

Evaluating Self-Employed Borrowers **TAX YEAR 2024**

Overcoming Tough Challenges

MGIC



Legal disclaimer

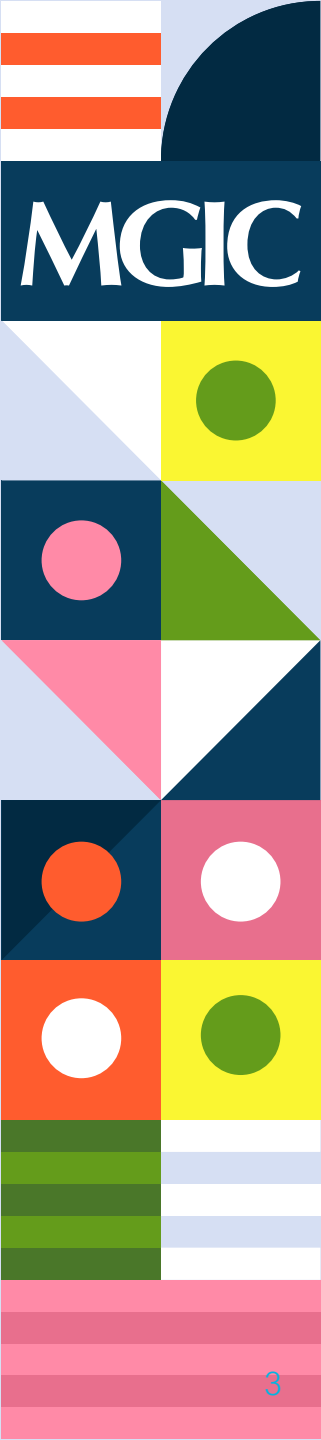
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What we're covering today

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



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

Jean-Baptiste Alphonse Karr

A woman with long dark hair is looking extremely stressed, holding her head in one hand and a stack of papers in the other. She is standing behind a massive, towering stack of papers, folders, and documents that reaches up to the ceiling. The stack is composed of various colored folders (green, yellow, blue, red) and loose papers. Some papers have handwritten labels like "REPORT AN- RZ 156" and "URGENT!". The background shows a typical office environment with fluorescent lights, glass partitions, and other people working in the distance. A semi-transparent pink banner is overlaid across the middle of the image, containing the text "Back in the day".

Back in the day

Purpose of cash flow analysis

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Verify qualifying income that is:

- Stable
- Likely to continue



Subjectivity or “gray areas” in lending

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

What's the intent?

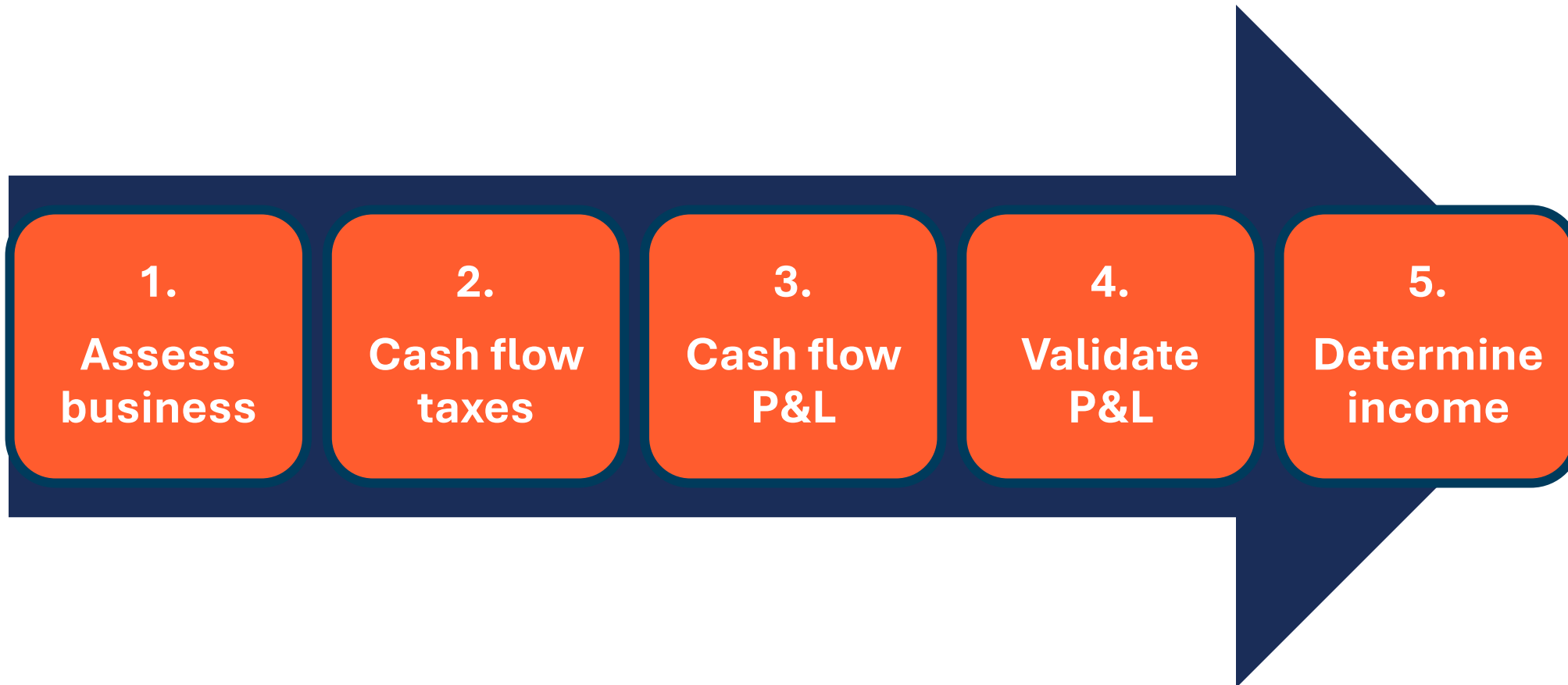
Intent or spirit of guidelines

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

Evaluate the “why”

Were you with us during the pandemic?


5-step process





Meet Jay, our loan officer

Loan Application

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income				<input type="checkbox"/> Does not apply
Employer or Business Name <u>SPEEDY REPAIR SERVICES</u>		Phone (<u>999</u>) <u>999</u> - <u>9999</u>		Gross Monthly Income Base \$ <u> </u> /month Overtime \$ <u> </u> /month Bonus \$ <u> </u> /month Commission \$ <u> </u> /month Military Entitlements \$ <u> </u> /month Other \$ <u> </u> /month TOTAL \$ <u> </u> 0.00 /month
Street <u>123 Main Street</u>		Unit # <u> </u>		
City <u>Anytown</u>		State <u>FL</u>  ZIP <u>88888</u> Country <u> </u>		
Position or Title <u>OWNER</u>		Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.		
Start Date <u>1</u> / <u>15</u> / <u>2021</u> (mm/dd/yyyy)				
How long in this line of work? <u>4</u> Years <u> </u> Months				
<input type="checkbox"/> Check if you are the Business Owner or Self-Employed		<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss) <input checked="" type="radio"/> I have an ownership share of 25% or more. \$ <u>20250</u>		

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


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

Thanks for reaching out. The borrower must have an ownership interest in that particular business for at least 5 years to qualify for documentation relief. 2 years of personal and business returns are needed.

1. Assess business

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





What is the stability of the borrower's income that is derived from the business?

Is the business currently in existence?

Is the impact of any environmental or economic event negligible due to the nature and location of the business?

Is there a demand for the business product or service?

NOL

On Schedule 1

OMB No. 1545-0074

2024

U.S. Individual Income Tax Return

2024

OMB No. 1545-0074

IPS Use Only—Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2024, or other tax year beginning , 2024, ending , 20

See separate instructions.

Your first name and middle initial

Last name

Your social security number

If joint return, spouse's first name and middle initial

Last name

Spouse's social security number

Home address (number and street). If you have a separate address for your return, enter that address.

City, town, or post office. If you have a foreign address, enter it on line 10.

Foreign country name

Filing Status

☐ Single

☐ Married filing jointly

☐ Married filing separately

If you checked the MFJ box, enter the name of the qualifying person in a dependent's name box.

☐ If treating a nonresident alien as your spouse, enter his or her name (see instructions).

Digital Assets

At any time during 2024, did you have a digital asset that was sold, exchanged, or otherwise disposed of?

☐ Yes ☐ No

Standard Deduction

Someone can claim:

☐ Spouse itemizes on his or her return

Age/Blindness

You: ☐ Were born before 1954 ☐ Were born after 1953

Dependents

(see instructions):

(1) First name Last name

If more than four dependents, see instructions and check here ☐

Income

1a Total amount from Form(s) 1099-INT, 1099-DIV, 1099-B, 1099-RA, 1099-RR, 1099-RO, 1099-T, 1099-TF, 1099-TR, 1099-VA, 1099-VC, 1099-VE, 1099-VF, 1099-VG, 1099-VH, 1099-VI, 1099-VJ, 1099-VK, 1099-VL, 1099-VM, 1099-VN, 1099-VO, 1099-VP, 1099-VQ, 1099-VR, 1099-VS, 1099-VT, 1099-VU, 1099-VV, 1099-VW, 1099-VX, 1099-VY, 1099-VZ, 1099-XX, 1099-YY, 1099-ZZ, 1099-AA, 1099-AB, 1099-AC, 1099-AD, 1099-AE, 1099-AF, 1099-AG, 1099-AH, 1099-AI, 1099-AJ, 1099-AK, 1099-AL, 1099-AM, 1099-AN, 1099-AO, 1099-AP, 1099-AQ, 1099-AR, 1099-AS, 1099-AT, 1099-AU, 1099-AV, 1099-AW, 1099-AX, 1099-AY, 1099-AZ, 1099-BA, 1099-BB, 1099-BC, 1099-BD, 1099-BE, 1099-BF, 1099-BG, 1099-BH, 1099-BI, 1099-BJ, 1099-BK, 1099-BL, 1099-BM, 1099-BN, 1099-BO, 1099-BP, 1099-BQ, 1099-BR, 1099-BS, 1099-BT, 1099-BU, 1099-BV, 1099-BW, 1099-BX, 1099-BY, 1099-BZ, 1099-CA, 1099-CB, 1099-CC, 1099-CD, 1099-CE, 1099-CF, 1099-CG, 1099-CH, 1099-CI, 1099-CJ, 1099-CK, 1099-CL, 1099-CM, 1099-CN, 1099-CO, 1099-CP, 1099-CQ, 1099-CR, 1099-CS, 1099-CT, 1099-CU, 1099-CV, 1099-CW, 1099-CX, 1099-CY, 1099-CZ, 1099-DA, 1099-DB, 1099-DC, 1099-DD, 1099-DE, 1099-DF, 1099-DG, 1099-DH, 1099-DI, 1099-DJ, 1099-DK, 1099-DL, 1099-DM, 1099-DN, 1099-DO, 1099-DP, 1099-DQ, 1099-DR, 1099-DS, 1099-DT, 1099-DU, 1099-DV, 1099-DW, 1099-DX, 1099-DY, 1099-DZ, 1099-EA, 1099-EB, 1099-EC, 1099-ED, 1099-EE, 1099-EF, 1099-EG, 1099-EH, 1099-EI, 1099-EJ, 1099-EK, 1099-EL, 1099-EM, 1099-EN, 1099-EO, 1099-EP, 1099-EQ, 1099-ER, 1099-ES, 1099-ET, 1099-EU, 1099-EV, 1099-EW, 1099-EX, 1099-EY, 1099-EZ, 1099-FA, 1099-FB, 1099-FC, 1099-FD, 1099-FE, 1099-FF, 1099-FG, 1099-FH, 1099-FI, 1099-FJ, 1099-FK, 1099-FL, 1099-FM, 1099-FN, 1099-FO, 1099-FP, 1099-FQ, 1099-FR, 1099-FS, 1099-FT, 1099-FU, 1099-FV, 1099-FW, 1099-FX, 1099-FY, 1099-FZ, 1099-GA, 1099-GB, 1099-GC, 1099-GD, 1099-GE, 1099-GF, 1099-GG, 1099-GH, 1099-GI, 1099-GJ, 1099-GK, 1099-GL, 1099-GM, 1099-GN, 1099-GO, 1099-GP, 1099-GQ, 1099-GR, 1099-GS, 1099-GT, 1099-GU, 1099-GV, 1099-GW, 1099-GX, 1099-GY, 1099-GZ, 1099-HA, 1099-HB, 1099-HC, 1099-HD, 1099-HE, 1099-HF, 1099-HG, 1099-HI, 1099-HJ, 1099-HK, 1099-HL, 1099-HM, 1099-HN, 1099-HO, 1099-HP, 1099-HQ, 1099-HR, 1099-HS, 1099-HT, 1099-HU, 1099-HV, 1099-HW, 1099-HX, 1099-HY, 1099-HZ, 1099-IA, 1099-IB, 1099-IC, 1099-ID, 1099-IE, 1099-IF, 1099-IG, 1099-IH, 1099-II, 1099-IL, 1099-IM, 1099-IN, 1099-IO, 1099-IP, 1099-IQ, 1099-IR, 1099-IS, 1099-IT, 1099-IU, 1099-IV, 1099-IW, 1099-IX, 1099-IY, 1099-IZ, 1099-JA, 1099-JB, 1099-JC, 1099-JD, 1099-JE, 1099-JF, 1099-JG, 1099-JH, 1099-JI, 1099-JJ, 1099-JK, 1099-JL, 1099-JM, 1099-JN, 1099-JO, 1099-JP, 1099-JQ, 1099-JR, 1099-JS, 1099-JT, 1099-JU, 1099-JV, 1099-JW, 1099-JX, 1099-JY, 1099-JZ, 1099-KA, 1099-KB, 1099-KC, 1099-KD, 1099-KE, 1099-KF, 1099-KG, 1099-KH, 1099-KI, 1099-KJ, 1099-KK, 1099-KL, 1099-KM, 1099-KN, 1099-KO, 1099-KP, 1099-KQ, 1099-KR, 1099-KS, 1099-KT, 1099-KU, 1099-KV, 1099-KW, 1099-KX, 1099-KY, 1099-KZ, 1099-LA, 1099-LB, 1099-LC, 1099-LD, 1099-LE, 1099-LF, 1099-LG, 1099-LH, 1099-LI, 1099-LJ, 1099-LK, 1099-LL, 1099-LM, 1099-LN, 1099-LO, 1099-LP, 1099-LQ, 1099-LR, 1099-LS, 1099-LT, 1099-LU, 1099-LV, 1099-LW, 1099-LX, 1099-LY, 1099-LZ, 1099-MA, 1099-MB, 1099-MC, 1099-MD, 1099-ME, 1099-MF, 1099-MG, 1099-MH, 1099-MI, 1099-MJ, 1099-MK, 1099-ML, 1099-MM, 1099-MN, 1099-MO, 1099-MP, 1099-MQ, 1099-MR, 1099-MS, 1099-MT, 1099-MU, 1099-MV, 1099-MW, 1099-MX, 1099-MY, 1099-MZ, 1099-NA, 1099-NB, 1099-NC, 1099-ND, 1099-NE, 1099-NF, 1099-NG, 1099-NH, 1099-NI, 1099-NJ, 1099-NK, 1099-NL, 1099-NM, 1099-NN, 1099-NO, 1099-NP, 1099-NQ, 1099-NR, 1099-NS, 1099-NT, 1099-NU, 1099-NV, 1099-NW, 1099-NX, 1099-NY, 1099-NZ, 1099-OA, 1099-OB, 1099-OC, 1099-OD, 1099-OE, 1099-OF, 1099-OG, 1099-OH, 1099-OI, 1099-OJ, 1099-OK, 1099-OL, 1099-OM, 1099-ON, 1099-OO, 1099-OP, 1099-OQ, 1099-OR, 1099-OS, 1099-OT, 1099-OU, 1099-OV, 1099-OW, 1099-OX, 1099-OY, 1099-OZ, 1099-PA, 1099-PB, 1099-PC, 1099-PD, 1099-PE, 1099-PF, 1099-PG, 1099-PH, 1099-PI, 1099-PJ, 1099-PK, 1099-PL, 1099-PM, 1099-PN, 1099-PO, 1099-PP, 1099-PQ, 1099-PR, 1099-PS, 1099-PT, 1099-PU, 1099-PV, 1099-PW, 1099-PX, 1099-PY, 1099-PZ, 1099-QA, 1099-QB, 1099-QC, 1099-QD, 1099-QE, 1099-QF, 1099-QG, 1099-QH, 1099-QI, 1099-QJ, 1099-QK, 1099-QL, 1099-QM, 1099-QN, 1099-QO, 1099-QP, 1099-QQ, 1099-QR, 1099-QS, 1099-QT, 1099-QU, 1099-QV, 1099-QW, 1099-QX, 1099-QY, 1099-QZ, 1099-RA, 1099-RB, 1099-RC, 1099-RD, 1099-RE, 1099-RF, 1099-RG, 1099-RH, 1099-RI, 1099-RJ, 1099-RK, 1099-RL, 1099-RM, 1099-RN, 1099-RO, 1099-RP, 1099-RQ, 1099-RR, 1099-RS, 1099-RT, 1099-RU, 1099-RV, 1099-RW, 1099-RX, 1099-RY, 1099-RZ, 1099-SA, 1099-SB, 1099-SC, 1099-SD, 1099-SE, 1099-SF, 1099-SG, 1099-SH, 1099-SI, 1099-SJ, 1099-SK, 1099-SL, 1099-SM, 1099-SN, 1099-SO, 1099-SP, 1099-SQ, 1099-SR, 1099-SS, 1099-ST, 1099-SU, 1099-SV, 1099-SW, 1099-SX, 1099-SY, 1099-SZ, 1099-TA, 1099-TB, 1099-TC, 1099-TD, 1099-TE, 1099-TF, 1099-TG, 1099-TH, 1099-TI, 1099-TJ, 1099-TK, 1099-TL, 1099-TM, 1099-TN, 1099-TO, 1099-TP, 1099-TQ, 1099-TR, 1099-TS, 1099-TT, 1099-TU, 1099-TV, 1099-TW, 1099-TX, 1099-TY, 1099-TZ, 1099-UA, 1099-UB, 1099-UC, 1099-UD, 1099-UE, 1099-UF, 1099-UG, 1099-UH, 1099-UI, 1099-UJ, 1099-UK, 1099-UL, 1099-UM, 1099-UN, 1099-UO, 1099-UP, 1099-UQ, 1099-UR, 1099-US, 1099-UT, 1099-UY, 1099-UZ, 1099-VA, 1099-VB, 1099-VC, 1099-VD, 1099-VE, 1099-VF, 1099-VG, 1099-VH, 1099-VI, 1099-VJ, 1099-VK, 1099-VL, 1099-VM, 1099-VN, 1099-VO, 1099-VP, 1099-VQ, 1099-VR, 1099-VS, 1099-VT, 1099-VU, 1099-VV, 1099-VW, 1099-VX, 1099-VY, 1099-VZ, 1099-WA, 1099-WB, 1099-WC, 1099-WD, 1099-WE, 1099-WF, 1099-WG, 1099-WH, 1099-WI, 1099-WJ, 1099-WK, 1099-WL, 1099-WM, 1099-WN, 1099-WO, 1099-WP, 1099-WQ, 1099-WR, 1099-WS, 1099-WT, 1099-WU, 1099-WV, 1099-WX, 1099-WY, 1099-WZ, 1099-XA, 1099-XB, 1099-XC, 1099-XD, 1099-XE, 1099-XF, 1099-XG, 1099-XH, 1099-XI, 1099-XJ, 1099-XK, 1099-XL, 1099-XM, 1099-XN, 1099-XO, 1099-XP, 1099-XQ, 1099-XR, 1099-XS, 1099-XT, 1099-XU, 1099-XV, 1099-XW, 1099-XX, 1099-XY, 1099-XZ, 1099-YA, 1099-YB, 1099-YC, 1099-YD, 1099-YE, 1099-YF, 1099-YG, 1099-YH, 1099-YI, 1099-YJ, 1099-YK, 1099-YL, 1099-YM, 1099-YN, 1099-YO, 1099-YP, 1099-YQ, 1099-YR, 1099-YS, 1099-YT, 1099-YU, 1099-YV, 1099-YW, 1099-YX, 1099-YY, 1099-YZ, 1099-ZA, 1099-ZB, 1099-ZC, 1099-ZD, 1099-ZE, 1099-ZF, 1099-ZG, 1099-ZH, 1099-ZI, 1099-ZJ, 1099-ZK, 1099-ZL, 1099-ZM, 1099-ZN, 1099-ZO, 1099-ZP, 1099-ZQ, 1099-ZR, 1099-ZS, 1099-ZT, 1099-ZU, 1099-ZV, 1099-ZW, 1099-ZX, 1099-ZY, 1099-ZZ

Attach Sch. B if required.

Standard Deduction for—

• Single or Married filing separately, \$14,600

• Married filing jointly or Qualifying surviving spouse, \$29,200

• Head of household, \$21,900

• If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2024

Attachment Sequence No. 01

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes 1

2a Alimony received 2a

2b Date of original divorce or separation agreement (see instructions): 2b

3 Business income or (loss). Attach Schedule C 3

4 Other gains or (losses). Attach Form 4797 4

5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 5

6 Farm income or (loss). Attach Schedule F 6

7 Unemployment compensation 7

8 Other income:

8a Net operating loss 25,000

8b Gambling 8b

8c Cancellation of debt 8c

8d Foreign earned income exclusion from Form 2555 8d

8e Income from Form 8853 8e

8f Income from Form 8889 8f

8g Alaska Permanent Fund dividends 8g

8h Jury duty pay 8h

8i Prizes and awards 8i

8j Activity not engaged in for profit income 8j

8k Stock options 8k

8l Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property 8l

8m Olympic and Paralympic medals and USOC prize money (see instructions) 8m

8n Section 951(a) inclusion (see instructions) 8n

8o Section 951A(a) inclusion (see instructions) 8o

8p Section 461(f) excess business loss adjustment 8p

8q Taxable distributions from an ABLE account (see instructions) 8q

8r Scholarship and fellowship grants not reported on Form W-2 8r

8s Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d 8s

8t Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan 8t

8u Wages earned while incarcerated 8u

8v Digital assets received as ordinary income not reported elsewhere. See instructions 8v

8z Other income. List type and amount: 8z

9 Total other income. Add lines 8a through 8z 9

10 Combine lines 1 through 7 and 9. This is your additional income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 10

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2024

17

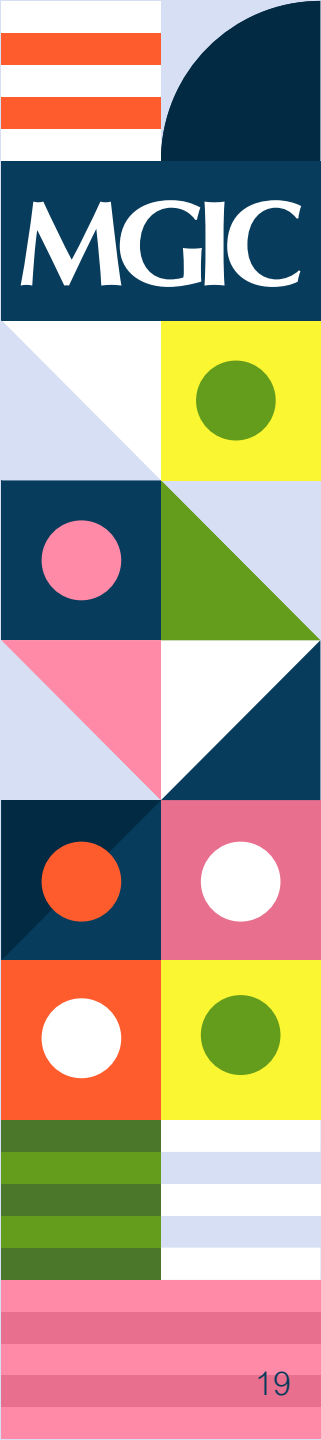


Net operating losses ... Now what?

Net operating loss (NOL)

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

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



MGIC SEB class notes

When can you add back in NOLs?

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

NOL

On Schedule C

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.		2023 Attachment Sequence No. 09	
Go to www.irs.gov/ScheduleC for instructions and the latest information.					
Name of proprietor		Social security number (SSN)			
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions			
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)			
E Business address (including suite or room no.) City, town or post office, state, and ZIP code					
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____					
G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No					
H If you started or acquired this business during 2023, check here <input type="checkbox"/> Yes <input type="checkbox"/> No					
I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No					
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No					
Part I Income					
1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>		1		60,000	
2 Returns and allowances		2			
3 Subtract line 2 from line 1		3			
4 Cost of goods sold (from line 42)		4			
5 Gross profit. Subtract line 4 from line 3		5			
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6			
7 Gross income. Add lines 5 and 6		7		60,000	
Part II Expenses. Enter expenses for business use of your home only on line 30.					
8 Advertising		8			
9 Car and truck expenses (see instructions)		9			
10 Commissions and fees		10			
11 Contract labor (see instructions)		11			
12 Depreciation		12			
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)		13		14,000	
14 Employee benefit programs (other than on line 19)		14			
15 Insurance (other than health)		15			
16 Interest (see instructions):					
a Mortgage (paid to banks, etc.)		16a			
b Other		16b			
17 Legal and professional services		17			
18 Office expense (see instructions)		18			
19 Pension and profit-sharing plans		19			
20 Rent or lease (see instructions):					
a Vehicles, machinery, and equipment		20a			
b Other business property		20b			
21 Repairs and maintenance		21			
22 Supplies (not included in Part III)		22			
23 Taxes and licenses		23			
24 Travel and meals:					
a Travel		24a		1,000	
b Deductible meals (see instructions)		24b			
25 Utilities		25			
26 Wages (less employment credits)		26			
27a Other expenses (from line 48)		27a			
b Energy efficient commercial bldgs deduction (attach Form 7205)		27b		25,000	
28 Total expenses before expenses for business use of home. Add lines 8 through 27b		28			
29 Tentative profit or (loss). Subtract line 28 from line 7		29			
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30		30			
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.		31		40,000	
32 If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.					
32a <input type="checkbox"/> All investment is at risk.		32a			
32b <input type="checkbox"/> Some investment is not at risk.		32b			
For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2023					

Schedule C (Form 1040) 2023		Page 2
Part III Cost of Goods Sold (see instructions)		
33 Method(s) used to value closing inventory: a <input type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)		
34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input type="checkbox"/> No		
35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36 Purchases less cost of items withdrawn for personal use	36	
37 Cost of labor. Do not include any amounts paid to yourself	37	
38 Materials and supplies	38	
39 Other costs	39	
40 Add lines 35 through 39	40	
41 Inventory at end of year	41	
42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	
Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.		
43 When did you place your vehicle in service for business purposes? (month/day/year) ____/____/____		
44 Of the total number of miles you drove your vehicle during 2023, enter the number of miles you used your vehicle for: a Business _____ b Commuting (see instructions) _____ c Other _____		
45 Was your vehicle available for personal use during off-duty hours? <input type="checkbox"/> Yes <input type="checkbox"/> No		
46 Do you (or your spouse) have another vehicle available for personal use? <input type="checkbox"/> Yes <input type="checkbox"/> No		
47a Do you have evidence to support your deduction? <input type="checkbox"/> Yes <input type="checkbox"/> No b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No		
Part V Other Expenses. List below business expenses not included on lines 8–26, line 27b, or line 30.		
Net Operating Loss (2020)		-25,000
48 Total other expenses. Enter here and on line 27a		48
Schedule C (Form 1040) 2023		

NOL

On Form 1120

mortgage guaranty
insurance corporation

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return
For calendar year 2024 or tax year beginning , 2024, ending , 20
Go to www.irs.gov/Form1120 for instructions and the latest information.

OMB No. 1545-0123
2024

A Check if:

1a Consolidated return (attach Form 851)

☐

b Life/nonlife consolidated return (attach Sch. PH)

☐

2 Personal holding co. (attach Sch. PH)

☐

3 Personal service corp. (see instructions)

☐

4 Schedule M-3 attached

☐

TYPE OR PRINT

Name

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state or province, country, and ZIP or foreign postal code

B Employer identification number

C Date incorporated

D Total assets (see instructions)
\$

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

Income

1a Gross receipts or sales

1a

b Returns and allowances

1b

c Balance. Subtract line 1b from line 1a

1c

2 Cost of goods sold (attach Form 1125-A)

2

3 Gross profit. Subtract line 2 from line 1c

3

4 Dividends and inclusions (Schedule C, line 23)

4

5 Interest

5

6 Gross rents

6

7 Gross royalties

7

8 Capital gain net income (attach Schedule D (Form 1120))

8

9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)

9

10 Other income (see instructions—attach statement)

10

11 **Total income.** Add lines 3 through 10

11

Deductions (See instructions for limitations on deductions.)

12 Compensation of officers (see instructions—attach Form 1125-E)

12

13 Salaries and wages (less employment credits)

13

14 Repairs and maintenance

14

15 Bad debts

15

16 Rents

16

17 Taxes and licenses

17

18 Interest (see instructions)

18

19 Charitable contributions

19

20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)

20

21 Depletion

21

22 Advertising

22

23 Pension, profit-sharing, etc., plans

23

24 Employee benefit programs

24

25 Energy efficient commercial buildings deduction (attach Form 7205)

25

26 Other deductions (attach statement)

26

27 **Total deductions.** Add lines 12 through 26

27

28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.

28

29a Net operating loss deduction (see instructions)

29a -25,000

b Special deductions (Schedule C, line 24)

29b

c Add lines 29a and 29b

29c

Tax, Refundable Credits, and Payments

30 **Taxable income.** Subtract line 29c from line 28. See instructions

30

31 Total tax (Schedule J, line 12)

31

32 Reserved for future use

32

33 Total payments and credits (Schedule J, line 23)

33

34 Estimated tax penalty. See instructions. Check if Form 2220 is attached ☐

34

35 **Amount owed.** If line 33 is smaller than the total of lines 31 and 34, enter amount owed

35

36 **Overpayment.** If line 33 is larger than the total of lines 31 and 34, enter amount overpaid

36

37 Enter amount from line 36 you want: **Credited to 2025 estimated tax** **Refunded**

37

Sign Here

Signature of officer

Date

Title

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if PTIN

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.

May the IRS discuss this return with the preparer shown below? See instructions. ☐ Yes ☐ No

22

NOL

On Schedule 1

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **2024** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year ending on:
Your
If joint
Home
City,
Foreign
Filing
Check one box:
Digital Assets
Standard Deduction
If more than one dependent, see instructions here
Income
Attach W-2, 1099, etc.
If you get a W-2, see instructions
Attach if required
Standard Deduction:
• Single, Married separately: \$14,600
• Married jointly, Qualifying surviving spouse: \$29,200
• Head of household: \$21,900
• If you have any dependents, see instructions

SCHEDULE 1
(Form 1040)
Department of the Treasury
Internal Revenue Service

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

OMB No. 1545-0074
2024
Attachment Sequence No. **01**

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

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss _____

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

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

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2024

It is not associated
with the business.

It does not affect
cash flow.

What is our primary concern with NOLs?

Will it happen again?

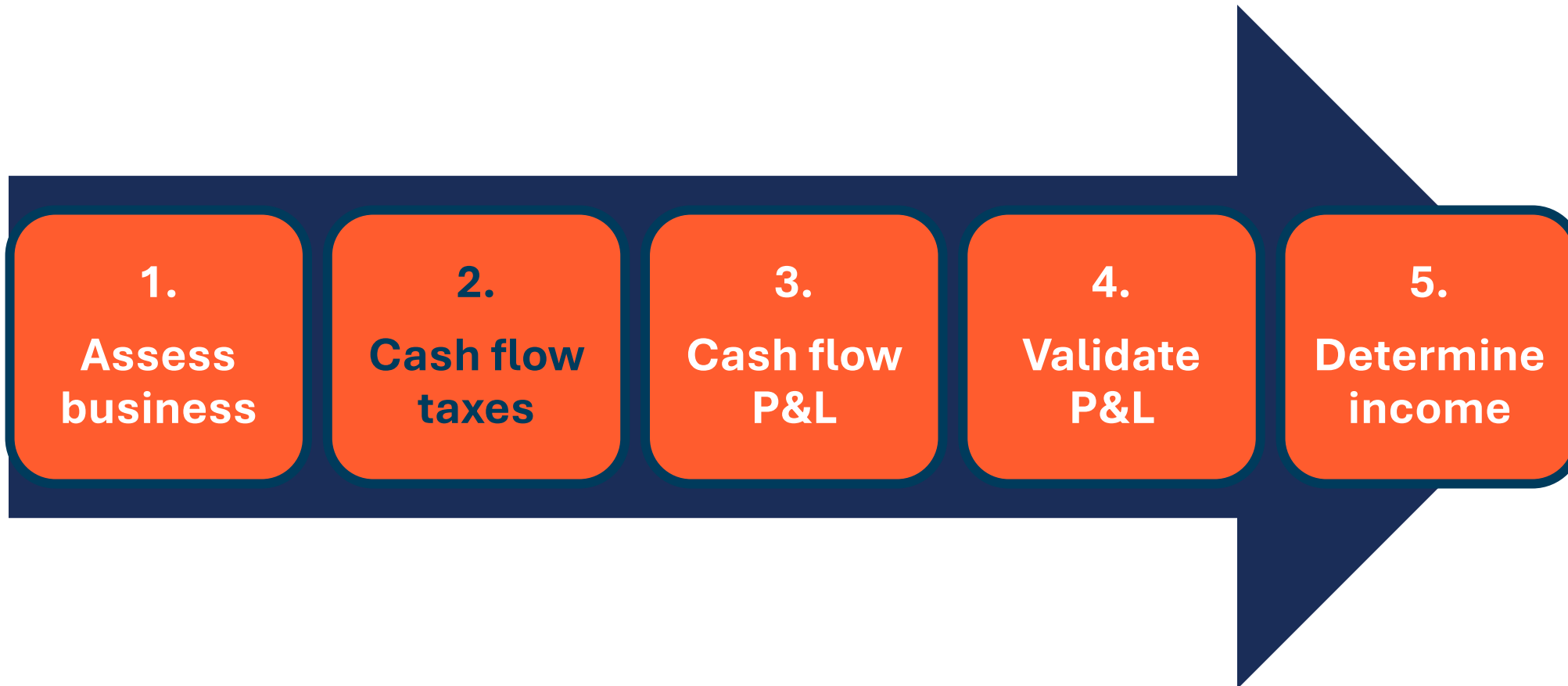
Prior business

- Not as concerning
- Still need LOE

Current business

- When?
- Why?
- How much?

5-step process



All-in-one self-employed income calculator

Excel XLSM – macro-enabled

Excel XLSX – macro-free

Excel XLSX – macro-free short

The image displays a stack of overlapping Excel worksheets from the SAM (Self-Employed Income Calculator) software. The worksheets are titled as follows:

- SAM Worksheet - Help Document**: Contains introductory text and instructions.
- Profit and Loss Statement Analysis**: Includes a "User Tips" section and a table for "Cost of Goods Sold (CGS)".
- Comparative Income Analysis Worksheet**: Features a table for "Cost of Goods Sold (CGS)" and a section for "Expenses".
- Liquidity Worksheet**: Contains a "Determine business liquidity" section and a table for "Expenses".
- Cash Flow Analysis Summary**: Includes a "Determine business liquidity" section and a table for "Expenses".
- SAM Cash Flow Analysis Worksheet**: The main worksheet, featuring a "User Tips" section, a "Reset Workbook" button, and a detailed "Partnership Cash Flow" section with a table for "Partnership Cash Flow".

The worksheets are designed to help users calculate and analyze their self-employed income, providing a comprehensive overview of their financial situation.

Noncash expenses

- Depreciation
- Depletion
- Amortization
- Business use of home

Limited IRS deductions

- Meals
- Travel & entertainment

Nonrecurring

- Other income
- One-time expenses

SAM Cash Flow Analysis Worksheet

S Corporation Cash Flow

Evaluate business income as required by your investor.

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

Final K-1

MGIC



Schedule K-1 (Form 1120-S) Department of the Treasury Internal Revenue Service		2024	Final K-1 <input checked="" type="checkbox"/> Amended K-1 <input type="checkbox"/>		671124 OMB No. 1545-0123
Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.			Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items		
Part I Information About the Corporation					
A Corporation's employer identification number 12-3456789			1 Ordinary business income (loss) 132,500		
B Corporation's name, address, city, state, and ZIP code SPEEDY AUTO REPAIR			2 Net rental real estate income (loss)		
C IRS Center where corporation filed return			3 Other net rental income (loss)		
D Corporation's total number of shares Beginning of tax year End of tax year			4 Interest income		
			5a Ordinary dividends		
			5b Qualified dividends		
			6 Royalties		
			7 Net short-term capital gain (loss)		
			8a Net long-term capital gain (loss)		
			8b Collectibles (28%) gain (loss)		
			8c Unrecaptured section 1250 gain		
Part II Information About the Shareholder					
E Shareholder's identifying number			9 Net section 1231 gain (loss)		
F1 Shareholder's name, address, city, state, and ZIP code REFERRAL BORROWER			10 Other income (loss)		
F2 If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting: TIN _____ Name _____			11 Section 179 deduction		
F3 What type of entity is this shareholder? _____			12 Other deductions		
G Current year allocation percentage 50 %					
H Shareholder's number of shares Beginning of tax year End of tax year					
I Loans from shareholder					
			13 Credits		
			14 Schedule K-3 is attached if checked <input type="checkbox"/>		
			15 Alternative minimum tax (AMT) items		
			16 Items affecting shareholder basis		
			17 Other information		

**mortgage guaranty
insurance corporation**

* See attached statement for additional information.

MGIC SEB class notes

When can K-1 income be used?

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

**mortgage guaranty
insurance corporation**

31



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

Freddie Mac – Guidance

Selling Guide –
Published 03/05/2025

5304.1(d): Stable monthly income and documentation requirements for self-employed Borrowers – Business and income analysis (11/08/2024)



Guide Home

Seller/Service Relationship


Selling

Servicing

THE SINGLE-FAMILY SELLER/SERVICER GUIDE

Search the Guide

What can we help you find?



(d) Business review and analysis

The following table contains requirements and guidance pertaining to review and analysis of the business that produces the stable monthly income for the Borrower.

Business review and analysis	
Topic	Requirements and guidance
Business review and analysis	<p>The Seller's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.</p> <ul style="list-style-type: none">• The analysis must include a review of the business tax returns• The Seller's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business

- The Seller may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

Schedule L Liquidity test

Liquidity Worksheet

Schedule L - Assets

Input the Year(s): ➔

- 1Cash: [Line 1, Column d](#)
- 2Trade notes and accounts receivable, less bad debt: [Line 2b, Column d](#)
- 3Inventories: [Line 3, Column d](#)
- 4Other:
- 5Total Current Assets:

Schedule L - Liabilities

- 6Accounts Payable: [Form 1120S Line 16/Form 1065 Line 15, Column d](#)
- 7Mortgages, notes, bonds payable < 1 year: [Form 1120S Line 17/Form 1065 Line 16, Column d](#)
- 8Other current liabilities: [Form 1120S Line 18/Form 1065 Line 17, Column d](#)
- 9Total Current Liabilities:

Form 1120-S (2024)Page 4

Schedule KShareholders' Pro Rata Share Items (continued)

Other Information

17aInvestment income

17bInvestment expenses

17cDividend distributions paid from accumulated earnings and profits

17dOther items and amounts (attach statement)

Reconciliation

18Income (loss) reconciliation. Combine the total amounts on lines 1 through 10. From the result, subtract the sum of the amounts on lines 11 through 12e and 16f

Total amount

Schedule LBalance Sheets per Books

Assets

1Cash

2aTrade notes and accounts receivable

2bLess allowance for bad debts

3Inventories

4U.S. government obligations

5Tax-exempt securities (see instructions)

6Other current assets (attach statement)

7Loans to shareholders

8Mortgage and real estate loans

9Other investments (attach statement)

10aBuildings and other depreciable assets

10bLess accumulated depreciation

11aDepletable assets

11bLess accumulated depletion

12Land (net of any amortization)

13aIntangible assets (amortizable only)

13bLess accumulated amortization

14Other assets (attach statement)

15Total assets

Liabilities and Shareholders' Equity

16Accounts payable

17Mortgages, notes, bonds payable in less than 1 year

18Other current liabilities (attach statement)

19Loans from shareholders

20Mortgages, notes, bonds payable in 1 year or more

21Other liabilities (attach statement)

22Capital stock

23Additional paid-in capital

24Retained earnings

25Adjustments to shareholders' equity (attach statement)

26Less cost of treasury stock

27Total liabilities and shareholders' equity

Beginning of tax year

(a)

(b)

(c)

(d)

End of tax year

10,000

Form 1120-S (2024)

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

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

Hi Jay. I would check for a schedule to see if the other assets are identified. At that point, you can assess if they fit the criteria of assets that can easily be liquidated.

MGIC Liquidity Worksheet

Liquidity Worksheet			
NOTE: If there are no business liabilities, results will reflect N/A, indicating adequate liquidity.			
X	Business:	J & J Property Solutions	Completed by: Lender
Schedule L - Assets		Input the Year(s):	2024
1	Cash: Line 1, Column d	\$	12,100.00
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d	\$	28,820.00
3	Inventories: Line 3, Column d	\$	12,000.00
4	Other:		
5	Total Current Assets:	\$	52,920.00
Schedule L - Liabilities		2024	
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d	\$	25,200.00
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d	\$	20,400.00
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d	\$	3,000.00
9	Total Current Liabilities:	\$	48,600.00
Current Ratio		2024	
	Total Current Assets: Row 5 - Assets above	\$	52,920.00
	Total Current Liabilities: Row 9 - Liabilities above	\$	48,600.00
	Current Ratio: In general, a ratio ≥ 1 demonstrates adequate liquidity		1.09
Quick Ratio		2024	
	Cash, notes, accounts receivable (less bad debt) & other: Rows 1, 2 & 4 - Assets above	\$	40,920.00
	Total Current Liabilities: Row 9 - Liabilities above	\$	48,600.00
	Quick Ratio: In general, a ratio ≥ 1 demonstrates adequate liquidity		0.84

Current ratio or quick ratio?

Liquidity Worksheet

MGIC

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

In general:

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

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

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

X

Business:

J & J Property Solutions

Completed by:

Lender

Date:

Form 1120-S

Other income on Line 5

Form 1120-S		U.S. Income Tax Return for an S Corporation		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.		2024
For calendar year 2024 or tax year beginning , 2024, ending , 20				
A Selection effective date	Name	D Employer identification number		
B Business activity code number (see instructions)	TYPE OR PRINT	E Date incorporated		
C Check if Sch. M-3 attached <input type="checkbox"/>	Number, street, and room or suite no. If a P.O. box, see instructions.	F Total assets (see instructions)		
	City or town, state or province, country, and ZIP or foreign postal code			
G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No				
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination				
I Enter the number of shareholders who were shareholders during any part of the tax year				
J Check if corporation: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes				
Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.				
Income	1a Gross receipts or sales	b Less returns and allowances	c Balance	1c
	2 Cost of goods sold (attach Form 1125-A)			2
	3 Gross profit. Subtract line 2 from line 1c			3
	4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			4
	5 Other income (loss). (see instructions—attach statement)			5 20.000
6 Total income (loss). Add lines 3 through 5				6
Deductions (see instructions for limitations)	7 Compensation of officers (see instructions—attach Form 1125-E)			7
	8 Salaries and wages (less employment credits)			8
	9 Repairs and maintenance			9
	10 Bad debts			10
	11 Rents			11
	12 Taxes and licenses			12
	13 Interest (see instructions)			13
	14 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			14
	15 Depletion (do not deduct oil and gas depletion)			15
	16 Advertising			16
	17 Pension, profit-sharing, etc., plans			17
	18 Employee benefit programs			18
	19 Energy efficient commercial buildings deduction (attach Form 7205)			19
	20 Other deductions (attach statement)			20
21 Total deductions. Add lines 7 through 20				21
22 Ordinary business income (loss). Subtract line 21 from line 6				22
Tax and Payments	23a Excess net passive income or LIFO recapture tax (see instructions)	23a		23a
	b Tax from Schedule D (Form 1120-S)	23b		23b
	c Add lines 23a and 23b (see instructions for additional taxes)			23c
	24a Current year's estimated tax payments and preceding year's overpayment credited to the current year	24a		24a
	b Tax deposited with Form 7004	24b		24b
	c Credit for federal tax paid on fuels (attach Form 4136)	24c		24c
	d Elective payment election amount from Form 3800	24d		24d
	z Add lines 24a through 24d			24z
	25 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>			25
	26 Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed			26
	27 Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid			27
	28 Enter amount from line 27: Credited to 2025 estimated tax Refunded			28
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer	Date	Title	May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No
Paid Preparer Use Only	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.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form **1120-S** (2024)

MGIC SEB class notes

What is needed to retain other income?

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

Form 1120-S

Other income on Line 5

Form **1120-S**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
Go to www.irs.gov/Form1120S for instructions and the latest information.

OMB No. 1545-0123

2024

For calendar year 2024 or tax year beginning , 2024, ending , 20

A S election effective date

B Business activity code number (see instructions)

C Check if Sch. M-3 attached ☐

TYPE OR PRINT

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

D Employer identification number

E Date incorporated

F Total assets (see instructions)

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

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

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

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

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

	1a	Gross receipts or sales	b	Less returns and allowances	c	Balance	1c
Income	2	Cost of goods sold (attach Form 1125-A)					2
	3	Gross profit. Subtract line 2 from line 1c					3
	4	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)					4
	5	Other income (loss) (see instructions—attach statement)					5
	6	Total income (loss). Add lines 3 through 5					6
	7	Corporation of officers (see instructions—attach Form 1125-E)					7

20,000

Form 1120S, Page 1 Detail

Line 5 – Other Income

Ordinary income from partnership – Premier Auto Detailing	20,000
Total	20,000

Paid Preparer Use Only

Print/Type preparer's name

Firm's name

Firm's address

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's EIN

Phone no.

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11510H

Form **1120-S** (2024)

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

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

Look for the Schedule K-1s for company B and verify that the ordinary income is supported by the distributions. If the percentage of ownership interest is greater than 25%, then, depending on the investor, you might need business returns for company B.

Schedule K-1 for company B

651123
OMB No. 1545-0123

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

2024

For calendar year 2024, or tax year
beginning / / 2024 ending / /

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

Part I Information About the Partnership

A Partnership's employer identification number

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

C IRS center where partnership filed return:

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

Part II Information About the Partner

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

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

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

H1 ☐ Domestic partner ☐ Foreign partner

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

I1 What type of entity is this partner?

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

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

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

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

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$ <input type="text"/>	\$ <input type="text"/>
Qualified nonrecourse	<input type="text"/>	<input type="text"/>

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

☐ Final K-1 ☐ Amended K-1

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

Schedule L

Mortgages due in less than 1 year

Form 1120-S (2024) Page **4**

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

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

Form **1120-S** (2024)

MGIC SEB class notes

What are the benefits of determining business liquidity?

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

MGIC Liquidity Worksheet

Liquidity Worksheet			
NOTE: If there are no business liabilities, results will reflect N/A, indicating adequate liquidity.			
X	Business:	J & J Property Solutions	Completed by: Lender
Schedule L - Assets			Input the Year(s): 2024
1	Cash: Line 1, Column d	\$	12,100.00
2	Trade notes and accounts receivable, less bad debt: Line 2b, Column d	\$	28,820.00
3	Inventories: Line 3, Column d	\$	12,000.00
4	Other:		
5	Total Current Assets:	\$	52,920.00
Schedule L - Liabilities			2024
6	Accounts Payable: Form 1120S Line 16/Form 1065 Line 15, Column d	\$	25,200.00
7	Mortgages, notes, bonds payable < 1 year: Form 1120S Line 17/Form 1065 Line 16, Column d	\$	20,400.00
8	Other current liabilities: Form 1120S Line 18/Form 1065 Line 17, Column d	\$	3,000.00
9	Total Current Liabilities:	\$	48,600.00
Current Ratio			2024
	Total Current Assets: Row 5 - Assets above	\$	52,920.00
	Total Current Liabilities: Row 9 - Liabilities above	\$	48,600.00
	Current Ratio: In general, a ratio ≥ 1 demonstrates adequate liquidity		1.09
Quick Ratio			2024
	Cash, notes, accounts receivable (less bad debt) & other: Rows 1, 2 & 4 - Assets above	\$	40,920.00
	Total Current Liabilities: Row 9 - Liabilities above	\$	48,600.00
	Quick Ratio: In general, a ratio ≥ 1 demonstrates adequate liquidity		0.84

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

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

Wow, that loan is really giving you a run for your money . . . Inventory should not be included when looking at assets to support not subtracting a mortgage due in less than a year. Can you ask for more information regarding the note? Perhaps it rolls over each year?

2. Cash flow taxes

SAM Cash Flow Analysis Worksheet

MGIC

X S CORPORATION		Name:	SPEEDY REPAIR SERVICES	2024	2023
SCHEDULE K-1					
37	Ordinary Income (Loss): LINE 1 If > Distributions see additional requirements.			\$ 132,550.00	\$ 142,000.00
38	Net Rental Income (Loss): LINES 2 & 3 If > Distributions see additional requirements.				
SUBTOTAL				\$ 132,550.00	\$ 142,000.00
FORM W-2					
39	Wages: W-2, Box 5 (in general)			\$ 85,750.00	\$ 105,000.00
FORM 1120S					
40	Deduct nonrecurring income/add nonrecurring loss: LINES 4 & 5				
41	Depreciation: LINE 14			\$ 25,750.00	\$ 17,500.00
42	Depreciation (FORM 8825): LINE 14				
43	Depletion: LINE 15				
44	Amortization/Casualty Loss (only if noted): from attached statement				
45	Mortgages or Notes Payable in Less Than 1 Year: Schedule L, LINE 17, Column d			()	()
46	Non-Deductible Travel and Entertainment Exclusion: Schedule M-1, LINE 3b			(\$ 2,500.00)	(\$ 2,200.00)
SUBTOTAL				\$ 23,250.00	\$ 15,300.00
47	Multiplied by Ownership Percentage			50.00%	50.00%
Shareholder's Total Share of Income (Loss)				\$ 11,625.00	\$ 7,650.00
				\$229,925	\$254,650
				/12 = \$19,160	/12 = \$21,221

DECLINING INCOME



Declining income ... Now what?



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

Declining income – What should you request?

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

Yikes! The ratios do not meet the guidelines.

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

32

51

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

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

Hi again, Jay. Just because the YTD P&L is on the CPA letterhead, it does not make it audited. Those are extremely rare and, therefore, you should not include the YTD figures in your income calculation.

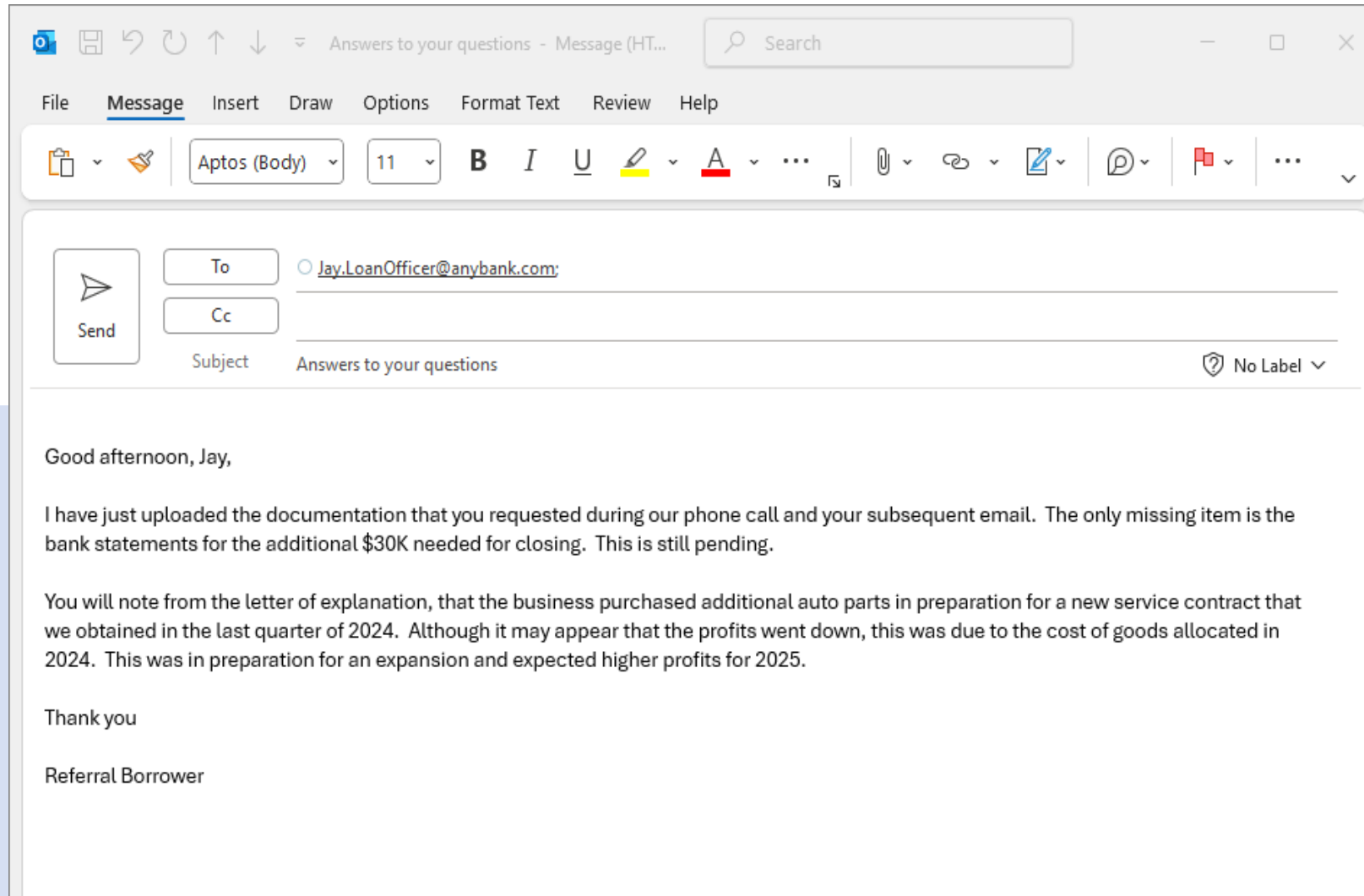


Phone call to borrower

List of items requested from borrower:

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

Email from borrower



The screenshot shows an email client window titled "Answers to your questions - Message (HT...)". The window has a menu bar with "File", "Message", "Insert", "Draw", "Options", "Format Text", "Review", and "Help". Below the menu bar is a toolbar with various icons for text formatting and editing. The email content area shows a message from "Jay.LoanOfficer@anybank.com" with the subject "Answers to your questions". The message body contains the following text:

Good afternoon, Jay,

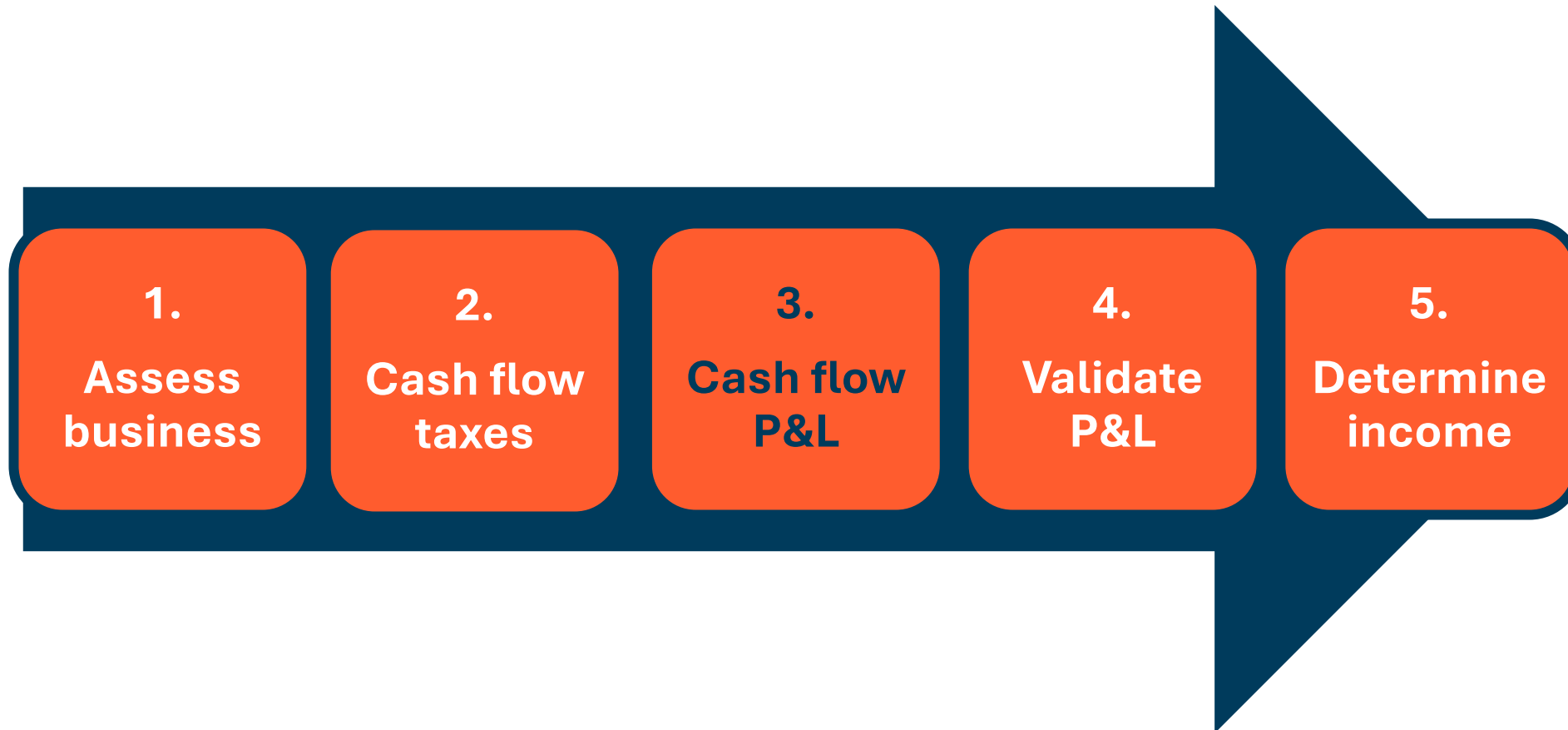
I have just uploaded the documentation that you requested during our phone call and your subsequent email. The only missing item is the bank statements for the additional \$30K needed for closing. This is still pending.

You will note from the letter of explanation, that the business purchased additional auto parts in preparation for a new service contract that we obtained in the last quarter of 2024. Although it may appear that the profits went down, this was due to the cost of goods allocated in 2024. This was in preparation for an expansion and expected higher profits for 2025.

Thank you

Referral Borrower

5-step process



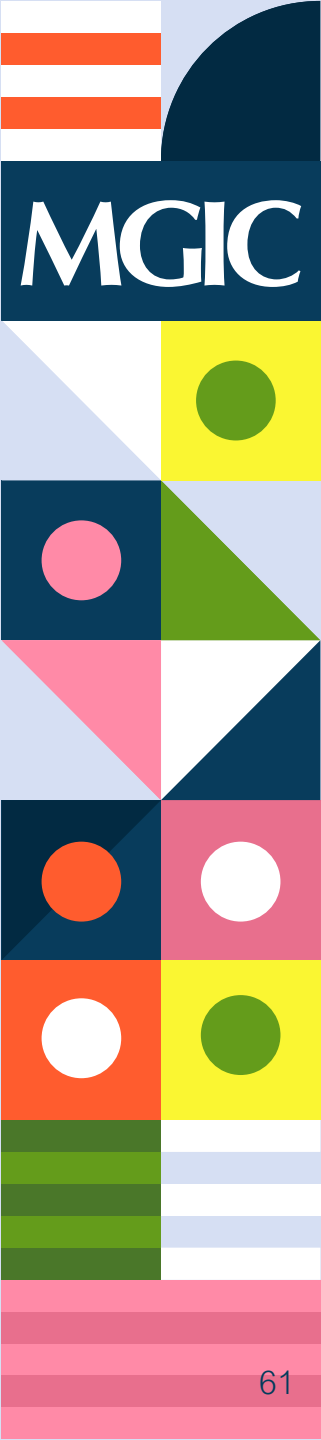
3.

Cash flow
P&L

MGIC's P&L Statement Analysis

Profit and Loss Statement Analysis				MGIC
S Corporation Cash Flow				
Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.				
X	S CORPORATION	Speedy		
Time Frame (i.e., YTD, quarterly):				+
Date From:				-
Date Paid Through:				
Net Income:				
Deduct nonrecurring income:		()	()	()
Add nonrecurring loss:				
Depreciation:				
Depletion:				
Amortization/Casualty Loss:				
Other:				
SUBTOTAL		\$ -	\$ -	\$ -
Multiplied by Ownership Percentage:				
Shareholder's Share of Income (Loss):		\$ -	\$ -	\$ -
Wages:				
Total Income:		\$ -	\$ -	\$ -
Monthly Income:		\$ -	\$ -	\$ -

O	S CORPORATION		
>	SAM	Liquidity	Comparative
	P&L	Help Doc	Microsoft Instructions



Cash flow YTD P&L

Profit and Loss Statement Analysis

X	S CORPORATION	SPEEDY REPAIR SERVICES	
Time Frame (i.e., YTD, quarterly):		YTD	
Date From:		1/1/2025	
Date Paid Through:		4/15/2025	
Net Income:		\$ 67,250.00	
Deduct nonrecurring income:	()
Add nonrecurring loss:			
Depreciation:		\$ 8,750.00	
Depletion:			
Amortization/Casualty Loss:			
Other: Meals		\$ (535.00)	
SUBTOTAL		\$ 75,465.00	\$
Multiplied by Ownership Percentage:		50%	
Shareholder's Share of Income (Loss):		\$ 37,732.50	\$
Wages:		\$ 40,000.00	
Total Income:		\$ 77,732.50	\$
Monthly Income:		\$ 22,209.29	\$

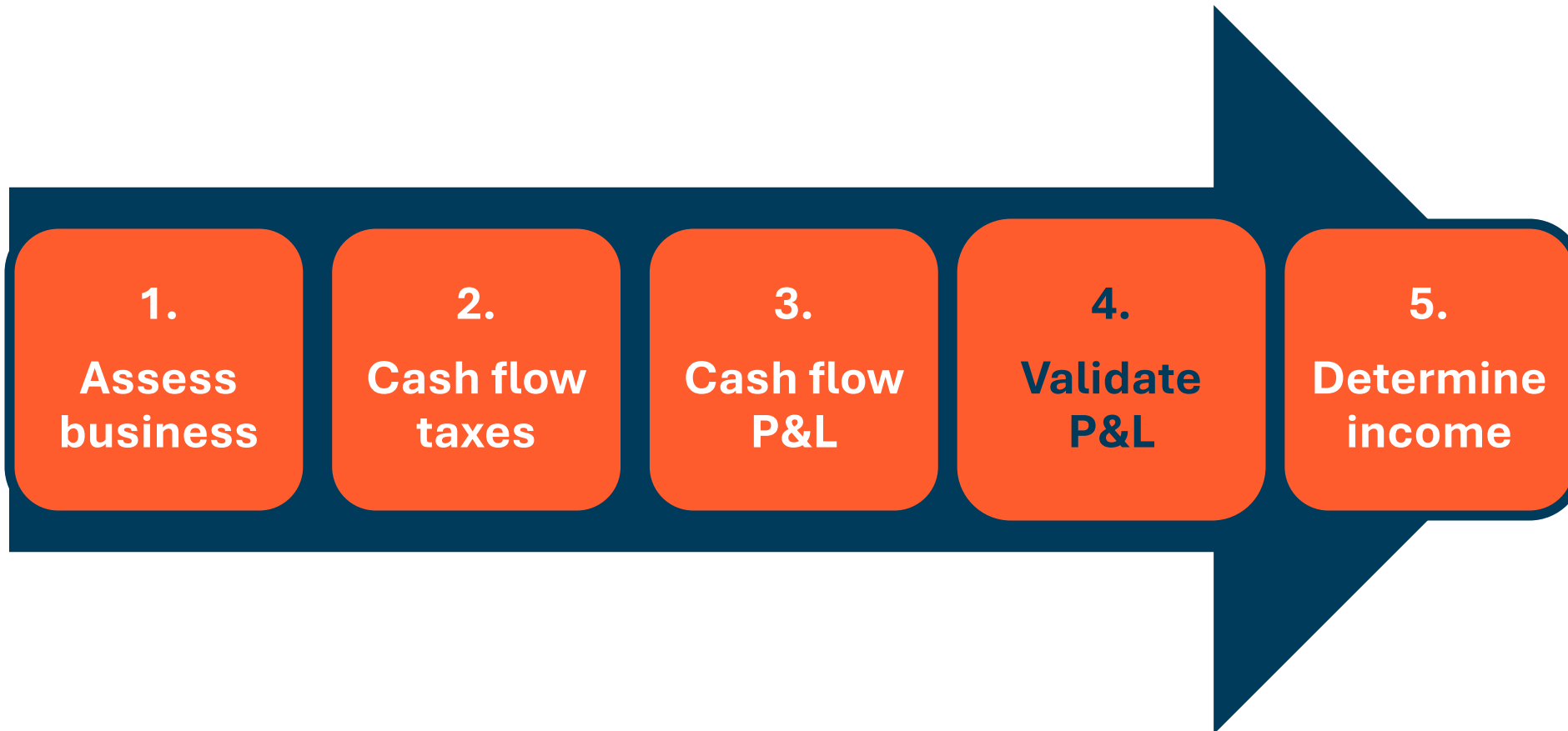
Comparison of YTD and prior years

Profit and Loss Statement Analysis			
X	S CORPORATION	SPEEDY REPAIR SERVICES	
Time Frame (i.e., YTD, quarterly):	YTD		
Date From:	1/1/2025		
Date Paid Through:	4/15/2025		
Net Income:	\$ 67,250.00		
Deduct nonrecurring income:	()	()	
Add nonrecurring loss:			
Depreciation:	\$ 8,750.00		
Depletion:			
Amortization/Casualty Loss:			
Other: Meals	\$ (535.00)		
SUBTOTAL	\$ 75,465.00	\$	
Multiplied by Ownership Percentage:	50%		
Shareholder's Share of Income (Loss):	\$ 37,732.50	\$	
Wages:	\$ 40,000.00		
Total Income:	\$ 77,732.50	\$	
Monthly Income:	\$ 22,209.29	\$	

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

INCOME HAS STABILIZED

5-step process



4. Validate P&L

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

Comparative Income Analysis

Does this support the LOE provided by the borrower?

Comparative Income Analysis Worksheet MGIC

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

User tips for macro-free version:

- Select tax year(s) from business return and enter applicable line items
- Enter date of the YTD P&L; worksheet will automatically annualize
- YOY% Change automatically populates, eliminating need for manual calculations
- See 1 2 boxes on upper left corner. Use 1 to collapse sections and 2 to expand hidden sections

Use of this information is discretionary. FOLLOW INVESTOR GUIDELINES.

Business Name: **SPEEDY REPAIR SERVICES** Date: Annualization Date: **4/15/2025**

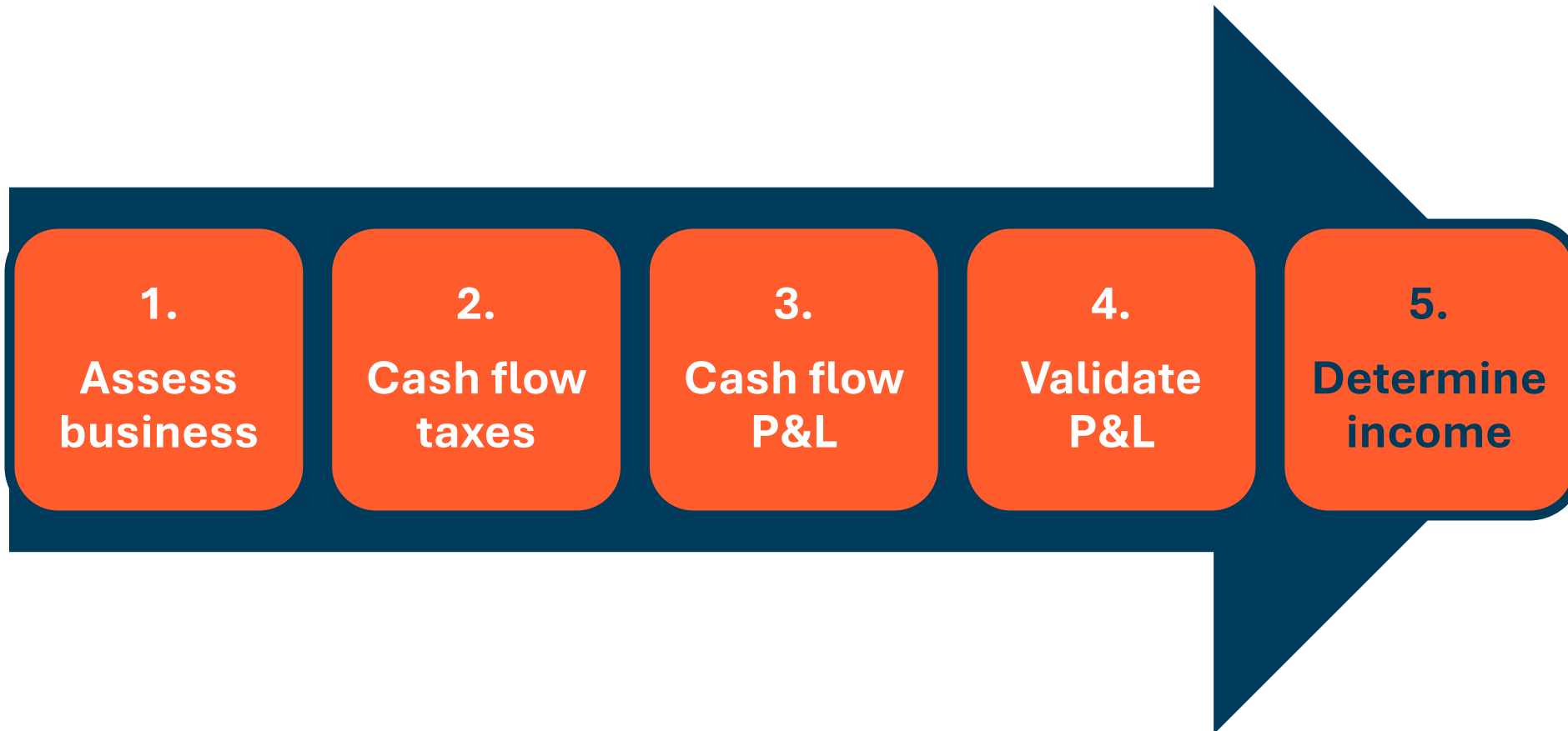
Completed by:

Select the Year(s): 2023 2024 2025

Gross Receipts/Sales	\$	425,000		\$	475,000		\$	491,143
% Change			+12%			+3%		
Gross Income	\$	425,000		\$	475,000		\$	491,143
(Gross Receipts/Sales - Returns & Allowances)								
% Change			+12%			+3%		
Cost of Goods Sold (C	\$	75,000		\$	127,500		\$	71,143
% Change			+70%			-44%		
Expenses	\$	200,000	+47% *	\$	257,500	+54% *	\$	217,286
(CGS + Total deductions/Total expenses)								
% Change			+29%			-16%		
Gross Profits	\$	350,000		\$	347,500		\$	420,000
(Gross Receipts/Sales - Returns & Allowances - CGS)								
% Change			-1%			+21%		
Taxable Income	\$	225,000	+53% **	\$	192,500	+41% **	\$	273,857
% Change			-14%			+42%		

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

5-step process





What income should I use?

5.

Determine income

Cash Flow Analysis Summary				2024		2023		MGIC	
<input type="checkbox"/>	Schedule K-1 SPEEDY REPAIR SERVICES	\$	132,550.00	12	<input checked="" type="checkbox"/>	\$	142,000.00		\$ 11,045.83 12
<input type="checkbox"/>	W-2 Wages SPEEDY REPAIR SERVICES	\$	85,750.00	12	<input checked="" type="checkbox"/>	\$	105,000.00		\$ 7,145.83 12
<input type="checkbox"/>	Form 1120S SPEEDY REPAIR SERVICES	\$	11,625.00	12	<input checked="" type="checkbox"/>	\$	7,650.00		\$ 968.75 12
S Corporation SPEEDY REPAIR SERVICES Subtotal		\$	229,925.00		\$	-		\$	19,160.41
CORPORATION CASH FLOW SUBTOTAL:									
<input type="checkbox"/>	W-2 Wages	\$	-	12	<input type="checkbox"/>	\$	-	12	\$ - 24
<input type="checkbox"/>	Form 1120	\$	-	12	<input type="checkbox"/>	\$	-	12	\$ - 24
Corporation Subtotal		\$	-		\$	-		\$	-
Average Monthly Cash Flow (Total)								\$	19,160.42
Comments / Notes (For a new line, hold Alt and press Enter) <div> 12 month average of 2024 was used due to declining income. YTD P&L dated 4/15/25 shows busiess earnings have stabilized. Borrower has provided LOE indicating that year end purchase of good in 2024 was cause of declining income </div>									



Do I have everything I need to omit debt?

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

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

Glad to hear that you were able to obtain evidence that the business pays those large auto lease payments. Make sure that the accounts have been paid on a timely basis and that the tax returns evidence the reporting of the debt paid by the business.

Form 1120-S		U.S. Income Tax Return for an S Corporation		OMB No. 1545-0123	
Department of the Treasury Internal Revenue Service		Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.		2024	
For calendar year 2024 or tax year beginning , 2024, ending , 20					
A Selection effective date		Name		D Employer identification number	
B Business activity code number (see instructions)		TYPE OR PRINT Number, street, and room or suite no. If a P.O. box, see instructions.		E Date incorporated	
C Check if Sch. M-3 attached <input type="checkbox"/>		City or town, state or province, country, and ZIP or foreign postal code		F Total assets (see instructions) \$	
G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No					
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination					
I Enter the number of shareholders who were shareholders during any part of the tax year					
J Check if corporation: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes					
Caution: Include <u>only</u> trade or business income and expenses on lines 1a through 22. See the instructions for more information.					
Income	1a	Gross receipts or sales	b Less returns and allowances	c Balance	1c
	2	Cost of goods sold (attach Form 1125-A)			2
	3	Gross profit. Subtract line 2 from line 1c			3
	4	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			4
	5	Other income (loss) (see instructions—attach statement)			5
	6	Total income (loss). Add lines 3 through 5			6
Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)			7
	8	Salaries and wages (less employment credits)			8
	9	Repairs and maintenance			9
	10	Bad debts			10
	11	Rents			11
	12	Taxes and licenses			12
	13	Interest (see instructions)			13
	14	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			14
	15	Depletion (do not deduct oil and gas depletion)			15
	16	Advertising			16
	17	Pension, profit-sharing, etc., plans			17
Tax and Payments	18	Employee benefit programs			18
	19	Energy-efficient commercial buildings deduction (attach Form 3295)			19
	20	Other deductions (attach statement)			20
	21	Total deductions. Add lines 7 through 20			21
	22	Ordinary business income (loss). Subtract line 21 from line 6			22
	23a	Excess net passive income or LIFO recapture tax (see instructions)	23a		
	b	Tax from Schedule D (Form 1120-S)	23b		
	c	Add lines 23a and 23b (see instructions for additional taxes)			23c
	24a	Current year's estimated tax payments and preceding year's overpayment credited to the current year	24a		
	b	Tax deposited with Form 7004	24b		
	c	Credit for federal tax paid on fuels (attach Form 4136)	24c		
d	Elective payment election amount from Form 3800	24d			
z	Add lines 24a through 24d			24z	
25	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>			25	
26	Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed			26	
27	Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid			27	
28	Enter amount from line 27: Credited to 2025 estimated tax Refunded			28	
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.					
Sign Here		Signature of officer _____ Date _____ Title _____		May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only	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. _____		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form 1120-S (2024)					

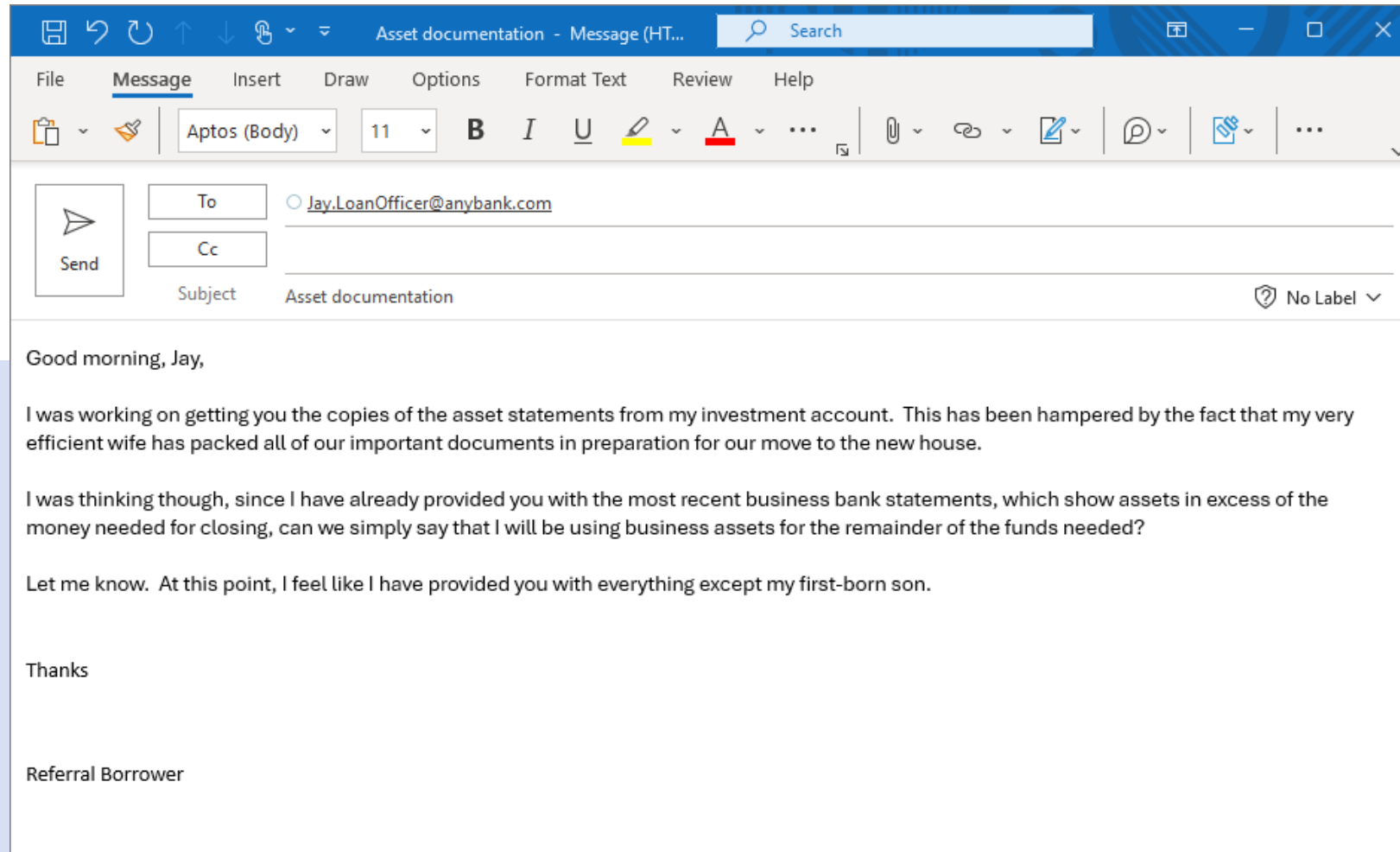
Confirming that the business paid the debt

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



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

Email from borrower



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

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

Jay, this change will result in the loan going back into underwriting. I seem to remember that you were really tight in your liquidity ratio calculation. If the borrower is going to use business funds for closing in the amount of \$30K, then that amount would need to be deducted during your liquidity test. I don't think that is going to work in this case.



Thanks for your help!

Purpose of cash flow analysis

MGIC

Verify qualifying income that is:

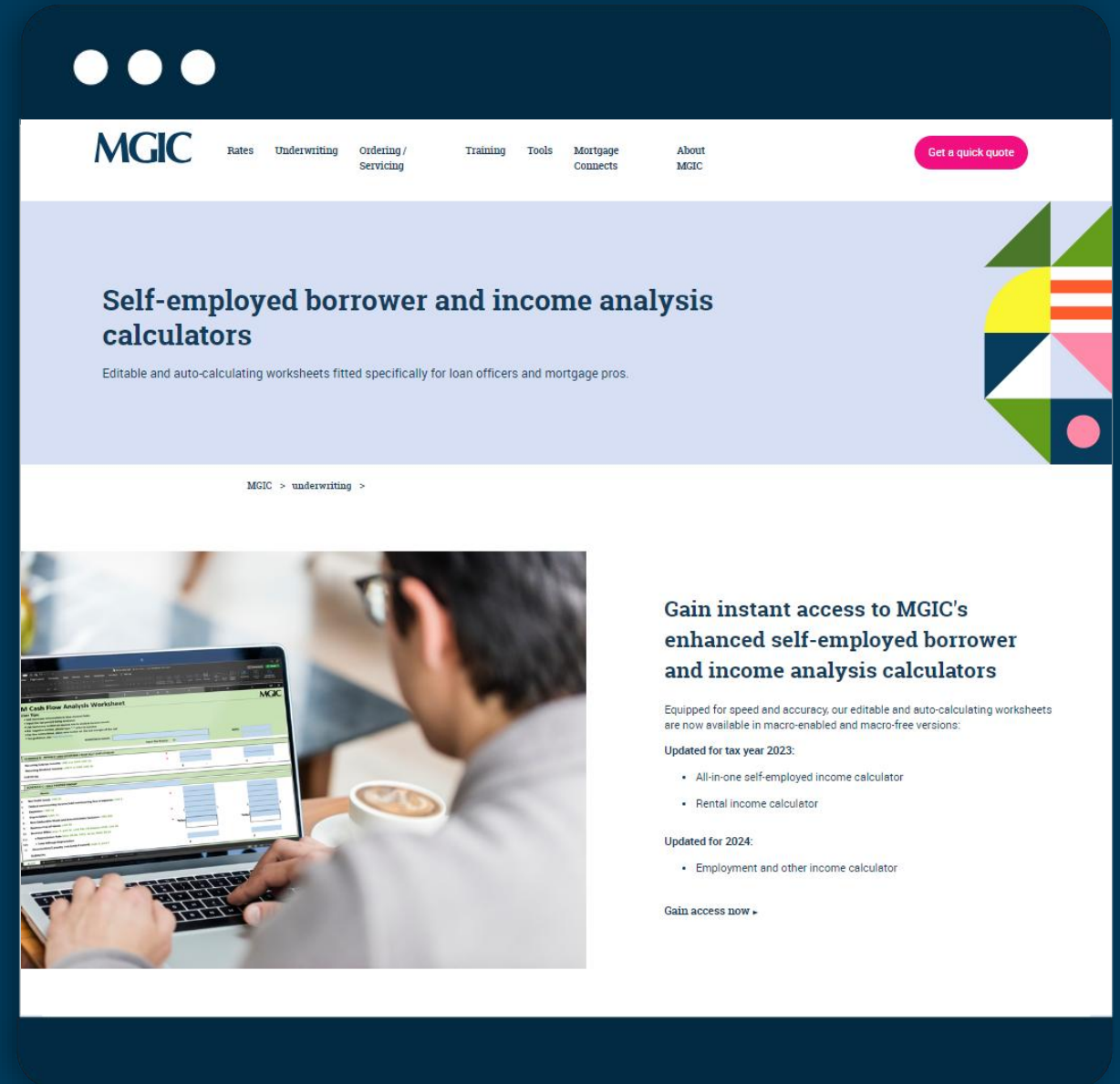
- Stable
- Likely to continue



TOOLS FOR SUCCESS!



mgic.com/seb



The screenshot displays the MGIC website's navigation bar with links for Rates, Underwriting, Ordering / Servicing, Training, Tools, Mortgage Connects, and About MGIC. A 'Get a quick quote' button is located in the top right corner. The main heading is 'Self-employed borrower and income analysis calculators', followed by the subtext 'Editable and auto-calculating worksheets fitted specifically for loan officers and mortgage pros.' A breadcrumb trail shows 'MGIC > underwriting >'. Below this is a photograph of a person using a laptop displaying the 'All Cash Flow Analysis Worksheet'. To the right of the photo, the text reads 'Gain instant access to MGIC's enhanced self-employed borrower and income analysis calculators'. It then states: 'Equipped for speed and accuracy, our editable and auto-calculating worksheets are now available in macro-enabled and macro-free versions:'. Under 'Updated for tax year 2023:', there is a list: '• All-in-one self-employed income calculator' and '• Rental income calculator'. Under 'Updated for 2024:', there is a list: '• Employment and other income calculator'. At the bottom, a link 'Gain access now' is provided.

MGIC

Rates Underwriting Ordering / Servicing Training Tools Mortgage Connects About MGIC

Get a quick quote

Self-employed borrower and income analysis calculators

Editable and auto-calculating worksheets fitted specifically for loan officers and mortgage pros.

MGIC > underwriting >

Gain instant access to MGIC's enhanced self-employed borrower and income analysis calculators

Equipped for speed and accuracy, our editable and auto-calculating worksheets are now available in macro-enabled and macro-free versions:

Updated for tax year 2023:

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

Updated for 2024:

- Employment and other income calculator

Gain access now

MGIC worksheets





SEB and income analysis calculators and resources

MGIC > underwriting > seb >

Updated calculators

Our editable and auto-calculating worksheets are designed for speed and accuracy. We recommend you use the macro-enabled versions but also offer macro-free alternatives if you cannot use Excel worksheets with macros. To learn more, download our Calculator FAQs or watch the overview videos below.

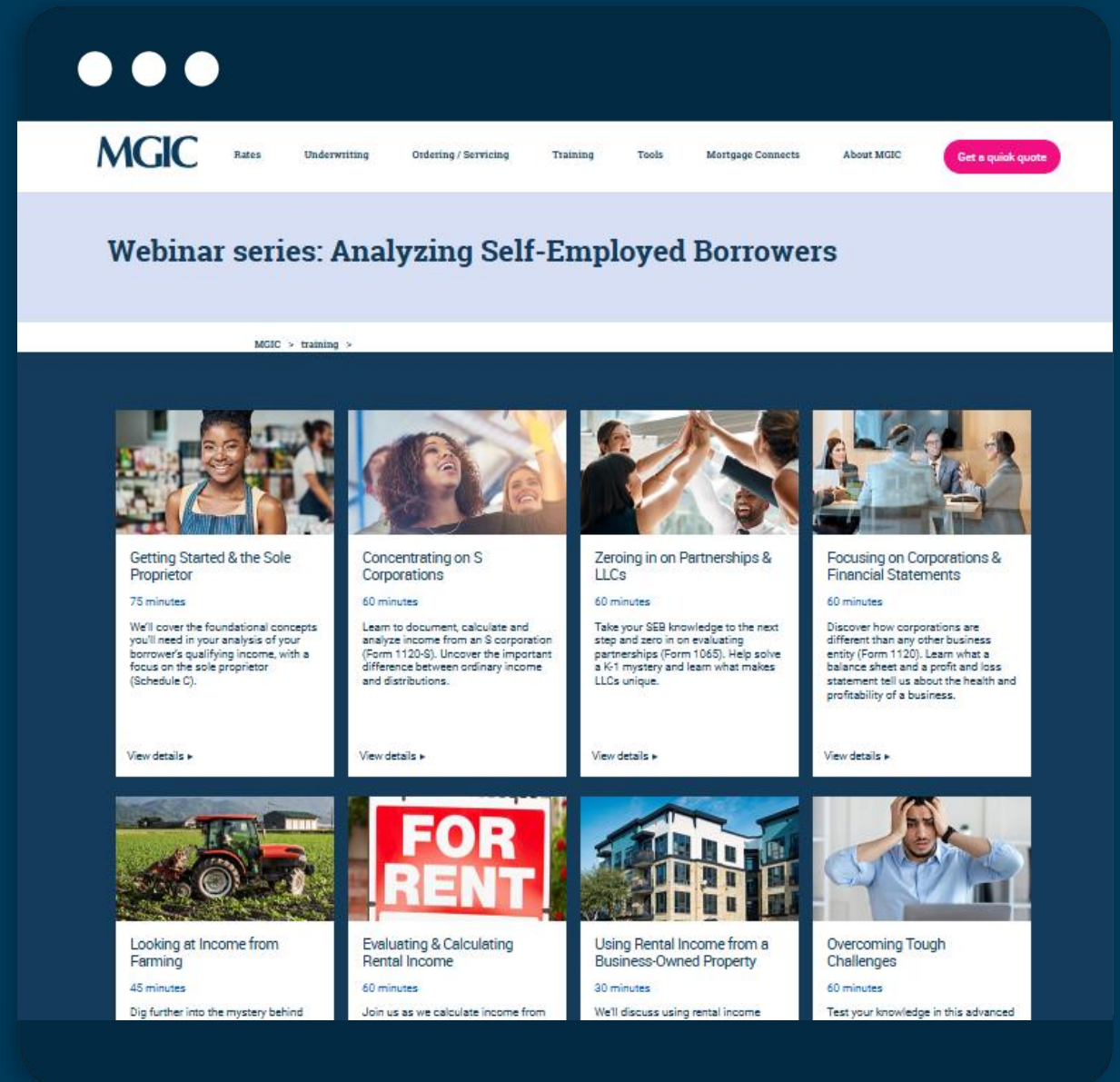
PLEASE NOTE: Download and save a copy to your desktop as a template.

All-in-one calculator New	All-in-one calculator New	Income calculator New	Rental calculator New
All-in-one self-employed income calculator Full workbook	All-in-one self-employed income calculator Condensed version	Employment and other income calculator	Rental income calculator
All-in-one self-employed income calculator updated for tax year 2024 Available in macro-enabled and macro-free versions This calculator incorporates 4 worksheets, including SAM cash flow analysis, liquidity, comparative income analysis and P&L statement analysis. (2/10/2025) Download macro-enabled ► Download macro-free ►	All-in-one self-employed income calculator updated for tax year 2024 Macro-free short form This is a condensed version of our macro-free self-employed calculator, with just one of each type of business entity. (2/10/2025) Download macro-free ►	Employment & other income calculator Available in macro-enabled and macro-free versions This worksheet is designed to calculate salaried borrowers' monthly qualifying income (fixed and variable) and gross up non-taxable income. (1/2/2025) Download macro-enabled ► Download macro-free ►	Rental income calculator updated for tax year 2024 Available in macro-enabled and macro-free versions Cash flow income from a principal residence (2- to 4-unit), investment property or business rental by reviewing tax returns or leases. (1/2/2025) Download macro-enabled ► Download macro-free ►
Video 	Video 	FAQs 	Infographic 

Training – SEB webinars

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Webinar series: Analyzing Self-Employed Borrowers


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Getting Started & the Sole Proprietor
75 minutes
We'll cover the foundational concepts you'll need in your analysis of your borrower's qualifying income, with a focus on the sole proprietor (Schedule C).
[View details >](#)




Concentrating on S Corporations
60 minutes
Learn to document, calculate and analyze income from an S corporation (Form 1120-S). Uncover the important difference between ordinary income and distributions.
[View details >](#)




Zeroing in on Partnerships & LLCs
60 minutes
Take your SEB knowledge to the next step and zero in on evaluating partnerships (Form 1065). Help solve a K-1 mystery and learn what makes LLCs unique.
[View details >](#)




Focusing on Corporations & Financial Statements
60 minutes
Discover how corporations are different than any other business entity (Form 1120). Learn what a balance sheet and a profit and loss statement tell us about the health and profitability of a business.
[View details >](#)




Looking at Income from Farming
45 minutes
Dig further into the mystery behind
[View details >](#)



Evaluating & Calculating Rental Income
60 minutes
Join us as we calculate income from
[View details >](#)



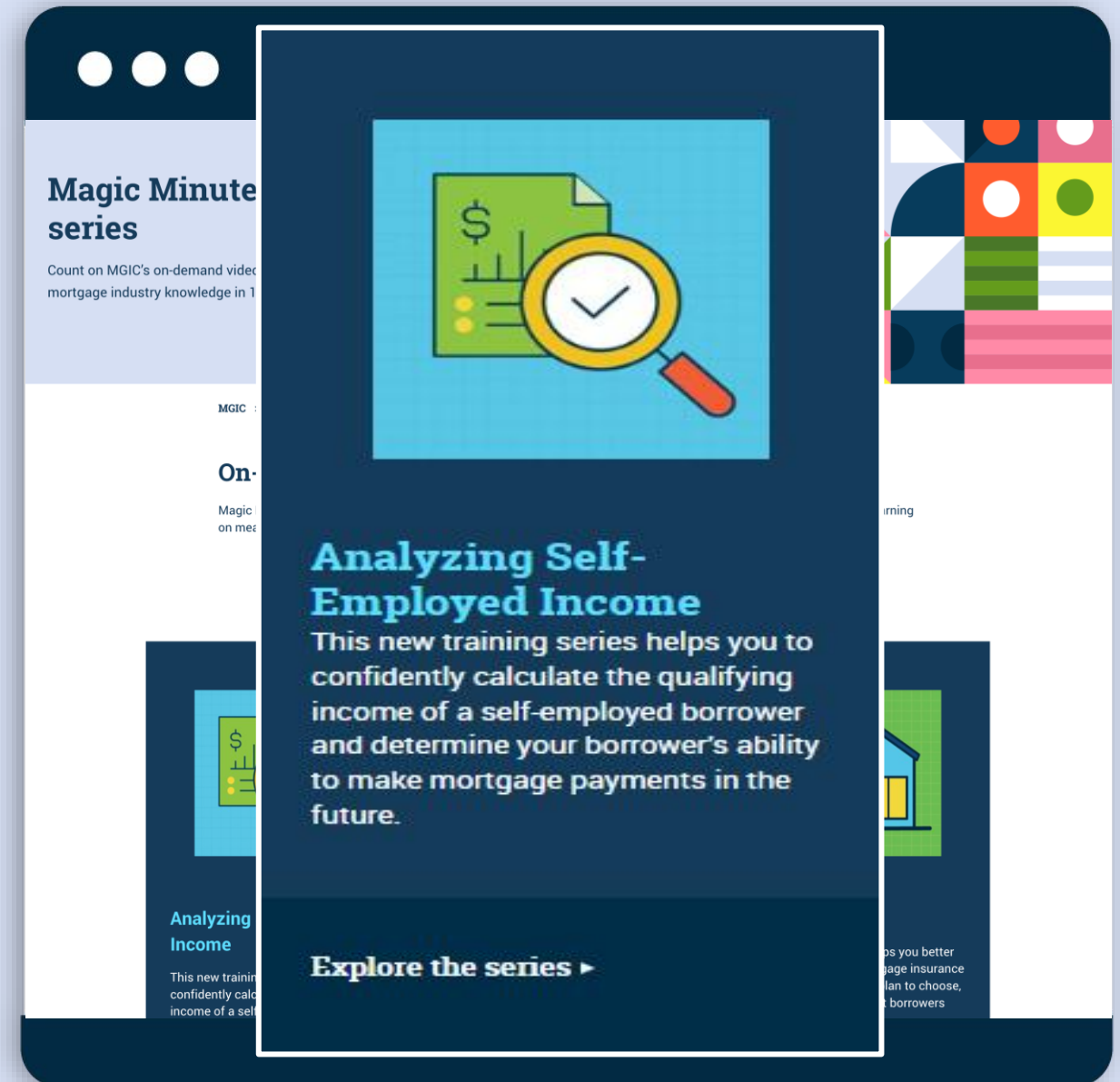
Using Rental Income from a Business-Owned Property
30 minutes
We'll discuss using rental income
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Overcoming Tough Challenges
60 minutes
Test your knowledge in this advanced
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Magic Minutes training series

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Analyzing Self-Employed Income

Calculating the qualifying income of a self-employed borrower can be challenging. These videos can help you to better analyze if the business will continue to generate and distribute income, and whether your borrower will be able to make future mortgage payments.

Video	Video	Video	Video
 <p>Analyzing Self-Employed Income Eligibility requirements</p> <p>Magic Minutes</p>	 <p>Analyzing Self-Employed Income Business structures</p> <p>Magic Minutes</p>	 <p>Analyzing Self-Employed Income Documentation requirements</p> <p>Magic Minutes</p>	 <p>Analyzing Self-Employed Income Cash flow analysis</p> <p>Magic Minutes</p>
<p>Eligibility requirements</p> <p>Learn who can be considered self-employed, the eligibility requirements they must meet, and what factors to examine when evaluating self-employed income.</p> <p>Watch it on YouTube ►</p>	<p>Business structures</p> <p>Understand different types of business structures to communicate with borrowers, document the file, and know how money flows from business tax returns to personal tax returns.</p> <p>Watch it on YouTube ►</p>	<p>Documentation requirements</p> <p>Know the difference between Fannie Mae and Freddie Mac documentation requirements, as well as the tools for confidently calculating qualifying income and expediting turn times.</p> <p>Watch it on YouTube ►</p>	<p>Cash flow analysis</p> <p>Discover how considering the nature of a business is key when conducting a liquidity test. Assess a business's financial health by using the 5 steps for determining liquidity.</p> <p>Watch it on YouTube ►</p>

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