

Tax Reporting Forms

An analysis of the borrower's U.S. Individual Income Tax Return (IRS Form 1040) will provide information about the sources of income available for debt repayment. Further details on each source of income is provided on the supporting schedules and, when appropriate, on separate business tax returns. Complete returns, including all schedules and business tax returns, should be provided so the underwriter can evaluate the borrower's cash flow and financial condition.

The following is a summary of the most important tax forms for the analysis of a self-employed borrower.

Personal Income Statements	
TAX FORMS AND SCHEDULES	DESCRIPTION
FORM 1040	U.S. Individual Income Tax Return – Lists all the borrower's income; if the borrower is a sole proprietorship, a partnership or an S corporation, the business income is also reported on the attached schedules.
SCHEDULE 1 (1040)	Additional Income and Adjustments to Income – Lists borrower's taxable income (or deductible losses) from more "complicated" sources, such as sole proprietorships, partnerships, S corporations, real estate, farming and unemployment compensation.
SCHEDULE A (1040)	Itemized Deductions – Lists deductions that may be subtracted from the borrower's adjusted gross income before calculating the tax liability, including unreimbursed employee expenses.
SCHEDULE B (1040)	Interest and Dividend Income – Lists the sources and amounts of investment income, including taxable interest and ordinary dividend distributions.
SCHEDULE C (1040)	<p>Profit or Loss from Business – A separate schedule that details the profit or loss from a sole proprietorship. This form is in an income statement format.</p> <p>Net Profit from Business – A simplified statement of net profit from a sole proprietorship. May only be used if the business reported a profit during the tax year and other limiting conditions are met.</p>
SCHEDULE D (1040)	Capital Gains and Losses – A separate schedule that details gains or losses from investments, including stocks and bonds.
SCHEDULE E (1040)	Supplemental Income and Loss – A separate schedule that details supplemental income from rental properties, partnerships, S corporations, estates, trusts, etc.
SCHEDULE F (1040)	Profit or Loss from Farming – A separate schedule that details farming profit or loss.
FORM 2106	Employee Business Expenses – Used to report reimbursed and unreimbursed business expenses. (Note: Effective 2018, commission income taxpayers are no longer eligible to claim unreimbursed expenses for tax purposes.)
FORM 4562	Depreciation and Amortization – A separate form that breaks out amortization and depreciation.

When individual partner or shareholder income is summarized on the Schedule E and reported on Schedule 1 of the 1040, the Schedule K-1 and, in some cases, the business tax return, will be required.

Partnership Statements

TAX FORMS AND SCHEDULES	DESCRIPTION
FORM 1065	U.S. Partnership Return of Income – Reports partnership earnings in an income format.
SCHEDULE L (1065)	Balance Sheets – Summary of assets and liabilities as of the beginning and end of the tax year.
SCHEDULE K-1 (1065)	Partner's Share of Income, Credits, Deductions, etc. – Indicates whether the borrower is a limited partner or a general partner: the partner's capital account, amount of profit, amount of distribution, the individual partner's percentage of ownership (capital) and their percentages of profit and loss.
FORM 4562	Depreciation and Amortization – Details the partnership's amortization and depreciation expense.

S Corporate Statements

FORM 1120S	U.S. Income Tax Return for an S Corporation – Reports the S corporation's earnings in an income statement form.
SCHEDULE L (1120S)	Balance Sheets – A summary of assets and liabilities as of the beginning and end of the tax year.
SCHEDULE K-1 (1120S)	Shareholder's Share of Income, Credits, Deductions, etc. – Lists the shareholder's share of profit, distributions, credit, deductions, etc., and reflects the percentage of the shareholder's stock ownership.
FORM 4562	Depreciation and Amortization – This is a separate form that details the S corporation's amortization and depreciation expense.

Corporate Statements

FORM 1120	U.S. Corporation Income Tax Return – Reports the earnings of the corporation statement in income statement form.
FORM 1125E (1120)	Compensation of Officers – A list of corporate officers that shows each officer's percentage of stock ownership, percentage of time devoted to the business and amount of annual compensation.
SCHEDULE L (1120)	Balance Sheets – A summary of assets and liabilities as of the beginning and end of the tax year.
FORM 4562	Depreciation and Amortization – Details the corporation's amortization and depreciation expense.

Corporations, just like individuals, pay income taxes. Any corporate earnings distributed to stockholders as dividends or salaries will appear on the individual's 1040. All corporate income is subject to corporate income tax first.