loan!

This manual will guide you through determining the cash flow of a self-employed borrower or a borrower who may not be self-employed but whose income changes from month to month (for example, a salesperson who is paid on commission).

### WHY USE TAX RETURNS?

You can get a good snapshot of a typical borrower's income from a W-2 form, a paystub or a Verification of Employment document.

But a self-employed borrower is not typical. There is no "independent third-party" to verify employment and income. The most credible sources to verify income are the tax returns that have been submitted to the Internal Revenue Service.

Unfortunately, tax returns are not designed to provide a clear picture of cash flow. Instead, tax returns report taxable income and deductible expenses. But with careful analysis of the tax returns, you can determine the self-employed borrower's cash flow and whether he or she is an acceptable risk.

### BASIC CONCEPTS

To analyze cash flow, tax statements are a starting point. Income is *increased* by the noncash expenses and *decreased* by any real losses or expenses that were not included in the taxable income.

As you can see, before you can dive into analysis, it's important to know what is considered INCOME, EXPENSE or LOSS. Once you understand these basic concepts, you will have a good foundation for conducting a meaningful analysis.

There are three key income/expense components that appear throughout the cash flow analysis:

- ▶ Noncash expenses
- ▶ Recurring vs. nonrecurring income or loss
- ▶ Losses and expenses limited by the IRS

## ► NONCASH EXPENSES

There are generally three types of noncash expenses: depreciation, depletion and amortization. They are deducted from the business' earnings just like cash expenses such as rent, supplies and wages. These write-offs are a way for the business to spread out the cost of a long-term asset over its useful life. Because these items do not involve a payment to anyone, they can be added to the borrower's cash flow.

- ◀ **DEPRECIATION** is a means of recognizing the loss in value of a tangible asset. These assets (buildings, equipment, machinery, autos, etc.) wear out over time and, therefore, lose value. Although there is no cash outlay, the "cost" of this wear and tear is treated as an expense which artificially lowers the business' current income. All depreciation can be added to cash flow.
- ◀ **DEPLETION** recognizes the exhaustion of a natural resource such as oil or mineral reserves, timberlands, etc. As these resources are used, they lose value. The "cost" of this loss in value is treated as an expense against the business' income. Since no cash has been paid out, this expense may be added to cash flow.
- ◀ **AMORTIZATION** is the writing off of initial costs incurred prior to the beginning of formal business operations. They are considered intangible assets. Examples of these costs include: goodwill, trademarks, covenants not to compete and prepayments. Amortization is shown as an expense over a preset number of years because the actual cash outlay occurred. Amortization can typically be added back to cash flow.

## RISK FACTORS

Some factors to consider when evaluating a self-employed borrower include:

- Is the local industry structure stable, diversified and competitive? *In other words, how healthy is this business?*
- Is there evidence of sufficient cash reserves to meet personal and business obligations? *A poor personal credit history could indicate a cash flow problem in the business and prevent the business owner from obtaining financing for additional capital if needed.*
- What is the marketability of the property that is securing the mortgage loan? *If the business fails, this property becomes the source for repaying the loan.*

## INTRODUCTION

A recurring income or expense item is one that can be expected to continue over time. Generally, the income should be expected to continue over the next three years before it can be considered for cash flow. The more the borrowers have to rely on that income to repay the mortgage, the more important it is for that income to continue long into the future.

Examples of RECURRING INCOME are the earnings from the operation of a business, interest from long-term investments or even lottery winnings paid out over a number of years. On the other hand, income from the one-time sale of an asset, or a prize or other windfall, is considered a one-time event or nonrecurring.

Examples of RECURRING EXPENSES are wages, insurance, car and truck expenses, etc. These are expenses associated with the day-to-day operation of a business and reduce its net income. From time to time, an extraordinary expense occurs. If it can be shown that the expense is a true one-time occurrence, the underwriter may add the amount of the expense back to cash flow.

In certain situations, the IRS has limited the amount of loss or expense that a taxpayer can declare. When this happens, the individual reports a taxable income that is higher than what was actually received. A negative adjustment to income will reflect the lower cash flow.

There are two situations where this would typically occur:

The Tax Act of 1986 introduced the passive activity rules to limit tax shelters where investors in limited partnerships and real estate intended to show a "paper" loss. If an owner of a business or real property does not materially participate in its day-to-day management, the endeavor is subject to "passive activity limitations." In such situations, if there is a loss, the owner may not be able to declare all or part of that loss for tax purposes. The result will be taxable income higher than actual cash flow.

Business people often treat clients to meals or activities such as golf, ball games, theater, etc. These business expenses involve an element of personal expenses which the taxpayer is NOT allowed to declare against income. For cash flow purposes, the fact remains that the money was expended in the course of doing business and the exclusion should be deducted from cash flow.

## 1040 AND SUPPORTING SCHEDULES & FORMS

The following tax forms and supporting schedules may be used by self-employed borrowers to document their income and deductions.

### PERSONAL INCOME

- ◀ **FORM 1040** — U.S. Individual Income Tax Return
- ◀ **SCHEDULE A** — Itemized Deductions
- ◀ **FORM 2106** — Employee Business Expenses
- ◀ **SCHEDULE B** — Interest and Ordinary Dividends
- ◀ **SCHEDULE C** — Profit or Loss From Business
- ◀ **FORM 4562** — Depreciation and Amortization
- ◀ **SCHEDULE D** — Capital Gains and Losses
- ◀ **FORM 8949** — Sales and Other Dispositions of Capital Assets
- ◀ **FORM 6252** — Installment Sale Income
- ◀ **SCHEDULE E** — Supplemental Income and Loss
- ◀ **FORM 8582** — Passive Activity Loss Limitations
- ◀ **SCHEDULE F** — Profit or Loss From Farming
- ◀ **FORM 8825** — Rental Real Estate Income and Expenses of a Partnership or an S Corporation
- ◀ **SCHEDULE K-1 (FORM 1065)** — Partner's Share of Income, Deductions, Credits, etc., from Partnership Schedule
- ◀ **SCHEDULE K-1 (FORM 1120S)** — Shareholder's Share of Income, Deductions, Credits, etc., from S Corporation

### BUSINESS INCOME

- ◀ **FORM 1065** — U.S. Return of Partnership Income
- ◀ **FORM 1120S** — U.S. Income Tax Return for an S Corporation
- ◀ **FORM 1120** — U.S. Corporation Income Tax Returns





# MODULE 1

## SCHEDULE ANALYSIS METHOD

To determine the cash flow for a borrower, the most common way to get there is the Schedule Analysis Method (SAM).

You'll start with Form 1040, the U.S. Individual Income Tax Return and work through each schedule.

You'll start with the amount that appears on Line 7: Wages, Salaries, Tips, etc. As you analyze the tax return, you will also review separate tax schedules filed by the borrower, such as Schedule A, *Itemized Deductions* or Schedule C, *Profit or Loss from Business*. Because the income or loss is listed separately on each schedule, you can clearly evaluate the level and stability of the different sources of income. Consequently, you will add income or subtract losses/expenses from the amount on Line 7.

- ◀ **HOW TO USE THIS GUIDE to estimate cash flow:** follow the guidance that appears under the **EFFECT ON CASH FLOW ANALYSIS** subhead.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning . . . , 2016, ending . . . , 20
Your first name and initial Last name
If a joint return, spouse's first name and initial Last name
Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Foreign country name Foreign province/state/county Foreign postal code

Filing Status
1 Single
2 Married filing jointly (even if only one had income)
3 Married filing separately. Enter spouse's SSN above and full name here.
4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child

Exemptions
6a Yourself. If someone can claim you as a dependent, do not check box 6a.
b Spouse
c Dependents:
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if child under age 17 qualifying for child tax credit (see instructions)
d Total number of exemptions claimed

Income
7 Wages, salaries, tips, etc. Attach Form(s) W-2
8a Taxable interest, Attach Schedule B if required
8b Tax-exempt interest, Do not include on line 8a
9a Ordinary dividends, Attach Schedule B if required
9b Qualified dividends
10 Taxable refunds, credits, or offsets of state and local income taxes
11 Alimony received
12 Business income or (loss), Attach Schedule C or C-EZ
13 Capital gain or (loss), Attach Schedule D if required. If not required, check here
14 Other gains or (losses), Attach Form 4797
15a IRA distributions
15b Taxable amount
16a Pensions and annuities
16b Taxable amount
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
18 Farm income or (loss), Attach Schedule F
19 Unemployment compensation
20a Social security benefits
20b Taxable amount
21 Other income. List type and amount
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

Adjusted Gross Income
23 Educator expenses
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
25 Health savings account deduction. Attach Form 8889
26 Moving expenses. Attach Form 3903
27 Deductible part of self-employment tax. Attach Schedule SE
28 Self-employed SEP, SIMPLE, and qualified plans
29 Self-employed health insurance deduction
30 Penalty on early withdrawal of savings
31a Alimony paid b Recipient's SSN
32 IRA deduction
33 Student loan interest deduction
34 Tuition and fees. Attach Form 8917
35 Domestic production activities deduction, Attach Form 8903
36 Add lines 23 through 35
37 Subtract line 36 from line 22. This is your adjusted gross income

## FORM 1040: U.S. INDIVIDUAL INCOME TAX RETURN

To determine the cash flow for a borrower, we'll use the Schedule Analysis Method (SAM).

### SCHEDULE ANALYSIS METHOD (SAM)

#### ► W-2, BOX 5: SELF-EMPLOYED WAGES, SALARIES, TIPS, ETC.

When income represents money paid to the borrower in the form of salary or wages from self-employment, it will be included on the cash flow form.

Do not add the wages from non-self-employed borrowers to the cash flow form. Instead, use VOEs or Alternate Documentation to verify their current income.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add self-employed wages from W-2, box 5 to the borrower's cash flow.

NOTE: If wage is variable (i.e., commission income), evaluate income to determine income average and stability similar to self-employed wages.

Page 1 of the 1040 will identify other items that you may use to qualify the borrower. The borrower can be given credit for the income if it will be ongoing and consistent. Some of the items are nontaxable as noted below and nontaxable income has the potential to be grossed up, assuming it's allowable per investor guidelines. Generally, the maximum percentage used to gross up nontaxable income is 25%. The items to look for on page 1 of the 1040 include the following:

- Tax-Exempt Interest — line 8b.
- Alimony Received — line 11. This will not include child support payments as child support payments are not taxable.
- Total IRA Distributions — line 15a.
  - ▷ Nontaxable income — 15a minus 15b
- Total Pensions and Annuities — line 16a.
  - ▷ Nontaxable income — 16a minus 16b
- Unemployment Compensation — line 19.
- Total Social Security Benefits — line 20a.
  - ▷ Nontaxable income — 20a minus 20b
- Other Income — line 21. Other income may include prizes or gambling winnings which generally cannot be expected to recur.

This line may also be used to add back income that you have determined is nontaxable. Some forms of nontaxable income may be grossed up 25%. Check your investor's income requirements before using nontaxable income. Make sure the income used on this line is verifiable and will be ongoing and consistent.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add these items to the borrower's cash flow only if the borrower can document that they are stable and recurring.

**38** Amount from line 37 (adjusted gross income) . . . . . **38**

**Tax and Credits**

**39a** Check  **You** were born before January 2, 1952,  **Blind**,  **Total boxes**   
if:  **Spouse** was born before January 2, 1952,  **Blind**, **checked** ▶ **39a**

**b** If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ **39b**

**Standard Deduction for—**

- People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
- All others:
  - Single or Married filing separately, \$6,300
  - Married filing jointly or Qualifying widow(er), \$12,600
  - Head of household, \$9,300

**40** **Itemized deductions** (from Schedule A) or your **standard deduction** (see left margin) . . . . . **40**

**41** Subtract line 40 from line 38 . . . . . **41**

**42** **Exemptions.** If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions . . . . . **42**

**43** **Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . . **43**

**44** **Tax** (see instructions). Check if any from: **a**  Form(s) 8814 **b**  Form 4972 **c**  . . . . . **44**

**45** **Alternative minimum tax** (see instructions). Attach Form 6251 . . . . . **45**

**46** Excess advance premium tax credit repayment. Attach Form 8962 . . . . . **46**

**47** Add lines 44, 45, and 46 . . . . . ▶ **47**

**48** Foreign tax credit. Attach Form 1116 if required . . . . . **48**

**49** Credit for child and dependent care expenses. Attach Form 2441 . . . . . **49**

**50** Education credits from Form 8863, line 19 . . . . . **50**

**51** Retirement savings contributions credit. Attach Form 8880 . . . . . **51**

**52** Child tax credit. Attach Schedule 8812, if required . . . . . **52**

**53** Residential energy credits. Attach Form 5695 . . . . . **53**

**54** Other credits from Form: **a**  3800 **b**  8801 **c**  . . . . . **54**

**55** Add lines 48 through 54. These are your **total credits** . . . . . **55**

**56** Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- . . . . . ▶ **56**

**Other Taxes**

**57** Self-employment tax. Attach Schedule SE . . . . . **57**

**58** Unreported social security and Medicare tax from Form: **a**  4137 **b**  8919 . . . . . **58**

**59** Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . . **59**

**60a** Household employment taxes from Schedule H . . . . . **60a**

**b** First-time homebuyer credit repayment. Attach Form 5405 if required . . . . . **60b**

**61** Health care: individual responsibility (see instructions) Full-year coverage  . . . . . **61**

**62** Taxes from: **a**  Form 8959 **b**  Form 8960 **c**  Instructions; enter code(s) . . . . . **62**

**63** Add lines 56 through 62. This is your **total tax** . . . . . ▶ **63**

**Payments**

**64** Federal income tax withheld from Forms W-2 and 1099 . . . . . **64**

**65** 2016 estimated tax payments and amount applied from 2015 return . . . . . **65**

**66a** **Earned income credit (EIC)** . . . . . **66a**

**b** Nontaxable combat pay election **66b** . . . . . **66b**

**67** Additional child tax credit. Attach Schedule 8812 . . . . . **67**

**68** American opportunity credit from Form 8863, line 8 . . . . . **68**

**69** Net premium tax credit. Attach Form 8962 . . . . . **69**

**70** Amount paid with request for extension to file . . . . . **70**

**71** Excess social security and tier 1 RRTA tax withheld . . . . . **71**

**72** Credit for federal tax on fuels. Attach Form 4136 . . . . . **72**

**73** Credits from Form: **a**  2439 **b**  Reserved **c**  8885 **d**  . . . . . **73**

**74** Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** . . . . . ▶ **74**

**Refund**

**75** If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid** . . . . . **75**

**76a** Amount of line 75 you want **refunded to you**. If Form 8888 is attached, check here . . . . . ▶  **76a**

**b** Routing number . . . . . ▶ **c** Type:  Checking  Savings

**d** Account number . . . . . ▶ **77** Amount of line 75 you want **applied to your 2017 estimated tax** ▶ **77**

**Amount You Owe**

**78** **Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶ **78**

**79** Estimated tax penalty (see instructions) . . . . . **79**

**Third Party Designee** Do you want to allow another person to discuss this return with the IRS (see instructions)?  **Yes**. Complete below.  **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

**Sign Here** Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature Date Your occupation Daytime phone number

Spouse's signature. If a joint return, **both** must sign. Date Spouse's occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

**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. ▶

## FORM 1040: U.S. INDIVIDUAL INCOME TAX RETURN (PAGE 2)

The borrower's cash flow is based on gross income versus net income. Page 2 of the 1040 determines the net income of the borrower.

NOTE: If LINE 40 indicates that the standard deduction was taken, then Schedule A – Itemized Deductions will not be included with the tax return.

### **EFFECT ON CASH FLOW ANALYSIS**

- ◀ There are no line items listed on this page that should be added back to the borrower's cash flow.

**SCHEDULE A  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Itemized Deductions**

► Information about Schedule A and its separate instructions is at [www.irs.gov/schedulea](http://www.irs.gov/schedulea).  
► Attach to Form 1040.

OMB No. 1545-0074

**2016**  
Attachment  
Sequence No. 07

Name(s) shown on Form 1040

Your social security number

<b>Medical and Dental Expenses</b>	<b>Caution:</b> Do not include expenses reimbursed or paid by others.			
	<b>1</b>	Medical and dental expenses (see instructions) . . . . .	<b>1</b>	
	<b>2</b>	Enter amount from Form 1040, line 38 <b>2</b>		
	<b>3</b>	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	<b>3</b>	
	<b>4</b>	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		<b>4</b>
<b>Taxes You Paid</b>	<b>5</b> State and local (check only one box):			
	<b>a</b>	<input type="checkbox"/> Income taxes, or	<b>5</b>	
	<b>b</b>	<input type="checkbox"/> General sales taxes		
	<b>6</b>	Real estate taxes (see instructions) . . . . .	<b>6</b>	
	<b>7</b>	Personal property taxes . . . . .	<b>7</b>	
	<b>8</b>	Other taxes. List type and amount ►	<b>8</b>	
	<b>9</b>	Add lines 5 through 8 . . . . .		<b>9</b>
<b>Interest You Paid</b>	<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>	
	<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	<b>11</b>	
	<b>12</b>	Points not reported to you on Form 1098. See instructions for special rules . . . . .	<b>12</b>	
	<b>13</b>	Mortgage insurance premiums (see instructions) . . . . .	<b>13</b>	
	<b>14</b>	Investment interest. Attach Form 4952 if required. (See instructions.)	<b>14</b>	
	<b>15</b>	Add lines 10 through 14 . . . . .		<b>15</b>
<b>Gifts to Charity</b>	<b>16</b>	Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . .	<b>16</b>	
	<b>17</b>	Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500 . . . . .	<b>17</b>	
	<b>18</b>	Carryover from prior year . . . . .	<b>18</b>	
	<b>19</b>	Add lines 16 through 18 . . . . .		<b>19</b>
<b>Casualty and Theft Losses</b>	<b>20</b>	Casualty or theft loss(es). Attach Form 4684. (See instructions.) . . . . .		<b>20</b>
<b>Job Expenses and Certain Miscellaneous Deductions</b>	<b>21</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	<b>21</b>	
	<b>22</b>	Tax preparation fees . . . . .	<b>22</b>	
	<b>23</b>	Other expenses—investment, safe deposit box, etc. List type and amount ►	<b>23</b>	
	<b>24</b>	Add lines 21 through 23 . . . . .	<b>24</b>	
	<b>25</b>	Enter amount from Form 1040, line 38 <b>25</b>		
	<b>26</b>	Multiply line 25 by 2% (0.02) . . . . .	<b>26</b>	
	<b>27</b>	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		<b>27</b>
<b>Other Miscellaneous Deductions</b>	<b>28</b>	Other—from list in instructions. List type and amount ►		<b>28</b>
<b>Total Itemized Deductions</b>	<b>29</b>	Is Form 1040, line 38, over \$155,650? <input type="checkbox"/> <b>No.</b> Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> <b>Yes.</b> Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		<b>29</b>
	<b>30</b>	If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>		

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 17145C

Schedule A (Form 1040) 2016

## SCHEDULE A: ITEMIZED DEDUCTIONS

A taxpayer may choose to itemize deductions in order to save money. Schedule A must be completed to support the expenses being itemized. This schedule should be reviewed for several line items. They are:

### ► LINE 6: REAL ESTATE TAXES

If the borrower has indicated that real estate is owned (owner-occupied), there should be a deduction on this line for real estate taxes paid. Taxes for investment property are reported on Schedule E.

### ► LINES 10 AND 11: DEDUCTIBLE HOME MORTGAGE INTEREST

If the borrower is a current homeowner, a deduction for mortgage interest would be indicated here if there is a lien on the property.

### ► LINE 21: UNREIMBURSED EMPLOYEE EXPENSES

These are business expenses that are allowed as a deduction from taxable income on Schedule A — Itemized Deductions. The borrower must file Form 2106 to support the deduction.

### EFFECT ON CASH FLOW ANALYSIS

- ◀ You will use Form 2106 to make adjustments to the borrower's cash flow. Refer to pages 1-9 and 1-11.



**Employee Business Expenses**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Form 2106 and its separate instructions is available at [www.irs.gov/form2106](http://www.irs.gov/form2106).

Your name

Occupation in which you incurred expenses

Social security number

**Part I Employee Business Expenses and Reimbursements**

<b>Step 1 Enter Your Expenses</b>	<b>Column A</b> Other Than Meals and Entertainment	<b>Column B</b> Meals and Entertainment
<b>1</b> Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.) . . . . .		
<b>2</b> Parking fees, tolls, and transportation, including train, bus, etc., that <b>didn't</b> involve overnight travel or commuting to and from work . . . . .		
<b>3</b> Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Don't</b> include meals and entertainment. . . . .		
<b>4</b> Business expenses not included on lines 1 through 3. <b>Don't</b> include meals and entertainment . . . . .		
<b>5</b> Meals and entertainment expenses (see instructions) . . . . .		
<b>6 Total expenses.</b> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5 . . . . .		

**Note:** If you weren't reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

**Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1**

<b>7</b> Enter reimbursements received from your employer that <b>weren't</b> reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions). . . . .				
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**Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)**

<b>8</b> Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8) . . . . .				
<b>Note:</b> If <b>both columns</b> of line 8 are zero, you can't deduct employee business expenses. Stop here and attach Form 2106 to your return.				
<b>9</b> In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.) . . . . .				
<b>10</b> Add the amounts on line 9 of both columns and enter the total here. <b>Also, enter the total on Schedule A (Form 1040), line 21</b> (or on <b>Schedule A (Form 1040NR), line 7</b> ). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . . . . . ▶				

## FORM 2106: EMPLOYEE BUSINESS EXPENSES

This form is used to report reimbursed and unreimbursed business expenses by a non-self-employed borrower.

Examples of typical expenses may include vehicle, travel, meals and entertainment.

Generally, the borrower may not deduct more than 50% of the unreimbursed meals and entertainment expenditures experienced during the year.

### Automobile Allowance

When the borrower reports the allowance on their personal federal tax returns:

- ▶ Include allowance in excess of monthly expenses in the monthly qualifying income OR
- ▶ Include the expenses in excess of the allowance in the total monthly obligation

When the borrower does not report the allowance on their personal federal tax returns:

- ▶ Include the allowance in the monthly qualifying income AND
- ▶ Include the automobile payment/lease payment in the total monthly obligation

### ▶ LINE 8: UNREIMBURSED EXPENSES

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Subtract unreimbursed employee expenses, stated under Step 3, line 8, columns A plus B. This represents the unreimbursed business expenses prior to calculating the 50% limit on meals and entertainment.

**Part II Vehicle Expenses**

**Section A—General Information** (You must complete this section if you are claiming vehicle expenses.)

		(a) Vehicle 1	(b) Vehicle 2
<b>11</b>	Enter the date the vehicle was placed in service . . . . .	<b>11</b> / /	/ /
<b>12</b>	Total miles the vehicle was driven during 2016 . . . . .	<b>12</b> miles	miles
<b>13</b>	Business miles included on line 12 . . . . .	<b>13</b> miles	miles
<b>14</b>	Percent of business use. Divide line 13 by line 12 . . . . .	<b>14</b> %	%
<b>15</b>	Average daily roundtrip commuting distance . . . . .	<b>15</b> miles	miles
<b>16</b>	Commuting miles included on line 12 . . . . .	<b>16</b> miles	miles
<b>17</b>	Other miles. Add lines 13 and 16 and subtract the total from line 12 . . . . .	<b>17</b> miles	miles
<b>18</b>	Was your vehicle available for personal use during off-duty hours? . . . . .		<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>19</b>	Do you (or your spouse) have another vehicle available for personal use? . . . . .		<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>20</b>	Do you have evidence to support your deduction? . . . . .		<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>21</b>	If "Yes," is the evidence written? . . . . .		<input type="checkbox"/> Yes <input type="checkbox"/> No

**Section B—Standard Mileage Rate** (See the instructions for Part II to find out whether to complete this section or Section C.)

<b>22</b>	Multiply line 13 by 54¢ (0.54). Enter the result here and on line 1 . . . . .	<b>22</b>	
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**Section C—Actual Expenses**

		(a) Vehicle 1	(b) Vehicle 2
<b>23</b>	Gasoline, oil, repairs, vehicle insurance, etc. . . . .	<b>23</b>	
<b>24a</b>	Vehicle rentals . . . . .	<b>24a</b>	
<b>b</b>	Inclusion amount (see instructions) . . . . .	<b>24b</b>	
<b>c</b>	Subtract line 24b from line 24a . . . . .	<b>24c</b>	
<b>25</b>	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions) . . . . .	<b>25</b>	
<b>26</b>	Add lines 23, 24c, and 25. . . . .	<b>26</b>	
<b>27</b>	Multiply line 26 by the percentage on line 14 . . . . .	<b>27</b>	
<b>28</b>	Depreciation (see instructions) . . . . .	<b>28</b>	
<b>29</b>	Add lines 27 and 28. Enter total here and on line 1 . . . . .	<b>29</b>	

**Section D—Depreciation of Vehicles** (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

		(a) Vehicle 1	(b) Vehicle 2
<b>30</b>	Enter cost or other basis (see instructions) . . . . .	<b>30</b>	
<b>31</b>	Enter section 179 deduction and special allowance (see instructions) . . . . .	<b>31</b>	
<b>32</b>	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance). . . . .	<b>32</b>	
<b>33</b>	Enter depreciation method and percentage (see instructions) . . . . .	<b>33</b>	
<b>34</b>	Multiply line 32 by the percentage on line 33 (see instructions) . . . . .	<b>34</b>	
<b>35</b>	Add lines 31 and 34 . . . . .	<b>35</b>	
<b>36</b>	Enter the applicable limit explained in the line 36 instructions . . . . .	<b>36</b>	
<b>37</b>	Multiply line 36 by the percentage on line 14 . . . . .	<b>37</b>	
<b>38</b>	Enter the <b>smaller</b> of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above . . . . .	<b>38</b>	

## FORM 2106: EMPLOYEE BUSINESS EXPENSES (PAGE 2)

### AUTOMOBILE DEPRECIATION

Automobile depreciation may be claimed as part of the borrower's vehicle expense. If there is depreciation, it will be found on one of two lines:

### SECTION B — STANDARD MILEAGE RATE

#### ► LINE 22

This section estimates the vehicle expense based on the number of miles driven. Included in this estimate is a factor for depreciation which may be added back to the cash flow. The factors for the three most recent years are:

- 2014: 22.0¢
- 2015: 24.0¢
- 2016: 24.0¢

You will find the actual business miles driven in Section A, line 13.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ If line 22 is completed, multiply the miles driven from line 13 times the depreciation factor for the appropriate year. This amount should be added to the borrower's cash flow.

### SECTION C — ACTUAL EXPENSES

#### ► LINE 28

Here the taxpayer enters the actual depreciation expense.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ This amount on line 28 should be added to the borrower's cash flow. (Note that this depreciation is also found on line 38. Only add this number once.)



## SCHEDULE B: INTEREST AND ORDINARY DIVIDENDS

Schedule B provides the supporting detail for the taxable interest and dividend income reported on page 1 of the 1040. Compare the sources of income listed here to the loan application.

NOTE: Schedule B is only required if interest or dividend income is \$1,500 or greater.

### PART I — INTEREST INCOME

#### ▶ LINE 1

##### SELLER-FINANCED MORTGAGES

In order to use the income from a seller-financed mortgage (or land contract), there must be three or more years remaining in the life of the contract. You should also document that the debtor has made the last 12 months' payments in a timely manner.

NOTE: For potential additional income, see the discussion of Form 6252 on page 1-31.

##### **EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add recurring interest from the seller-financed mortgage(s) to the borrower's cash flow.

##### DEPOSITORY ACCOUNTS

Before using this income, make sure those accounts still exist and that the balances have not significantly decreased. In addition, the borrower should show a 24-month history of consistent interest earnings.

##### **EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add recurring interest income to the borrower's cash flow.
- If Schedule B is NOT completed, add recurring interest from Form 1040, Line 8a.

### PART II — ORDINARY DIVIDENDS

#### ▶ LINE 5

##### DIVIDEND INCOME

Be sure that the assets that generated this income are still owned by the borrower. You can do this by comparing Schedule B to the loan application. Also, check Schedule D for the sale of any assets. In addition, the borrower should show a 24-month history of consistent dividend earnings.

##### **EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add recurring dividend income to the borrower's cash flow.
- If Schedule B is NOT completed, add recurring dividend income from Form 1040, Line 9a.

**SCHEDULE C  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business  
(Sole Proprietorship)**

► **Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).**  
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

OMB No. 1545-0074

**2016**  
Attachment  
Sequence No. **09**

Name of proprietor	Social security number (SSN)										
<b>A</b> Principal business or profession, including product or service (see instructions)	<b>B</b> Enter code from instructions <table border="1" style="width:100%; height: 20px;"> <tr> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> </table>										
<b>C</b> Business name. If no separate business name, leave blank.	<b>D</b> Employer ID number (EIN), (see instr.) <table border="1" style="width:100%; height: 20px;"> <tr> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> </table>										
<b>E</b> Business address (including suite or room no.) ► City, town or post office, state, and ZIP code											
<b>F</b> Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►											
<b>G</b> Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No											
<b>H</b> If you started or acquired this business during 2016, check here <input type="checkbox"/>											
<b>I</b> Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No											
<b>J</b> If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No											

**Part I Income**

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

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

<b>8</b> Advertising	<b>8</b>				
<b>9</b> Car and truck expenses (see instructions)	<b>9</b>				
<b>10</b> Commissions and fees	<b>10</b>				
<b>11</b> Contract labor (see instructions)	<b>11</b>				
<b>12</b> Depletion	<b>12</b>				
<b>13</b> Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>				
<b>14</b> Employee benefit programs (other than on line 19)	<b>14</b>				
<b>15</b> Insurance (other than health)	<b>15</b>				
<b>16</b> Interest:					
<b>a</b> Mortgage (paid to banks, etc.)	<b>16a</b>				
<b>b</b> Other	<b>16b</b>				
<b>17</b> Legal and professional services	<b>17</b>				
<b>18</b> Office expense (see instructions)	<b>18</b>				
<b>19</b> Pension and profit-sharing plans	<b>19</b>				
<b>20</b> Rent or lease (see instructions):					
<b>a</b> Vehicles, machinery, and equipment	<b>20a</b>				
<b>b</b> Other business property	<b>20b</b>				
<b>21</b> Repairs and maintenance	<b>21</b>				
<b>22</b> Supplies (not included in Part III)	<b>22</b>				
<b>23</b> Taxes and licenses	<b>23</b>				
<b>24</b> Travel, meals, and entertainment:					
<b>a</b> Travel	<b>24a</b>				
<b>b</b> Deductible meals and entertainment (see instructions)	<b>24b</b>				
<b>25</b> Utilities	<b>25</b>				
<b>26</b> Wages (less employment credits)	<b>26</b>				
<b>27a</b> Other expenses (from line 48)	<b>27a</b>				
<b>b</b> Reserved for future use	<b>27b</b>				
<b>28</b> <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a	<b>28</b>				
<b>29</b> Tentative profit or (loss). Subtract line 28 from line 7	<b>29</b>				
<b>30</b> Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> 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	<b>30</b>				
<b>31</b> <b>Net profit or (loss).</b> Subtract line 30 from line 29. <ul style="list-style-type: none"> <li>• If a profit, enter on both <b>Form 1040, line 12</b> (or <b>Form 1040NR, line 13</b>) and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>• If a loss, you <b>must</b> go to line 32.</li> </ul>	<b>31</b>				
<b>32</b> If you have a loss, check the box that describes your investment in this activity (see instructions). <ul style="list-style-type: none"> <li>• If you checked 32a, enter the loss on both <b>Form 1040, line 12</b>, (or <b>Form 1040NR, line 13</b>) and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>• If you checked 32b, you <b>must</b> attach <b>Form 6198</b>. Your loss may be limited.</li> </ul>					
				<b>32a</b> <input type="checkbox"/> All investment is at risk. <b>32b</b> <input type="checkbox"/> Some investment is not at risk.	

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2016

## SCHEDULE C: PROFIT OR LOSS FROM BUSINESS

Schedule C is the profit and loss statement of a sole proprietorship. Reviewing the following key items will help in evaluating the stability and profitability of the borrower's business.

### ► LINES A AND C: PRINCIPAL BUSINESS AND BUSINESS NAME

Compare the entries for principal business and business name to the Residential Loan Application (1003). Double-check to make sure that the borrower is currently in the same line of work as when the tax returns were filed.

### ► LINE F: ACCOUNTING METHOD

It is important to identify the accounting method that the borrower is using. The method used will affect the interpretation of the income figures.

For example, if the borrower uses the ACCRUAL BASIS of accounting, the cash flow may appear distorted because cash is not actually received nor bills paid when the transactions are shown in the ledgers. Instead, the actual income received and expenses paid are allocated to the time period in which they were actually earned and incurred.

The CASH METHOD reports cash the day it is received and reports a bill the day it is paid. A disadvantage of the cash method is that it might overstate the income of a business if invoices are held and not paid until after year-end. The cash method can also understate the income if cash has not been received.

### ► LINE 31: NET PROFIT OR (LOSS)

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add the net profit or subtract the net loss from the borrower's cash flow.

## PART I — INCOME

This section discloses the gross revenues of a sole proprietorship.

### ► LINE 6: OTHER INCOME

This amount represents money the business received that was not obtained by the profits of the business, e.g., interest income from notes or accounts receivable, or miscellaneous receipts. Analyze this income to determine the probability of it being stable and recurring.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Subtract other income/add other losses that are not consistent and recurring.



**SCHEDULE C  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business  
(Sole Proprietorship)**

► **Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).**  
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

OMB No. 1545-0074

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<b>F</b> Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►											
<b>G</b> Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No											
<b>H</b> If you started or acquired this business during 2016, check here <input type="checkbox"/>											
<b>I</b> Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No											
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**Part I Income**

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

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

<b>8</b> Advertising	<b>8</b>				
<b>9</b> Car and truck expenses (see instructions)	<b>9</b>			<b>18</b>	Office expense (see instructions)
<b>10</b> Commissions and fees	<b>10</b>			<b>19</b>	Pension and profit-sharing plans
<b>11</b> Contract labor (see instructions)	<b>11</b>			<b>20</b>	Rent or lease (see instructions):
<b>12</b> Depletion	<b>12</b>			<b>20a</b>	a Vehicles, machinery, and equipment
<b>13</b> Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>			<b>20b</b>	b Other business property
<b>14</b> Employee benefit programs (other than on line 19)	<b>14</b>			<b>21</b>	Repairs and maintenance
<b>15</b> Insurance (other than health)	<b>15</b>			<b>22</b>	Supplies (not included in Part III)
<b>16</b> Interest:				<b>23</b>	Taxes and licenses
<b>a</b> Mortgage (paid to banks, etc.)	<b>16a</b>			<b>24</b>	Travel, meals, and entertainment:
<b>b</b> Other	<b>16b</b>			<b>24a</b>	a Travel
<b>17</b> Legal and professional services	<b>17</b>			<b>24b</b>	b Deductible meals and entertainment (see instructions)
<b>18</b> Office expense (see instructions)	<b>18</b>			<b>25</b>	Utilities
<b>19</b> Pension and profit-sharing plans	<b>19</b>			<b>26</b>	Wages (less employment credits)
<b>20</b> Rent or lease (see instructions):				<b>27a</b>	Other expenses (from line 48)
<b>a</b> Vehicles, machinery, and equipment	<b>20a</b>			<b>27b</b>	<b>Reserved for future use</b>
<b>b</b> Other business property	<b>20b</b>			<b>28</b>	<b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a
<b>21</b> Repairs and maintenance	<b>21</b>			<b>29</b>	Tentative profit or (loss). Subtract line 28 from line 7
<b>22</b> Supplies (not included in Part III)	<b>22</b>			<b>30</b>	<b>Expenses for business use of your home.</b> Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> 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
<b>23</b> Taxes and licenses	<b>23</b>			<b>31</b>	<b>Net profit or (loss).</b> Subtract line 30 from line 29. <ul style="list-style-type: none"> <li>• If a profit, enter on both <b>Form 1040, line 12</b> (or <b>Form 1040NR, line 13</b>) and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>• If a loss, you <b>must</b> go to line 32.</li> </ul>
<b>24</b> Travel, meals, and entertainment:					<ul style="list-style-type: none"> <li>• If you have a loss, check the box that describes your investment in this activity (see instructions).</li> <li>• If you checked 32a, enter the loss on both <b>Form 1040, line 12</b>, (or <b>Form 1040NR, line 13</b>) and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>• If you checked 32b, you <b>must</b> attach <b>Form 6198</b>. Your loss may be limited.</li> </ul>
<b>a</b> Travel	<b>24a</b>			<b>32a</b>	
<b>b</b> Deductible meals and entertainment (see instructions)	<b>24b</b>			<b>32b</b>	<input type="checkbox"/> Some investment is not at risk.
<b>25</b> Utilities	<b>25</b>				
<b>26</b> Wages (less employment credits)	<b>26</b>				
<b>27a</b> Other expenses (from line 48)	<b>27a</b>				
<b>27b</b> Reserved for future use	<b>27b</b>				

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2016

## PART II — EXPENSES

This section is very important in the evaluation of the business. The expenses itemized may be cash or noncash expenses. A cash expense occurs when money is paid. A noncash expense occurs when money is not paid (e.g., depreciation, etc.).

### ► LINE 9: CAR AND TRUCK EXPENSES

In most cases, this number represents actual cash expenditures for oil, maintenance and repairs to vehicles and should not be added to the cash flow.

However, if the borrower elects to claim the standard mileage deduction on his/her vehicle, it will be reported on line 9. Potential depreciation add backs will be discussed later in this chapter (Schedule C, page 2 on page 1-19 and Form 4562 on page 1-21).

#### EFFECT ON CASH FLOW ANALYSIS

◀ Actual expenses should not be added back to the borrower's cash flow.

### ► LINE 12: DEPLETION

Depletion is the exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. A business that exhausts a natural resource in the normal operation of the business is entitled to allocate the total costs of that natural resource over a given period of time.

The purpose of this allocation capability is to enable the borrower to gather sufficient capital to start over once the natural resource is depleted.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Because depletion is a noncash expense, it should be added back to the borrower's cash flow.

### ► LINE 13: DEPRECIATION

Depreciation is a business expense that is allocated over the useful life of a declared asset. The "expense" reflects a reasonable allowance for wear and tear of an asset. The depreciated assets wear out, become obsolete or get used-up and eventually need to be replaced.

Real depreciation is typically real estate; either a rental home or commercial property.

Chattel depreciation is typically assets that have a short life span, e.g., furniture, cars and office equipment.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Because depreciation is a noncash expense, it should be added back to the borrower's cash flow.

### ► LINE 24: TRAVEL, MEALS AND ENTERTAINMENT

These expenses relate to the cost of business-related meals and entertainment.

Generally, the borrower is allowed to deduct 50% of his/her out-of-pocket costs on the tax return. An 80% deduction is allowed for those who travel away from their tax home and the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. The remaining 50%, or 20%, of costs are not deductible, so they are paid out of the business' net profit.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Deduct the amount on line 24b. This figure represents the 50% or 80% limitation on the borrower's meals and entertainment expenses and should be subtracted from the borrower's cash flow.

### ► LINE 30: EXPENSES FOR BUSINESS USE OF HOME

An individual may operate a business out of the home for which tax deductions for a portion of rent, utilities or maintenance may be available.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add business use of home expenses from line 30 to the borrower's cash flow.

**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 <b>Cost of goods sold.</b> 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 2016, 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 or line 30.

48 <b>Total other expenses.</b> Enter here and on line 27a . . . . .	48	

## SCHEDULE C: PROFIT OR LOSS FROM BUSINESS (PAGE 2)

### PART IV — VEHICLE INFORMATION

A sole proprietor who uses the standard mileage deduction to estimate vehicle expenses will calculate that expense either here or on Form 4562. The standard deduction includes an estimate for depreciation. The factors for the three most recent years are:

Year	Standard Deduction	Depreciation
▶ 2014	▶ 56.0¢	▶ 22¢
▶ 2015	▶ 57.5¢	▶ 24¢
▶ 2016	▶ 54.0¢	▶ 24¢

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Multiply the number of miles on line 44a by the depreciation factor for the appropriate year. Add this amount to the borrower's cash flow.

### PART V — OTHER EXPENSES

Certain expenses may be listed here that are either noncash expenses or nonrecurring in nature. Look for the following items:

#### AMORTIZATION

The write-off of initial costs incurred by the borrower prior to the beginning of formal business operations.

Examples of initial costs include survey fee, patent, copyright, customer list or covenant not to compete.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Because the borrower can "expense" these one-time costs over a period of time, the expense should be added back to the borrower's cash flow.

#### CASUALTY OR THEFT LOSS

An individual may report these one-time expenses here if they relate to the business.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ These losses are generally nonrecurring in nature, so you should add them to the cash flow.

#### SCHEDULE C-EZ — NET PROFIT FROM BUSINESS

A small number of businesses are eligible to file Schedule C-EZ. This alternative to Schedule C limits business expenses to \$5,000 and does not allow for depreciation or amortization. This results in no material adjustments to cash flow. A sample of this form has not been included with this manual.

**Depreciation and Amortization**  
(Including Information on Listed Property)

Department of the Treasury  
Internal Revenue Service (99)

▶ **Information about Form 4562 and its separate instructions is at [www.irs.gov/form4562](http://www.irs.gov/form4562).**

**2016**  
Attachment  
Sequence No. **179**

Name(s) shown on return

Business or activity to which this form relates

Identifying number

**Part I Election To Expense Certain Property Under Section 179**

**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1
2	Total cost of section 179 property placed in service (see instructions)	2
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5
6	(a) Description of property	(b) Cost (business use only)
		(c) Elected cost
7	Listed property. Enter the amount from line 29	7
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8
9	Tentative deduction. Enter the <b>smaller</b> of line 5 or line 8	9
10	Carryover of disallowed deduction from line 13 of your 2015 Form 4562	10
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11
12	Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11	12
13	Carryover of disallowed deduction to 2017. Add lines 9 and 10, less line 12	13

**Note:** Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property.)** (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14
15	Property subject to section 168(f)(1) election	15
16	Other depreciation (including ACRS)	16

**Part III MACRS Depreciation (Don't include listed property.)** (See instructions.)

**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2016	17
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>	

**Section B—Assets Placed in Service During 2016 Tax Year Using the General Depreciation System**

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a	3-year property					
b	5-year property					
c	7-year property					
d	10-year property					
e	15-year property					
f	20-year property					
g	25-year property		25 yrs.		S/L	
h	Residential rental property		27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i	Nonresidential real property		39 yrs.	MM	S/L	
				MM	S/L	

**Section C—Assets Placed in Service During 2016 Tax Year Using the Alternative Depreciation System**

20a	Class life				S/L	
b	12-year		12 yrs.		S/L	
c	40-year		40 yrs.	MM	S/L	

**Part IV Summary** (See instructions.)

21	Listed property. Enter amount from line 28	21
22	<b>Total.</b> Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23

## FORM 4562: DEPRECIATION AND AMORTIZATION

A borrower making an investment in certain real and personal property to be used in a business or investment activity (such as buildings, machinery and equipment) is allowed to recover the investment cost(s) over time through depreciation deductions.

Likewise, a borrower may incur a cost in the start-up or normal operations of a business for which the tax code does not allow an immediate deduction. In this case, the borrower capitalizes the cost (asset on the balance sheet) and is allowed a deduction for the cost over time. This is referred to as amortization.

The total depreciation deduction is generally calculated on Form 4562 and transferred to Schedule C, E or F of the individual's tax return. A corporate or partnership tax return includes the depreciation deduction in the calculation of net income from operations.

The time span over which the borrower is allowed to deduct depreciation, depletion or amortization varies greatly, and it does not necessarily correspond to the economic life expectancy of the asset.

**IMPORTANT NOTE:** A borrower is not required to submit Form 4562 unless he/she is taking an immediate deduction; depreciation is being taken for property placed in service in the current year; or the borrower is depreciating listed property. For this reason, Form 4562 may not be included in the tax returns submitted by the borrower.

**SCHEDULE D  
(Form 1040)**

**Capital Gains and Losses**

OMB No. 1545-0074

Department of the Treasury  
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.**  
▶ **Information about Schedule D and its separate instructions is at [www.irs.gov/scheduled](http://www.irs.gov/scheduled).**  
▶ **Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.**

**2016**  
Attachment  
Sequence No. **12**

Name(s) shown on return

Your social security number

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>1a</b>	Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
<b>1b</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box A</b> checked . . . . .				
<b>2</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box B</b> checked . . . . .				
<b>3</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box C</b> checked . . . . .				
<b>4</b>	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 .				<b>4</b>
<b>5</b>	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .				<b>5</b>
<b>6</b>	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .				<b>6</b> ( )
<b>7</b>	<b>Net short-term capital gain or (loss).</b> Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back . . . . .				<b>7</b>

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>8a</b>	Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .				
<b>8b</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box D</b> checked . . . . .				
<b>9</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box E</b> checked . . . . .				
<b>10</b>	Totals for all transactions reported on Form(s) 8949 with <b>Box F</b> checked . . . . .				
<b>11</b>	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .				<b>11</b>
<b>12</b>	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				<b>12</b>
<b>13</b>	Capital gain distributions. See the instructions . . . . .				<b>13</b>
<b>14</b>	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .				<b>14</b> ( )
<b>15</b>	<b>Net long-term capital gain or (loss).</b> Combine lines 8a through 14 in column (h). Then go to Part III on the back . . . . .				<b>15</b>

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2016

## SCHEDULE D: CAPITAL GAINS AND LOSSES

Schedule D is typically used for reporting capital gains and losses. In most cases, a capital gain or loss is a nonrecurring event and you will not use it to qualify your borrower.

### SHORT-TERM VERSUS LONG-TERM

The difference between short- and long-term assets is the amount of time the assets were held before they were sold. The distinction has no bearing on our analysis.

#### ► **LINES 4 AND 11: GAINS FROM FORM 6252 (INSTALLMENT SALE INCOME)**

If there is an entry on either of these lines, look for Form 6252. This form is used to report the principal received as part of installment payments on a loan owed to the borrower. See page 1-31 for specific instructions. (Although lines 4 and 11 refer to several tax forms, the 6252 is the only one with potential for additions to income.)

#### ► **LINES 6 AND 14: SHORT-TERM AND LONG-TERM CAPITAL LOSS CARRYOVERS**

These losses occurred in prior tax year(s) and are carried forward to later years. In general, these losses should be added back to the borrower's cash flow. However, make sure to check investor guidelines to determine if adding back capital loss carryovers is allowable.



**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result . . . . .</p> <ul style="list-style-type: none"> <li>• If line 16 is a <b>gain</b>, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.</li> <li>• If line 16 is a <b>loss</b>, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> <li>• If line 16 is <b>zero</b>, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul> <p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p> <p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> in the instructions . . . ▶</p> <p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions . . . ▶</p> <p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <b>Don't</b> complete lines 21 and 22 below.   <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Don't</b> complete lines 21 and 22 below.</p> <p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note:</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p><b>22</b> Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?  <input type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).   <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040 or Form 1040NR.</p> </p>	<p><b>16</b></p> <hr/> <p><b>18</b></p> <hr/> <p><b>19</b></p> <hr/> <p><b>21</b> (                    )</p>
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## SCHEDULE D: CAPITAL GAINS AND LOSSES (PAGE 2)

### ► LINE 16: CAPITAL GAINS AND LOSSES

Gains and losses are totaled on line 16 of Schedule D. Reviewing the itemized list of short- and long-term gains (Form 8949 on page 1-27) and comparing one year's Schedule D to another will help you determine if the income or loss is recurring or not.

#### CAPITAL GAINS

If the capital gain income can be documented by a minimum of two years' tax returns and there is evidence that the borrower will continue to acquire assets to generate capital gains, you may add all or part of it to the borrower's cash flow.

#### **EFFECT ON CASH FLOW ANALYSIS**

◀ Add recurring gains to the borrower's cash flow.

#### CAPITAL LOSSES

If you determine that the losses could reasonably continue, deduct the losses from the borrower's cash flow.

#### **EFFECT ON CASH FLOW ANALYSIS**

◀ Subtract recurring losses from the borrower's cash flow.

NOTE: Pass-through income from the Schedule(s) K-1 reported on Schedule D, line 5 and line 12 should not be included.

### Sales and Other Dispositions of Capital Assets

OMB No. 1545-0074

Department of the Treasury  
Internal Revenue Service

► **Information about Form 8949 and its separate instructions is at [www.irs.gov/form8949](http://www.irs.gov/form8949).**  
► **File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.**

**2016**  
Attachment  
Sequence No. **12A**

Name(s) shown on return

Social security number or taxpayer identification number

Before you check **Box A**, **B**, or **C** below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

**Part I Short-Term.** Transactions involving capital assets you held 1 year or less are short term. For long-term transactions, see page 2.

**Note:** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

**You must check Box A, B, or C below. Check only one box.** If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- (B)** Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- (C)** Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). <b>See the separate instructions.</b>		(h) <b>Gain or (loss).</b> Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
<b>2 Totals.</b> Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, <b>line 1b</b> (if <b>Box A</b> above is checked), <b>line 2</b> (if <b>Box B</b> above is checked), or <b>line 3</b> (if <b>Box C</b> above is checked). ►								

**Note:** If you checked **Box A** above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

## FORM 8949: SALES AND OTHER DISPOSITIONS OF CAPITAL ASSETS

Form 8949 provides detail for the amounts reported on Schedule D. Page 1 of the form lists short-term gains and losses and page 2 lists long-term gains and losses.

### PART I — SHORT-TERM CAPITAL GAINS AND LOSSES

Descriptions for capital asset (e.g., stocks, bonds, etc.) dispositions are provided on this form. Reviewing the itemized lists and comparing one year's schedule to another will help you determine if the income or loss reported on Schedule D is recurring or not.

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side	Social security number or taxpayer identification number
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Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

**Part II Long-Term.** Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

**Note:** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

**You must check Box D, E, or F below. Check only one box.** If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- (E)** Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- (F)** Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). <b>See the separate instructions.</b>		(h) <b>Gain or (loss).</b> Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
<b>2 Totals.</b> Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, <b>line 8b</b> (if <b>Box D</b> above is checked), <b>line 9</b> (if <b>Box E</b> above is checked), or <b>line 10</b> (if <b>Box F</b> above is checked) ►								

**Note:** If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

**FORM 8949: SALES AND OTHER  
DISPOSITIONS OF CAPITAL  
ASSETS (PAGE 2)**

**PART II — LONG-TERM CAPITAL  
GAINS AND LOSSES**

Descriptions for capital asset (e.g., stocks, bonds, etc.) dispositions are provided on this form. Reviewing the itemized lists and comparing one year's schedule to another will help you determine if the income or loss reported on Schedule D is recurring or not.

Installment Sale Income

Use a separate form for each sale or other disposition of property on the installment method. Information about Form 6252 and its instructions is at www.irs.gov/form6252.

Name(s) shown on return

Identifying number

- 1 Description of property
2a Date acquired
b Date sold
3 Was the property sold to a related party...
4 Was the property you sold to a related party a marketable security?...

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

Table with 5 columns: Line number, Description, and three input columns. Rows include Selling price including mortgages and other debts, Mortgages, debts, and other liabilities, Adjusted basis, and Contract price.

Part II Installment Sale Income. Complete this part for the year of sale and any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

Table with 3 columns: Line number, Description, and two input columns. Rows include Gross profit percentage, Payments received during year, and Installment sale income.

Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.

Table with 3 columns: Line number, Description, and two input columns. Rows include Name of related party, Did the related party resell or dispose of the property, and Selling price of property sold by related party.

## FORM 6252: INSTALLMENT SALE INCOME

The borrower uses this form to report the principal portion of installment payments received.

### ► LINE 21: PAYMENTS RECEIVED DURING THE YEAR

In order to use this item as income, you must verify that the payments will continue for at least 3 years. Refer to the note or contract to find this information. In addition, you should verify a minimum 12-month history of regular payments.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add recurring principal payments to the borrower's cash flow.



**SCHEDULE E  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Supplemental Income and Loss**  
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
▶ Attach to Form 1040, 1040NR, or Form 1041.  
▶ Information about Schedule E and its separate instructions is at [www.irs.gov/schedulee](http://www.irs.gov/schedulee).

OMB No. 1545-0074

**2016**  
Attachment  
Sequence No. **13**

Name(s) shown on return

Your social security number

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions)  Yes  No  
**B** If "Yes," did you or will you file required Forms 1099?  Yes  No

<b>1a</b>	Physical address of each property (street, city, state, ZIP code)				
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b>	Type of Property (from list below)	<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box only if you meet the requirements to file as a qualified joint venture. See instructions.	<b>Fair Rental Days</b>	<b>Personal Use Days</b>	<b>QJV</b>
<b>A</b>			<b>A</b>		<input type="checkbox"/>
<b>B</b>			<b>B</b>		<input type="checkbox"/>
<b>C</b>			<b>C</b>		<input type="checkbox"/>

**Type of Property:**

- 1 Single Family Residence      3 Vacation/Short-Term Rental      5 Land      7 Self-Rental
- 2 Multi-Family Residence      4 Commercial      6 Royalties      8 Other (describe)

Income:		Properties:		A	B	C
<b>3</b>	Rents received . . . . .	<b>3</b>				
<b>4</b>	Royalties received . . . . .	<b>4</b>				
<b>Expenses:</b>						
<b>5</b>	Advertising . . . . .	<b>5</b>				
<b>6</b>	Auto and travel (see instructions) . . . . .	<b>6</b>				
<b>7</b>	Cleaning and maintenance . . . . .	<b>7</b>				
<b>8</b>	Commissions. . . . .	<b>8</b>				
<b>9</b>	Insurance . . . . .	<b>9</b>				
<b>10</b>	Legal and other professional fees . . . . .	<b>10</b>				
<b>11</b>	Management fees . . . . .	<b>11</b>				
<b>12</b>	Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>				
<b>13</b>	Other interest. . . . .	<b>13</b>				
<b>14</b>	Repairs. . . . .	<b>14</b>				
<b>15</b>	Supplies . . . . .	<b>15</b>				
<b>16</b>	Taxes . . . . .	<b>16</b>				
<b>17</b>	Utilities. . . . .	<b>17</b>				
<b>18</b>	Depreciation expense or depletion . . . . .	<b>18</b>				
<b>19</b>	Other (list) ▶ _____	<b>19</b>				
<b>20</b>	Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>				
<b>21</b>	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 . . . . .	<b>21</b>				
<b>22</b>	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) . . . . .	<b>22</b>	( )	( )	( )	( )
<b>23a</b>	Total of all amounts reported on line 3 for all rental properties . . . . .	<b>23a</b>				
<b>b</b>	Total of all amounts reported on line 4 for all royalty properties . . . . .	<b>23b</b>				
<b>c</b>	Total of all amounts reported on line 12 for all properties . . . . .	<b>23c</b>				
<b>d</b>	Total of all amounts reported on line 18 for all properties . . . . .	<b>23d</b>				
<b>e</b>	Total of all amounts reported on line 20 for all properties . . . . .	<b>23e</b>				
<b>24</b>	<b>Income.</b> Add positive amounts shown on line 21. <b>Do not</b> include any losses . . . . .	<b>24</b>				
<b>25</b>	<b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here . . . . .	<b>25</b>	( )	( )	( )	( )
<b>26</b>	<b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2 . . . . .	<b>26</b>				

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11344L

Schedule E (Form 1040) 2016

## SCHEDULE E: SUPPLEMENTAL INCOME AND LOSS SAM Cash Flow Analysis Form

### PART I — INCOME OR LOSS FROM RENTAL REAL ESTATE AND ROYALTIES

This section contains rental real estate and royalty income or loss figures. The income should be calculated using the following forms:

- ▶ Royalty Income or Loss is calculated on the Cash Flow Analysis Form
- ▶ Rental real estate income is calculated on the Rental Income Worksheet

### SCHEDULE E — Royalty Income or Loss: use Cash Flow Analysis Form

#### ▶ LINE 4: ROYALTY INCOME

Royalties are compensation paid for the use of another's property, based on a percentage of profit or production. The property is typically copyrighted material or natural resources. If the borrower has listed royalty income, it should be verified as ongoing and consistent before accepting it as usable income.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add ongoing income or loss to the borrower's cash flow.

#### ▶ LINE 20: TOTAL EXPENSES

Sum of expenses for royalties Lines 5-19

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Deduct expenses from the borrower's cash flow.

#### ▶ LINE 18: DEPLETION

Depletion is the exhaustion of a natural resource such as oil, gas, standing timber or mineral deposits. A business that exhausts a natural resource in the normal operation of the business is entitled to allocate the total costs of that natural resource over a given period of time. The purpose of this allocation capability is to enable the borrower to gather sufficient capital to start over once the natural resource is depleted.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Because Depletion is a noncash expense, it should be added back to the borrower's cash flow.

**SCHEDULE E  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Supplemental Income and Loss**  
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
▶ Attach to Form 1040, 1040NR, or Form 1041.  
▶ Information about Schedule E and its separate instructions is at [www.irs.gov/schedulee](http://www.irs.gov/schedulee).

OMB No. 1545-0074

**2016**  
Attachment  
Sequence No. **13**

Name(s) shown on return

Your social security number

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions)  Yes  No  
**B** If "Yes," did you or will you file required Forms 1099?  Yes  No

<b>1a</b>	Physical address of each property (street, city, state, ZIP code)				
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b>	Type of Property (from list below)	<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box only if you meet the requirements to file as a qualified joint venture. See instructions.	<b>Fair Rental Days</b>	<b>Personal Use Days</b>	<b>QJV</b>
<b>A</b>			<b>A</b>		<input type="checkbox"/>
<b>B</b>			<b>B</b>		<input type="checkbox"/>
<b>C</b>			<b>C</b>		<input type="checkbox"/>

**Type of Property:**

- 1 Single Family Residence      3 Vacation/Short-Term Rental      5 Land      7 Self-Rental  
 2 Multi-Family Residence      4 Commercial      6 Royalties      8 Other (describe)

Income:		Properties:	A	B	C
<b>3</b>	Rents received . . . . .	<b>3</b>			
<b>4</b>	Royalties received . . . . .	<b>4</b>			
<b>Expenses:</b>					
<b>5</b>	Advertising . . . . .	<b>5</b>			
<b>6</b>	Auto and travel (see instructions) . . . . .	<b>6</b>			
<b>7</b>	Cleaning and maintenance . . . . .	<b>7</b>			
<b>8</b>	Commissions. . . . .	<b>8</b>			
<b>9</b>	Insurance . . . . .	<b>9</b>			
<b>10</b>	Legal and other professional fees . . . . .	<b>10</b>			
<b>11</b>	Management fees . . . . .	<b>11</b>			
<b>12</b>	Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>			
<b>13</b>	Other interest. . . . .	<b>13</b>			
<b>14</b>	Repairs. . . . .	<b>14</b>			
<b>15</b>	Supplies . . . . .	<b>15</b>			
<b>16</b>	Taxes . . . . .	<b>16</b>			
<b>17</b>	Utilities. . . . .	<b>17</b>			
<b>18</b>	Depreciation expense or depletion . . . . .	<b>18</b>			
<b>19</b>	Other (list) ▶ _____	<b>19</b>			
<b>20</b>	Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>			
<b>21</b>	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 . . . . .	<b>21</b>			
<b>22</b>	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) . . . . .	<b>22</b>	( )	( )	( )
<b>23a</b>	Total of all amounts reported on line 3 for all rental properties . . . . .	<b>23a</b>			
<b>b</b>	Total of all amounts reported on line 4 for all royalty properties . . . . .	<b>23b</b>			
<b>c</b>	Total of all amounts reported on line 12 for all properties . . . . .	<b>23c</b>			
<b>d</b>	Total of all amounts reported on line 18 for all properties . . . . .	<b>23d</b>			
<b>e</b>	Total of all amounts reported on line 20 for all properties . . . . .	<b>23e</b>			
<b>24</b>	<b>Income.</b> Add positive amounts shown on line 21. <b>Do not</b> include any losses . . . . .	<b>24</b>			
<b>25</b>	<b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here . . . . .	<b>25</b>	( )		
<b>26</b>	<b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2 . . . . .	<b>26</b>			

## SCHEDULE E: SUPPLEMENTAL INCOME AND LOSS

### Rental Income Worksheet

#### TO CALCULATE, USE THE RENTAL INCOME WORKSHEET

##### ► Schedule E – Traditional Calculation

This method is generally used when averaging rental income and the PITIA method is not a requirement.

##### ► Schedule E – PITIA Calculation

This method is used when the full PITIA payment for all rental property is required when calculating the borrower's qualifying ratios. Generally, only the most recent tax year is required to be analyzed for net rental income and the details are entered into the Schedule of Real Estate in the Loan Origination System (LOS).

Determine which method is required by the investor and follow the appropriate instructions.

##### ► LINE 21: RENTAL INCOME (LOSS)

If the amount indicated on this line is income or loss generated from rental real estate after all expenses, then rental payments less expenses provides an income analysis on the respective investment property(s).

NOTE: Be sure to check each property listed on Schedule E against the borrower's schedule of real estate owned. If the borrower no longer owns the property, you should exclude the income or loss from that property from your analysis for all years.

##### EFFECT ON RENTAL INCOME WORKSHEET

◀ **PITIA OR TRADITIONAL CALCULATION** - Add ongoing income or loss to the borrower's cash flow.

##### ► LINE 18: DEPRECIATION

Depreciation is a business expense that is allocated over the useful life of a declared asset. The "expense" reflects a reasonable allowance for wear and tear of an asset. The depreciated assets wear out, become obsolete or get used up and eventually need to be replaced.

Real Depreciation is typically real estate; either a rental home or commercial property. Total depreciation deduction is generally calculated on Form 4562 and transferred to Schedule E.

##### EFFECT ON RENTAL INCOME WORKSHEET

◀ **PITIA OR TRADITIONAL CALCULATION** - Because Depreciation is a noncash expense, it should be added back to the borrower's cash flow.

##### ► LINES 9, 12, 13 AND 16: INSURANCE, MORTGAGE INTEREST, OTHER INTEREST AND TAX EXPENSES

The amount of insurance, mortgage interest and tax expenses will be indicated on these lines.

##### EFFECT ON RENTAL INCOME WORKSHEET

◀ **PITIA CALCULATION** - Insurance, mortgage interest and tax expenses should be added back when using the full PITIA payment for all rental property when calculating the borrower's qualifying ratios.

◀ **TRADITIONAL CALCULATION** - Generally not required.

##### ► LINE 19: OTHER

If there is amortization or a casualty loss, you will find it listed here. Occasionally, you will find a one-time, extraordinary expense listed here (e.g., new roof). This type of expense may also be added to cash flow.

##### EFFECT ON RENTAL INCOME WORKSHEET

◀ **PITIA OR TRADITIONAL CALCULATION** - Add amortization and casualty losses to the borrower's cash flow.

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

Your social security number

**Caution:** The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

**Part II Income or Loss From Partnerships and S Corporations** **Note:** If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (e) on line 28 and attach Form 6198. See instructions.

**27** Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section.  **Yes**  **No**

<b>28</b>	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
<b>A</b>			<input type="checkbox"/>		<input type="checkbox"/>
<b>B</b>			<input type="checkbox"/>		<input type="checkbox"/>
<b>C</b>			<input type="checkbox"/>		<input type="checkbox"/>
<b>D</b>			<input type="checkbox"/>		<input type="checkbox"/>

<b>Passive Income and Loss</b>		<b>Nonpassive Income and Loss</b>		
(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1
<b>A</b>				
<b>B</b>				
<b>C</b>				
<b>D</b>				
<b>29a</b>	Totals			
<b>b</b>	Totals			
<b>30</b>	Add columns (g) and (j) of line 29a . . . . .			<b>30</b>
<b>31</b>	Add columns (f), (h), and (i) of line 29b . . . . .			<b>31</b> ( )
<b>32</b>	<b>Total partnership and S corporation income or (loss).</b> Combine lines 30 and 31. Enter the result here and include in the total on line 41 below . . . . .			<b>32</b>

**Part III Income or Loss From Estates and Trusts**

<b>33</b>	(a) Name	(b) Employer identification number
<b>A</b>		
<b>B</b>		

<b>Passive Income and Loss</b>		<b>Nonpassive Income and Loss</b>	
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
<b>A</b>			
<b>B</b>			
<b>34a</b>	Totals		
<b>b</b>	Totals		
<b>35</b>	Add columns (d) and (f) of line 34a . . . . .		<b>35</b>
<b>36</b>	Add columns (c) and (e) of line 34b . . . . .		<b>36</b> ( )
<b>37</b>	<b>Total estate and trust income or (loss).</b> Combine lines 35 and 36. Enter the result here and include in the total on line 41 below . . . . .		<b>37</b>

**Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs) – Residual Holder**

<b>38</b>	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
<b>39</b>	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below				<b>39</b>

**Part V Summary**

<b>40</b>	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below . . . . .	<b>40</b>	
<b>41</b>	<b>Total income or (loss).</b> Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ▶	<b>41</b>	
<b>42</b>	<b>Reconciliation of farming and fishing income.</b> Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code V; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . . . . .	<b>42</b>	
<b>43</b>	<b>Reconciliation for real estate professionals.</b> If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . . . . .	<b>43</b>	

## SCHEDULE E: SUPPLEMENTAL INCOME AND LOSS (PAGE 2)

### PART II — INCOME OR LOSS FROM PARTNERSHIPS AND S CORPORATIONS

This income should not be included in the borrower's cash flow when analyzing this section of Schedule E. These figures are transferred from the applicable Schedule K-1 (Form 1065 for partnerships and Form 1120S for S corporations). Schedule K-1 should be used to determine the actual income/loss figures.

### PART III — INCOME OR LOSS FROM ESTATES AND TRUSTS

In order to verify income received from a trust, mail a VOE to the trustee. Outline the following questions on the VOE for the trustee to complete:

- ▶ Is the trust revocable (able to be taken away from the beneficiary)?
- ▶ What was the amount received from the trust by the beneficiary last year? Year-to-date?
- ▶ How long will the trust income continue to be received by the borrower, and how much can be expected to be received in the future?

### Passive Activity Loss Limitations

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1041.

▶ Information about Form 8582 and its instructions is available at [www.irs.gov/form8582](http://www.irs.gov/form8582).

**Part I 2016 Passive Activity Loss**

Caution: Complete Worksheets 1, 2, and 3 before completing Part I.

<b>Rental Real Estate Activities With Active Participation</b> (For the definition of active participation, see <b>Special Allowance for Rental Real Estate Activities</b> in the instructions.)				
<b>1a</b> Activities with net income (enter the amount from Worksheet 1, column (a))	<b>1a</b>			
<b>b</b> Activities with net loss (enter the amount from Worksheet 1, column (b))	<b>1b</b> ( )			
<b>c</b> Prior years unallowed losses (enter the amount from Worksheet 1, column (c))	<b>1c</b> ( )			
<b>d</b> Combine lines 1a, 1b, and 1c		<b>1d</b>		
<b>Commercial Revitalization Deductions From Rental Real Estate Activities</b>				
<b>2a</b> Commercial revitalization deductions from Worksheet 2, column (a)	<b>2a</b> ( )			
<b>b</b> Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	<b>2b</b> ( )			
<b>c</b> Add lines 2a and 2b		<b>2c</b> ( )		
<b>All Other Passive Activities</b>				
<b>3a</b> Activities with net income (enter the amount from Worksheet 3, column (a))	<b>3a</b>			
<b>b</b> Activities with net loss (enter the amount from Worksheet 3, column (b))	<b>3b</b> ( )			
<b>c</b> Prior years unallowed losses (enter the amount from Worksheet 3, column (c))	<b>3c</b> ( )			
<b>d</b> Combine lines 3a, 3b, and 3c		<b>3d</b>		
<b>4</b> Combine lines 1d, 2c, and 3d. If this line is zero or more, stop here and include this form with your return; all losses are allowed, including any prior year unallowed losses entered on line 1c, 2b, or 3c. Report the losses on the forms and schedules normally used		<b>4</b>		

- If line 4 is a loss and:
- Line 1d is a loss, go to Part II.
  - Line 2c is a loss (and line 1d is zero or more), skip Part II and go to Part III.
  - Line 3d is a loss (and lines 1d and 2c are zero or more), skip Parts II and III and go to line 15.

**Caution:** If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete Part II or Part III. Instead, go to line 15.

**Part II Special Allowance for Rental Real Estate Activities With Active Participation**

Note: Enter all numbers in Part II as positive amounts. See instructions for an example.

<b>5</b> Enter the <b>smaller</b> of the loss on line 1d or the loss on line 4	<b>5</b>		
<b>6</b> Enter \$150,000. If married filing separately, see instructions	<b>6</b>		
<b>7</b> Enter modified adjusted gross income, but not less than zero (see instructions)	<b>7</b>		
<b>Note:</b> If line 7 is greater than or equal to line 6, skip lines 8 and 9, enter -0- on line 10. Otherwise, go to line 8.			
<b>8</b> Subtract line 7 from line 6	<b>8</b>		
<b>9</b> Multiply line 8 by 50% (0.5). <b>Do not</b> enter more than \$25,000. If married filing separately, see instructions	<b>9</b>		
<b>10</b> Enter the <b>smaller</b> of line 5 or line 9	<b>10</b>		

If line 2c is a loss, go to Part III. Otherwise, go to line 15.

**Part III Special Allowance for Commercial Revitalization Deductions From Rental Real Estate Activities**

Note: Enter all numbers in Part III as positive amounts. See the example for Part II in the instructions.

<b>11</b> Enter \$25,000 reduced by the amount, if any, on line 10. If married filing separately, see instructions	<b>11</b>		
<b>12</b> Enter the loss from line 4	<b>12</b>		
<b>13</b> Reduce line 12 by the amount on line 10	<b>13</b>		
<b>14</b> Enter the <b>smallest</b> of line 2c (treated as a positive amount), line 11, or line 13	<b>14</b>		

**Part IV Total Losses Allowed**

<b>15</b> Add the income, if any, on lines 1a and 3a and enter the total	<b>15</b>		
<b>16</b> <b>Total losses allowed from all passive activities for 2016.</b> Add lines 10, 14, and 15. See instructions to find out how to report the losses on your tax return	<b>16</b>		

## FORM 8582: PASSIVE ACTIVITY LOSS LIMITATIONS

Form 8582 is used to calculate losses from real estate owned, partnership or S corporation investments which may not be fully tax deductible. Our cash flow analysis procedures calculate actual losses prior to any limitations imposed by the tax code. Therefore no analysis of Form 8582 is necessary.

NOTE: This is a 3-page form. Pages 2 and 3 are worksheets that are required to be filed with the IRS. Samples of these pages have not been included here.





## SCHEDULE F: PROFIT OR LOSS FROM FARMING

A borrower is typically a small farming operation if Schedule F is filed.

There are several line entries to consider when evaluating the stability of this type of income.

### ► LINE 34: NET FARM PROFIT OR (LOSS)

The amount indicated on this line is income or loss generated from farm operations.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add this amount to the borrower's cash flow.

### ► LINES 3 THROUGH 6

These lines represent sources of cash flow that may or may not be continuous and ongoing. You should not include any of these items if they represent one-time occurrences. If you can show that the income is likely to continue, you should be sure to include the nontaxable portion of this income in the borrower's cash flow.

NOTE: There may be rare instances where it would make sense to allow a nonrecurring item to remain in cash flow. These exceptions should be reviewed on a case-by-case basis.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Subtract income that is not consistent and ongoing (lines 3b, 4b, 5a, 5c, 6b, 6d).  
Add the nontaxable portion of recurring income (lines 3a minus 3b, 4a minus 4b, 5b minus 5c, 6a minus 6b).

### ► LINE 8: OTHER INCOME

This is other income that is received by the farmer that was not earned through farm operations.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Subtract other income/add other losses that are not consistent and recurring.

### ► LINE 14: DEPRECIATION

#### EFFECT ON CASH FLOW ANALYSIS

◀ Depreciation should be added back to the borrower's cash flow.

### ► LINE 32: OTHER EXPENSES

Check this section for amortization, business use of home, casualty loss and depletion.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add amortization, business use of home, casualty losses, or depletion to the borrower's cash flow.

## Request for Copy of Tax Return

▶ **Do not sign this form unless all applicable lines have been completed.**  
 ▶ **Request may be rejected if the form is incomplete or illegible.**  
 ▶ **For more information about Form 4506, visit [www.irs.gov/form4506](http://www.irs.gov/form4506).**

OMB No. 1545-0429

**Tip.** You may be able to get your tax return or return information from other sources. If you had your tax return completed by a paid preparer, they should be able to provide you a copy of the return. The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return and usually contains the information that a third party (such as a mortgage company) requires. See **Form 4506-T, Request for Transcript of Tax Return**, or you can quickly request transcripts by using our automated self-help service tools. Please visit us at [IRS.gov](http://IRS.gov) and click on "Get a Tax Transcript..." or call 1-800-908-9946.

<b>1a</b> Name shown on tax return. If a joint return, enter the name shown first.	<b>1b</b> First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
<b>2a</b> If a joint return, enter spouse's name shown on tax return.	<b>2b</b> Second social security number or individual taxpayer identification number if joint tax return
<b>3</b> Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
<b>4</b> Previous address shown on the last return filed if different from line 3 (see instructions)	
<b>5</b> If the tax return is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	

**Caution:** If the tax return is being mailed to a third party, ensure that you have filled in lines 6 and 7 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax return to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your return information, you can specify this limitation in your written agreement with the third party.

**6 Tax return requested.** Form 1040, 1120, 941, etc. and all attachments as originally submitted to the IRS, including Form(s) W-2, schedules, or amended returns. Copies of Forms 1040, 1040A, and 1040EZ are generally available for 7 years from filing before they are destroyed by law. Other returns may be available for a longer period of time. Enter only one return number. If you need more than one type of return, you must complete another Form 4506. ▶

**Note:** If the copies must be certified for court or administrative proceedings, check here

**7 Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than eight years or periods, you must attach another Form 4506.

\_\_\_\_\_

\_\_\_\_\_

<b>8 Fee.</b> There is a \$50 fee for each return requested. Full payment must be included with your request or it will be rejected. Make your check or money order payable to "United States Treasury." Enter your SSN, ITIN, or EIN and "Form 4506 request" on your check or money order.	
<b>a</b> Cost for each return . . . . .	\$ 50.00
<b>b</b> Number of returns requested on line 7 . . . . .	
<b>c</b> Total cost. Multiply line 8a by line 8b . . . . .	\$

**9** If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here

**Caution:** Do not sign this form unless all applicable lines have been completed.

**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax return requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer. **Note:** For tax returns being sent to a third party, this form must be received within 120 days of the signature date.

**Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506.** See instructions.

Phone number of taxpayer on line 1a or 2a

**Sign Here**

▶ \_\_\_\_\_ Date \_\_\_\_\_

Signature (see instructions)

▶ \_\_\_\_\_

Title (if line 1a above is a corporation, partnership, estate, or trust)

▶ \_\_\_\_\_ Date \_\_\_\_\_

Spouse's signature

## FORM 4506: REQUEST FOR COPY OF TAX RETURN

If you are unsure as to the accuracy of a borrower's tax returns, ask the borrower to sign Form 4506.

This form:

- ▶ Allows the borrower to certify that the copies of the tax returns submitted to the lender are valid copies, and
- ▶ Provides the lender with a way to obtain filed IRS copies of the tax returns for audit purposes.

This form is not intended to be used as an underwriting tool. It will take approximately 6 to 8 weeks to receive the requested copies.

**Request for Transcript of Tax Return**

▶ **Do not sign this form unless all applicable lines have been completed.**  
 ▶ **Request may be rejected if the form is incomplete or illegible.**  
 ▶ **For more information about Form 4506-T, visit [www.irs.gov/form4506t](http://www.irs.gov/form4506t).**

OMB No. 1545-1872

**Tip.** Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can quickly request transcripts by using our automated self-help service tools. Please visit us at [IRS.gov](http://IRS.gov) and click on "Get a Tax Transcript..." under "Tools" or call 1-800-908-9946. If you need a copy of your return, use **Form 4506, Request for Copy of Tax Return**. There is a fee to get a copy of your return.

<b>1a</b> Name shown on tax return. If a joint return, enter the name shown first.	<b>1b</b> First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
<b>2a</b> If a joint return, enter spouse's name shown on tax return.	<b>2b</b> Second social security number or individual taxpayer identification number if joint tax return
<b>3</b> Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
<b>4</b> Previous address shown on the last return filed if different from line 3 (see instructions)	
<b>5</b> If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.	

**Caution:** If the tax transcript is being mailed to a third party, ensure that you have filled in lines 6 through 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax transcript to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your transcript information, you can specify this limitation in your written agreement with the third party.

**6 Transcript requested.** Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request. ▶ \_\_\_\_\_

**a Return Transcript**, which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120-A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days . . . . .

**b Account Transcript**, which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 10 business days . . . . .

**c Record of Account**, which provides the most detailed information as it is a combination of the Return Transcript and the Account Transcript. Available for current year and 3 prior tax years. Most requests will be processed within 10 business days . . . . .

**7 Verification of Nonfiling**, which is proof from the IRS that you **did not** file a return for the year. Current year requests are only available after June 15th. There are no availability restrictions on prior year requests. Most requests will be processed within 10 business days . . . . .

**8 Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript.** The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2011, filed in 2012, will likely not be available from the IRS until 2013. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 10 business days . . . . .

**Caution:** If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.

**9 Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

/ /	/ /	/ /	/ /
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**Caution:** Do not sign this form unless all applicable lines have been completed.

**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer. **Note:** For transcripts being sent to a third party, this form must be received within 120 days of the signature date.

<input type="checkbox"/> <b>Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506-T.</b> See instructions.	Phone number of taxpayer on line 1a or 2a
▶ _____ Signature (see instructions) <span style="float:right">Date</span>	
▶ _____ <b>Sign Here</b> Title (if line 1a above is a corporation, partnership, estate, or trust)	
▶ _____ Spouse's signature <span style="float:right">Date</span>	

## FORM 4506-T: REQUEST FOR TRANSCRIPT OF TAX RETURN

The transcript of the tax return includes most of the line items of a tax return as filed with the IRS. Return transcripts are available for the current year and returns processed during the prior 3 years.



# MODULE 2

## BUSINESS RETURNS

Once you've analyzed a self-employed borrower's personal tax returns, the next step in determining cash flow is to analyze the business tax returns.

- ◀ Follow the instructions to determine the **EFFECT ON CASH FLOW ANALYSIS**.

### ▶ A WORD ABOUT USING INCOME FROM PARTNERSHIPS, S CORPORATIONS AND CORPORATIONS

Whether or not you will be using additional income from a partnership, S Corporation or a corporation to qualify your borrower, you should still conduct an analysis of the business tax returns to ensure a consistent pattern of profitability. The information contained in this chapter will help you conduct that analysis.

Generally, if your analysis shows profitability, you may add it to the borrower's cash flow if:

- ▶ The business has positive sales and earnings trends;
- ▶ The business had adequate liquidity to support the withdrawal; and
- ▶ The borrower can document ownership and access to the income.

The three factors listed above help assure that this income will be recurring and, therefore, an acceptable source of qualifying income. On the other hand, any loss resulting from your analysis should be deducted from cash flow as it represents a drain on the borrower's income.

**IMPORTANT:** Guidelines can vary significantly on the use of income from these sources. Please consult your investor guidelines for specific information on the use of this income.



**Schedule K-1  
(Form 1065)**

Department of the Treasury  
Internal Revenue Service

**2016**

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

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

**Part I Information About the Partnership**

**A** Partnership's employer identification number \_\_\_\_\_

**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 identifying number \_\_\_\_\_

**F** Partner's name, address, city, state, and ZIP code \_\_\_\_\_

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

**H**  Domestic partner  Foreign partner

**I1** What type of entity is this partner? \_\_\_\_\_

**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	_____ %	_____ %
Loss	_____ %	_____ %
Capital	_____ %	_____ %

**K** Partner's share of liabilities at year end:

Nonrecourse . . . . . \$ \_\_\_\_\_

Qualified nonrecourse financing . . \$ \_\_\_\_\_

Recourse . . . . . \$ \_\_\_\_\_

**L** Partner's capital account analysis:

Beginning capital account . . . . \$ \_\_\_\_\_

Capital contributed during the year \$ \_\_\_\_\_

Current year increase (decrease) . . \$ \_\_\_\_\_

Withdrawals & distributions . . . \$ ( \_\_\_\_\_ )

Ending capital account . . . . . \$ \_\_\_\_\_

Tax basis  GAAP  Section 704(b) book

Other (explain) \_\_\_\_\_

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

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

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

\*See attached statement for additional information.

For IRS Use Only

## SCHEDULE K-1 (FORM 1065): PARTNER'S SHARE OF INCOME, DEDUCTIONS, CREDITS, ETC., FROM PARTNERSHIP SCHEDULE

The borrower's percentage of income from the partnership may be recognized, provided:

- ▶ The partnership has positive sales and earnings trends;
- ▶ The partnership has adequate liquidity to support the withdrawal; and
- ▶ The borrower can document ownership and access to the income through a partnership resolution or other comparable documentation.

The Schedule K-1 is prepared by the partnership to inform the individual partner of his share of income, deductions and credits.

### PART II — INFORMATION ABOUT THE PARTNER

#### ▶ LINE G

This line identifies whether the borrower is a limited partner, a general partner or a limited liability company (LLC) member.

#### ▶ LINE J

This line indicates the partner's percentage of profit, loss and ownership of capital.

#### ▶ LINE L: PARTNER'S CAPITAL ACCOUNT ANALYSIS

This analysis can provide an idea of what the partner has received from or paid into the partnership.

Partnerships are a pass-through entity. Income and loss are passed through and reported on the individual's tax returns. The income and/or loss is reported regardless of whether money was contributed and/or withdrawn from the partnership.

##### BEGINNING CAPITAL ACCOUNT

This amount represents money that the borrower had in the account at the beginning of the year.

##### CAPITAL CONTRIBUTED DURING YEAR

This amount represents the value of the contributions that the borrower made to the partnership during the year.

##### CURRENT YEAR INCREASE (DECREASE)

This amount represents the partner's share of net income or loss per books (line 3), other increases in the capital account (line 4) and other decreases in the capital account (line 7) as reported on Schedule M-2 of Form 1065. Schedule M-2 shows what caused the changes in the partner's capital accounts during the tax year.

##### ENDING CAPITAL ACCOUNT

This amount is the balance the borrower had in the account at the end of the year.

If the amount indicated is a negative figure, the partner may be required to contribute additional capital.

Schedule K-1 (Form 1065)

Department of the Treasury Internal Revenue Service

2016

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

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

Part I Information About the Partnership
A Partnership's employer identification number
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 identifying number
F Partner's name, address, city, state, and ZIP code
G General partner or LLC member-manager Limited partner or other LLC member
H Domestic partner Foreign partner
I1 What type of entity is this partner?
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 % %
Loss % %
Capital % %
K Partner's share of liabilities at year end:
Nonrecourse \$
Qualified nonrecourse financing \$
Recourse \$
L Partner's capital account analysis:
Beginning capital account \$
Capital contributed during the year \$
Current year increase (decrease) \$
Withdrawals & distributions \$ ( )
Ending capital account \$
Tax basis GAAP Section 704(b) book
Other (explain)
M Did the partner contribute property with a built-in gain or loss?
Yes No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items
1 Ordinary business income (loss) 15 Credits
2 Net rental real estate income (loss)
3 Other net rental income (loss) 16 Foreign transactions
4 Guaranteed payments
5 Interest income
6a Ordinary dividends
6b Qualified dividends
7 Royalties
8 Net short-term capital gain (loss)
9a Net long-term capital gain (loss) 17 Alternative minimum tax (AMT) items
9b Collectibles (28%) gain (loss)
9c Unrecaptured section 1250 gain
10 Net section 1231 gain (loss) 18 Tax-exempt income and nondeductible expenses
11 Other income (loss)
12 Section 179 deduction 19 Distributions
13 Other deductions 20 Other information
14 Self-employment earnings (loss)
\*See attached statement for additional information.
For IRS Use Only

## PART III — PARTNER'S SHARE OF CURRENT YEAR INCOME, DEDUCTIONS, CREDITS AND OTHER ITEMS

### ▶ LINE 1: ORDINARY INCOME (LOSS) FROM TRADE OR BUSINESS ACTIVITIES

This represents the partner's distributive share of ordinary income or loss from the partnership. As discussed later under Partnerships, partners are allocated portions of income, loss, deductions and credits earned by the partnership. Partners pay tax or take deductions on their personal returns for these "pass-through" items.

Because partners pay tax on the income when earned by the partnership, they are able to take withdrawals and distributions free of income tax consequences.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add ordinary income to cash flow only if:

- 1 The partnership has positive sales and earnings trends;
- 2 The borrower can document ownership and access to the income through a partnership resolution or comparable documentation (as required by investor); and
- 3 The partnership has adequate liquidity to support the withdrawal. To determine this, you should review the history of withdrawals and distributions and the partnership's financial position and liquidity.

In the event of a loss, subtract it from cash flow.

### ▶ LINE 2: RENTAL REAL ESTATE ACTIVITIES

This line represents income or loss from rental real estate activity, and if it is completed, the Partnership Return will generally include Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation).

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add continuous and ongoing rental income to cash flow if the three conditions listed above are met. Deduct losses.

### ▶ LINE 3: OTHER RENTAL ACTIVITIES

This line represents income or loss from all other rental activity.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add continuous and ongoing other rental income to cash flow if the three conditions listed on the left are met. Deduct losses.

### ▶ LINE 4: GUARANTEED PAYMENTS TO PARTNER

This line displays payments made to the partner for services rendered or for the use of capital. These payments are made without regard to the partnership's profits and are subject to self-employment tax.

#### EFFECT ON CASH FLOW ANALYSIS

◀ Add guaranteed payments to the borrower's cash flow.

### ▶ LINES 5-9: PORTFOLIO INCOME (LOSS)

These items are reported elsewhere on the 1040 and, therefore, are already included in cash flow. Make no adjustment here.

### ▶ LINE 19: DISTRIBUTIONS

This represents the fair market value of property distributed by the partnership to the partner in the year.

Typically, this will be cash only, but other items may be included. For example, a loan to the partner from the partnership that is forgiven may be included here.

Compare withdrawals and distributions to the sum of income on Part III, lines 1 through 3 and lines 5 through 11. The two are most likely different. Was income greater than distributions? Attempt to ascertain the liquidity of the difference: is the partnership expanding or investing in new equipment, or was the income invested in mutual funds? Assess the general ability of the partnership to make distributions in the future to help the borrower avoid delinquencies or default.

Were distributions greater than income? Is the company winding down operations? Is the business viable over the long term?

#### EFFECT ON CASH FLOW ANALYSIS

◀ For purposes of cash flow, generally, line 19, Code A cash distributions are not included in the cash flow analysis but are used to support business income.

**Rental Real Estate Income and Expenses of a Partnership or an S Corporation**

▶ See instructions on back.  
 ▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

OMB No. 1545-1186

Name	Employer identification number
------	--------------------------------

<b>1</b>	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.		
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days
<b>A</b>	.....		
<b>B</b>	.....		
<b>C</b>	.....		
<b>D</b>	.....		

	Properties			
	A	B	C	D
<b>Rental Real Estate Income</b>				
<b>2</b> Gross rents . . . . .	<b>2</b>			
<b>Rental Real Estate Expenses</b>				
<b>3</b> Advertising . . . . .	<b>3</b>			
<b>4</b> Auto and travel . . . . .	<b>4</b>			
<b>5</b> Cleaning and maintenance . . . . .	<b>5</b>			
<b>6</b> Commissions . . . . .	<b>6</b>			
<b>7</b> Insurance . . . . .	<b>7</b>			
<b>8</b> Legal and other professional fees . . . . .	<b>8</b>			
<b>9</b> Interest . . . . .	<b>9</b>			
<b>10</b> Repairs . . . . .	<b>10</b>			
<b>11</b> Taxes . . . . .	<b>11</b>			
<b>12</b> Utilities . . . . .	<b>12</b>			
<b>13</b> Wages and salaries . . . . .	<b>13</b>			
<b>14</b> Depreciation (see instructions)	<b>14</b>			
<b>15</b> Other (list) ▶ .....	<b>15</b>			
.....				
.....				
<b>16</b> Total expenses for each property. Add lines 3 through 15 . . . . .	<b>16</b>			
<b>17</b> Income or (Loss) from each property. Subtract line 16 from line 2	<b>17</b>			
<b>18a</b> Total gross rents. Add gross rents from line 2, columns A through H . . . . .				<b>18a</b>
<b>b</b> Total expenses. Add total expenses from line 16, columns A through H . . . . .				<b>18b</b> ( )
<b>19</b> Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities . . . . .				<b>19</b>
<b>20a</b> Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1) . . . . .				<b>20a</b>
<b>b</b> Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:				
(1) Name	(2) Employer identification number			
.....	.....			
.....	.....			
<b>21</b> Net rental estate income (loss). Combine lines 18a through 20a. Enter the result here and on:				<b>21</b>
• Form 1065 or 1120S: Schedule K, line 2, or				
• Form 1065-B: Part I, line 4				

## FORM 8825: RENTAL REAL ESTATE INCOME AND EXPENSES OF A PARTNERSHIP OR AN S CORPORATION Rental Income Worksheet

Partnerships and S Corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates or trusts.

Income from Form 8825 is analyzed using the PITIA method (Rental Income Worksheet) when the borrowers are personally obligated for the mortgage debt given that the debt has shown up on their credit report. Fannie Mae's guidance follows this calculation method. If borrowers are personally obligated on the mortgage debt (as evidenced by the inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S Corporation, the business tax returns may be used to offset the property's PITIA.

### ► LINE 17: RENTAL INCOME (LOSS)

The amount indicated on this line is income or loss generated from rental real estate

NOTE: Be sure to check each property listed on Form 8825 against the borrower's schedule of real estate owned. If the borrower no longer owns the property, you should exclude the income or loss from that property from your analysis for all years.

#### EFFECT ON RENTAL INCOME WORKSHEET ANALYSIS

◀ **PITIA CALCULATION** - Add ongoing income or loss to the borrower's cash flow.

### ► LINE 14: DEPRECIATION

Depreciation is a business expense that is allocated over the useful life of a declared asset. The "expense" reflects a reasonable allowance for wear and tear of an asset. The depreciated assets wear out, become obsolete or get used up and eventually need to be replaced.

Real Depreciation is typically real estate; either a rental home or commercial property. Total depreciation deduction is generally calculated on Form 4562 and transferred to Form 8825.

#### EFFECT ON RENTAL INCOME WORKSHEET ANALYSIS

◀ **PITIA CALCULATION** - Because Depreciation is a noncash expense, it should be added back to the borrower's cash flow.

### ► LINES 7, 9, 11: INSURANCE, MORTGAGE INTEREST AND TAX EXPENSES

The amount of insurance, mortgage interest and tax expenses will be indicated on these lines.

#### EFFECT ON RENTAL INCOME WORKSHEET ANALYSIS

◀ **PITIA CALCULATION** - Insurance, mortgage interest and tax expenses should be added back when using the full PITIA payment for all rental property when calculating the borrower's qualifying ratios.

### ► LINE 15: OTHER

#### EFFECT ON RENTAL INCOME WORKSHEET ANALYSIS

◀ **PITIA CALCULATION** - Add amortization and casualty losses to the borrower's cash flow.

**U.S. Return of Partnership Income**

OMB No. 1545-0123

For calendar year 2016, or tax year beginning \_\_\_\_\_, 2016, ending \_\_\_\_\_, 20\_\_\_\_\_.  
▶ **Information about Form 1065 and its separate instructions is at [www.irs.gov/form1065](http://www.irs.gov/form1065).**

**2016**

<b>A</b> Principal business activity	<b>Type or Print</b>	Name of partnership	<b>D</b> Employer identification number
<b>B</b> Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.	<b>E</b> Date business started
<b>C</b> Business code number		City or town, state or province, country, and ZIP or foreign postal code	<b>F</b> Total assets (see the instructions) \$ _____

- G** Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return  
(6)  Technical termination - also check (1) or (2)
- H** Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ▶ \_\_\_\_\_
- I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ \_\_\_\_\_
- J** Check if Schedules C and M-3 are attached

**Caution.** Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

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

**Sign Here**  
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

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

May the IRS discuss this return with the preparer shown below (see instructions)?  **Yes**  **No**

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

## FORM 1065: U.S. RETURN OF PARTNERSHIP INCOME

Partnerships are required to file Form 1065. This is an informational form listing the partnership's distributive income, loss, deductions and credits.

The partnership itself does not pay tax. Instead, the individual partners pay tax on their "pass-through" share of income.

The general partner files Form 1065. The only obligation that the general partner has to a limited partner is to provide the partner with the Schedule K-1.

When analyzing cash flow from Form 1065, remember to add or subtract only the borrower's share of income or losses. The borrower's ownership percentage can be found on Schedule K-1 (Form 1065).

Using income from the 1065 depends upon the viability of the business as well as the ability to access funds if they will be used to qualify.

### ► LINE 4: ORDINARY INCOME (LOSS) FROM OTHER PARTNERSHIPS, ESTATES AND TRUSTS

Partnerships can be partners in other partnerships. Income (ordinary, real estate and portfolio) earned by a partnership retains its character as it is passed through to its partners, e.g., ordinary income earned by partnerships of which this partnership is a partner will be passed through to the borrower as ordinary income.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ In general, subtract the income or add the loss. Further research must be done to determine whether cash or other property distributions are being made to the borrower's partnership before any of this income may be used to qualify the borrower. In addition, one must analyze the ownership percentage that the borrower's partnership has in this partnership to determine whether sufficient control exists to cause the partnership to make future distributions.

### ► LINES 5-7: INCOME (LOSS) FROM OTHER MISCELLANEOUS SOURCES

Analyze these lines to determine the probability of the income (loss) being stable and recurring.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Subtract other income/add other losses that are not consistent and recurring.

### ► LINE 16C: DEPRECIATION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depreciation to the cash flow.

### ► LINE 17: DEPLETION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depletion to the cash flow.

### ► LINE 20: OTHER DEDUCTIONS

Review the supporting statement for "Other Deductions." Any amount attributed to amortization can be added to the borrower's cash flow. One-time casualty losses can be added to the cash flow.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add amortization and casualty losses to the cash flow.

### ► LINE 22: ORDINARY BUSINESS INCOME (LOSS)

The partnership's ordinary income or loss is divided among the partners. The borrower's share is indicated on Line 1 of Schedule K-1 (Form 1065). Make no adjustment here.



**Schedule B Other Information**

<b>1</b> What type of entity is filing this return? Check the applicable box:	<b>Yes</b>	<b>No</b>																											
<table style="width:100%; border:none;"> <tr> <td style="width:50%;"><b>a</b> <input type="checkbox"/> Domestic general partnership</td> <td style="width:50%;"><b>b</b> <input type="checkbox"/> Domestic limited partnership</td> </tr> <tr> <td><b>c</b> <input type="checkbox"/> Domestic limited liability company</td> <td><b>d</b> <input type="checkbox"/> Domestic limited liability partnership</td> </tr> <tr> <td><b>e</b> <input type="checkbox"/> Foreign partnership</td> <td><b>f</b> <input type="checkbox"/> Other ►</td> </tr> </table>	<b>a</b> <input type="checkbox"/> Domestic general partnership	<b>b</b> <input type="checkbox"/> Domestic limited partnership	<b>c</b> <input type="checkbox"/> Domestic limited liability company	<b>d</b> <input type="checkbox"/> Domestic limited liability partnership	<b>e</b> <input type="checkbox"/> Foreign partnership	<b>f</b> <input type="checkbox"/> Other ►																							
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<b>2</b> At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person? . . . . .																													
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<b>5</b> Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details . . . . .	<b>Yes</b>	<b>No</b>																											
<b>6</b> Does the partnership satisfy <b>all four</b> of the following conditions?																													
<table style="width:100%; border:none;"> <tr> <td style="width:50%;"><b>a</b> The partnership's total receipts for the tax year were less than \$250,000.</td> <td style="width:50%;"></td> </tr> <tr> <td><b>b</b> The partnership's total assets at the end of the tax year were less than \$1 million.</td> <td></td> </tr> <tr> <td><b>c</b> Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.</td> <td></td> </tr> <tr> <td><b>d</b> The partnership is not filing and is not required to file Schedule M-3 . . . . . If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.</td> <td></td> </tr> </table>	<b>a</b> The partnership's total receipts for the tax year were less than \$250,000.		<b>b</b> The partnership's total assets at the end of the tax year were less than \$1 million.		<b>c</b> Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		<b>d</b> The partnership is not filing and is not required to file Schedule M-3 . . . . . If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.																						
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<b>7</b> Is this partnership a publicly traded partnership as defined in section 469(k)(2)? . . . . .																													
<b>8</b> During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? . . . . .																													
<b>9</b> Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction? . . . . .																													
<b>10</b> At any time during calendar year 2016, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country. ►																													

**Schedule B Other Information (continued)**

	Yes	No
<b>11</b> At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions . . . . .		
<b>12a</b> Is the partnership making, or had it previously made (and not revoked), a section 754 election? . . . . . See instructions for details regarding a section 754 election.		
<b>b</b> Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions . . . . .		
<b>c</b> Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		
<b>13</b> Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) . . . . . <input type="checkbox"/>		
<b>14</b> At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property? . . . . .		
<b>15</b> If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶		
<b>16</b> Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶		
<b>17</b> Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
<b>18a</b> Did you make any payments in 2016 that would require you to file Form(s) 1099? See instructions . . . . .		
<b>b</b> If "Yes," did you or will you file required Form(s) 1099? . . . . .		
<b>19</b> Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
<b>20</b> Enter the number of partners that are foreign governments under section 892. ▶		
<b>21</b> During the partnership's tax year, did the partnership make any payments that would require it to file Form 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474)? . . . . .		
<b>22</b> Was the partnership a specified domestic entity required to file Form 8938 for the tax year (See the Instructions for Form 8938)? . . . . .		

**Designation of Tax Matters Partner** (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶	Identifying number of TMP ▶
If the TMP is an entity, name of TMP representative ▶	Phone number of TMP ▶
Address of designated TMP ▶	

<b>Schedule K Partners' Distributive Share Items</b>		<b>Total amount</b>	
<b>Income (Loss)</b>	<b>1</b> Ordinary business income (loss) (page 1, line 22) . . . . .	<b>1</b>	
	<b>2</b> Net rental real estate income (loss) (attach Form 8825) . . . . .	<b>2</b>	
	<b>3a</b> Other gross rental income (loss) . . . . .	<b>3a</b>	
	<b>b</b> Expenses from other rental activities (attach statement) . . . . .	<b>3b</b>	
	<b>c</b> Other net rental income (loss). Subtract line 3b from line 3a . . . . .	<b>3c</b>	
	<b>4</b> Guaranteed payments . . . . .	<b>4</b>	
	<b>5</b> Interest income . . . . .	<b>5</b>	
	<b>6</b> Dividends: <b>a</b> Ordinary dividends . . . . .	<b>6a</b>	
	<b>b</b> Qualified dividends . . . . .	<b>6b</b>	
	<b>7</b> Royalties . . . . .	<b>7</b>	
	<b>8</b> Net short-term capital gain (loss) (attach Schedule D (Form 1065)) . . . . .	<b>8</b>	
<b>9a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1065)) . . . . .	<b>9a</b>		
<b>b</b> Collectibles (28%) gain (loss) . . . . .	<b>9b</b>		
<b>c</b> Unrecaptured section 1250 gain (attach statement) . . . . .	<b>9c</b>		
<b>10</b> Net section 1231 gain (loss) (attach Form 4797) . . . . .	<b>10</b>		
<b>11</b> Other income (loss) (see instructions) Type ▶	<b>11</b>		
<b>Deductions</b>	<b>12</b> Section 179 deduction (attach Form 4562) . . . . .	<b>12</b>	
	<b>13a</b> Contributions . . . . .	<b>13a</b>	
	<b>b</b> Investment interest expense . . . . .	<b>13b</b>	
	<b>c</b> Section 59(e)(2) expenditures: <b>(1)</b> Type ▶ <b>(2)</b> Amount ▶	<b>13c(2)</b>	
<b>d</b> Other deductions (see instructions) Type ▶	<b>13d</b>		
<b>Self-Employment</b>	<b>14a</b> Net earnings (loss) from self-employment . . . . .	<b>14a</b>	
	<b>b</b> Gross farming or fishing income . . . . .	<b>14b</b>	
	<b>c</b> Gross nonfarm income . . . . .	<b>14c</b>	
<b>Credits</b>	<b>15a</b> Low-income housing credit (section 42(j)(5)) . . . . .	<b>15a</b>	
	<b>b</b> Low-income housing credit (other) . . . . .	<b>15b</b>	
	<b>c</b> Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable) . . . . .	<b>15c</b>	
	<b>d</b> Other rental real estate credits (see instructions) Type ▶	<b>15d</b>	
	<b>e</b> Other rental credits (see instructions) Type ▶	<b>15e</b>	
	<b>f</b> Other credits (see instructions) Type ▶	<b>15f</b>	
<b>Foreign Transactions</b>	<b>16a</b> Name of country or U.S. possession ▶		
	<b>b</b> Gross income from all sources . . . . .	<b>16b</b>	
	<b>c</b> Gross income sourced at partner level . . . . .	<b>16c</b>	
	Foreign gross income sourced at partnership level		
	<b>d</b> Passive category ▶ <b>e</b> General category ▶ <b>f</b> Other ▶	<b>16f</b>	
	Deductions allocated and apportioned at partner level		
	<b>g</b> Interest expense ▶ <b>h</b> Other ▶	<b>16h</b>	
	Deductions allocated and apportioned at partnership level to foreign source income		
	<b>i</b> Passive category ▶ <b>j</b> General category ▶ <b>k</b> Other ▶	<b>16k</b>	
<b>l</b> Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	<b>16l</b>		
<b>m</b> Reduction in taxes available for credit (attach statement) . . . . .	<b>16m</b>		
<b>n</b> Other foreign tax information (attach statement) . . . . .			
<b>Alternative Minimum Tax (AMT) Items</b>	<b>17a</b> Post-1986 depreciation adjustment . . . . .	<b>17a</b>	
	<b>b</b> Adjusted gain or loss . . . . .	<b>17b</b>	
	<b>c</b> Depletion (other than oil and gas) . . . . .	<b>17c</b>	
	<b>d</b> Oil, gas, and geothermal properties—gross income . . . . .	<b>17d</b>	
	<b>e</b> Oil, gas, and geothermal properties—deductions . . . . .	<b>17e</b>	
	<b>f</b> Other AMT items (attach statement) . . . . .	<b>17f</b>	
<b>Other Information</b>	<b>18a</b> Tax-exempt interest income . . . . .	<b>18a</b>	
	<b>b</b> Other tax-exempt income . . . . .	<b>18b</b>	
	<b>c</b> Nondeductible expenses . . . . .	<b>18c</b>	
	<b>19a</b> Distributions of cash and marketable securities . . . . .	<b>19a</b>	
	<b>b</b> Distributions of other property . . . . .	<b>19b</b>	
	<b>20a</b> Investment income . . . . .	<b>20a</b>	
	<b>b</b> Investment expenses . . . . .	<b>20b</b>	
<b>c</b> Other items and amounts (attach statement) . . . . .			

**FORM 1065: U.S. RETURN OF  
PARTNERSHIP INCOME (PAGE 4)**

**SCHEDULE K — PARTNERS'  
DISTRIBUTIVE SHARE ITEMS**

Schedule K is a summary of all the partners' shares of the partnership's income, credits, deductions, etc. All partnerships must complete Schedule K.

**Analysis of Net Income (Loss)**

<b>1</b>	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l						<b>1</b>
<b>2</b>	Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other
<b>a</b>	General partners						
<b>b</b>	Limited partners						

**Schedule L Balance Sheets per Books**

		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
<b>Assets</b>					
<b>1</b>	Cash				
<b>2a</b>	Trade notes and accounts receivable				
<b>b</b>	Less allowance for bad debts				
<b>3</b>	Inventories				
<b>4</b>	U.S. government obligations				
<b>5</b>	Tax-exempt securities				
<b>6</b>	Other current assets (attach statement)				
<b>7a</b>	Loans to partners (or persons related to partners)				
<b>b</b>	Mortgage and real estate loans				
<b>8</b>	Other investments (attach statement)				
<b>9a</b>	Buildings and other depreciable assets				
<b>b</b>	Less accumulated depreciation				
<b>10a</b>	Depletable assets				
<b>b</b>	Less accumulated depletion				
<b>11</b>	Land (net of any amortization)				
<b>12a</b>	Intangible assets (amortizable only)				
<b>b</b>	Less accumulated amortization				
<b>13</b>	Other assets (attach statement)				
<b>14</b>	Total assets				
<b>Liabilities and Capital</b>					
<b>15</b>	Accounts payable				
<b>16</b>	Mortgages, notes, bonds payable in less than 1 year				
<b>17</b>	Other current liabilities (attach statement)				
<b>18</b>	All nonrecourse loans				
<b>19a</b>	Loans from partners (or persons related to partners)				
<b>b</b>	Mortgages, notes, bonds payable in 1 year or more				
<b>20</b>	Other liabilities (attach statement)				
<b>21</b>	Partners' capital accounts				
<b>22</b>	Total liabilities and capital				

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

Note. The partnership may be required to file Schedule M-3 (see instructions).

<b>1</b>	Net income (loss) per books		<b>6</b>	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
<b>2</b>	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		<b>a</b>	Tax-exempt interest \$	
<b>3</b>	Guaranteed payments (other than health insurance)		<b>7</b>	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
<b>4</b>	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		<b>a</b>	Depreciation \$	
<b>a</b>	Depreciation \$		<b>8</b>	Add lines 6 and 7	
<b>b</b>	Travel and entertainment \$		<b>9</b>	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	
<b>5</b>	Add lines 1 through 4				

**Schedule M-2 Analysis of Partners' Capital Accounts**

<b>1</b>	Balance at beginning of year		<b>6</b>	Distributions: <b>a</b> Cash	
<b>2</b>	Capital contributed: <b>a</b> Cash		<b>b</b> Property		
	<b>b</b> Property		<b>7</b>	Other decreases (itemize):	
<b>3</b>	Net income (loss) per books		<b>8</b>	Add lines 6 and 7	
<b>4</b>	Other increases (itemize):		<b>9</b>	Balance at end of year. Subtract line 8 from line 5	
<b>5</b>	Add lines 1 through 4				

## FORM 1065: U.S. RETURN OF PARTNERSHIP INCOME (PAGE 5)

### SCHEDULE L — BALANCE SHEETS

#### ▶ LINE 16: MORTGAGES, NOTES, BONDS PAYABLE IN LESS THAN ONE YEAR

Business obligations that are payable in less than one year can have a negative impact on cash flow. In most cases, you should deduct these obligations (listed in Column d) from cash flow. If you determine that these obligations have a “rollover” clause or that there are ample liquid assets to cover these obligations, no deduction is necessary.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Generally, deduct the amount in Column d from cash flow.

### SCHEDULE M-1 — RECONCILIATION OF INCOME (LOSS) PER BOOKS WITH INCOME (LOSS) PER RETURN

#### ▶ LINE 4B: TRAVEL AND ENTERTAINMENT

This amount represents the 50%, or 80%, of meal and entertainment costs that cannot be deducted by the partnership.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ The 50%, or 80%, limitation should be subtracted from cash flow.

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

2016

Final K-1 Amended K-1 OMB No. 1545-0123

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

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

Form 1120S Schedule K-1 table with sections: Part I Information About the Corporation, Part II Information About the Shareholder, and Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items.

## SCCHEDULE K-1 (FORM 1120S): SHAREHOLDER'S SHARE OF INCOME, DEDUCTIONS, CREDITS, ETC., FROM S CORPORATION

This form identifies the stockholder's share of S Corporation income, loss and deductions.

Underwriting cash flow for an S Corporation shareholder consists of the following possible items:

- ▶ The borrower's share of ordinary income or loss;
- ▶ Salaries paid to the borrower in an employer-employee relationship;
- ▶ Dividends paid by the S Corporation to its shareholders.

### PART III — SHAREHOLDER'S SHARE OF CURRENT YEAR INCOME, DEDUCTIONS, CREDITS AND OTHER ITEMS

#### ▶ LINE 1: ORDINARY INCOME (LOSS) FROM BUSINESS ACTIVITIES

This represents the shareholder's distributive share of ordinary income from the S Corporation. Similar to partners in a partnership, S Corporation shareholders are allocated portions of income, loss, deductions and credits earned by the business. Shareholders pay tax or take deductions on their personal returns for these "pass-through" items.

Because shareholders pay tax on the income when earned by the company, they are able to take distributions free of income tax consequences.

##### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add ordinary income to cash flow only if:
  - 1 The S Corporation has positive sales and earnings trends;
  - 2 The borrower can document ownership and access to the income through a corporate resolution or comparable documentation (as required by investor); and
  - 3 The S Corporation has adequate liquidity to support the withdrawal. To determine this, review the history of withdrawals and distributions and the company's financial position and liquidity.

In the event of a loss, subtract it from cash flow.

#### ▶ LINE 2: RENTAL REAL ESTATE ACTIVITIES

This line represents income or loss from rental real estate activity, and if it is completed, the S Corporation Return will generally include Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation).

##### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add continuous and ongoing rental income to cash flow if the three conditions listed under **Line 1: Ordinary Income (Loss) from Business Activities, Effect on Cash Flow Analysis**, (on the left) are met. Deduct losses.

#### ▶ LINE 3: OTHER RENTAL ACTIVITIES

This line represents income or loss from all other rental activity.

##### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add continuous and ongoing other rental income to cash flow if the three conditions listed under **Line 1: Ordinary Income (Loss) from Business Activities, Effect on Cash Flow Analysis**, (on the left) are met. Deduct losses.

#### ▶ LINES 4-8: PORTFOLIO INCOME (LOSS)

These items are reported elsewhere on the 1040 and, therefore, are already included in cash flow. Make no adjustment here.



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

2016

Final K-1 Amended K-1 OMB No. 1545-0123

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

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

Form 1120S Schedule K-1 table with sections: Part I Information About the Corporation, Part II Information About the Shareholder, and Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items.

► **LINE 16: ITEMS AFFECTING SHAREHOLDER BASIS, PROPERTY DISTRIBUTIONS**

Similar to distributions from a partnership to a partner, this amount represents the fair market value of items distributed to the borrower. Analyze these distributions to determine the consistency and nature of them.

Compare these distributions to the sum of income on Part III, lines 1 through 10. The two are most likely different. Was income greater than distributions?

Attempt to ascertain the liquidity of the difference: is the S Corporation expanding or investing in new equipment, OR was the income invested in mutual funds? Assess the general ability of the S Corporation to make distributions in the future to help the borrower avoid delinquencies or default.

Were distributions greater than income? Is the company winding down operations? Is the business viable over the long term?

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ For purposes of cash flow, generally, line 16, Code D, cash distributions are not included in the cash flow analysis but are used to support business income.

**U.S. Income Tax Return for an S Corporation**

OMB No. 1545-0123

**2016**

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.  
 ▶ Information about Form 1120S and its separate instructions is at [www.irs.gov/form1120s](http://www.irs.gov/form1120s).

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

<b>A</b> S election effective date		Name	<b>D</b> Employer identification number
<b>B</b> Business activity code number (see instructions)	<b>TYPE</b>	Number, street, and room or suite no. If a P.O. box, see instructions.	<b>E</b> Date incorporated
	<b>OR</b>		
	<b>PRINT</b>	City or town, state or province, country, and ZIP or foreign postal code	<b>F</b> Total assets (see instructions)
C Check if Sch. M-3 attached <input type="checkbox"/>			\$

**G** Is the corporation electing to be an S corporation beginning with this tax year?  Yes  No If "Yes," attach Form 2553 if not already filed  
**H** Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return (5)  S election termination or revocation  
**I** Enter the number of shareholders who were shareholders during any part of the tax year . . . . . ▶

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

<b>Income</b>	<b>1a</b>	Gross receipts or sales . . . . .	<b>1a</b>			
	<b>b</b>	Returns and allowances . . . . .	<b>1b</b>			
	<b>c</b>	Balance. Subtract line 1b from line 1a . . . . .			<b>1c</b>	
	<b>2</b>	Cost of goods sold (attach Form 1125-A) . . . . .			<b>2</b>	
	<b>3</b>	Gross profit. Subtract line 2 from line 1c . . . . .			<b>3</b>	
	<b>4</b>	Net gain (loss) from Form 4797, line 17 (attach Form 4797) . . . . .			<b>4</b>	
<b>5</b>	Other income (loss) (see instructions—attach statement) . . . . .			<b>5</b>		
<b>6</b>	<b>Total income (loss).</b> Add lines 3 through 5 . . . . . ▶			<b>6</b>		
<b>Deductions</b> <small>(see instructions for limitations)</small>	<b>7</b>	Compensation of officers (see instructions—attach Form 1125-E) . . . . .			<b>7</b>	
	<b>8</b>	Salaries and wages (less employment credits) . . . . .			<b>8</b>	
	<b>9</b>	Repairs and maintenance . . . . .			<b>9</b>	
	<b>10</b>	Bad debts . . . . .			<b>10</b>	
	<b>11</b>	Rents . . . . .			<b>11</b>	
	<b>12</b>	Taxes and licenses . . . . .			<b>12</b>	
	<b>13</b>	Interest . . . . .			<b>13</b>	
	<b>14</b>	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562) . . . . .			<b>14</b>	
	<b>15</b>	Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .			<b>15</b>	
	<b>16</b>	Advertising . . . . .			<b>16</b>	
	<b>17</b>	Pension, profit-sharing, etc., plans . . . . .			<b>17</b>	
	<b>18</b>	Employee benefit programs . . . . .			<b>18</b>	
	<b>19</b>	Other deductions (attach statement) . . . . .			<b>19</b>	
	<b>20</b>	<b>Total deductions.</b> Add lines 7 through 19 . . . . . ▶			<b>20</b>	
	<b>21</b>	<b>Ordinary business income (loss).</b> Subtract line 20 from line 6 . . . . .			<b>21</b>	
<b>Tax and Payments</b>	<b>22a</b>	Excess net passive income or LIFO recapture tax (see instructions) . . . . .	<b>22a</b>			
	<b>b</b>	Tax from Schedule D (Form 1120S) . . . . .	<b>22b</b>			
	<b>c</b>	Add lines 22a and 22b (see instructions for additional taxes) . . . . .			<b>22c</b>	
	<b>23a</b>	2016 estimated tax payments and 2015 overpayment credited to 2016 . . . . .	<b>23a</b>			
	<b>b</b>	Tax deposited with Form 7004 . . . . .	<b>23b</b>			
	<b>c</b>	Credit for federal tax paid on fuels (attach Form 4136) . . . . .	<b>23c</b>			
	<b>d</b>	Add lines 23a through 23c . . . . .			<b>23d</b>	
	<b>24</b>	Estimated tax penalty (see instructions). Check if Form 2220 is attached . . . . . ▶ <input type="checkbox"/>			<b>24</b>	
	<b>25</b>	<b>Amount owed.</b> If line 23d is smaller than the total of lines 22c and 24, enter amount owed . . . . .			<b>25</b>	
	<b>26</b>	<b>Overpayment.</b> If line 23d is larger than the total of lines 22c and 24, enter amount overpaid . . . . .			<b>26</b>	
<b>27</b>	Enter amount from line 26 <b>Credited to 2017 estimated tax</b> ▶ <b>Refunded</b> ▶			<b>27</b>		

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 \_\_\_\_\_ PTIN \_\_\_\_\_  
 Check  if self-employed  
 Firm's name ▶ \_\_\_\_\_ Firm's EIN ▶ \_\_\_\_\_  
 Firm's address ▶ \_\_\_\_\_ Phone no. \_\_\_\_\_

## FORM 1120S: U.S. INCOME TAX RETURN FOR AN S CORPORATION

An S Corporation is a form of corporation which has a limited number of stockholders that elect not to be taxed as a regular corporation.

When analyzing cash flow from Form 1120S, remember to add or subtract only the borrower's share of income or losses. The borrower's ownership percentage can be found on Schedule K-1 (Form 1120S).

Using income from the 1120S depends upon the viability of the business as well as the ability to access funds if they will be used to qualify.

### ► LINES 4 AND 5: INCOME (LOSS) FROM MISCELLANEOUS SOURCES

Analyze these lines to determine the probability of the income (loss) being stable and recurring.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Subtract other income/add other losses that are not consistent and recurring.

### ► LINE 14: DEPRECIATION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depreciation to the cash flow.

### ► LINE 15: DEPLETION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depletion to the cash flow.

### ► LINE 19: OTHER DEDUCTIONS

Review the supporting statement for "Other Deductions." Any amount attributed to amortization can be added to the borrower's cash flow. One-time casualty losses can be added to the cash flow.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add amortization and casualty losses to the cash flow.

**Schedule B Other Information** (see instructions)

<b>1</b> Check accounting method: <b>a</b> <input type="checkbox"/> Cash <b>b</b> <input type="checkbox"/> Accrual <b>c</b> <input type="checkbox"/> Other (specify) ▶ _____		<b>Yes</b>	<b>No</b>
<b>2</b> See the instructions and enter the: <b>a</b> Business activity ▶ _____ <b>b</b> Product or service ▶ _____			
<b>3</b> At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation . . .			
<b>4</b> At the end of the tax year, did the corporation: <b>a</b> Own directly 20% or more, or own, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below			
<b>(i)</b> Name of Corporation	<b>(ii)</b> Employer Identification Number (if any)	<b>(iii)</b> Country of Incorporation	<b>(iv)</b> Percentage of Stock Owned
<b>(v)</b> If Percentage in (iv) is 100%, Enter the Date (if any) a Qualified Subchapter S Subsidiary Election Was Made			
<b>b</b> Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below			
<b>(i)</b> Name of Entity	<b>(ii)</b> Employer Identification Number (if any)	<b>(iii)</b> Type of Entity	<b>(iv)</b> Country of Organization
<b>(v)</b> Maximum Percentage Owned in Profit, Loss, or Capital			
<b>5 a</b> At the end of the tax year, did the corporation have any outstanding shares of restricted stock? . . . . . If "Yes," complete lines (i) and (ii) below. <b>(i)</b> Total shares of restricted stock . . . . . ▶ _____ <b>(ii)</b> Total shares of non-restricted stock . . . . . ▶ _____			
<b>b</b> At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments? . . . . . If "Yes," complete lines (i) and (ii) below. <b>(i)</b> Total shares of stock outstanding at the end of the tax year ▶ _____ <b>(ii)</b> Total shares of stock outstanding if all instruments were executed ▶ _____			
<b>6</b> Has this corporation filed, or is it required to file, <b>Form 8918</b> , Material Advisor Disclosure Statement, to provide information on any reportable transaction? . . . . .			
<b>7</b> Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . <input type="checkbox"/> If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Publicly Offered Original Issue Discount Instruments.			
<b>8</b> If the corporation: <b>(a)</b> was a C corporation before it elected to be an S corporation <b>or</b> the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation <b>and</b> <b>(b)</b> has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years (see instructions) . . . . . ▶ \$ _____			
<b>9</b> Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$ _____			
<b>10</b> Does the corporation satisfy <b>both</b> of the following conditions? <b>a</b> The corporation's total receipts (see instructions) for the tax year were less than \$250,000 . . . . . <b>b</b> The corporation's total assets at the end of the tax year were less than \$250,000 . . . . . If "Yes," the corporation is not required to complete Schedules L and M-1.			
<b>11</b> During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? . . . . . If "Yes," enter the amount of principal reduction \$ _____			
<b>12</b> During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions . . . . .			
<b>13 a</b> Did the corporation make any payments in 2016 that would require it to file Form(s) 1099? . . . . .			
<b>b</b> If "Yes," did the corporation file or will it file required Forms 1099? . . . . .			

<b>Schedule K Shareholders' Pro Rata Share Items</b>		<b>Total amount</b>	
<b>Income (Loss)</b>	<b>1</b> Ordinary business income (loss) (page 1, line 21) . . . . .	<b>1</b>	
	<b>2</b> Net rental real estate income (loss) (attach Form 8825) . . . . .	<b>2</b>	
	<b>3a</b> Other gross rental income (loss) . . . . .	<b>3a</b>	
	<b>b</b> Expenses from other rental activities (attach statement) . . . . .	<b>3b</b>	
	<b>c</b> Other net rental income (loss). Subtract line 3b from line 3a . . . . .	<b>3c</b>	
	<b>4</b> Interest income . . . . .	<b>4</b>	
	<b>5</b> Dividends: <b>a</b> Ordinary dividends . . . . .	<b>5a</b>	
	<b>b</b> Qualified dividends . . . . .	<b>5b</b>	
	<b>6</b> Royalties . . . . .	<b>6</b>	
	<b>7</b> Net short-term capital gain (loss) (attach Schedule D (Form 1120S)) . . . . .	<b>7</b>	
<b>Income (Loss)</b>	<b>8a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1120S)) . . . . .	<b>8a</b>	
	<b>b</b> Collectibles (28%) gain (loss) . . . . .	<b>8b</b>	
	<b>c</b> Unrecaptured section 1250 gain (attach statement) . . . . .	<b>8c</b>	
	<b>9</b> Net section 1231 gain (loss) (attach Form 4797) . . . . .	<b>9</b>	
	<b>10</b> Other income (loss) (see instructions) . . . Type ▶	<b>10</b>	
<b>Deductions</b>	<b>11</b> Section 179 deduction (attach Form 4562) . . . . .	<b>11</b>	
	<b>12a</b> Charitable contributions . . . . .	<b>12a</b>	
	<b>b</b> Investment interest expense . . . . .	<b>12b</b>	
	<b>c</b> Section 59(e)(2) expenditures <b>(1)</b> Type ▶ . . . . . <b>(2)</b> Amount ▶	<b>12c(2)</b>	
<b>d</b> Other deductions (see instructions) . . . Type ▶	<b>12d</b>		
<b>Credits</b>	<b>13a</b> Low-income housing credit (section 42(j)(5)) . . . . .	<b>13a</b>	
	<b>b</b> Low-income housing credit (other) . . . . .	<b>13b</b>	
	<b>c</b> Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable) . . . . .	<b>13c</b>	
	<b>d</b> Other rental real estate credits (see instructions) Type ▶	<b>13d</b>	
	<b>e</b> Other rental credits (see instructions) . . . Type ▶	<b>13e</b>	
	<b>f</b> Biofuel producer credit (attach Form 6478) . . . . .	<b>13f</b>	
	<b>g</b> Other credits (see instructions) . . . . . Type ▶	<b>13g</b>	
<b>Foreign Transactions</b>	<b>14a</b> Name of country or U.S. possession ▶ . . . . .		
	<b>b</b> Gross income from all sources . . . . .	<b>14b</b>	
	<b>c</b> Gross income sourced at shareholder level . . . . .	<b>14c</b>	
	Foreign gross income sourced at corporate level . . . . .		
	<b>d</b> Passive category . . . . .	<b>14d</b>	
	<b>e</b> General category . . . . .	<b>14e</b>	
	<b>f</b> Other (attach statement) . . . . .	<b>14f</b>	
	Deductions allocated and apportioned at shareholder level . . . . .		
	<b>g</b> Interest expense . . . . .	<b>14g</b>	
	<b>h</b> Other . . . . .	<b>14h</b>	
	Deductions allocated and apportioned at corporate level to foreign source income . . . . .		
	<b>i</b> Passive category . . . . .	<b>14i</b>	
	<b>j</b> General category . . . . .	<b>14j</b>	
	<b>k</b> Other (attach statement) . . . . .	<b>14k</b>	
Other information . . . . .			
<b>l</b> Total foreign taxes (check one): ▶ <input type="checkbox"/> Paid <input type="checkbox"/> Accrued . . . . .	<b>14l</b>		
<b>m</b> Reduction in taxes available for credit (attach statement) . . . . .	<b>14m</b>		
<b>n</b> Other foreign tax information (attach statement) . . . . .			
<b>Alternative Minimum Tax (AMT) Items</b>	<b>15a</b> Post-1986 depreciation adjustment . . . . .	<b>15a</b>	
	<b>b</b> Adjusted gain or loss . . . . .	<b>15b</b>	
	<b>c</b> Depletion (other than oil and gas) . . . . .	<b>15c</b>	
	<b>d</b> Oil, gas, and geothermal properties—gross income . . . . .	<b>15d</b>	
	<b>e</b> Oil, gas, and geothermal properties—deductions . . . . .	<b>15e</b>	
	<b>f</b> Other AMT items (attach statement) . . . . .	<b>15f</b>	
<b>Items Affecting Shareholder Basis</b>	<b>16a</b> Tax-exempt interest income . . . . .	<b>16a</b>	
	<b>b</b> Other tax-exempt income . . . . .	<b>16b</b>	
	<b>c</b> Nondeductible expenses . . . . .	<b>16c</b>	
	<b>d</b> Distributions (attach statement if required) (see instructions) . . . . .	<b>16d</b>	
	<b>e</b> Repayment of loans from shareholders . . . . .	<b>16e</b>	

<b>Schedule K Shareholders' Pro Rata Share Items (continued)</b>		<b>Total amount</b>	
<b>Other Information</b>	<b>17a</b> Investment income . . . . .	<b>17a</b>	
	<b>b</b> Investment expenses . . . . .	<b>17b</b>	
	<b>c</b> Dividend distributions paid from accumulated earnings and profits . . . . .	<b>17c</b>	
	<b>d</b> Other items and amounts (attach statement)		
<b>Reconciliation</b>	<b>18 Income/loss reconciliation.</b> Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14!	<b>18</b>	

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

**FORM 1120S: U.S. INCOME TAX  
RETURN FOR AN S CORPORATION  
(PAGE 4)**

**SCHEDULE L — BALANCE SHEETS**

**▶ LINE 17: MORTGAGES, NOTES, BONDS  
PAYABLE IN LESS THAN ONE YEAR**

Business obligations that are payable in less than one year can have a negative impact on cash flow. In most cases, you should deduct these obligations (listed in Column d) from cash flow. If you determine that these obligations have a “rollover” clause or that there are ample liquid assets to cover these obligations, no deduction is necessary.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ Generally, deduct the amount in Column d from the cash flow.



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

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

<p><b>1</b> Net income (loss) per books . . . . .</p> <p><b>2</b> Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize) _____</p> <p><b>3</b> Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):</p> <p><b>a</b> Depreciation \$ _____</p> <p><b>b</b> Travel and entertainment \$ _____</p> <p>_____</p> <p><b>4</b> Add lines 1 through 3 . . . . .</p>	<p><b>5</b> Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):</p> <p><b>a</b> Tax-exempt interest \$ _____</p> <p>_____</p> <p><b>6</b> Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):</p> <p><b>a</b> Depreciation \$ _____</p> <p>_____</p> <p><b>7</b> Add lines 5 and 6 . . . . .</p> <p><b>8</b> Income (loss) (Schedule K, line 18). Line 4 less line 7</p>
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**Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed** (see instructions)

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
<b>1</b> Balance at beginning of tax year . . . . .			
<b>2</b> Ordinary income from page 1, line 21 . . . . .			
<b>3</b> Other additions . . . . .			
<b>4</b> Loss from page 1, line 21 . . . . .	( )		
<b>5</b> Other reductions . . . . .	( )	( )	
<b>6</b> Combine lines 1 through 5 . . . . .			
<b>7</b> Distributions other than dividend distributions			
<b>8</b> Balance at end of tax year. Subtract line 7 from line 6			

**FORM 1120S: U.S. INCOME TAX  
RETURN FOR AN S CORPORATION  
(PAGE 5)**

**SCHEDULE M-1 — RECONCILIATION  
OF INCOME (LOSS) PER BOOKS WITH  
INCOME (LOSS) PER RETURN**

**▶ LINE 3B: TRAVEL AND ENTERTAINMENT**

This amount represents the 50%, or 80%, of meal and entertainment costs that cannot be deducted by the S Corporation.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ The 50%, or 80%, limitation should be subtracted from the cash flow.

<b>A Check if:</b> <b>1a</b> Consolidated return (attach Form 851) <input type="checkbox"/> <b>b</b> Life/nonlife consolidated return <input type="checkbox"/> <b>2</b> Personal holding co. (attach Sch. PH) <input type="checkbox"/> <b>3</b> Personal service corp. (see instructions) <input type="checkbox"/> <b>4</b> Schedule M-3 attached <input type="checkbox"/>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td rowspan="3" style="text-align: center; vertical-align: middle;"><b>TYPE OR PRINT</b></td> <td>Name</td> </tr> <tr> <td>Number, street, and room or suite no. If a P.O. box, see instructions.</td> </tr> <tr> <td>City or town, state, or province, country, and ZIP or foreign postal code</td> </tr> </table>	<b>TYPE OR PRINT</b>	Name	Number, street, and room or suite no. If a P.O. box, see instructions.	City or town, state, or province, country, and ZIP or foreign postal code	<b>B Employer identification number</b>  <b>C Date incorporated</b>  <b>D Total assets (see instructions)</b> \$ _____  <b>E Check if:</b> (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change
<b>TYPE OR PRINT</b>	Name					
	Number, street, and room or suite no. If a P.O. box, see instructions.					
	City or town, state, or province, country, and ZIP or foreign postal code					

<b>Income</b>	<b>1a</b> Gross receipts or sales	<b>1a</b>	
	<b>b</b> Returns and allowances	<b>1b</b>	
	<b>c</b> Balance. Subtract line 1b from line 1a	<b>1c</b>	
	<b>2</b> Cost of goods sold (attach Form 1125-A)	<b>2</b>	
	<b>3</b> Gross profit. Subtract line 2 from line 1c	<b>3</b>	
	<b>4</b> Dividends (Schedule C, line 19)	<b>4</b>	
	<b>5</b> Interest	<b>5</b>	
	<b>6</b> Gross rents	<b>6</b>	
	<b>7</b> Gross royalties	<b>7</b>	
	<b>8</b> Capital gain net income (attach Schedule D (Form 1120))	<b>8</b>	
	<b>9</b> Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>9</b>	
<b>10</b> Other income (see instructions—attach statement)	<b>10</b>		
<b>11 Total income.</b> Add lines 3 through 10	<b>11</b>		
<b>Deductions (See instructions for limitations on deductions.)</b>	<b>12</b> Compensation of officers (see instructions—attach Form 1125-E)	<b>12</b>	
	<b>13</b> Salaries and wages (less employment credits)	<b>13</b>	
	<b>14</b> Repairs and maintenance	<b>14</b>	
	<b>15</b> Bad debts	<b>15</b>	
	<b>16</b> Rents	<b>16</b>	
	<b>17</b> Taxes and licenses	<b>17</b>	
	<b>18</b> Interest	<b>18</b>	
	<b>19</b> Charitable contributions	<b>19</b>	
	<b>20</b> Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	<b>20</b>	
	<b>21</b> Depletion	<b>21</b>	
	<b>22</b> Advertising	<b>22</b>	
	<b>23</b> Pension, profit-sharing, etc., plans	<b>23</b>	
	<b>24</b> Employee benefit programs	<b>24</b>	
	<b>25</b> Domestic production activities deduction (attach Form 8903)	<b>25</b>	
	<b>26</b> Other deductions (attach statement)	<b>26</b>	
	<b>27 Total deductions.</b> Add lines 12 through 26	<b>27</b>	
	<b>28</b> Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	<b>28</b>	
<b>29a</b> Net operating loss deduction (see instructions)	<b>29a</b>		
	<b>b</b> Special deductions (Schedule C, line 20)	<b>29b</b>	
	<b>c</b> Add lines 29a and 29b	<b>29c</b>	
<b>Tax, Refundable Credits, and Payments</b>	<b>30</b> Taxable income. Subtract line 29c from line 28. See instructions	<b>30</b>	
	<b>31</b> Total tax (Schedule J, Part I, line 11)	<b>31</b>	
	<b>32</b> Total payments and refundable credits (Schedule J, Part II, line 21)	<b>32</b>	
	<b>33</b> Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	<b>33</b>	
	<b>34</b> Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed	<b>34</b>	
	<b>35</b> Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	<b>35</b>	
<b>36</b> Enter amount from line 35 you want: <b>Credited to 2017 estimated tax</b> ▶ <b>Refunded</b> ▶	<b>36</b>		

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.

<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 type="checkbox"/> No
	Print/Type preparer's name _____	Preparer's signature _____	Date _____	
<b>Paid Preparer Use Only</b>	Firm's name ▶ _____	Firm's EIN ▶ _____		
	Firm's address ▶ _____	Phone no. _____		

## FORM 1120: U.S. CORPORATION INCOME TAX RETURN

The borrower's percentage of the average income retained in a corporation may be recognized, provided:

- ▶ The corporation has positive sales and earnings trends;
- ▶ The corporation has adequate liquidity to support the withdrawal; and
- ▶ The borrower can document ownership and access to the income through a corporate resolution or other comparable documentation.

Page 1 of the 1120 lists the corporation's income, deductions and taxes. Pages 2 through 5 are the supporting schedules containing such information as cost of goods sold, tax computation and the corporation's balance sheet.

When analyzing cash flow from Form 1120, remember to add or subtract only the borrower's share of income or losses. The borrower's ownership percentage can usually be found on Form 1125-E (see page 2-38).

Using income from the 1120 depends upon the viability of the business as well as the ability to access funds if they will be used to qualify. Whether a borrower owns a small percentage of the business or 100%, does not automatically determine if the income is used in qualifying.

NOTE: Investors may require that the borrower is a 100% owner of the business in order for the earnings to be considered for qualifying.

### ▶ LINE 30: TAXABLE INCOME

The amount on this line represents the corporate income after deductions, but before income tax. This is the starting point of the analysis.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add taxable income to the cash flow.

### ▶ LINE 31: TOTAL TAX

Unlike partnerships and S Corporations, regular corporations pay income tax. Deduct taxes before determining cash flow.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Deduct the tax liability from the cash flow.

### ▶ LINES 8 AND 9

Examine any capital gains (and net gains) listed on page 1 of Form 1120. Detail of this activity will be indicated on the accompanying Schedule D (not included) and Form 4797 (not included).

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ One-time gains should be subtracted from the cash flow.
- ◀ Add one-time losses back to the cash flow.

### ▶ LINE 10: OTHER INCOME

Analyze this income to determine the probability of it being stable and recurring.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Subtract other income/add other losses that are not consistent and recurring.

### ▶ LINE 20: DEPRECIATION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depreciation to the cash flow.

### ▶ LINE 21: DEPLETION

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Add depletion to the cash flow.

<b>A Check if:</b> <b>1a</b> Consolidated return (attach Form 851) <input type="checkbox"/> <b>b</b> Life/nonlife consolidated return <input type="checkbox"/> <b>2</b> Personal holding co. (attach Sch. PH) <input type="checkbox"/> <b>3</b> Personal service corp. (see instructions) <input type="checkbox"/> <b>4</b> Schedule M-3 attached <input type="checkbox"/>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td rowspan="3" style="text-align: center; vertical-align: middle;"><b>TYPE OR PRINT</b></td> <td>Name</td> </tr> <tr> <td>Number, street, and room or suite no. If a P.O. box, see instructions.</td> </tr> <tr> <td>City or town, state, or province, country, and ZIP or foreign postal code</td> </tr> </table>	<b>TYPE OR PRINT</b>	Name	Number, street, and room or suite no. If a P.O. box, see instructions.	City or town, state, or province, country, and ZIP or foreign postal code	<b>B</b> Employer identification number _____  <b>C</b> Date incorporated _____  <b>D</b> Total assets (see instructions) \$ _____  <b>E</b> Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change
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<b>Income</b>	<b>1a</b> Gross receipts or sales	<b>1a</b>	
	<b>b</b> Returns and allowances	<b>1b</b>	
	<b>c</b> Balance. Subtract line 1b from line 1a	<b>1c</b>	
	<b>2</b> Cost of goods sold (attach Form 1125-A)	<b>2</b>	
	<b>3</b> Gross profit. Subtract line 2 from line 1c	<b>3</b>	
	<b>4</b> Dividends (Schedule C, line 19)	<b>4</b>	
	<b>5</b> Interest	<b>5</b>	
	<b>6</b> Gross rents	<b>6</b>	
	<b>7</b> Gross royalties	<b>7</b>	
	<b>8</b> Capital gain net income (attach Schedule D (Form 1120))	<b>8</b>	
	<b>9</b> Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>9</b>	
<b>10</b> Other income (see instructions—attach statement)	<b>10</b>		
<b>11</b> <b>Total income.</b> Add lines 3 through 10	<b>11</b>		
<b>Deductions (See instructions for limitations on deductions.)</b>	<b>12</b> Compensation of officers (see instructions—attach Form 1125-E)	<b>12</b>	
	<b>13</b> Salaries and wages (less employment credits)	<b>13</b>	
	<b>14</b> Repairs and maintenance	<b>14</b>	
	<b>15</b> Bad debts	<b>15</b>	
	<b>16</b> Rents	<b>16</b>	
	<b>17</b> Taxes and licenses	<b>17</b>	
	<b>18</b> Interest	<b>18</b>	
	<b>19</b> Charitable contributions	<b>19</b>	
	<b>20</b> Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	<b>20</b>	
	<b>21</b> Depletion	<b>21</b>	
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	<b>25</b> Domestic production activities deduction (attach Form 8903)	<b>25</b>	
	<b>26</b> Other deductions (attach statement)	<b>26</b>	
	<b>27</b> <b>Total deductions.</b> Add lines 12 through 26	<b>27</b>	
	<b>28</b> Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	<b>28</b>	
	<b>29a</b> Net operating loss deduction (see instructions)	<b>29a</b>	
<b>b</b> Special deductions (Schedule C, line 20)	<b>29b</b>		
<b>c</b> Add lines 29a and 29b	<b>29c</b>		
<b>Tax, Refundable Credits, and Payments</b>	<b>30</b> <b>Taxable income.</b> Subtract line 29c from line 28. See instructions	<b>30</b>	
	<b>31</b> Total tax (Schedule J, Part I, line 11)	<b>31</b>	
	<b>32</b> Total payments and refundable credits (Schedule J, Part II, line 21)	<b>32</b>	
	<b>33</b> Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>	<b>33</b>	
	<b>34</b> <b>Amount owed.</b> If line 32 is smaller than the total of lines 31 and 33, enter amount owed	<b>34</b>	
	<b>35</b> <b>Overpayment.</b> If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	<b>35</b>	
<b>36</b> Enter amount from line 35 you want: <b>Credited to 2017 estimated tax</b> ▶ <b>Refunded</b> ▶	<b>36</b>		

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.

<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 type="checkbox"/> No
	Print/Type preparer's name _____	Preparer's signature _____	Date _____	
<b>Paid Preparer Use Only</b>	Firm's name ▶ _____	Firm's EIN ▶ _____		
	Firm's address ▶ _____	Phone no. _____		
	Check <input type="checkbox"/> if self-employed			

► **LINE 25: DOMESTIC PRODUCTION ACTIVITIES DEDUCTION**

A corporation is allowed a deduction for certain qualified domestic production activities.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ Because the domestic production activities deduction is a noncash expense, it should be added back to the borrower's cash flow.

► **LINE 26: OTHER DEDUCTIONS**

Review the supporting schedule for "Other Deductions." Any amount attributed to amortization can be added to the borrower's cash flow. One-time casualty losses can be added to the cash flow.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add amortization to the borrower's cash flow.

► **LINE 29A: NET OPERATING LOSS DEDUCTION**

A corporation which sustains a loss in one year has the ability to offset income earned in other years.

This means that in ensuing years, the loss realized in that one year may still appear on the corporate tax return, even though the corporation might not have experienced the loss that year.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add net operating loss to the cash flow.

► **LINE 29B: SPECIAL DEDUCTIONS**

A corporation that receives dividend income may be able to take a deduction for a certain percentage of the amount received. This deduction is a noncash expense.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ Add special deductions to the cash flow.

<b>Schedule C Dividends and Special Deductions</b> (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
<b>1</b>	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
<b>2</b>	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
<b>3</b>	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
<b>4</b>	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
<b>5</b>	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
<b>6</b>	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
<b>7</b>	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
<b>8</b>	Dividends from wholly owned foreign subsidiaries		100	
<b>9</b>	<b>Total.</b> Add lines 1 through 8. See instructions for limitation			
<b>10</b>	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
<b>11</b>	Dividends from affiliated group members		100	
<b>12</b>	Dividends from certain FSCs		100	
<b>13</b>	Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, or 12			
<b>14</b>	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
<b>15</b>	Foreign dividend gross-up			
<b>16</b>	IC-DISC and former DISC dividends not included on line 1, 2, or 3			
<b>17</b>	Other dividends			
<b>18</b>	Deduction for dividends paid on certain preferred stock of public utilities			
<b>19</b>	<b>Total dividends.</b> Add lines 1 through 17. Enter here and on page 1, line 4			
<b>20</b>	<b>Total special deductions.</b> Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			

**Schedule J Tax Computation and Payment** (see instructions)

**Part I—Tax Computation**

<b>1</b>	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions ▶ <input type="checkbox"/>			
<b>2</b>	Income tax. Check if a qualified personal service corporation. See instructions . . . . . ▶ <input type="checkbox"/>			<b>2</b>
<b>3</b>	Alternative minimum tax (attach Form 4626) . . . . .			<b>3</b>
<b>4</b>	Add lines 2 and 3 . . . . .			<b>4</b>
<b>5a</b>	Foreign tax credit (attach Form 1118) . . . . .	<b>5a</b>		
<b>b</b>	Credit from Form 8834 (see instructions) . . . . .	<b>5b</b>		
<b>c</b>	General business credit (attach Form 3800) . . . . .	<b>5c</b>		
<b>d</b>	Credit for prior year minimum tax (attach Form 8827) . . . . .	<b>5d</b>		
<b>e</b>	Bond credits from Form 8912 . . . . .	<b>5e</b>		
<b>6</b>	<b>Total credits.</b> Add lines 5a through 5e . . . . .			<b>6</b>
<b>7</b>	Subtract line 6 from line 4 . . . . .			<b>7</b>
<b>8</b>	Personal holding company tax (attach Schedule PH (Form 1120)) . . . . .			<b>8</b>
<b>9a</b>	Recapture of investment credit (attach Form 4255) . . . . .	<b>9a</b>		
<b>b</b>	Recapture of low-income housing credit (attach Form 8611) . . . . .	<b>9b</b>		
<b>c</b>	Interest due under the look-back method—completed long-term contracts (attach Form 8697) . . . . .	<b>9c</b>		
<b>d</b>	Interest due under the look-back method—income forecast method (attach Form 8866) . . . . .	<b>9d</b>		
<b>e</b>	Alternative tax on qualifying shipping activities (attach Form 8902) . . . . .	<b>9e</b>		
<b>f</b>	Other (see instructions—attach statement) . . . . .	<b>9f</b>		
<b>10</b>	<b>Total.</b> Add lines 9a through 9f . . . . .			<b>10</b>
<b>11</b>	<b>Total tax.</b> Add lines 7, 8, and 10. Enter here and on page 1, line 31 . . . . .			<b>11</b>

**Part II—Payments and Refundable Credits**

<b>12</b>	2015 overpayment credited to 2016 . . . . .			<b>12</b>
<b>13</b>	2016 estimated tax payments . . . . .			<b>13</b>
<b>14</b>	2016 refund applied for on Form 4466 . . . . .			<b>14</b> ( )
<b>15</b>	Combine lines 12, 13, and 14 . . . . .			<b>15</b>
<b>16</b>	Tax deposited with Form 7004 . . . . .			<b>16</b>
<b>17</b>	Withholding (see instructions) . . . . .			<b>17</b>
<b>18</b>	<b>Total payments.</b> Add lines 15, 16, and 17 . . . . .			<b>18</b>
<b>19</b>	Refundable credits from:			
<b>a</b>	Form 2439 . . . . .	<b>19a</b>		
<b>b</b>	Form 4136 . . . . .	<b>19b</b>		
<b>c</b>	Form 8827, line 8c . . . . .	<b>19c</b>		
<b>d</b>	Other (attach statement—see instructions). . . . .	<b>19d</b>		
<b>20</b>	<b>Total credits.</b> Add lines 19a through 19d . . . . .			<b>20</b>
<b>21</b>	<b>Total payments and credits.</b> Add lines 18 and 20. Enter here and on page 1, line 32 . . . . .			<b>21</b>

**Schedule K Other Information** (see instructions)

<b>1</b>	Check accounting method: <b>a</b> <input type="checkbox"/> Cash <b>b</b> <input type="checkbox"/> Accrual <b>c</b> <input type="checkbox"/> Other (specify) ▶ _____	<b>Yes</b>	<b>No</b>
<b>2</b>	See the instructions and enter the:		
<b>a</b>	Business activity code no. ▶ _____		
<b>b</b>	Business activity ▶ _____		
<b>c</b>	Product or service ▶ _____		
<b>3</b>	Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? . . . . . If "Yes," enter name and EIN of the parent corporation ▶ _____		
<b>4</b>	At the end of the tax year:		
<b>a</b>	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G) . . . . .		
<b>b</b>	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G) . . . . .		



**Schedule K** Other Information (continued from page 3)

				Yes	No
<b>5</b> At the end of the tax year, did the corporation:					
<b>a</b> Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on <b>Form 851</b> , Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock		
<b>b</b> Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital		
<b>6</b> During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? See sections 301 and 316 . . . . . If "Yes," file <b>Form 5452</b> , Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.					
<b>7</b> At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of <b>(a)</b> the total voting power of all classes of the corporation's stock entitled to vote or <b>(b)</b> the total value of all classes of the corporation's stock? . . . . . For rules of attribution, see section 318. If "Yes," enter: <b>(i)</b> Percentage owned ▶ _____ and <b>(ii)</b> Owner's country ▶ _____ <b>(c)</b> The corporation may have to file <b>Form 5472</b> , Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____					
<b>8</b> Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . ▶ <input type="checkbox"/> If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Publicly Offered Original Issue Discount Instruments.					
<b>9</b> Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ _____					
<b>10</b> Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ _____					
<b>11</b> If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here . . . . . ▶ <input type="checkbox"/> If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election won't be valid.					
<b>12</b> Enter the available NOL carryover from prior tax years (don't reduce it by any deduction on line 29a.) ▶ \$ _____					
<b>13</b> Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year <b>and</b> its total assets at the end of the tax year less than \$250,000? . . . . . If "Yes," the corporation isn't required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ \$ _____					
<b>14</b> Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions . . . . . If "Yes," complete and attach Schedule UTP.					
<b>15a</b> Did the corporation make any payments in 2016 that would require it to file Form(s) 1099? . . . . .					
<b>b</b> If "Yes," did or will the corporation file required Forms 1099? . . . . .					
<b>16</b> During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? . . . . .					
<b>17</b> During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? . . . . .					
<b>18</b> Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million? . . . . .					
<b>19</b> During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code? . . . . .					

**FORM 1120: U.S. CORPORATION  
INCOME TAX RETURN (PAGE 4)**

**SCHEDULE K — OTHER INFORMATION**

Determines the corporation's constructive ownership of other entities.

**EFFECT ON CASH FLOW ANALYSIS**

- ◀ There are no line items listed on this page that should be added back to the borrower's cash flow.

<b>Schedule L Balance Sheets per Books</b>		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
<b>Assets</b>					
<b>1</b>	Cash . . . . .				
<b>2a</b>	Trade notes and accounts receivable . . . . .				
<b>b</b>	Less allowance for bad debts . . . . .	( )		( )	
<b>3</b>	Inventories . . . . .				
<b>4</b>	U.S. government obligations . . . . .				
<b>5</b>	Tax-exempt securities (see instructions) . . . . .				
<b>6</b>	Other current assets (attach statement) . . . . .				
<b>7</b>	Loans to shareholders . . . . .				
<b>8</b>	Mortgage and real estate loans . . . . .				
<b>9</b>	Other investments (attach statement) . . . . .				
<b>10a</b>	Buildings and other depreciable assets . . . . .				
<b>b</b>	Less accumulated depreciation . . . . .	( )		( )	
<b>11a</b>	Depletable assets . . . . .				
<b>b</b>	Less accumulated depletion . . . . .	( )		( )	
<b>12</b>	Land (net of any amortization) . . . . .				
<b>13a</b>	Intangible assets (amortizable only) . . . . .				
<b>b</b>	Less accumulated amortization . . . . .	( )		( )	
<b>14</b>	Other assets (attach statement) . . . . .				
<b>15</b>	Total assets . . . . .				
<b>Liabilities and Shareholders' Equity</b>					
<b>16</b>	Accounts payable . . . . .				
<b>17</b>	Mortgages, notes, bonds payable in less than 1 year . . . . .				
<b>18</b>	Other current liabilities (attach statement) . . . . .				
<b>19</b>	Loans from shareholders . . . . .				
<b>20</b>	Mortgages, notes, bonds payable in 1 year or more . . . . .				
<b>21</b>	Other liabilities (attach statement) . . . . .				
<b>22</b>	Capital stock: <b>a</b> Preferred stock . . . . .				
	<b>b</b> Common stock . . . . .				
<b>23</b>	Additional paid-in capital . . . . .				
<b>24</b>	Retained earnings—Appropriated (attach statement) . . . . .				
<b>25</b>	Retained earnings—Unappropriated . . . . .				
<b>26</b>	Adjustments to shareholders' equity (attach statement) . . . . .				
<b>27</b>	Less cost of treasury stock . . . . .	( )		( )	
<b>28</b>	Total liabilities and shareholders' equity . . . . .				

**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.

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

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

<b>1</b>	Balance at beginning of year . . . . .		<b>5</b>	Distributions: <b>a</b> Cash . . . . .	
<b>2</b>	Net income (loss) per books . . . . .			<b>b</b> Stock . . . . .	
<b>3</b>	Other increases (itemize): _____			<b>c</b> Property . . . . .	
	_____		<b>6</b>	Other decreases (itemize): _____	
	_____		<b>7</b>	Add lines 5 and 6 . . . . .	
<b>4</b>	Add lines 1, 2, and 3 . . . . .		<b>8</b>	Balance at end of year (line 4 less line 7)	

## FORM 1120: U.S. CORPORATION INCOME TAX RETURN (PAGE 5)

### SCHEDULE L — BALANCE SHEETS

This section of Form 1120 provides an accounting picture of assets owned by the corporation and of liabilities held against the corporation.

#### ► LINE 17: MORTGAGES, NOTES, BONDS PAYABLE IN LESS THAN ONE YEAR

Business obligations that are payable in less than one year can have a negative impact on cash flow. In most cases, you should deduct these obligations (listed in Column d) from cash flow. If you determine that these obligations have a “rollover” clause or that there are ample liquid assets to cover these obligations, no deduction is necessary.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Generally, deduct the amount in Column d from cash flow.

### SCHEDULE M-1 — RECONCILIATION OF INCOME (LOSS) PER BOOKS WITH INCOME PER RETURN

#### ► LINE 5C: TRAVEL AND ENTERTAINMENT

This represents the 50%, or 80%, meals and entertainment limitation.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ The amount listed should be deducted from the corporate cash flow.

### SCHEDULE M-2 — ANALYSIS OF UNAPPROPRIATED RETAINED EARNINGS PER BOOKS

This schedule identifies the causes behind the changes in retained earnings from the beginning to the end of the year. Line 5, “distributions,” is important to us. The borrower’s share of these distributions will be reflected on Schedule B of his/her personal 1040s. This amount is also included in the corporation’s taxable income. In order to avoid double counting these dividends, you should deduct any amount reported on the borrower’s Schedule B.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Subtract dividend income paid by the company that the borrower reported on Form 1040, Schedule B.



## FORM 1125-E: COMPENSATION OF OFFICERS

Form 1125-E must be completed and attached to Form 1120, 1120-C, 1120-F, or 1120-RIC, if the entity has total receipts of \$500,000 or more, and deducts compensation of officers. The borrower's ownership percentage and amount of compensation can usually be found on this form. The ownership percentage will determine the borrower's share of income or losses from Form 1120.

## NOTES

# MODULE 3

## ANALYZING FINANCIAL STATEMENTS — BALANCE SHEETS AND INCOME STATEMENTS

Financial statements and profit and loss statements provide a snapshot of a business over a given period of time. These documents are not generally used for qualifying the borrower but rather to support income history, and the growth and stability of the business.

- ◀ Follow the instructions to determine the **EFFECT ON CASH FLOW ANALYSIS**.



# DENTAL PARTNERSHIP

## YTD PROFIT AND LOSS STATEMENT

INCOME STATEMENT FOR JONES, WESTIN, HOLDEN AND HAUTEN  
YEAR-TO-DATE FOR 9 MONTHS ENDING SEPTEMBER 30, 2017

<b>OPERATING REVENUES</b>		<b>%</b>
Jerome Jones D.D.S. PA	\$262,045	23.0
George Westin D.D.S. PA	223,217	19.6
Charles Holden D.D.S. PA	248,391	21.8
Thomas Hauten D.D.S	134,627	11.8
Steven Olson D.D.S	1,660	0.2
Hygienists	<u>269,377</u>	<u>23.6</u>
	<b>\$1,139,317</b>	<b>100.0</b>
<b>OPERATING EXPENSES</b>		
Accounting	6,045	0.4
Collection expense	365	0.0
Condominium fees	5,187	0.5
Continuing education	1,669	0.2
Data processing	3,859	0.3
Depreciation	23,666	2.1
Dues and subscriptions	2,272	0.2
Employee benefits	25,549	2.2
Insurance	14,943	1.3
Interest	4,645	0.3
Laboratory costs	117,148	10.3
Laundry	4,106	0.4
Marketing	5,923	0.5
Materials and supplies	52,892	4.6
Medical plan	3,757	0.3
Meetings and seminars	1,804	0.2
Miscellaneous	(94)	(0.0)
Office supplies	17,646	1.6
Payroll	293,656	25.8
Payroll taxes	23,883	2.1
Professional fees	5,274	0.5
Rent	51,848	4.6
Repairs and maintenance	8,563	0.8
Taxes and licenses	2,220	0.2
Telephone	7,830	0.7
Utilities	<u>6,266</u>	<u>0.5</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$690,895</u></b>	<b><u>60.6</u></b>
<b>INCOME FROM OPERATIONS</b>	<b>\$448,422</b>	<b>39.4</b>
<b>OTHER INCOME</b>		
Interest income	1,805	0.2
Gain on sale of assets	<u>200</u>	<u>0.0</u>
<b>TOTAL OTHER INCOME</b>	<b>\$2,005</b>	<b>0.2</b>
<b>INCOME FROM PARTNERS' DRAWINGS</b>	<b>\$450,427</b>	<b>39.5</b>
<b>PARTNERS' DRAWINGS</b>		
Jerome Jones D.D.S. PA	149,742	13.1
George Westin D.D.S. PA	134,000	11.8
Charles Holden D.D.S. PA	102,000	9.0
Thomas Hauten D.D.S	<u>41,250</u>	<u>3.6</u>
<b>TOTAL PARTNERS' DRAWINGS</b>	<b><u>\$426,992</u></b>	<b><u>37.5</u></b>
<b>NET INCOME AFTER PARTNERS' DRAWINGS</b>	<b>\$23,435</b>	<b>2.1</b>

## YEAR-TO-DATE PROFIT AND LOSS STATEMENT

NOTE: The income identified on the profit and loss statement may only be considered if the income is in line with the previous year's earnings. This income may also be considered if it is reported through audited financial statements.

### ► SALARY/DRAWS TO INDIVIDUAL

The amount of money paid to the borrower year-to-date in the form of a salary or draw.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ This amount may be added to the borrower's cash flow.

#### TOTAL ALLOWABLE ADD BACK:

The amounts listed as deductions for depreciation and depletion are considered "paper write-offs" and may be considered as income for borrower qualification purposes.

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Multiply the Total Allowable Add Backs by the percentage of individual ownership. The resulting figure may be added to the borrower's cash flow.

### ► TOTAL NET PROFIT

#### EFFECT ON CASH FLOW ANALYSIS

- ◀ Multiply the Total Net Profit indicated on the Profit and Loss Statement by the percentage of individual ownership. The resulting figure may be added to the borrower's cash flow.

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## ANALYZING FINANCIAL STATEMENTS

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### BALANCE SHEET – DECEMBER 31, 2016

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<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Current Assets		
Cash	\$42,170	\$67,150
Marketable securities – cost	62,829	49,300
Accounts receivable	87,300	61,700
Inventory	81,650	75,900
Prepaid expenses	900	1,800
Total Current Assets	<u>\$274,849</u>	<u>\$255,850</u>
Fixed Assets		
Land	\$66,800	\$66,800
Building	383,200	383,200
Machinery	99,250	90,800
Office Equipment	8,410	3,460
Total Property, Plant and Equipment	<u>\$557,660</u>	<u>\$544,260</u>
Less Accumulated Depreciation	<u>\$91,378</u>	<u>\$83,600</u>
Net Fixed Assets	\$466,282	\$460,660
Intangibles (goodwill)	<u>\$5,015</u>	<u>\$5,015</u>
Total Assets	<u>\$746,146</u>	<u>\$721,525</u>
<b>LIABILITIES</b>	<b>2016</b>	<b>2015</b>
Current Liabilities		
Accounts payable	\$71,820	\$98,530
Notes payable	65,000	34,034
Accrued expenses payable	24,421	23,753
Federal income taxes payable	11,473	10,256
Current portion – long-term debt	10,125	7,400
Total Current Liabilities	<u>\$182,839</u>	<u>\$173,973</u>
Long-Term Liabilities		
Mortgages	\$97,026	\$110,026
Equipment financing	83,200	74,200
Total Liabilities	<u>\$363,065</u>	<u>\$358,199</u>
Stockholders' Equity		
Preferred stock (5,000 shares)	\$30,000	\$30,000
Common stock (10,000 shares)	75,000	75,000
Capital surplus	54,804	54,804
Accumulated retained earnings	223,277	203,522
Total Stockholders' Equity	<u>\$383,081</u>	<u>\$363,326</u>
Total Liabilities and Stockholders' Equity	<u>\$746,146</u>	<u>\$721,525</u>

## BALANCE SHEET

The purpose of the balance sheet is to provide creditors, owners and investors with a picture of the financial position of a business as of the date it was prepared.

### 3 MAIN CATEGORIES OF THE BALANCE SHEET

#### ► ASSETS

Items of value which are owned and are measurable in terms of money. There are three types of assets:

##### CURRENT ASSETS

Owned assets that can reasonably be expected to convert to cash within one year.

##### FIXED ASSETS

Long-term assets that are not intended for sale or easily convertible to cash. Fixed asset examples include buildings and equipment.

##### OTHER ASSETS

Assets that are acquired for long-term rights and privileges or intangibles. Other assets have no physical existence. A common example of an other asset is goodwill.

#### ► LIABILITIES

Obligations that are owed by the business. There are two types of liabilities:

##### CURRENT LIABILITIES

Debts that are due within one year or less. This would include the portion of long-term debt (e.g., mortgage debt) that is payable within one year.

##### LONG-TERM LIABILITIES

Debts that are due over one year from the date of the balance sheet.

#### ► STOCKHOLDERS' EQUITY

Net worth or book value of the business. Net worth is equal to assets minus liabilities. There are three major classifications to stockholders' equity.

##### CAPITAL STOCK

An account showing the interest or ownership in a business by its stockholders.

##### CAPITAL SURPLUS

Amount paid for stock above its par value. For example:

- Par value of stock: \$1.00/share
- Additional stock purchased at \$4.00/share
- Capital Surplus: \$3.00/share

##### ACCUMULATED RETAINED EARNINGS

The after-tax earnings that are not distributed by the corporation to its stockholders. This money is put back into the business to conduct ongoing operations.

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## ANALYZING FINANCIAL STATEMENTS

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### BALANCE SHEET – DECEMBER 31, 2016

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<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Current Assets		
Cash	\$42,170	\$67,150
Marketable securities – cost	62,829	49,300
Accounts receivable	87,300	61,700
Inventory	81,650	75,900
Prepaid expenses	900	1,800
Total Current Assets	<u>\$274,849</u>	<u>\$255,850</u>
Fixed Assets		
Land	\$66,800	\$66,800
Building	383,200	383,200
Machinery	99,250	90,800
Office Equipment	8,410	3,460
Total Property, Plant and Equipment	<u>\$557,660</u>	<u>\$544,260</u>
Less Accumulated Depreciation	<u>\$91,378</u>	<u>\$83,600</u>
Net Fixed Assets	\$466,282	\$460,660
Intangibles (goodwill)	<u>\$5,015</u>	<u>\$5,015</u>
Total Assets	<u>\$746,146</u>	<u>\$721,525</u>
<b>LIABILITIES</b>	<b>2016</b>	<b>2015</b>
Current Liabilities		
Accounts payable	\$71,820	\$98,530
Notes payable	65,000	34,034
Accrued expenses payable	24,421	23,753
Federal income taxes payable	11,473	10,256
Current portion – long-term debt	10,125	7,400
Total Current Liabilities	<u>\$182,839</u>	<u>\$173,973</u>
Long-Term Liabilities		
Mortgages	\$97,026	\$110,026
Equipment financing	83,200	74,200
Total Liabilities	<u>\$363,065</u>	<u>\$358,199</u>
Stockholders' Equity		
Preferred stock (5,000 shares)	\$30,000	\$30,000
Common stock (10,000 shares)	75,000	75,000
Capital surplus	54,804	54,804
Accumulated retained earnings	223,277	203,522
Total Stockholders' Equity	<u>\$383,081</u>	<u>\$363,326</u>
Total Liabilities and Stockholders' Equity	<u>\$746,146</u>	<u>\$721,525</u>

## TECHNIQUES FOR ANALYZING THE BALANCE SHEET

### ► LEVERAGE RATIO

This is the amount of money that is provided by creditors rather than by the owner of the business. Highly leveraged firms (those with heavy debt in relation to net worth) are more vulnerable to business downturns than those with lower debt-to-worth positions.

$$\frac{\text{TOTAL DEBT}}{\text{TOTAL ASSETS}}$$

### ► CURRENT RATIO

This is a measure of the quality and adequacy of current assets to meet current obligations as they come due. The composition and quality of the current assets is a critical factor in analyzing liquidity. Generally, companies operating with smaller inventory levels and higher, easily collectible accounts receivable can operate at a lower current ratio than those companies operating with high inventory and selling their product/service on credit. Standard = 2:1.

$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

(cash and accounts receivable, inventory + liquid assets)  
(current liabilities + portion of long-term debt)

### ► QUICK ASSET RATIO

This ratio measures the company's ability to meet immediate needs for cash. Anything less than a 1:1 ratio implies a dependency on inventory. Inventory is not included in this ratio because it is yet to be sold. Standard = 1:1.

$$\frac{\text{QUICK ASSETS}}{\text{TOTAL CURRENT LIABILITIES}}$$

(cash and accounts receivable)  
(current liabilities + portion of long-term debt)

### ► TREND RATIOS

Trend ratios are a good way to measure and compare the growth of accounts listed on the financial statements. Trend ratios are calculated as follows:

1. Take the balance sheet figures of the current assets and current liabilities accounts for the past two years.

#### EXAMPLE:

	2015	2016
► Current Assets	\$255,850	\$274,849
► Current Liabilities	\$173,973	\$182,839

Consider the earlier figures (2015) as the 100% figures:

► Current Assets	\$255,850 =	100%
► Current Liabilities	\$173,973 =	100%

2. Calculate the difference between the 2016 and the 2015 sums, and divide the figures by the earlier year's (2015's) figures.

#### EXAMPLE:

► Current Assets:	$\frac{\$18,999}{\$255,850} = 7\%$
► Current Liabilities:	$\frac{\$8,866}{\$173,973} = 5\%$

3. Add these percentages to 100% to come up with the second-year trend.

#### EXAMPLE:

	2015	2016
► Current Assets:	100%	107%
► Current Liabilities:	100%	105%

If several years of balance sheets are available, include each year's figures in your analysis.

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## INCOME STATEMENT

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JANUARY 1 – DECEMBER 31

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	<b>2016</b>	<b>2015</b>
Sales	\$510,500	\$481,000
Cost of Goods Sold	<u>306,500</u>	<u>269,360</u>
Gross profit	\$204,000	\$211,640
Other Income (Sale of Vehicle)	<u>3,484</u>	<u>-0-</u>
Operating income	\$207,484	\$211,640
Expenses		
Officer compensation	\$38,940	\$35,100
Salaries and wages	59,099	51,212
Repairs	2,195	2,341
Advertising	5,177	4,010
Interest	27,821	28,215
Vehicle	373	419
Utilities	2,336	2,031
Insurance	2,095	1,884
Office expense	393	507
Legal fees	615	538
Taxes	17,413	15,731
Net loss carryover	2,999	2,999
Contributions	63	100
Depreciation	29,397	31,190
Amortization of administrative expenses	1,921	1,921
Miscellaneous expenses	<u>2,000</u>	<u>1,400</u>
Total Expenses	\$192,837	\$179,598
Taxable income	\$14,647	\$32,042
Federal income tax	<u>3,661</u>	<u>11,214</u>
Net Profit	\$10,986	\$20,828

## INCOME STATEMENT

The purpose of the income statement is to determine what a business' annual income or net profit is for a specific time period.

### 3 MAIN CATEGORIES OF THE INCOME STATEMENT

#### ► REVENUE

Capital flowing into the business. There are two types of revenue accounts:

##### SALES

This account item is the primary source of revenue received for goods sold or services offered by a business.

##### OTHER SOURCES OF INCOME

This account represents income that the business receives that is not generated from normal business operations.

#### ► EXPENSES

The costs incurred in order for a business to operate. There are typically five expense accounts.

##### SELLING EXPENSES

Costs incurred in the process of selling and marketing the goods and/or services of the business.

##### GENERAL ADMINISTRATIVE EXPENSES

Costs of doing business that are not directly related to the selling process.

##### OTHER EXPENSES

Miscellaneous costs that are not directly related to the main operation of business.

##### FEDERAL INCOME TAXES

Amount that a business owes in federal income taxes.

##### COST OF GOODS SOLD

Cost of the inventory used to produce the goods of the company.

#### ► NET PROFIT

Net profit is the difference between revenue (capital flowing into the business) and expenses (capital flowing out of the business).

Net profit is not the same thing as cash flow. Cash flow is the net profit plus any depreciation, depletion and amortization.



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## INCOME STATEMENT

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JANUARY 1 – DECEMBER 31

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	<b>2016</b>	<b>2015</b>
Sales	\$510,500	\$481,000
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Federal income tax	<u>3,661</u>	<u>11,214</u>
Net Profit	\$10,986	\$20,828

## INCOME STATEMENT

By making several comparisons between items on an income statement, it will tell you a lot more about the profitability of the business.

### TECHNIQUES FOR ANALYZING AN INCOME STATEMENT

#### ► GROSS PROFIT MARGIN

Indicates percentage of profit as compared to net sales.

$$\frac{\text{Gross Profit}}{\text{Net Sales}} = \text{Gross Profit Margin}$$

**EXAMPLE:**  $\frac{\$204,000}{\$510,500} = 40\%$

The resulting figure represents the margin of profit on goods sold. A declining profit margin may reflect price competition or weak marketing. This becomes more significant when compared to the previous year.

**EXAMPLE:**  $\frac{\$211,640}{\$481,000} = 44\%$

#### ► NET PROFIT RATIO

Provides an indication of how satisfactory the year has been for the business.

$$\frac{\text{Net Profit After Tax}}{\text{Sales}} = \text{Net Margin}$$

**EXAMPLE:**  $\frac{\$10,986}{\$510,500} = 2.15\% \text{ net profit (2016)}$

This means that for every \$1 of goods sold/services provided 2.15¢ went to the profit of the company.

Calculating these ratios on the business will provide general information about the business and aid you in determining its prospects for the future.

#### ► OPERATING EXPENSE RATIO

Indicates percentage of operating expenses (actual cash expenses) as compared to net sales.

$$\frac{\text{Selling, General and Administrative Expenses}}{\text{Net Sales}} = \text{Operating Expense (\%)}$$

**EXAMPLE:**  $\frac{\$158,457^*}{\$510,500} = 31\%$

A decreasing percentage will indicate more efficient management while a rising percentage indicates inefficient or wasteful management.

* Total Expenses	\$192,837
– Net Loss Carryover	2,999
– Contributions	63
– Depreciation	29,397
– Amortization of Administrative Expenses	1,921
<hr/>	
= Selling, General and Administrative Expenses	\$158,457

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## INCOME STATEMENT

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JANUARY 1 – DECEMBER 31

---

	<b>2016</b>	<b>2015</b>
Sales	\$510,500	\$481,000
Cost of Goods Sold	<u>306,500</u>	<u>269,360</u>
Gross profit	\$204,000	\$211,640
Other Income (Sale of Vehicle)	<u>3,484</u>	<u>-0-</u>
Operating income	\$207,484	\$211,640
Expenses		
Officer compensation	\$38,940	\$35,100
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Total Expenses	\$192,837	\$179,598
Taxable income	\$14,647	\$32,042
Federal income tax	<u>3,661</u>	<u>11,214</u>
Net Profit	\$10,986	\$20,828

► **TREND RATIOS**

Trend ratios can be computed for accounts listed on the income statement. As explained in the balance sheet section, trend ratios are performed using the earliest year figure as your 100% figure and computing the increase or decrease for each year after.

**EXAMPLE:**

	2015	2016
SALES	\$481,000	\$510,500

1. Consider the earlier figure (2015) as the 100% figure.
2. Calculate the difference between the 2016 and 2015 figures and divide the difference by the earlier year's (2015) figure.

**EXAMPLE:**

$$\begin{array}{r}
 \$510,500 - \$481,000 = \$29,500 \\
 \hline
 \$29,500 \\
 \$481,000 = 6.1\%
 \end{array}$$

3. Add these percentages to 100% to come up with the second year trend.

**EXAMPLE:**

	2015	2016
SALES	100%	106%

► **EXERCISE:** Determine the percentages

	2015	%	2016	%
► Sales	\$481,000	100	\$510,500	106
► Cost of Goods	269,360		306,500	
► Gross Income	211,640		204,000	
► Expenses	179,598		192,837	
► Depreciation	31,190		29,397	
► Net Profit	20,828		10,986	

**TRENDS**

Indicate the trends.

- Sales: **INCREASING**
- Cost of Goods Sold:
- Gross Income:
- Expenses:
- Depreciation:
- Net Profit:



# MODULE 4

## RESOURCES

Use the resources in this module to make your analysis easier.

The DOCUMENTATION CHECKLIST provides a list of the documents you need from a self-employed borrower in order to conduct your analysis.

The TAX RETURN RED FLAG REVIEW quickly guides you through a tax return, noting where to look for inconsistencies.

The GLOSSARY OF TERMS AND DEFINITIONS – from Accounts Payable to Trademark – may help you develop a better understanding of the elements involved in business ownership.





# Self-Employed Borrower

## DOCUMENTATION CHECKLIST

The following checklist identifies the documentation you need from self-employed borrowers. The information is divided into four different business structures.

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

### ► SOLE PROPRIETORSHIP

If the borrower receives income from a sole proprietorship, the following documentation is required:

- U.S. FEDERAL 1040** with all applicable schedules attached,
- SCHEDULE C** (Profit or Loss from Business),
- SCHEDULE D** (Capital Gains & Losses),
- SCHEDULE F** (Profit or Loss from Farming), and
- YEAR-TO-DATE PROFIT & LOSS STATEMENT**, as applicable.

### ► PARTNERSHIP (GENERAL, LIMITED OR LLC)

If the borrower is a partner in a general or limited partnership, or is a limited liability company member, the following documentation is required:

- U.S. FEDERAL 1040** with all applicable schedules attached,
- SCHEDULE E, PART II** (Income or Loss from Partnerships),
- SCHEDULE K-1 (FORM 1065)** (Partner's Share of Income, Deductions, Credits, etc.),
- FORM 1065** (U.S. Return of Partnership Income) with all applicable schedules attached,
- YEAR-TO-DATE PROFIT & LOSS STATEMENT**, as applicable, and
- PARTNERSHIP AGREEMENT** (may be required).

### ► S CORPORATION

If the borrower receives income from an S Corporation, the following documentation is required:

- U.S. FEDERAL 1040** with all applicable schedules attached,
- SCHEDULE E, PART II** (Income or Loss from S Corporations),
- SCHEDULE K-1 (FORM 1120S)** (Shareholder's Share of Income, Deductions, Credits, etc.),
- FORM 1120S** (U.S. Income Tax Return for an S Corporation) with all applicable schedules attached, and
- YEAR-TO-DATE PROFIT & LOSS STATEMENT**, as applicable.

### ► CORPORATION

If the borrower receives income from a corporation, the following documentation is required:

- U.S. FEDERAL 1040** with all applicable schedules attached,
- FORM 1120** (U.S. Corporate Income Tax Return) with all applicable schedules attached, and
- YEAR-TO-DATE PROFIT & LOSS STATEMENT**, as applicable.





## ▶ TAX RETURN RED FLAG REVIEW

### ▶ FORM 1040 – U.S. INDIVIDUAL INCOME TAX RETURN

- ◀ Personal information does not agree with the information in the loan file.
- ◀ High-income borrower with few or no deductions.
- ◀ Even dollar amounts for income or deductions.
- ◀ Tax returns are not signed/dated by borrower.
- ◀ Self-employed borrower that does not reflect estimated tax payments (Schedule SE).
- ◀ W-2 information does not match the figures reported on the 1040.
- ◀ Evidence of whiteout or strikeovers, alterations or varied handwriting within return.
- ◀ Paid tax preparer does not disclose tax ID.
- ◀ Paid tax preparer signs taxpayer's copy.
- ◀ Handwritten tax returns prepared by a professional tax preparer.
- ◀ Borrower indicates self-employed, owner of a sole proprietorship, yet 1040's disclose wages, salaries, tips, etc.

### ▶ SCHEDULE A

- ◀ Real estate taxes or mortgage interest reported, but no real estate owned.
- ◀ Real estate owned, but no deductions taken for real estate taxes or mortgage interest paid.
- ◀ Unreimbursed employee expenses indicate the borrower may receive commission income.

### ▶ SCHEDULE B

- ◀ Stock owned, but no dividend income reported.
- ◀ Interest income reported is not consistent with cash assets in the bank.
- ◀ Source and/or amount of income are inconsistent with loan application.

## TAX RETURN RED FLAG REVIEW

### ▶ SCHEDULE C

- ◀ Gross income does not agree with total income on Form 1099.
- ◀ Interest expense, but borrower does not disclose a related loan.
- ◀ Depreciation deduction for real estate, but ownership of real estate is not disclosed (vice versa).
- ◀ No IRA or Keogh deduction.
- ◀ No salary expense to operate business.
- ◀ No deduction for depreciation (usually some type of equipment that qualifies).
- ◀ No "cost of goods sold" on retail type of business.

### ▶ SCHEDULE E

- ◀ Properties listed not disclosed on the loan application.
- ◀ Borrower income/loss not disclosed on loan application.
- ◀ Mortgage interest deduction taken but debt is not disclosed on the loan application.
- ◀ Net income is inconsistent with amount disclosed on loan application.
- ◀ Partnership(s) and/or S Corporation(s) listed on Schedule E Part II and there is no reference listed on the loan application.

### ▶ FORM 1065 – U.S. RETURN OF PARTNERSHIP INCOME

- ◀ Income calculation when borrower files tax returns with a calendar year vs. fiscal year.
- ◀ May be a partner in another partnership if ordinary income (loss) from other partnerships, etc., discloses a dollar amount.

### ▶ SCHEDULE K-1 (FORM 1065) – PARTNER'S SHARE OF INCOME, DEDUCTIONS, CREDITS, ETC.

- ◀ Borrower indicates being a limited partner yet the K-1 discloses the borrower is a general partner.
- ◀ A limited partner's capital contributed during the year is excessive compared to personal assets.

### ▶ FORM 1120S – U.S. INCOME TAX RETURN FOR AN S CORPORATION

- ◀ Employer identification number differs from the employer identification number shown on Form 1040 Schedule E Part II.

### ▶ SCHEDULE K-1 (FORM 1120S) – SHAREHOLDER'S SHARE OF INCOME, DEDUCTIONS, CREDITS, ETC.

- ◀ Amount shown for ordinary income (loss) from trade or business activities differs from amount shown for this S Corporation on Form 1040, Schedule E Part II.

### ▶ FORM 1120 – U.S. CORPORATION INCOME TAX RETURN

- ◀ Final return space is selected on the return, indicating the business has dissolved.

- ▶ **ACCOUNTS PAYABLE**  
Accounts payable are amounts owed to creditors for items or services purchased from them.
- ▶ **ACCOUNTS RECEIVABLE**  
Accounts receivable are payments due from customers for goods sold.
- ▶ **ACCRUAL BASIS OF ACCOUNTING**  
Accrual basis of accounting matches revenues and expenses incurred whether cash has been paid or received, i.e., revenues are recognized when sales are made or services performed even though cash has not yet been received. Expenses are recognized as incurred whether or not cash has been paid out.
- ▶ **ACCRUED EXPENSES PAYABLE**  
Accrued expenses payable are debts incurred but not yet paid, such as federal income tax or the current portion of long-term debt.
- ▶ **ACCUMULATED RETAINED EARNINGS**  
Accumulated retained earnings are the accumulated income of the corporation after taxes.
- ▶ **ADMINISTRATIVE EXPENSES**  
Administrative expenses are those overhead expenses incurred in the overall management of a business. Examples include executive salaries, rent on administrative buildings and insurance.
- ▶ **AMORTIZATION**  
Amortization is the writing-off of initial costs incurred prior to the beginning of formal business operations.
- ▶ **ASSETS**  
Assets are items of value which are owned and are measurable in terms of money.
- ▶ **BALANCE SHEET**  
A balance sheet is a formal statement of the assets, liabilities and stockholders' equity of an entity as of a specific date.
- ▶ **CAPITAL**  
Capital is the funds belonging to the owners of a business, invested with the expressed intention of remaining permanently in the business. Another source of capital is earnings retained by the company.
- ▶ **CAPITAL GAINS AND LOSSES**  
Capital gains and losses are those gains and losses that are not related to the normal activity of the business and are usually nonrecurring. For example, if a company sells some stock and loses money in the transaction, this would be considered a capital loss.
- ▶ **CAPITALIZATION EXPENSE**  
Capitalization expense is the accounting method of recognizing expenses as intangible assets to be annually expensed, such as organization expenses and research and development.
- ▶ **CAPITAL STOCK**  
Capital stock is an account showing the investment in a business by its stockholders.
- ▶ **CAPITAL SURPLUS**  
Capital surplus is the amount paid in by shareholders over the legal par value of each share.
- ▶ **CASH**  
Cash is money on hand, demand deposits, undeposited checks, drafts and money orders.
- ▶ **CASH BASIS OF ACCOUNTING**  
Cash basis of accounting recognizes revenues when cash is received and expenses when cash is paid.
- ▶ **CASH FLOW**  
Cash flow is net income plus noncash expenses, discretionary borrower expenses and/or any contributions. It is cash available for debt repayment.
- ▶ **CHATTEL PROPERTY**  
Chattel property is personal property which is movable, such as furniture or an automobile.
- ▶ **COMMON STOCK**  
Common stock is stock representing residual equity in a corporation. Preferred stockholders rank ahead of common stockholders for dividend payment and claims against assets in event of liquidation. If only one class of stock is issued, it is known as common stock.
- ▶ **CORPORATION**  
A corporation is a legal entity, chartered by a state government, and is separate and distinct from the persons who own it. It can sue, be sued, hold/convey and receive property and enter into contracts under its own name.
- ▶ **COST OF GOODS SOLD**  
Cost of goods sold is the seller's expense for goods sold to customers; it is computed as beginning inventory + net cost of purchases = ending inventory.

## GLOSSARY OF TERMS AND DEFINITIONS

- ▶ **CURRENT ASSETS**  
Current assets are cash and other assets that will be consumed or converted to cash during a relatively short period of time, generally a year or less.
- ▶ **CURRENT LIABILITIES**  
Current liabilities are debts, usually due within one year, that will be paid from current assets.
- ▶ **CURRENT PORTION OF LONG-TERM DEBT**  
Current portion of long-term debt is the share of long-term debt due within twelve months. An example of this would be the portion of a mortgage due within a year.
- ▶ **DEFERRED CHARGE**  
Deferred charge is a debt incurred which will be paid in the future.
- ▶ **DEFERRED EXPENSES**  
Deferred expenses are expenses to be paid at some future date.
- ▶ **DEPLETION**  
Depletion is an expense representing the loss in value of a natural resource asset. The loss in value is due to the removal of part of that asset. This loss in value is thus recognized as a cost and reduces income and consequently taxes, even though no cash has been paid.
- ▶ **DEPRECIATION**  
Depreciation is an expense representing the loss in value of chattel or real property. It is charged against current income. This loss in value is thus recognized as a cost and reduces income and consequently taxes, even though no cash has been paid.
- ▶ **DIVIDEND AND INTEREST INCOME**  
Dividend and interest income is income earned from investments.
- ▶ **EXPENSES**  
Expenses are costs incurred during a period of time from delivering or producing goods, rendering services, or carrying out other activities that constitute an entity's ongoing operations.
- ▶ **FEDERAL INCOME TAX PAYABLE**  
Federal income tax payable is the debt due to the Internal Revenue Service.
- ▶ **FIXED ASSETS**  
Fixed assets are long-term assets that are not intended for sale. Some may be depreciated, such as buildings and furniture, while others are depleted, such as oil wells and timber stands.
- ▶ **GENERAL PARTNERSHIP**  
A general partnership is one in which the partners have unlimited liability for any and all partnership debts. The general partner pays tax at individual rates on his share of the net income.
- ▶ **GOODWILL**  
Goodwill is an intangible asset in a company balance sheet; it represents a premium paid at time of purchase for the company's management skill, know-how and favorable reputation with customers.
- ▶ **GROSS INCOME**  
Gross income is income before taxes that is derived from all sources. Gross income includes wages, interest, dividends, tips, bonuses, gambling winnings, gains from property sales and prizes (including noncash prizes).
- ▶ **INCOME FROM OPERATIONS**  
Income from operations is the income a business receives as a result of ongoing business operations.
- ▶ **INCOME STATEMENT**  
An income statement is a formal summary of an organization's revenues and expenses for a specified period of time.
- ▶ **INTANGIBLE ASSETS**  
Intangible assets are noncurrent, nonphysical assets of a business, such as goodwill, patents and trademarks.
- ▶ **INTANGIBLE DRILLING COSTS**  
Intangible drilling costs are costs incurred for the labor and equipment used in drilling. These generally are discretionary expenses.

► **INVENTORIES**

Inventories are those items of tangible property that are (1) held for sale in the ordinary course of business, (2) in process of production for such sale or (3) to be used for producing goods or services that will be available for sale.

► **LAND**

Land is ground upon which the buildings of an enterprise are located.

► **LIABILITIES**

Liabilities are debts or obligations that usually have a known or determinable amount, maturity date and party to whom payment is to be made.

► **LIMITED LIABILITY COMPANY (LLC)**

A limited liability company offers a single level of taxation to its owners. The LLC reports each member's share of income or loss on a partnership K-1. Unlike a partnership, an LLC offers owners the ability to participate in the management of the company without causing them to be personally liable for the debts of the company. In some cases, an LLC may elect to be treated as a corporation and would file a Form 1120.

► **LIMITED PARTNERSHIP**

A limited partnership is one in which the partner's liability is limited to his or her investment. The limited partner pays tax on his or her share of the net income at individual rates. Each limited partner requires a general partner with unlimited liability.

► **LIQUID ASSETS**

Liquid assets are cash or those assets that are easily converted into cash, such as marketable securities.

► **LONG-TERM LIABILITIES**

Long-term liabilities are debts due after one year from the date of the balance sheet. Examples of long-term liabilities include bonds, notes and mortgages.

► **MACHINERY**

Machinery is heavy equipment used in manufacturing a product or performing a service for a customer.

► **MARKETABLE SECURITIES**

Marketable securities are readily salable securities acquired with temporarily unneeded cash.

► **MODIFIED ACCELERATED COST RECOVERY SYSTEM (MACRS)**

MACRS is a method of calculating depreciation with a larger portion of the asset expensed in the early years of its estimated useful life.

► **NET INCOME AFTER TAXES**

Net income after taxes is the income remaining after provision for or payment of taxes.

► **NET INCOME BEFORE TAXES**

Net income before taxes is the income before provision for taxes.

► **NET PROFIT**

Net profit is the profit remaining after all expenses and charges have been deducted.

► **NOTES PAYABLE**

Notes payable are written promises to pay sums of money at a future date, usually with interest at a specified rate.

► **OTHER ASSETS**

Other assets are assets acquired for long-term rights and privileges which have no physical existence. Examples of other assets include prepayments and deferred charges, intangibles, goodwill and trademarks.

► **PREFERRED STOCK**

Preferred stock is capital stock that has certain preference rights over common stock. Preferred stock may be preferred as to dividends, preferred as to assets or preferred as to both dividends and assets.

► **PREPAYMENTS**

Prepayments are expenses which are paid before they are used or incurred. Taxes and rent are examples of prepaid expenses.

► **PROVISION FOR TAXES**

Provision for taxes is the expense provision for state and federal taxes.

► **REAL PROPERTY**

Real property is land and any property attached to land which cannot be moved, such as a building.

► **RESEARCH AND DEVELOPMENT COSTS**

Research and development costs are the costs of research and development. Most often, they are expensed at the time they are incurred.

## GLOSSARY OF TERMS AND DEFINITIONS

### ► RETAINED EARNINGS

Retained earnings represent any earned income of a corporation that is not dispersed in the form of salaries and/or dividends at year's end.

### ► S CORPORATIONS

S Corporations are small, start-up corporations that are taxed as partnerships even though they are corporations. They must be domestic, have only one class of stock and have no more than 100 shareholders.

### ► SALES

Sales are the transfer of ownership of goods from one party to another. Each time a sale is made, a revenue account called "Sales" is increased by the amount of the selling price of the goods sold.

### ► SELLING EXPENSES

Selling expenses are those expenses that are incurred in the selling and marketing effort. Examples include salaries and commissions of salespersons, advertising, rent on sales buildings, sales supplies used and utilities on sales buildings.

### ► SOLE PROPRIETORSHIP

A sole proprietorship is an unincorporated business owned by an individual and often managed by that same individual.

### ► STOCKHOLDERS' EQUITY

Stockholders' equity is the corporation's net worth after subtracting liabilities from assets. It is the owners' interest in a corporation, consisting of capital and preferred stock and retained earnings.

### ► STRAIGHT-LINE METHOD OF DEPRECIATION

The straight-line method of depreciation distributes the same dollar amount of depreciation to expense each period. For example, a \$10,000 car with a useful life of ten years would be depreciated by \$1,000 each year.

### ► TRADEMARK

A trademark is a symbol, design, brand name or any other indication of easy and ready recognition attributed to a product.

# MODULE 5

## CASH FLOW WORKSHEETS

Currently, there are a number of cash flow forms available to help determine qualifying income for self-employed borrowers. Each form may be different but the goal is the same: to provide a simple process for determining monthly cash flow.

Three different samples are provided here: MGIC's Schedule Analysis Method (SAM), and the current forms being used by Fannie Mae and Freddie Mac. The SAM form is similar to both Fannie Mae's and Freddie Mac's worksheet.

The form you use is up to you – it's either dictated by your investor guidelines, company policy or your comfort level with one method or the other. MGIC's cash flow form is updated annually to reflect the most recent changes in the tax forms. It's easy to follow as it provides a line-by-line navigation of each tax schedule.





## A WORD ABOUT FORMS

Many people are under the misconception that investors require a specific cash flow worksheet be used. In fact, MGIC, Fannie Mae, Freddie Mac and most investors have NO REQUIREMENT about what form to use when underwriting the self-employed borrower. What is required by both Fannie Mae and Freddie Mac, and almost all investors, is that the lender clearly shows how income was determined.

In this section, we provide you with copies of Fannie Mae's and Freddie Mac's most current cash flow worksheet as well as those designed by MGIC. We invite you to use whichever form you prefer.

You may photocopy these forms right from the book. MGIC's forms are also available in an editable version from [mgic.com/seb](http://mgic.com/seb). See the first page of this guide for information on how to access. Contact your account representative or your local MGIC Underwriting Office for assistance.

### ► QUESTION: CAN MGIC'S TRAINING MATERIALS HELP ME COMPLETE ANY CASH FLOW WORKSHEET?

◀ **ANSWER: ABSOLUTELY!!** This training and the guide are designed to help you understand how to determine qualifying income for the self-employed borrower. The rationale behind additions or reductions to cash flow is the same no matter which cash flow worksheet is used. Once you have the concepts mastered, you can apply them to virtually any worksheet.

NOTE: Always check investor guidelines for qualifying income requirements.

**BORROWER AND/OR CO-BORROWER NAME:**

To determine the borrowers' cash flow, complete the following pages as they apply to your borrowers and to investor guidelines.  
 Note: This form is intended for use with tax returns for years 2014-2016.

### Form 1040, Personal Tax Returns Cash Flow

Evaluate income reported on the Forms/Schedules as they apply to your borrowers and to investor guidelines.

<b>I FORM 1040 - PAGE 1</b>		<b>201_</b>	<b>201_</b>
1	Self-Employed Wages: W-2, Box 5		
Subtotal			
<b>II FORM 1040 - PAGE 1 OTHER INCOME</b>		<b>201_</b>	<b>201_</b>
2	Variable Income (e.g., Commissions): W-2, Box 5		
3	Tax-Exempt Interest: LINE 8b		
4	Alimony Received: LINE 11		
5	Pension and/or IRA Distributions: LINES 15a & 16a		
6	Recurring Unemployment Compensation: LINE 19		
7	Social Security Benefits: LINE 20a		
8	Other Income: LINE 21		
Subtotal			
<b>III FORM 2106 - EMPLOYEE BUSINESS EXPENSES</b>			
9	Total Expenses: LINE 8, Columns a & b	( )	( )
10	Depreciation: LINE 28: If complete, enter amount. ONLY IF BLANK, proceed to LINE 13.		
11	Business Miles: LINE 13	*Miles: *	*
11a	X Depreciation Rate: 2016, \$0.24, 2015, \$0.24, 2014, \$0.22		
11b	= Total Mileage Depreciation		
Subtotal			
<b>IV SCHEDULE B - INTEREST AND DIVIDENDS</b>			
12	Recurring Interest Income: LINE 1 or 1040 LINE 8a		
13	Recurring Dividend Income: LINE 5 or 1040 LINE 9a		
Subtotal			
<b>V SCHEDULE C - SOLE PROPRIETORSHIP</b>			
14	Net Profit (Loss): LINE 31		
15	Nonrecurring Other (Income) Loss or Expense: LINE 6		
16	Depletion: LINE 12		
17	Depreciation: LINE 13		
18	Meal and Entertainment Exclusion: LINE 24b	( )	( )
19	Business Use of Home: LINE 30		
20	Business Miles: page 2, part IV, LINE 44a	*Miles: *	*
20a	X Depreciation Rate: 2016, \$0.24, 2015, \$0.24, 2014, \$0.22		
20b	= Total Mileage Depreciation		
21	Amortization/Casualty Loss (only if noted): page 2, part V		
Subtotal			
<b>VI SCHEDULE D - CAPITAL GAINS AND LOSSES</b>			
22	Recurring Capital Gains (Loss): page 2, LINE 16 (details on FORM 8949)		
Subtotal			
<b>VII FORM 6252 - INSTALLMENT SALE INCOME</b>			
23	Principal Payments: LINE 21		
Subtotal			
<b>VIII SCHEDULE E - SUPPLEMENTAL INCOME AND LOSS</b> To calculate rental property income (loss), use the Rental Income Worksheet.			
24	Royalty Income: LINE 4		
25	Total Expenses: LINE 20	( )	( )
26	Depletion: LINE 18		
Subtotal			
<b>IX SCHEDULE F - FARM INCOME</b>			
27	Net Profit (Loss): LINE 34		
28	Non-Tax Portion Ongoing Co-Op & CCC Pmts: LINES 3a minus b through 6a minus b		
29	Nonrecurring Other (Income) or Loss: LINE 8		
30	Depreciation: LINE 14		
31	Amortization/Casualty Loss/Depletion (only if noted): LINE 32		
32	Business Use of Home (only if noted): LINE 32		
Subtotal			

Partnership Cash Flow

Part 1: Schedule K-1 (Form 1065) Cash Flow

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

<b>X</b>	<b>PARTNERSHIP SCHEDULE K-1 (FORM 1065)</b>	<b>2 0 1 _</b>	<b>2 0 1 _</b>
1	Ordinary Income (Loss): LINE 1 IF > Distributions see additional requirements.		
2	Net Rental Income (Loss): LINES 2 & 3 IF > Distributions see additional requirements.		
3	Guaranteed Payments to Partner: LINE 4		
	<b>Subtotal</b>		

Part 2: Partnership (Form 1065) Cash Flow

Check investor guidelines for use of business income to qualify.

<b>XI</b>	<b>PARTNERSHIP - FORM 1065</b>	<b>2 0 1 _</b>	<b>2 0 1 _</b>
4	Passthrough (Income) Loss from Other Partnerships: LINE 4		
5	Nonrecurring Other (Income) Loss: LINES 5, 6 & 7		
6	Depreciation: LINE 16c		
7	Depletion: LINE 17		
8	Amortization/Casualty Loss: LINE 20 (only if noted on attached statement)		
9	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 16, Column d	( )	( )
10	Travel and Entertainment Exclusion: Schedule M-1, LINE 4b	( )	( )
11	<b>Subtotal</b>		
12	Multiplied by Ownership Percentage	%	%
	<b>Partner's Total Share of Income (Loss)</b>		

S Corporation Cash Flow

Part 1: Schedule K-1 (Form 1120S) Cash Flow

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

<b>XII</b>	<b>S CORPORATION SCHEDULE K-1 (FORM 1120S)</b>	<b>2 0 1 _</b>	<b>2 0 1 _</b>
13	Ordinary Income (Loss): LINE 1 IF > Distributions see additional requirements.		
14	Net Rental Income (Loss): LINES 2 & 3 IF > Distributions see additional requirements.		
	<b>Subtotal</b>		

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

Check investor guidelines for use of business income to qualify.

<b>XIII</b>	<b>S CORPORATION - FORM 1120S</b>	<b>2 0 1 _</b>	<b>2 0 1 _</b>
15	Nonrecurring Other (Income) Loss: LINES 4 & 5		
16	Depreciation: LINE 14		
17	Depletion: LINE 15		
18	Amortization/Casualty Loss: LINE 19 (only if noted on attached statement)		
19	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )	( )
20	Travel and Entertainment Exclusion: Schedule M-1, LINE 3b	( )	( )
21	<b>Subtotal</b>		
22	Multiplied by Ownership Percentage	%	%
	<b>Shareholder's Total Share of Income (Loss)</b>		

### Corporation (Form 1120) Cash Flow

When you consider using income from a Corporation, it is important to determine the viability of the business as well as the borrowers' ability to access funds that will be used to qualify. Check your investor guidelines for use of business income to qualify.

XIV CORPORATION - FORM 1120	2 0 1 _	2 0 1 _
23 Taxable Income: LINE 30		
24 Total Tax: LINE 31	( )	( )
25 Nonrecurring (Gains) Losses: LINES 8 & 9		
26 Nonrecurring Other (Income) Loss: LINE 10		
27 Depreciation: LINE 20		
28 Depletion: LINE 21		
29 Domestic Production Activities Deduction: LINE 25		
30 Amortization/Casualty Loss (only if noted): LINE 26 from attached schedule		
31 Net Operating Loss and Special Deductions: LINES 29a & b		
32 Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d	( )	( )
33 Travel and Entertainment Exclusion: Schedule M-1, LINE 5c	( )	( )
34 Subtotal		
35 Multiplied by Ownership Percentage		%
36 Dividends Paid to Borrower: Form 1040, Schedule B, LINE 5	( )	( )
<b>Corporation – Total Share of Income (Loss)</b>		

### Cash Flow Analysis Summary

Determine qualifying income based on history, stability and continuation of income and losses. To determine borrowers' qualifying income, complete the following:

- Enter subtotals and share of business income from pages 1-3.
- Identify income trends from year to year; if income (loss) is not to be included, check the box  to exclude and remove from calculation.
- Enter the number of months the income is to be averaged.
- Complete the average qualifying income for each row.

p.1 PERSONAL CASH FLOW SUBTOTALS:	2 0 1 _	2 0 1 _	No. of Months	Qualifying Income
I Form 1040 Self-Employed Wages	<input type="checkbox"/>	<input type="checkbox"/>		
II Form 1040 Other Income	<input type="checkbox"/>	<input type="checkbox"/>		
III Form 2106 (exclude if entering on 1003)	<input type="checkbox"/>	<input type="checkbox"/>		
IV Schedule B	<input type="checkbox"/>	<input type="checkbox"/>		
V Schedule C	<input type="checkbox"/>	<input type="checkbox"/>		
VI Schedule D	<input type="checkbox"/>	<input type="checkbox"/>		
VII Form 6252	<input type="checkbox"/>	<input type="checkbox"/>		
VIII Schedule E	<input type="checkbox"/>	<input type="checkbox"/>		
IX Schedule F	<input type="checkbox"/>	<input type="checkbox"/>		
<b>p.2 PARTNERSHIP &amp; S CORPORATION CASH FLOW SUBTOTALS:</b>				
X Schedule K-1 (Form 1065)	<input type="checkbox"/>	<input type="checkbox"/>		
XI Form 1065	<input type="checkbox"/>	<input type="checkbox"/>		
XII Schedule K-1 (Form 1120S)	<input type="checkbox"/>	<input type="checkbox"/>		
XIII Form 1120S	<input type="checkbox"/>	<input type="checkbox"/>		
<b>p.3 CORPORATION CASH FLOW SUBTOTAL:</b>				
XIV Form 1120	<input type="checkbox"/>	<input type="checkbox"/>		
<b>Average Monthly Cash Flow</b>				

### Profit and Loss

Consider the income on a profit-and-loss statement only if it is consistent with the previous year's earnings (or submitted through audited statements).

YEAR-TO-DATE PROFIT-AND-LOSS STATEMENT			
Salary/Draws to Individual			
Net Profit	X	%	=
Total Allowable Addbacks or Deductions	X	%	=
Year-to-Date Total			
Comments/Notes:			

This worksheet is intended to help you analyze self-employed borrowers' cash flow. Review any income or loss obtained from the respective forms and schedules listed in the cash flow analysis to determine whether the source was appropriate, can be considered ongoing and consistent and meets investor guidelines.

Rental Income Worksheet (for Schedule E or Form 8825) – Page 1



BORROWER AND/OR CO-BORROWER NAME:

Analysis may be completed using Schedule E or Form 8825 as applicable to your loan file and investor requirements.  
 Note: Generally, only the most recent tax year is required to be analyzed for net rental income (loss).

- **For Schedule E – PITIA method – Complete rows 1-12:**
  - ▶ When row 12 has income, include row 12 in qualifying income (exclude PITIA from DTI)
  - ▶ When row 12 has loss, include row 12 in DTI, but exclude PITIA from DTI
- **For Form 8825 – Complete rows 1-12:**
  - ▶ When row 12 has income, do nothing with row 12, and exclude PITIA from DTI
  - ▶ When row 12 loss < PITIA, include row 12 in DTI, but exclude PITIA from DTI
  - ▶ When row 12 loss ≥ PITIA, do nothing with row 12, but include PITIA in DTI
- **For Schedule E – Traditional method – Complete rows 1, 2, 3 & 7-9**

Property A

RENTAL INCOME (LOSS) CALCULATION	2 0 1 _	2 0 1 _
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		

Property B

RENTAL INCOME (LOSS) CALCULATION	2 0 1 _	2 0 1 _
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		

Property C

RENTAL INCOME (LOSS) CALCULATION	2 0 1 _	2 0 1 _
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		



BORROWER AND/OR CO-BORROWER NAME:

Analysis may be completed using Schedule E or Form 8825 as applicable to your loan file and investor requirements.  
 Note: Generally, only the most recent tax year is required to be analyzed for net rental income (loss).

- **For Schedule E – PITIA method – Complete rows 1-12:**
  - ▶ When row 12 has income, include row 12 in qualifying income (exclude PITIA from DTI)
  - ▶ When row 12 has loss, include row 12 in DTI, but exclude PITIA from DTI
- **For Form 8825 – Complete rows 1-12:**
  - ▶ When row 12 has income, do nothing with row 12, and exclude PITIA from DTI
  - ▶ When row 12 loss < PITIA, include row 12 in DTI, but exclude PITIA from DTI
  - ▶ When row 12 loss ≥ PITIA, do nothing with row 12, but include PITIA in DTI
- **For Schedule E – Traditional method – Complete rows 1, 2, 3 & 7-9**

**Property D**

RENTAL INCOME (LOSS) CALCULATION	201_	201_
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		

**Property E**

RENTAL INCOME (LOSS) CALCULATION	201_	201_
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		

**Property F**

RENTAL INCOME (LOSS) CALCULATION	201_	201_
1 Number of Months - Maximum 12		
2 Income (Loss): Schedule E LINE 21; Form 8825 LINE 17		
3 Depreciation: Schedule E LINE 18; Form 8825 LINE 14		
4 Taxes: Schedule E LINE 16; Form 8825 LINE 11		
5 Mortgage Interest: Schedule E LINES 12 & 13; Form 8825 LINE 9		
6 Insurance: Schedule E LINE 9; Form 8825 LINE 7		
7 Other: Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E LINE 19; Form 8825 LINE 15		
8 Annual Gross Rental Income (Loss): Sum of rows 2 through 7		
9 Monthly Gross Rental Income (Loss)		
10 Monthly Mortgage Payment - P&I	( )	( )
11 Monthly Insurance, Maintenance, Taxes & Misc. (e.g., HOA Dues, Flood, etc.)	( )	( )
12 Net Monthly Rental Income (Loss)		



Fannie Mae

**Cash Flow Analysis (Form 1084)**

**Borrower Name:** \_\_\_\_\_

*Business Name (optional):* \_\_\_\_\_

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

**IRS Form 1040 – Individual Income Tax Return**

**Year** \_\_\_\_\_

**Year** \_\_\_\_\_

1. **W-2 Income from Self-Employment** (+) \_\_\_\_\_ (+) \_\_\_\_\_

2. **Schedule B – Interest and Ordinary Dividends**

a. Interest Income from Self-Employment (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 b. Dividends from Self-Employment (+) \_\_\_\_\_ (+) \_\_\_\_\_

3. **Schedule C – Profit or Loss from Business: Sole Proprietorship**

a. Net Profit or (Loss) (+/-) \_\_\_\_\_ (+/-) \_\_\_\_\_  
 b. Nonrecurring Other (Income) Loss/Expenses (+/-) \_\_\_\_\_ (+/-) \_\_\_\_\_  
 c. Depletion (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 d. Depreciation (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 e. Non-deductible Meals and Entertainment Expenses (-) \_\_\_\_\_ (-) \_\_\_\_\_  
 f. Business Use of Home (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 g. Amortization/Casualty Loss (+) \_\_\_\_\_ (+) \_\_\_\_\_

4. **Schedule D – Capital Gains and Losses**

a. Recurring Capital Gains (+) \_\_\_\_\_ (+) \_\_\_\_\_

5. **Schedule E – Supplemental Income and Loss**

**Note:** A lender may use Fannie Mae Rental Income Worksheets ([Form 1037](#) or [Form 1038](#)) to calculate individual rental income (loss) reported on Schedule E.

a. Royalties Received (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 b. Total Expenses (-) \_\_\_\_\_ (-) \_\_\_\_\_  
 c. Depletion (+) \_\_\_\_\_ (+) \_\_\_\_\_

6. **Schedule F – Profit or Loss from Farming**

a. Net Farm Profit or (Loss) (+/-) \_\_\_\_\_ (+/-) \_\_\_\_\_  
 b. Non-Tax Portion Ongoing Coop and CCC Payments (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 c. Nonrecurring Other (Income) Loss (+/-) \_\_\_\_\_ (+/-) \_\_\_\_\_  
 d. Depreciation (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 e. Amortization/Casualty Loss/Depletion (+) \_\_\_\_\_ (+) \_\_\_\_\_  
 f. Business Use of Home (+) \_\_\_\_\_ (+) \_\_\_\_\_

**Note:** IRS Form 4797 (Sales of Business Property) is not included on this worksheet due to its infrequent use. If applicable, a lender may include analysis of the sale and related recurring capital gains.



**Partnership or S Corporation**

A self-employed borrower's share of Partnership or S Corporation earnings can only be considered if the lender obtains documentation, such as Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

**Note:** See the Instructions for additional guidance on documenting access to income and business liquidity.

**IRS Form 1065 - Partnership Income**

<b>7. Schedule K-1 Form 1065 – Partner’s Share of Income</b>	<b>Year</b> _____	<b>Year</b> _____
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Income (Loss)	(+/-) _____	(+/-) _____
c. Guaranteed Payments to Partner	(+) _____	(+) _____
 <b>8. Form 1065 - Adjustments to Business Cash Flow</b>		
a. Ordinary (Income) Loss from Other Partnerships	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
c. Depreciation	(+) _____	(+) _____
d. Depletion	(+) _____	(+) _____
e. Amortization/Casualty Loss	(+) _____	(+) _____
f. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
g. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
h. Subtotal	_____	_____
i. Total Form 1065	_____	_____
(Subtotal multiplied by % of ownership)	_____	_____

<b>IRS Form 1120S – S Corporation Earnings</b>	<b>Year</b> _____	<b>Year</b> _____
 <b>9. Schedule K-1 Form 1120S – Shareholder’s Share of Income</b>		
a. Ordinary Income (Loss)	(+/-) _____	(+/-) _____
b. Net Rental Real Estate; Other Net Rental Income (Loss)	(+/-) _____	(+/-) _____
 <b>10. Form 1120S - Adjustments to Business Cash Flow</b>		
a. Nonrecurring Other (Income) Loss	(+/-) _____	(+/-) _____
b. Depreciation	(+) _____	(+) _____
c. Depletion	(+) _____	(+) _____
d. Amortization/Casualty Loss	(+) _____	(+) _____
e. Mortgages or Notes Payable in Less than 1 Year	(-) _____	(-) _____
f. Non-deductible Travel and Entertainment Expenses	(-) _____	(-) _____
g. Subtotal	_____	_____
h. Total Form 1120S	_____	_____
(Subtotal multiplied by % of ownership)	_____	_____

**IRS Form 1120 – Regular Corporation**

Corporation earnings may be used when the borrower(s) own 100% of the corporation.

	Year_____	Year_____
<b>11. Form 1120 – Regular Corporation</b>		
a. Taxable Income	_____	_____
b. Total Tax	(-)_____	(-)_____
c. Nonrecurring (Gains) Losses	(+/-)_____	(+/-)_____
d. Nonrecurring Other (Income) Loss	(+/-)_____	(+/-)_____
e. Depreciation	(+)_____	(+)_____
f. Depletion	(+)_____	(+)_____
g. Amortization/Casualty Loss	(+)_____	(+)_____
h. Net Operating Loss and Special Deductions	(+)_____	(+)_____
i. Mortgages or Notes Payable in Less than 1 Year	(-)_____	(-)_____
j. Non-deductible Travel and Entertainment Expenses	(-)_____	(-)_____
k. Subtotal	_____	_____
l. Less: Dividends Paid to Borrower	(-)_____	(-)_____
m. Total Form 1120	_____	_____



# Form 91

## Income Analysis Form

IRS Form 1040 Federal Individual Income Tax Return	Yr	Yr
<b>1. W-2 Income from Self-Employment (Form W-2, Line 5)</b>		
<b>2. Form 2106- Employee Business Expenses</b>		
Total Expenses	(-)	(-)
Depreciation	(+)	(+)
<b>3. Schedule C- Sole Proprietor Profit or Loss</b>		
Net Profit or Loss	(+/-)	(+/-)
Other Income or Loss	(+/-)	(+/-)
Depletion	(+)	(+)
Depreciation	(+)	(+)
Meals and Entertainment Exclusion	(-)	(-)
Amortization or Casualty Loss	(+)	(+)
Business Use of Home	(+)	(+)
<b>4. Schedule D - Capital Gains and Losses</b>	(+/-)	(+/-)
Form 4797 Sales of Business Property	(+/-)	(+/-)
<b>5. Form 6252 Installment Sale Income</b>		
Principal Payments Received	(+)	(+)
<b>6. Schedule E-Supplemental Income or Loss</b>		
Gross Rents and Royalties	(+)	(+)
Total Expenses Before Depreciation	(-)	(-)
Amortization/Casualty Loss/Non Recurring Expenses	(+)	(+)
If Using the Rental Properties Full PITI Payment in Qualifying Ratios- Add Back Insurance, Mortgage Interest and Taxes	(+)	(+)
<b>7. Schedule F - Profit or Loss from Farming</b>		
Net Farm Profit or Loss	(+/-)	(+/-)
Non-Taxable Portion of Recurring Cooperative & CCC Payments-	(+)	(+)
Non-recurring Other Income or Loss	(+/-)	(+/-)
Depreciation	(+)	(+)
Amortization/Casualty Loss/Depletion	(+)	(+)
Business Use of Home	(+)	(+)
<b>8. Partnership K-1 (Form 1065)</b>		
Ordinary Income or Loss	(+/-)	(+/-)
Net Rental Real Estate Income or Loss	(+/-)	(+/-)
Guaranteed Payments to Partner	(+)	(+)
<b>9. S Corporation K-1 (Form 1120s)</b>		
Ordinary Income or Loss	(+/-)	(+/-)
Net Rental Real Estate Income or Loss	(+/-)	(+/-)
<b>Subtotal of Qualifying Income</b>		

**10. Partnership Income from Form 1065**

Depreciation	(+)	(+)
Depletion	(+)	(+)
Amortization or Casualty loss	(+)	(+)
Mortgage, Notes, Bonds Payable in Less than One Year	(-)	(-)
Other Nonrecurring Income or Loss	(+/-)	(+/-)
Meals and Entertainment Exclusion	(-)	(-)
Multiply Total by Percentage of Ownership (on K-1)	(x) _____	(x) _____
Partnership Total		

**11. S-Corporation Income from Form 1120s**

Depreciation	(+)	(+)
Depletion	(+)	(+)
Amortization or Casualty Loss	(+)	(+)
Mortgage, Notes, Bonds Payable in Less than One Year	(-)	(-)
Other Nonrecurring Income or Loss	(+/-)	(+/-)
Meals and Entertainment Exclusion	(-)	(-)
Multiply Total by Percentage of Ownership (on K-1)	(x) _____	(x) _____
S-Corporation Total		

**12. Corp Income from Form 1120**

Depreciation	(+)	(+)
Depletion	(+)	(+)
Amortization or Casualty Loss	(+)	(+)
Net Operating Loss	(+)	(+)
Taxable Income or Loss	(+/-)	(+/-)
Total Tax	(-)	(-)
Mortgage, Notes, Bonds Payable in Less than One Year	(-)	(-)
Other Nonrecurring Income or Loss	(+/-)	(+/-)
Multiply Total by Percentage of Ownership (From the Corporate Resolution or "Compensation of Officers" Section of the 1120)	(x) _____	(x) _____
Corporation Total		

**Grand Total of Qualifying Income**

**Income Calculation**

YTD Income\* = \_\_\_\_\_ minus deductions \_\_\_\_\_ (ave. business expenses, etc) = \_\_\_\_\_

+ Yr 1 income = \_\_\_\_\_

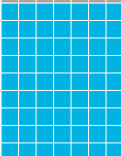
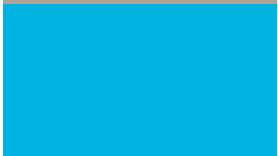
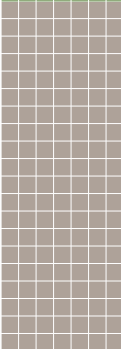
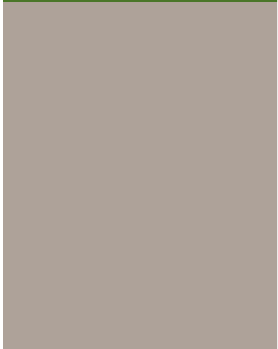
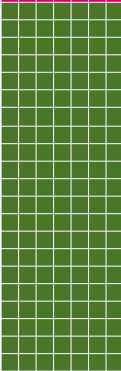
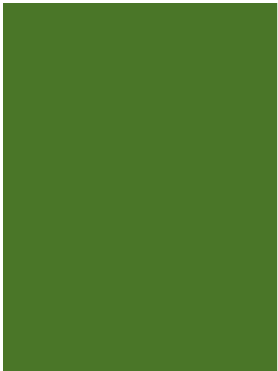
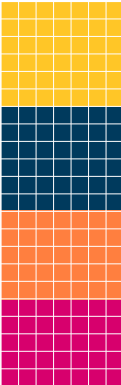
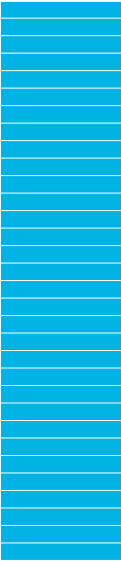
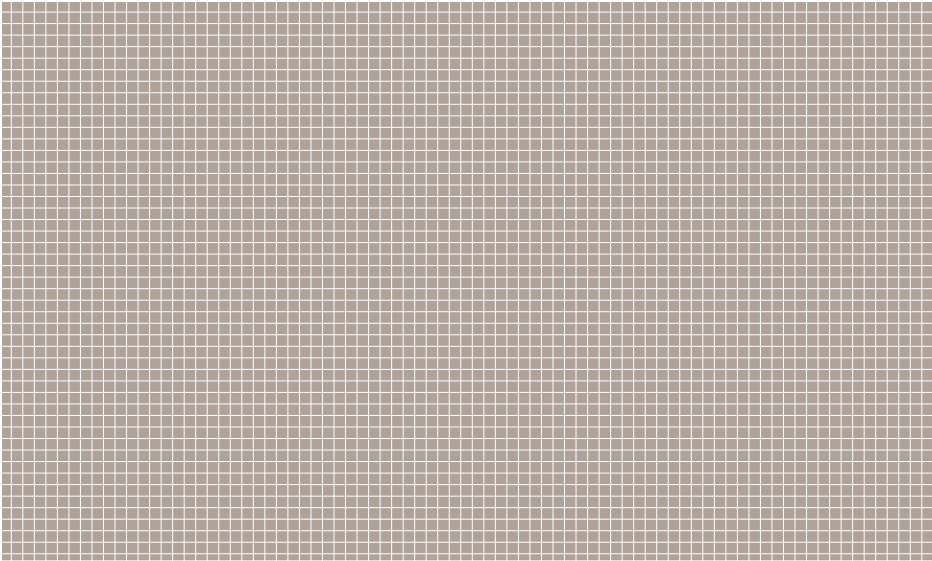
+ Yr 2 income = \_\_\_\_\_

Total = \_\_\_\_\_

Divided by number of months \_\_\_\_\_ = \_\_\_\_\_

\*YTD income required when calculating commission income





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