Evaluating Self-Employed Borrowers TAX YEAR 2024

Overcoming Tough Challenges

MGIC

Legal disclaimer

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

Although MGIC believes the information set forth in this publication is generally accurate, the information may be outdated due to the rapidly changing nature of the residential mortgage industry, and MGIC does not warrant the accuracy, reliability or completeness of any information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

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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

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

Jean-Baptiste Alphonse Karr

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Back in the day
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Purpose of cash flow analysis

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Verify qualifying income that is:

- Stable
- Likely to continue

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Subjectivity or “gray areas” in lending

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

What’s the intent?

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Intent or spirit of guidelines

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

Evaluate the "why"

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Were you with us during the pandemic?

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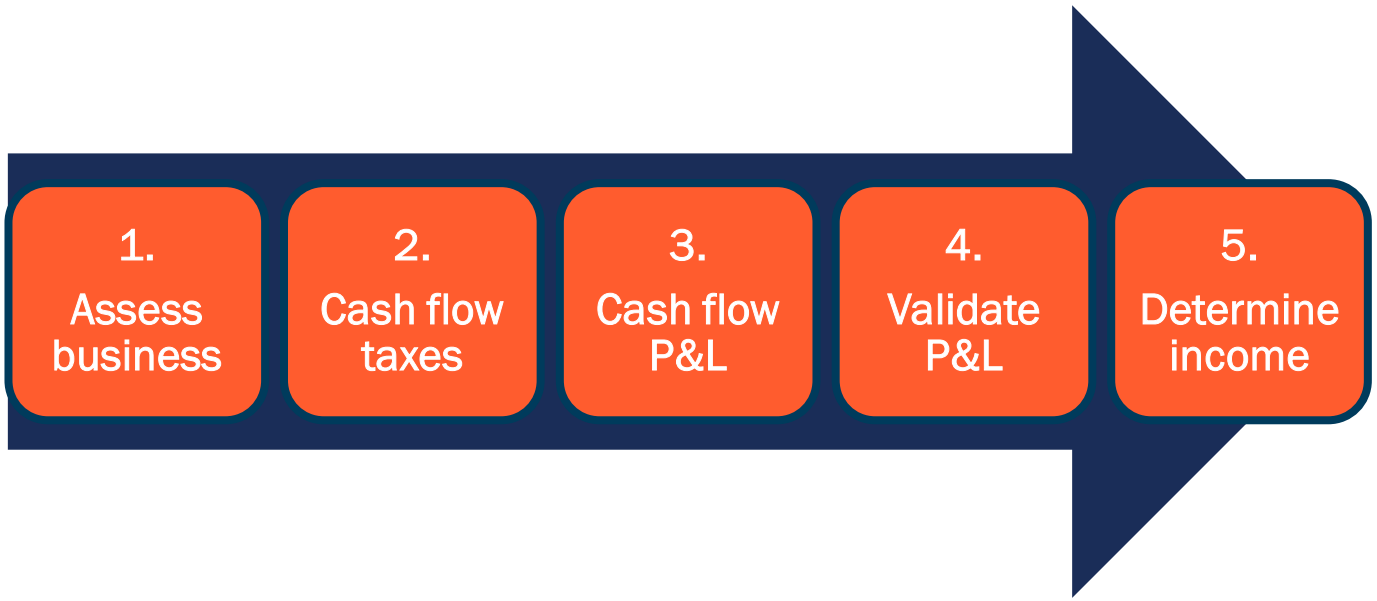
5-step process



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Meet Jay, our loan officer

Loan Application

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income ☐ *Does not apply*

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

Street 123 Main Street Unit #

City Anytown State FL ZIP 88888 Country

Position or Title OWNER

Start Date 1 / 15 / 2021 *(mm/dd/yyyy)*

How long in this line of work? 4 Years Months

Check if this statement applies:

☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed**

○ I have an ownership share of less than 25%.

◉ I have an ownership share of 25% or more.

Monthly Income (or Loss) $ 20250

Gross Monthly Income

Base	$	/month
Overtime	$	/month
Bonus	$	/month
Commission	$	/month
Military Entitlements	$	/month
Other	$	/month
TOTAL $	**0.00**	**/month**

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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.

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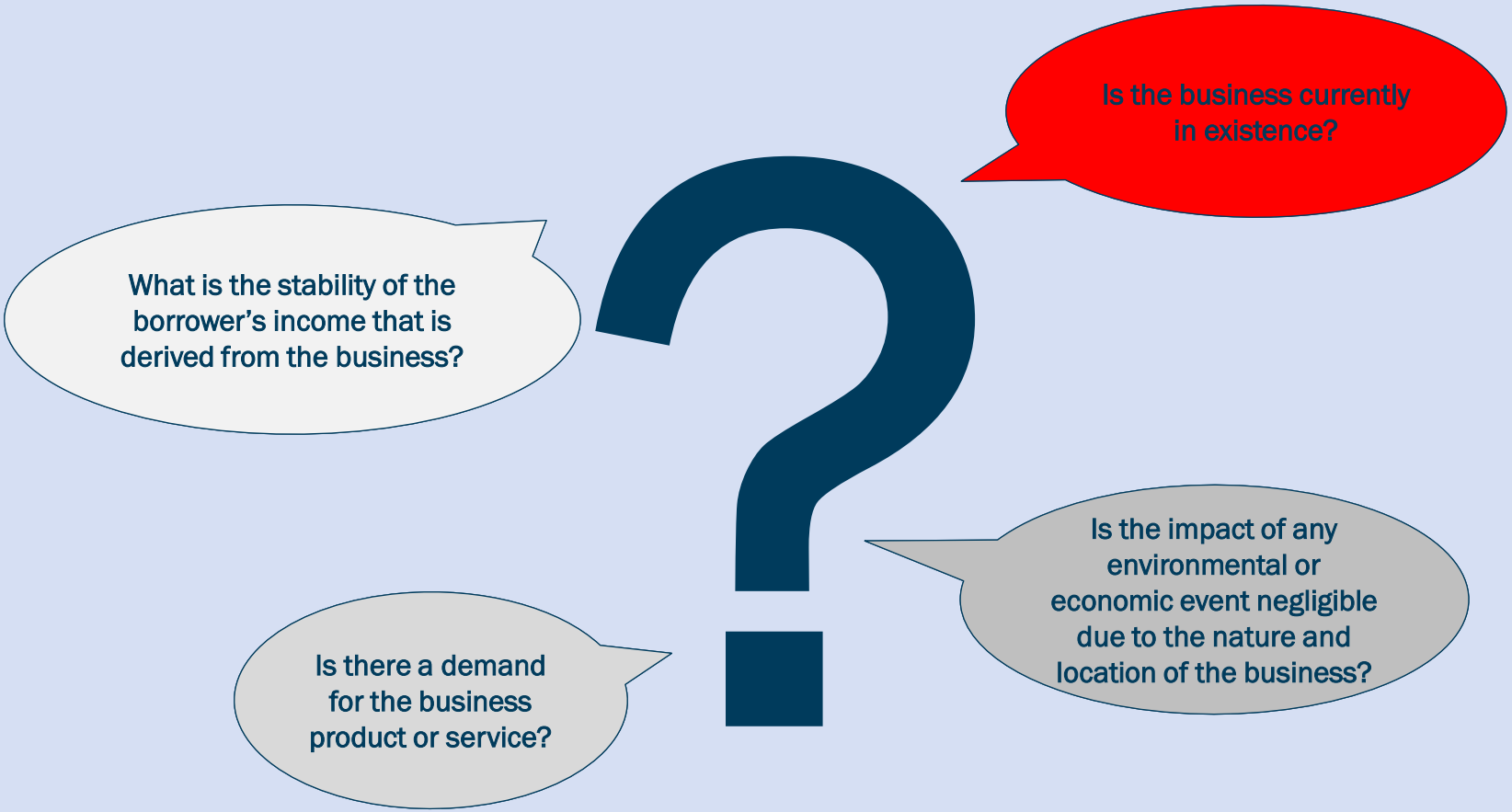
My borrower is telling me that another lender told him only 1 year of personal and business tax returns were needed because, although he bought the business 4 years ago, the business has been in existence for 10 years. He also has been self-employed in another business for over 20 years. I wanted to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



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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 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 ha

City, town, or post office. If you have a foreig

Foreign country name

Filing Status Check only one box. ☐ Single ☐ Married filing jointl ☐ Married filing sepa If you checked the MF qualifying person is a c ☐ If treating a nonres their name (see ins

Digital Assets At any time during 2024, exchange, or otherwise c

Standard Deduction Someone can claim: ☐ Spouse itemizes on

Age/Blindness You: ☐ Were born bef

Dependents (see instructions): (1) First name

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

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a Total amount from
b Household employ
c Tip income not rep
d Medicaid waiver p
e Taxable dependen
f Employer-provide
g Wages from Form
h Other earned incor
i Nontaxable comba
z Add lines 1a throu

Attach Sch. B if required.

2a Tax-exempt intere
3a Qualified dividend

4a IRA distributions
5a Pensions and ann
6a Social security ben
c If you elect to use
7 Capital gain or (los
8 Additional income
9 Add lines 1z, 2b, 3
10 Adjustments to inc
11 Subtract line 10 fro
12 Standard deducti
13 Qualified business
14 Add lines 12 and 1
15 Subtract line 14 fro

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

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 ABLE 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

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Net operating losses … Now what?

Net operating loss (NOL)

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

Total Operating Expenses > Total Operating Income = Net Operating Loss

MGIC SEB class notes

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When can you add back in NOLs?

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

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NOL

On Schedule C

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

Profit or Loss From Business
(Sole Proprietorship)
Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.
Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074
2023
Attachment Sequence No. 09

Name of proprietor | Social security number (SSN)

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

C Business name. If no separate business name, leave blank. | D Employer ID number (EIN) (see instr.)

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

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

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses ☐ Yes ☐ No

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

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

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

Part I Income

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

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

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	14,000	21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		1,000
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
				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 ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2023**

Schedule C (Form 1040) 2023 Page 2

Part III Cost of Goods Sold (see instructions)

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

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

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

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

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

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

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

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

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

Net Operating Loss (2020)	-25,000

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

Schedule C (Form 1040) 2023

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NOL

On Form 1120

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 ☐
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 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. ☐ Yes ☐ No

Paid Print/Type preparer's name | Preparer's signature | Date | Check ☐ if | PTIN

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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.

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 ABLE 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 nonqualifed 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.

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What is our primary concern with NOLs?

Will it happen again?

Prior business	Current business
• Not as concerning • Still need LOE	• When? • Why? • How much?

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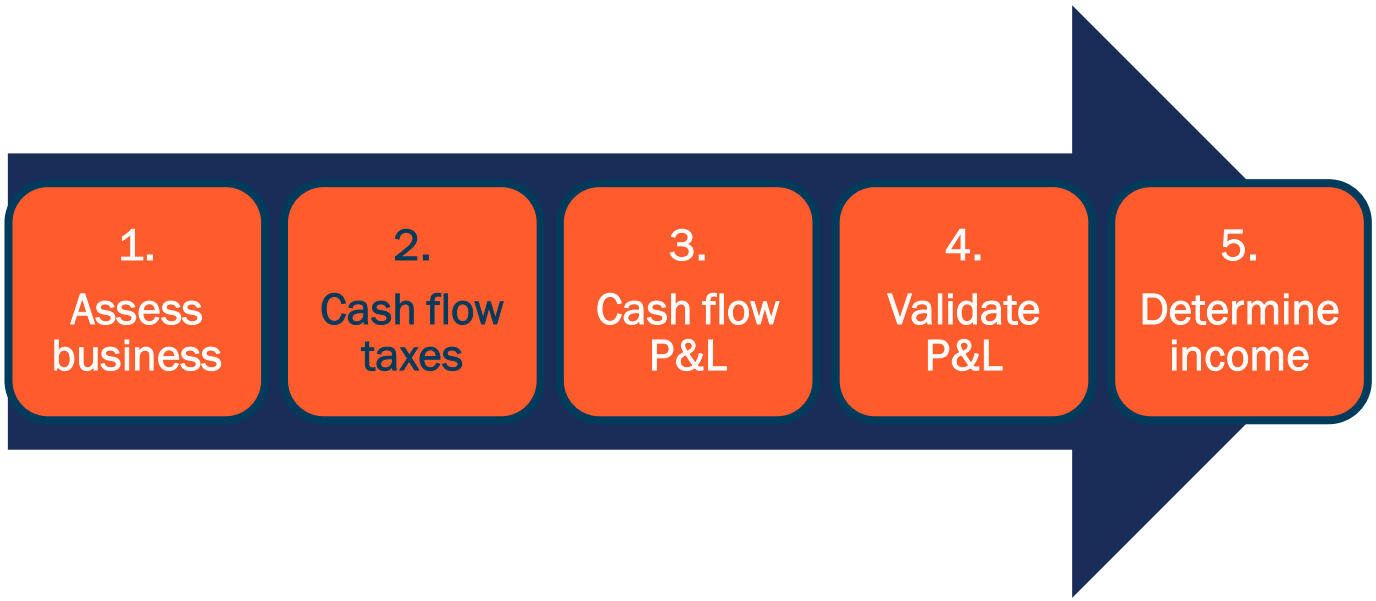
5-step process



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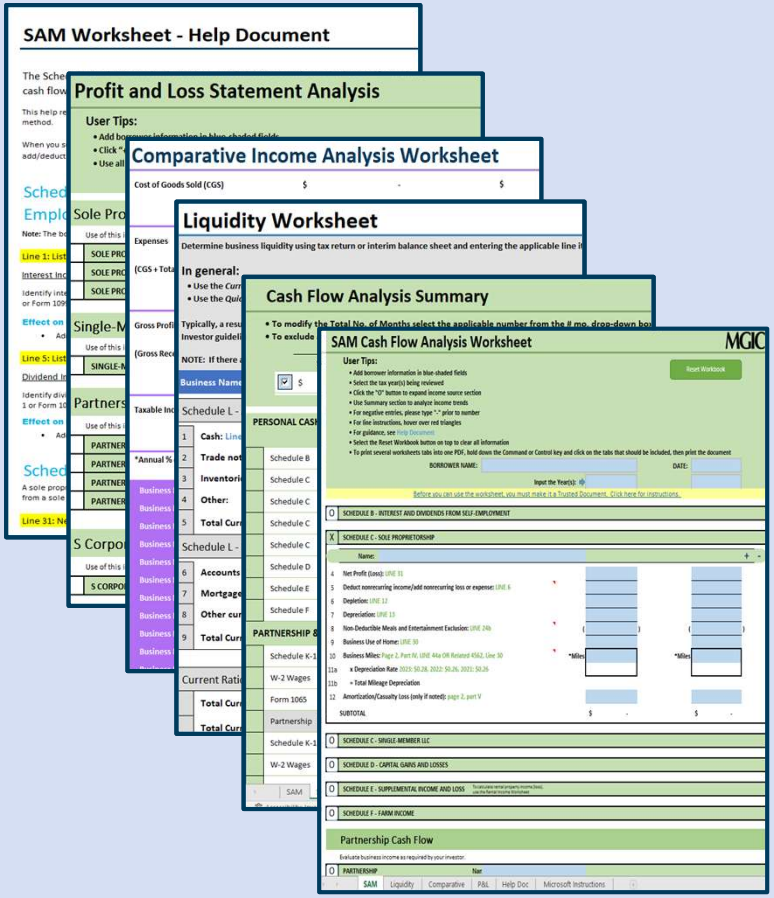
All-in-one self-employed income calculator

Excel XLSM – macro-enabled

Excel XLSX – macro-free

Excel XLSX – macro-free short



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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)	$ -	$ -

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Final K-1

MGIC

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

2024

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

671124

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

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

Part I Information About the Corporation

A Corporation's employer identification number: 12-3456789

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

C IRS Center where corporation filed return

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

Part II Information About the Shareholder

E Shareholder's identifying number

F1 Shareholder's name, address, city, state, and ZIP code: REFERRAL BORROWER

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

F3 What type of entity is this shareholder?

G Current year allocation percentage 50 %

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

I Loans from shareholder

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

1	Ordinary business income (loss) 132,500	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

mortgage guaranty insurance corporation

Schedule K-1 (Form 1120-S)

671124

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

Schedule K-1 (Form 1120-S) 2024

Department of the Treasury
Internal Revenue Service

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

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

Part I Information About the Corporation

A Corporation's employer identification number: 12-3456789

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

C IRS Center where corporation filed return

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

Part II Information About the Shareholder

E Shareholder's identifying number

F1 Shareholder's name, address, city, state, and ZIP code: REFERRAL BORROWER

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

F3 What type of entity is this shareholder?

G Current year allocation percentage 50 %

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

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

For IRS Use Only

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

1	Ordinary business income (loss) 132,500	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

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

* See attached statement for additional information.

mortgage guaranty insurance corporation

MGIC SEB class notes

MGIC

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

Schedule K-1 (Form 1120-S)

671124

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

Schedule K-1 (Form 1120-S) 2024

Department of the Treasury
Internal Revenue Service

For calendar year 2024, or tax year

beginning / / 2024 ending / /

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

Part I Information About the Corporation

A Corporation's employer identification number: 12-3456789

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

C IRS Center where corporation filed return

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

Part II Information About the Shareholder

E Shareholder's identifying number

F1 Shareholder's name, address, city, state, and ZIP code: REFERRAL BORROWER

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

F3 What type of entity is this shareholder?

G Current year allocation percentage 50 %

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

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

For IRS Use Only

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

1	Ordinary business income (loss) 132,500	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

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

* See attached statement for additional information.

mortgage guaranty insurance corporation

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)

Freddie Mac Single-Family

Guide Home | Seller/Servicer 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	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. • 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.

mortgage guaranty insurance corporation

Schedule L Liquidity test

Liquidity Worksheet

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

Form 1120-S (2024) Page 4

Schedule K	Shareholders' Pro Rata Share Items *(continued)*		Total amount
Other Information	17a	Investment income	17a
	b	Investment expenses	17b
	c	Dividend distributions paid from accumulated earnings and profits	17c
	d	Other items and amounts (attach statement)	
Recon-ciliation	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 (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (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)				10,000
6	Other current assets (attach statement)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation	( )		( )	
11a	Depletable assets				
b	Less accumulated depletion	( )		( )	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	( )		( )	
14	Other assets (attach statement)				
15	Total assets				
	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock				
23	Additional paid-in capital				
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
26	Less cost of treasury stock		( )		( )
27	Total liabilities and shareholders' equity				

Form **1120-S** (2024)

mortgage guaranty insurance corporation

MGIC

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

MGIC

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

mortgage guaranty insurance corporation

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:	

mortgage guaranty
insurance corporation

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

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

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.

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	
	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 ☐		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. ☐ Yes ☐ No

Paid Preparer Use Only

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

Firm's name | Firm's EIN

Firm's address | Phone no.

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

mortgage guaranty insurance corporation

MGIC SEB class notes

MGIC

What is needed to retain other income?

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

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Form 1120-S

Other income on Line 5

Form **1120-S** — **U.S. Income Tax Return for an S Corporation**

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.

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

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

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.

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	

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	Preparer's signature	Date	Check ☐ if self-employed	PTIN
	Firm's name			Firm's EIN	
	Firm's address			Phone no.	

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

mortgage guaranty insurance corporation

MGIC

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?

MGIC

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.

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insurance corporation

Schedule K-1 for company B

651123

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

Schedule K-1 (Form 1065) 2024

Department of the Treasury
Internal Revenue Service

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	$	$

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

1	Ordinary business income (loss) 20,000	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)	19	Distributions A 20,000
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)	20	Other information
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		

mortgage guaranty insurance corporation

Schedule L

Mortgages due in less than 1 year

Form 1120-S (2024) Page 4

Schedule K	Shareholders' Pro Rata Share Items *(continued)*		Total amount
Other Information	17a	Investment income	17a
	b	Investment expenses	17b
	c	Dividend distributions paid from accumulated earnings and profits	17c
	d	Other items and amounts (attach statement)	
Recon-ciliation	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 (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (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)

mortgage guaranty insurance corporation

MGIC SEB class notes

MGIC

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

mortgage guaranty insurance corporation

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

mortgage guaranty insurance corporation

MGIC

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?

MGIC

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.

52

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

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insurance corporation

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

Primary Housing Expense/Income	31.93	%
Total Obligations/Income	51.02	%
Debt-to-Housing Gap Ratio (Freddie)		%

Loan-to-Value Ratios

LTV	80	%
CLTV/TLTV	80	%
HCLTV/HTLTV		%

Qualifying Rate

- ☐ Note Rate %
- ☐ % Above Note Rate %
- ☐ % Below Note Rate %
- ☐ Bought-Down Rate %
- ☐ Other %

Level of Property Review

- ☐ Exterior/Interior
- ☐ Exterior Only
- ☐ No Appraisal

Form Number:

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 $

$$\frac{32}{51}$$

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MGIC

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?

MGIC

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

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

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Email from borrower

Answers to your questions - Message (HT...

Search

File Message Insert Draw Options Format Text Review Help

Aptos (Body) 11

Send

To Jay.LoanOfficer@anybank.com;

Cc

Subject Answers to your questions

No Label

Good afternoon, Jay,

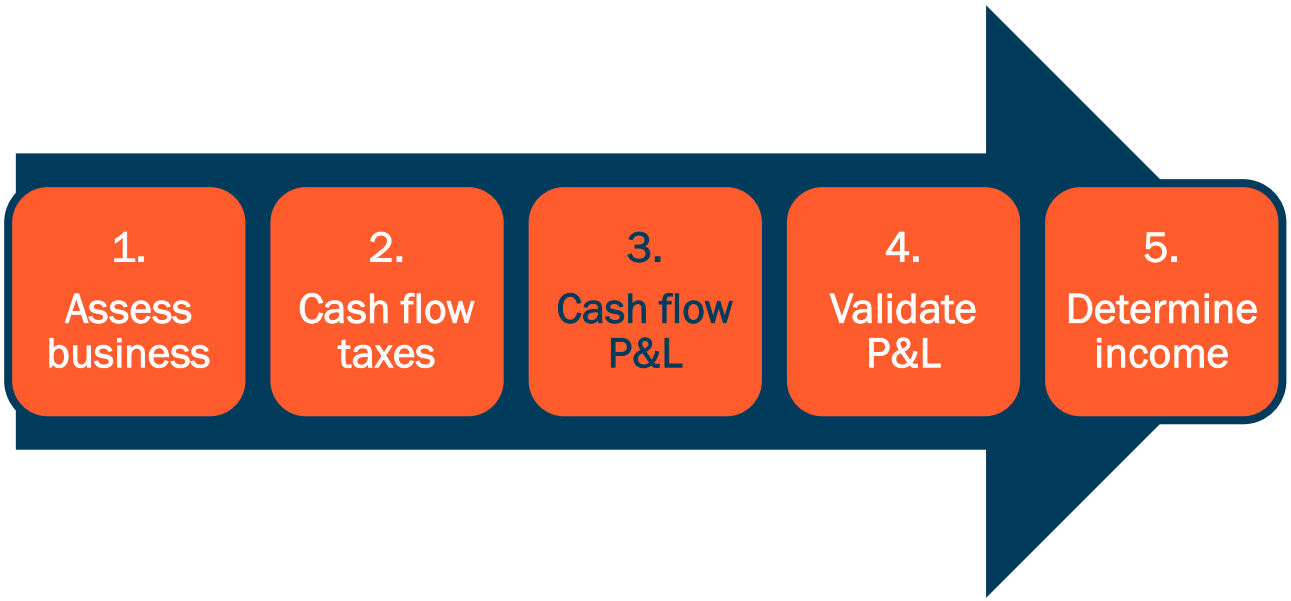
I have just uploaded the documentation that you requested during our phone call and your subsequent email. The only missing item is the bank statements for the additional $30K needed for closing. This is still pending.

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



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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

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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	$

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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

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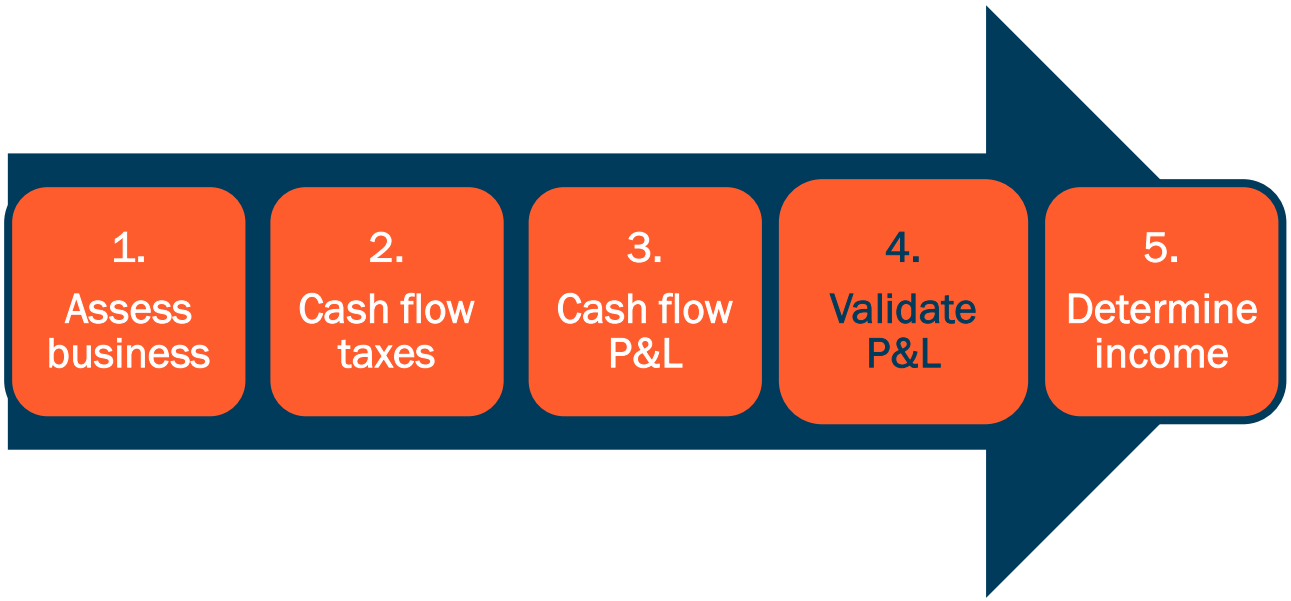
5-step process



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4. Validate P&L

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

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Comparative Income Analysis

Does this support the LOE provided by the borrower?

Comparative Income Analysis Worksheet

MGIC

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: $PEEDY REPAIR $ERVICE$ | Date: | Annualization Date: 4/15/2025

Completed by:

Select the Year(s):	2023		2024		2025	
Gross Receipt/Sales	$ 425,000		$ 475,000		$ 142,260	
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	+44% *
(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	+56% **
% Change		-14%		+42%		

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

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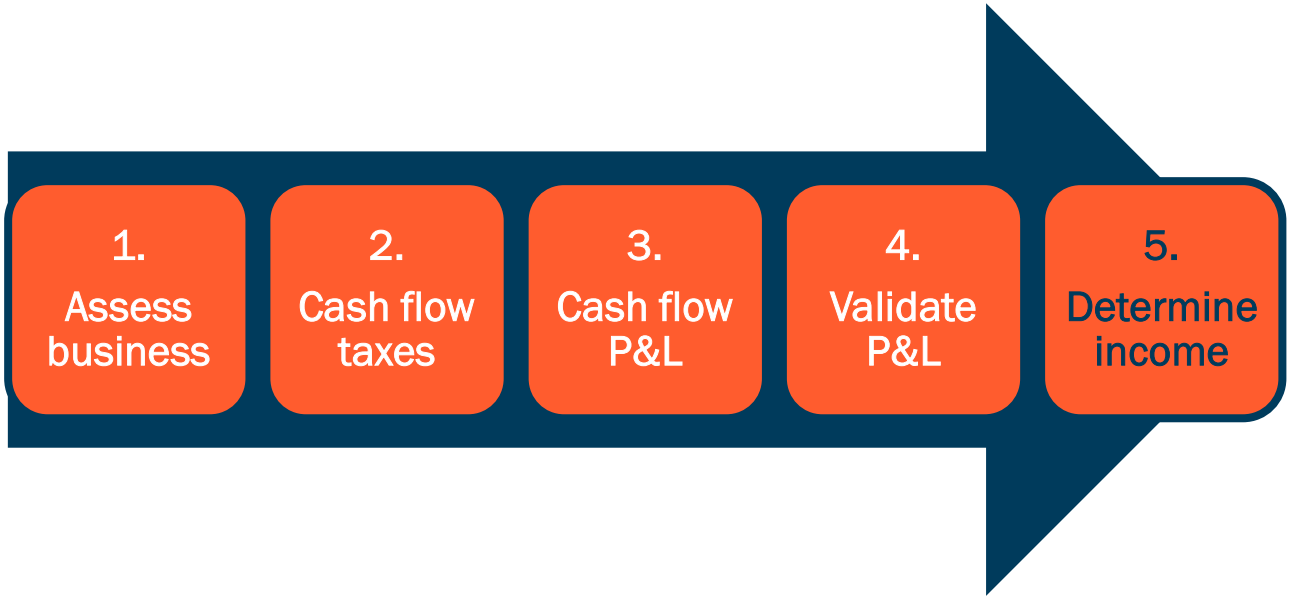
5-step process



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insurance corporation

What income should I use?

5.

Determine income

Cash Flow Analysis Summary	2024		2023			MGIC
Schedule K-1 SPEEDY REPAIR SERVICES	☐ $ 132,550.00	12	☑ $ 142,000.00		$ 11,045.83	12
W-2 Wages SPEEDY REPAIR SERVICES	☐ $ 85,750.00	12	☑ $ 105,000.00		$ 7,145.83	12
Form 1120S SPEEDY REPAIR SERVICES	☐ $ 11,625.00	12	☑ $ 7,650.00		$ 968.75	12
S Corporation SPEEDY REPAIR SERVICES Subtotal	$ 229,925.00		$ -		$ 19,160.41	
CORPORATION CASH FLOW SUBTOTAL:						
W-2 Wages	☐ $ -	12	☐ $ -	12	$ -	24
Form 1120	☐ $ -	12	☐ $ -	12	$ -	24
Corporation Subtotal	$ -		$ -		$ -	
Average Monthly Cash Flow (Total)					**$ 19,160.42**	

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

12 month average of 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

Do I have everything I need to omit debt?

MGIC

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?

MGIC

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

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 — **2024**

Department of the Treasury, Internal Revenue Service

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

For calendar year 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: 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

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.

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
	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		
	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 ☐			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. ☐ Yes ☐ No

Paid Preparer Use Only
Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN
Firm's name | Firm's EIN
Firm's address | Phone no.

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

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Confirming that the business paid the debt

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

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

Email from borrower

Asset documentation - Message (HT...

Search

File Message Insert Draw Options Format Text Review Help

Aptos (Body) 11

Send

To Jay.LoanOfficer@anybank.com

Cc

Subject Asset documentation

No Label

Good morning, Jay,

I was working on getting you the copies of the asset statements from my investment account. This has been hampered by the fact that my very efficient wife has packed all of our important documents in preparation for our move to the new house.

I was thinking though, since I have already provided you with the most recent business bank statements, which show assets in excess of the money needed for closing, can we simply say that I will be using business assets for the remainder of the funds needed?

Let me know. At this point, I feel like I have provided you with everything except my first-born son.

Thanks

Referral Borrower

MGIC

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?

MGIC

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!

Time for your questions

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What is the best practice sequence for reviewing income for self-employed borrowers?

Recommended SEB analysis steps

1. Review loan application. Verify existence & history of all businesses
2. Get to know the nature and location of the business and take transaction into consideration
3. Confirm all required documentation has been received
4. Review tax returns including schedule K-1s and verify income from business has been reported to IRS and distributed to the borrower. Conduct liquidity test as needed.
5. Use a calculator/worksheet to cash flow the business
6. Review earning trends and use variable income rules to determine what income can be used for qualifying
7. Resolve concerns with LOX, supporting documentation, & completion of Comparative Income Analysis to **ensure income is stable and likely to continue**

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Is a P&L required when a borrower has filed a tax extension and AUS only calls for most recent filed tax return?

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When are financial statements typically needed?

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

Borrower filed 2024 1040's but has filed an extension for a partnership. What is required?

What tax returns are needed?

Most recent tax returns filed with the IRS

Tax returns – most recent calendar year not yet available

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

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insurance corporation

Extension Form 4868

Form **4868**

Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

For calendar year 2024, or other tax year beginning , 2024, and ending , 20 .

OMB No. 1545-0074

2024

Part I Identification

1 Your name(s) (see instructions)

Address (see instructions)

City, town, or post office | State | ZIP code

2 Your social security number | 3 Spouse's social security number

Part II Individual Income Tax

4 Estimate of total tax liability for 2024 . . $

5 Total 2024 payments

6 **Balance due.** Subtract line 5 from line 4. See instructions . . . . . .

7 Amount you're paying (see instructions) .

8 Check here if you're "out of the country" and a U.S. citizen or resident. See instructions . . . . . ☐

9 Check here if you file Form 1040-NR and didn't receive wages as an employee subject to U.S. income tax withholding . . . . . ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 13141W Form **4868** (2024)

Additional due diligence

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

How do I handle a situation where a borrower recently became a partner in a law firm and went from W2 to schedule K1 income?

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insurance corporation

Can you focus on distributions vs. box 1 on a Schedule K1?

MGIC

Rates | Underwriting | Ordering / Servicing | Training | Tools | Mortgage Connects | About MGIC

Get a quick quote

Magic Minutes training series

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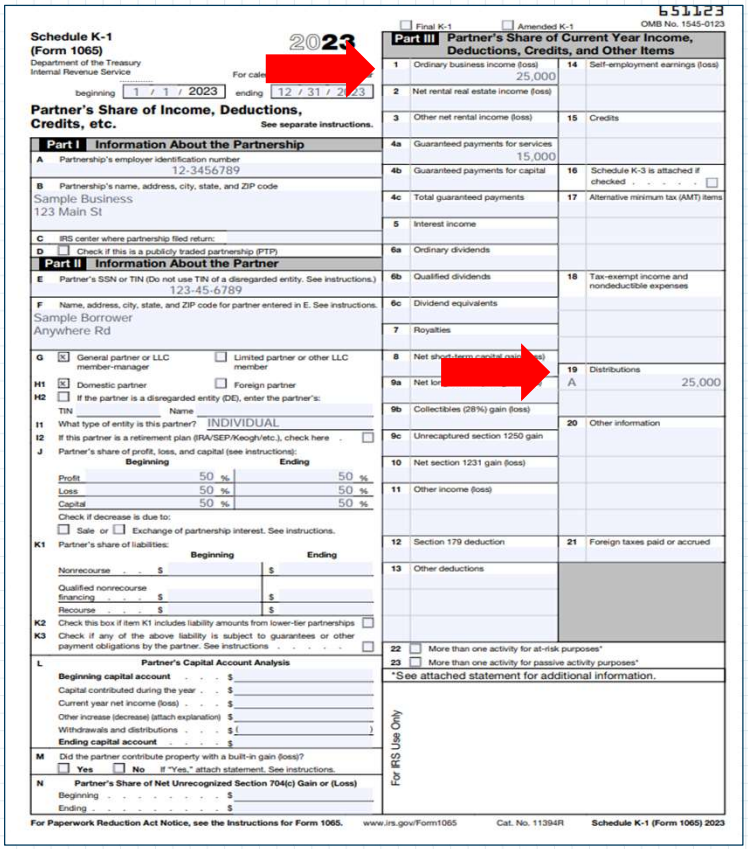
1

Distributions are equal to ordinary income



Schedule K-1 (Form 1065) 2023
Department of the Treasury Internal Revenue Service
For calendar year 2023, or tax year beginning 1 / 1 / 2023 ending 12 / 31 / 2023
Final K-1 Amended K-1 OMB No. 1545-0123

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

Part I Information About the Partnership

A Partnership's employer identification number: 12-3456789

B Partnership's name, address, city, state, and ZIP code: Sample Business, 123 Main St

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.): 123-45-6789

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.: Sample Borrower, Anywhere Rd

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? INDIVIDUAL

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	50 %	50 %
Loss	50 %	50 %
Capital	50 %	50 %

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

K1 Partner's share of liabilities:

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

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

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

L **Partner's Capital Account Analysis**

Beginning capital account	$
Capital contributed during the year	$
Current year net income (loss)	$
Other increase (decrease) (attach explanation)	$
Withdrawals and distributions	$ ( )
Ending capital account	$

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

N **Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)**
Beginning $
Ending $

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

1	Ordinary business income (loss): 25,000	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services: 15,000		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)	19	Distributions: A 25,000
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)	20	Other information
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		

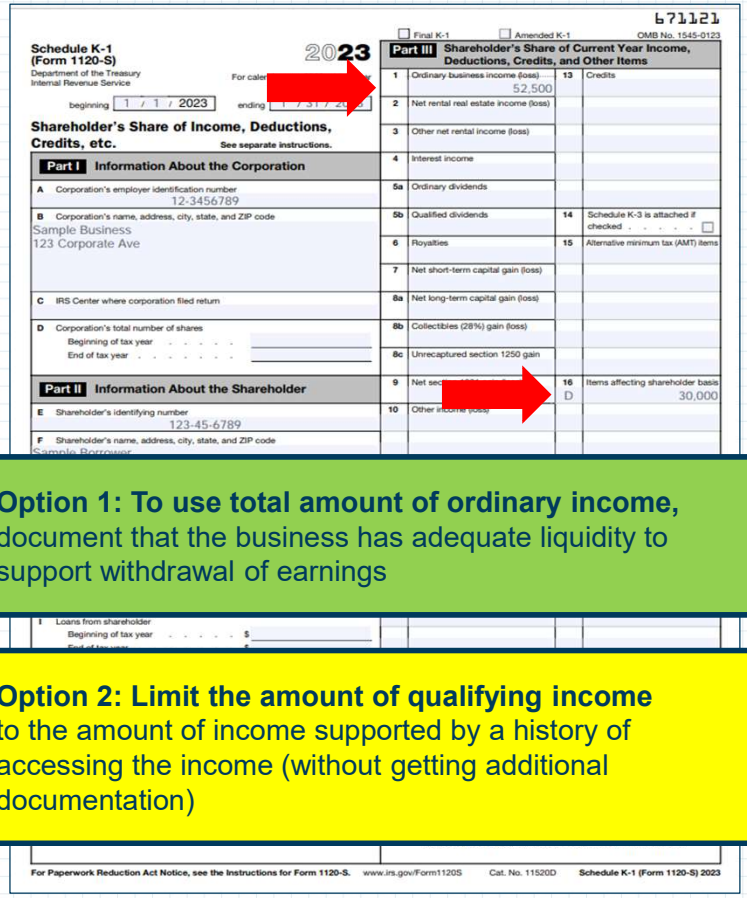
22 ☐ More than one activity for at-risk purposes*
23 ☐ More than one activity for passive activity purposes*
*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2023

2

Distributions are less than ordinary income



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

Schedule K-1 (Form 1120-S) 2023

Department of the Treasury Internal Revenue Service

For calen

beginning 1 / 1 / 2023 ending 1 / 31 / 20

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

Part I Information About the Corporation

A Corporation's employer identification number 12-3456789

B Corporation's name, address, city, state, and ZIP code Sample Business 123 Corporate Ave

C IRS Center where corporation filed return

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

Part II Information About the Shareholder

E Shareholder's identifying number 123-45-6789

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

I Loans from shareholder
Beginning of tax year $

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

1	Ordinary business income (loss) 52,500	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net sec	16 D	Items affecting shareholder basis 30,000
10	Other income (loss)		

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

Option 1: To use total amount of ordinary income, document that the business has adequate liquidity to support withdrawal of earnings

Option 2: Limit the amount of qualifying income to the amount of income supported by a history of accessing the income (without getting additional documentation)

3

Ordinary income is positive, but no distributions are indicated

671121

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

Schedule K-1 (Form 1120-S) 2023

Department of the Treasury
Internal Revenue Service

For calend

beginning 1 / 1 / 2023 ending 1 / 31 / 202

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

Part I Information About the Corporation

A Corporation's employer identification number: 12-3456789

B Corporation's name, address, city, state, and ZIP code: Sample Business, 123 Corporate Ave

C IRS Center where corporation filed return

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

Part II Information About the Shareholder

E Shareholder's identifying number: 123-45-6789

F Shareholder's name, address, city, state, and ZIP code: Sample Borrower, Anywhere Rd.

G Current year allocation percentage: 50 %

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

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

For IRS Use Only

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

1	Ordinary business income (loss): 32,000	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked ☐
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net se	16	Items affecting shareholder basis: D
10	Other income (loss)		
		17	Other information
11	Section 179 deduction		
12	Other deductions		

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

* See attached statement for additional information.

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

4

Distributions are higher than ordinary income

651123

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

Schedule K-1 (Form 1065) 2023

Department of the Treasury
Internal Revenue Service

For calen

beginning 1 / 1 / 2023 ending 12 / 31 / 20

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

Part I Information About the Partnership

A Partnership's employer identification number: 12-3456789

B Partnership's name, address, city, state, and ZIP code: Sample Business, 123 Main St

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.): 123-45-6789

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.: Sample Borrower, Anywhere Rd

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? INDIVIDUAL

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	50 %	50 %
Loss	50 %	50 %
Capital	50 %	50 %

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

K1 Partner's share of liabilities:

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

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

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

L **Partner's Capital Account Analysis**

Beginning capital account	$
Capital contributed during the year	$
Current year net income (loss)	$
Other increase (decrease) (attach explanation)	$
Withdrawals and distributions	$ ( )
Ending capital account	$

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

N **Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)**
Beginning $
Ending $

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

1	Ordinary business income (loss): 25,000	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services: 15,000		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends	18	Tax-exempt income and nondeductible expenses
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)	19	Distributions: A 52000
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)	20	Other information
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		

22 ☐ More than one activity for at-risk purposes*
23 ☐ More than one activity for passive activity purposes*
*See attached statement for additional information.

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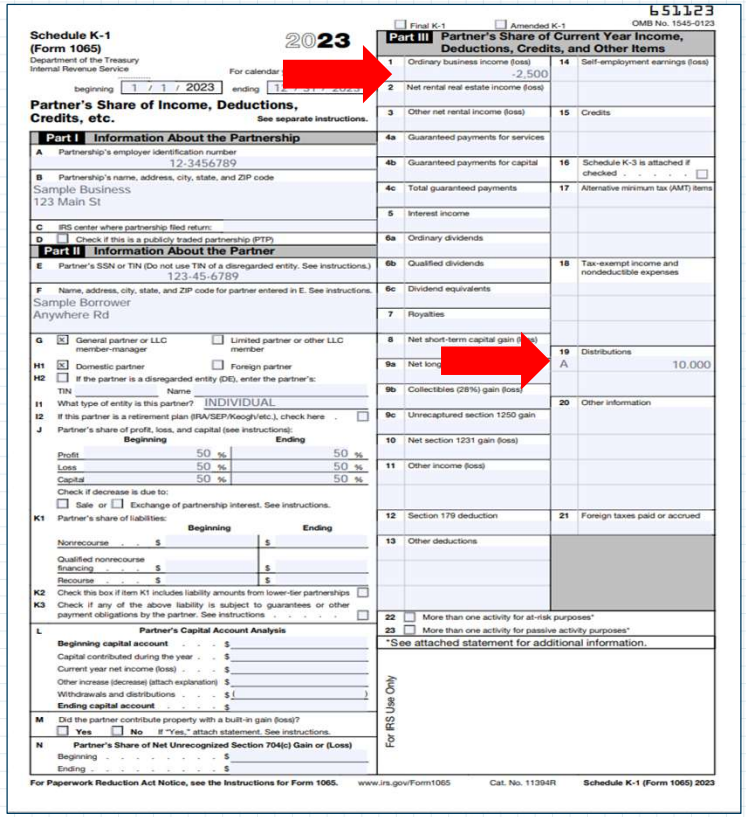
5

Ordinary income is negative, but there are distributions



651123

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

Schedule K-1 (Form 1065) 2023

Department of the Treasury Internal Revenue Service

For calendar year 2023, or tax year beginning 1 / 1 / 2023 ending 12 / 31 / 2023

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

Part I Information About the Partnership

A Partnership's employer identification number 12-3456789

B Partnership's name, address, city, state, and ZIP code Sample Business 123 Main St

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.) 123-45-6789

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

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? INDIVIDUAL

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	50 %	50 %
Loss	50 %	50 %
Capital	50 %	50 %

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

K1 Partner's share of liabilities:

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

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

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

L Partner's Capital Account Analysis

Beginning capital account $

Capital contributed during the year $

Current year net income (loss) $

Other increase (decrease) (attach explanation) $

Withdrawals and distributions $ ( )

Ending capital account $

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

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning $

Ending $

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

1	Ordinary business income (loss) -2,500	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	15	Credits
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital	16	Schedule K-3 is attached if checked ☐
4c	Total guaranteed payments	17	Alternative minimum tax (AMT) items
5	Interest income		
6a	Ordinary dividends		
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8	Net short-term capital gain (loss)	19	Distributions A 10.000
9a	Net long-term capital gain (loss)		
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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		

22 ☐ More than one activity for at-risk purposes*

23 ☐ More than one activity for passive activity purposes*

*See attached statement for additional information.

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How can I calculate business liquidity?

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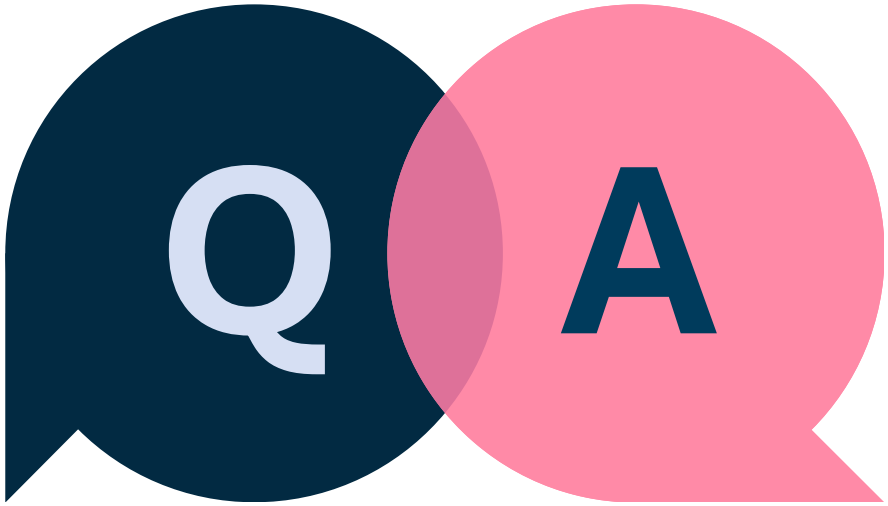

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Purpose of cash flow analysis

MGIC

Verify qualifying income that is:

- Stable
- Likely to continue

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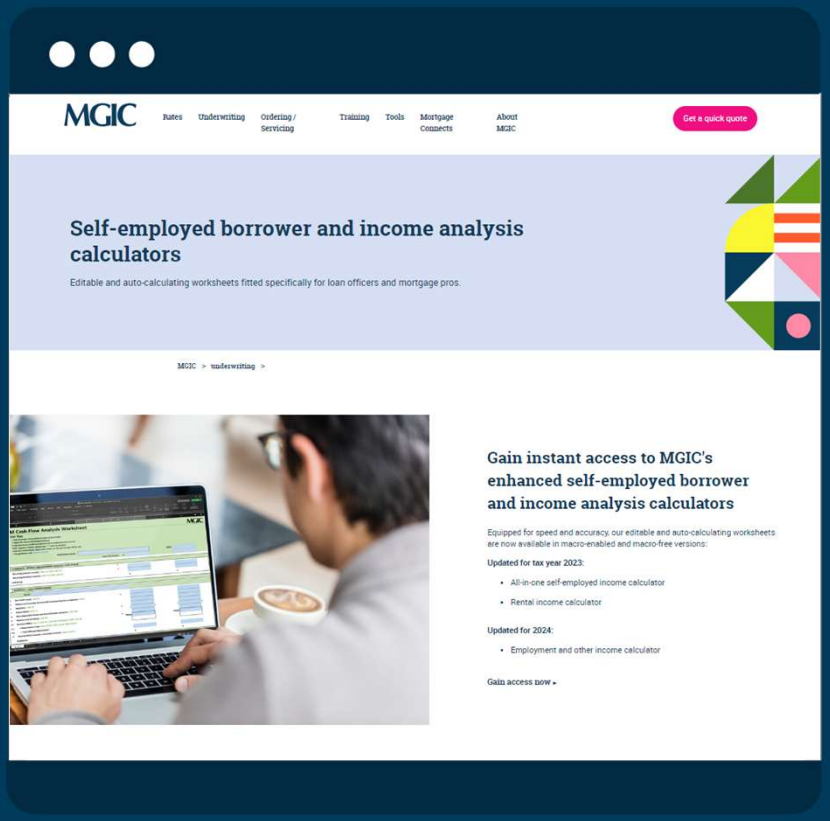

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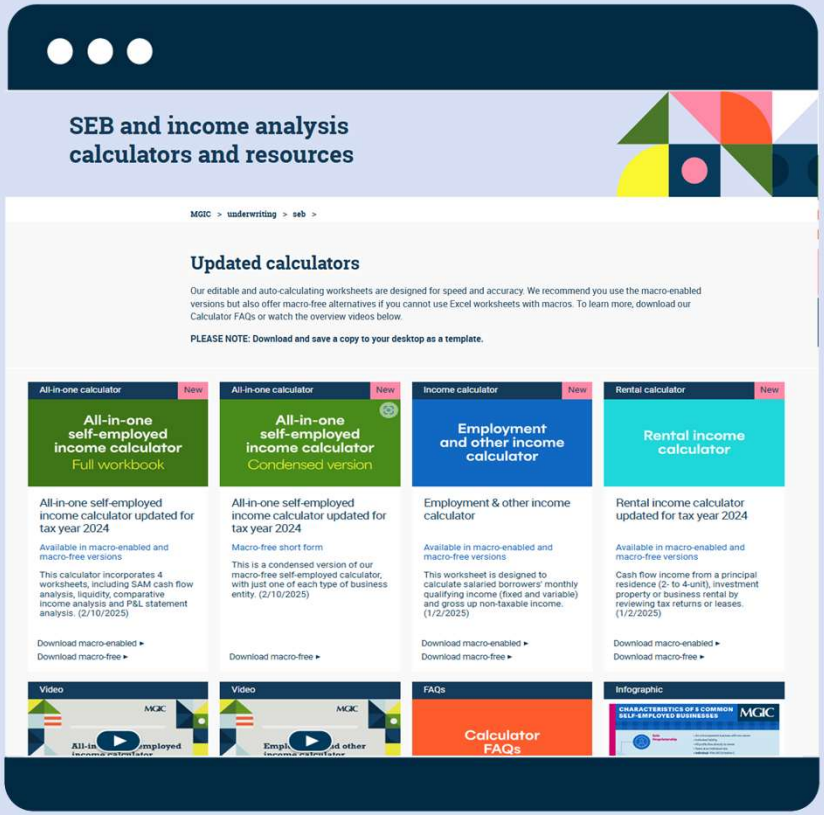
MGIC worksheets



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101

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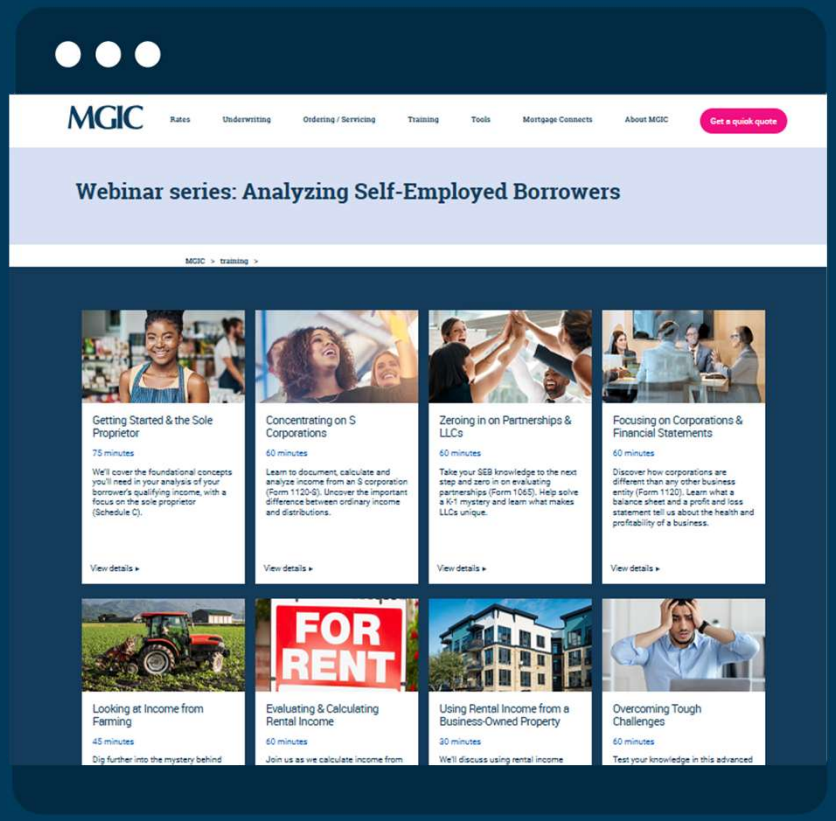

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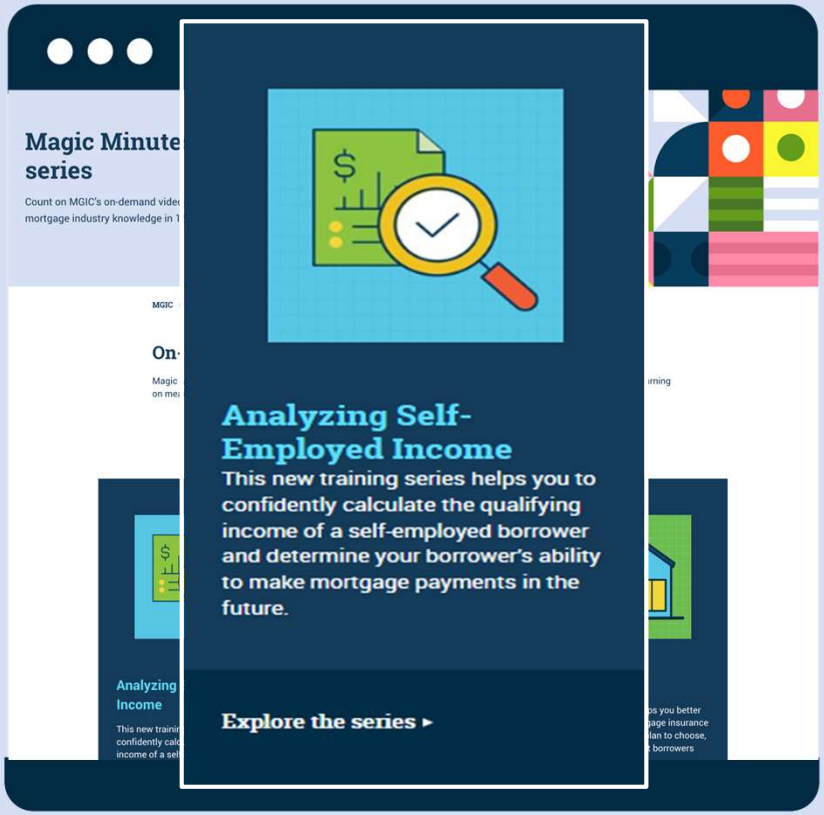

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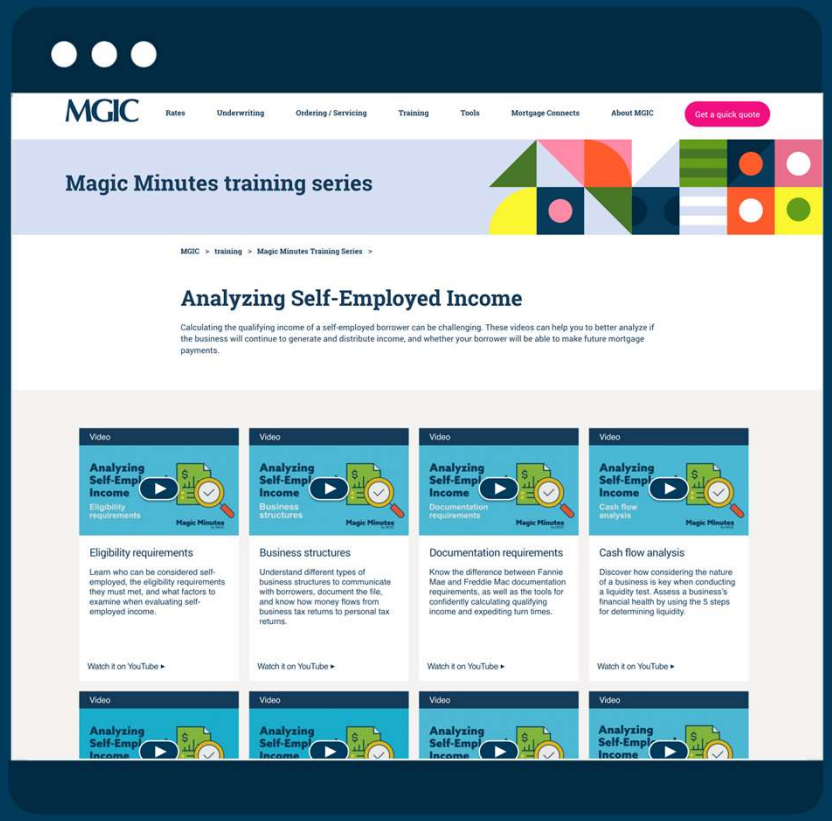

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