

Foundations On-Demand

K1 Income Workbook

Disclaimer: This presentation does not constitute tax advice. If you have any questions about any of the material presented, please seek advice from a tax professional.



Introduction

IRS Schedule K1:

Objectives

- Finding out if your borrower has K1s (K1 for Partnerships and/ or S Corporation K1)
- Identifying K1s on the Schedule E, Supplemental Income and Loss (Form 1040) document
- Understanding the Partnership K1 (1065) and the S Corporation K1 (1120 S)
- Comparing Schedule E to the appropriate K1 documents





Notes:



Finding your borrower's K1s

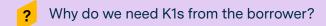
Schedule E (Form 1040) - Part II (Page 2) Lists all Partnerships and S Corporations. Check K1s for businesses listed on Schedule E, Part II before calculating borrower's qualifying income

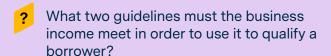
- Line 28 A- Lists businesses
- Line 28 B- Indicates Partnership or S Corp
- Schedule E does not list borrower's business ownership percentage. Compare info to K1- the source document for income/ loss reported on Schedule E.
- Only review Schedule E to confirm K1s present
- Check the flow of numbers
 - Compare Column H loss to K1 Line 1
 - Compare Column J income to K1 Line 1

(Forn Departn nternal	HEDULE E mn 1040) (From rental real estate, royaltiles, partnerships, S corporations, estates, trusts, REMICs, etc.) ► Attach to Form 1040, 1040-SR, 1040-NR, or 1041. ► On to www.irs.gov/ScheduleE for instructions and the latest information.							21 nent nce No. 13		
lame(s	me(s) shown on return Your social security number									
Par	Income or Loss From Rental Real Es Schedule C. See instructions. If you are an									
A Di	d you make any payments in 2021 that would	require you to	file F	orm(s) 1	099? 5	See insti	ructions		. 🗆 Y	es 🗌 No
	"Yes," did you or will you file required Form(s)									es 🗌 No
1a	Physical address of each property (street, or	ity, state, ZIF	, code	e)						
Α										
В										
С	<u> </u>									
1b	Type of Property (from list below) 2 For each rental re above, report the personal use day	number of fa	ir rent	al and			Rental Days	Persona Days		ĠΊΛ
Α	personal use day if you meet the re	quirements to	file a	sa	Α					
В	qualified joint ver	nure. See Inst	rucuo	115.	В					<u> </u>
c	1.				С			l		Ш
	of Property:					7.0	D			
	gle Family Residence 3 Vacation/Short-	erm Hental				7 Self-				
: Mu	Iti-Family Residence 4 Commercial	Properties:	ь Но	yalties		8 Othe	r (describe			С
3			3		Α			В		<u> </u>
4			4	_						
	Royalties received		+							
:xpe	nses: Advertising		5					-		
6	Auto and travel (see instructions)		6							
7	Cleaning and maintenance		7							
8	Commissions		8							
9	Insurance		9							
10	Legal and other professional fees		10							
11	Management fees		11							
12	Mortgage interest paid to banks, etc. (see in		12							
13	Other interest		13							
14	Repairs		14							
15	Supplies		15							
16	Taxes		16							
17	Utilities		17							
18	Depreciation expense or depletion		18							
19	Other (list) ►		19							
20	Total expenses. Add lines 5 through 19 .		20							
21	Subtract line 20 from line 3 (rents) and/or 4 result is a (loss), see instructions to find out	if you must								
	file Form 6198		21							
22	Deductible rental real estate loss after limits on Form 8582 (see instructions)		22	()	()	(
23a	Total of all amounts reported on line 3 for al					23a				
b	Total of all amounts reported on line 4 for al		erties			23b				
C	Total of all amounts reported on line 12 for a					23c				
d	Total of all amounts reported on line 18 for a					23d				
e	Total of all amounts reported on line 20 for a					23e		- 10:		
24	Income. Add positive amounts shown on li							24	,	
25	Losses. Add royalty losses from line 21 and re								(
26	Total rental real estate and royalty income here. If Parts II, III, IV, and line 40 on page		apply	to you,	also	enter th	nis amount	t on		
	Schedule 1 (Form 1040), line 5. Otherwise, in									

Name(s) shown on return. Do not enter name and social security number if shown on other side. Your social Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.	ial security number						
Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.							
Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.							
Dowll I F D I I I I I I I I I I I I I I I I I							
Part II Income or Loss From Partnerships and S Corporations – Note: If you report a loss, receive a							
stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and at computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the							
line 28 and attach Form 6198. See instructions.	BOX IN COLUMN (I) ON						
27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year upassive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If							
see instructions before completing this section	☐ Yes ☐ No						
(b) Enter P for (c) Check if (d) Employer (e) Che	eck if (f) Check if						
28 (a) Name partnership; S foreign identification basis comp for S corporation partnership number is requ							
A							
B							
C							
Passive Income and Loss Nonpassive Income and Los							
(g) Passive loss allowed (h) Passive income (i) Nonpassive loss allowed (j) Section 179 expense (attach Form 8582 if required) from Schedule K-1 (see Schedule K-1) deduction from Form 4562	(k) Nonpassive income from Schedule K-1						
	monii concadio it i						
A							
C							
D							
29a Totals							
b Totals							
30 Add columns (h) and (k) of line 29a							
31 Add columns (g), (i), and (j) of line 29b							
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31 32							

Why are K1s required?





Guideline 1:

Guideline 2:

Where can you find these guidelines listed?

? What must you validate in order to use "Ordinary Income" from K1 Line 1?





Notes:		١
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Partnership 1065 K1

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service beginning / / 2021 ending / / Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	Part III Partner's Share of Cur Deductions, Credits, a 1 Ordinary business income (loss) 14 Part III Partner's Share of Cur Deductions, Credits, a 1 Ordinary business income (loss) 14 Final nor Amended 2 Net rental real estate income (loss) 3 Other net rental income (loss) 15 Confirm neither Final nor Amended Checked.				
Part I Information About the Partnership	Lines 2 & 3:				
A Partnership's employer identification number					
B Partnership's name, address, city, state, and ZIP code	Add if income.				
	Subtract if loss.				
	5 Interest income				
C IRS center where partnership filed return ►	6a Ordinary dividends				
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.)	Left side of K1 identifies				
, , , , , , , , , , , , , , , , , , , ,					
F Name, address, city, state, and ZIP code for partner entered in E. See instructions.	your applicant and name of				
	partnership.				
	10 Distributions				
G General partner or LLC Limited partner or other LLC	9a Net long-term capital gain (loss)				
member-manager member	Code A				
H1 Domestic partner Foreign partner H2 If the partner is a disregarded entity (DE), enter the partner's:	9b Collectibles (28%) gain (loss)				
TIN Name	9c Unrecaptured Compare to K1, Line 1				
11 What type of entity is this partner?	10 Net section 1231 gain (loss)				
 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ► J Partner's share of profit, loss, and capital (see instructions): 	Not coolidin 1201 gain (1000)				
Beginning Ending	11 Other income (loss)				
Profit % Loss %					
Capital % %					
Check if decrease is due to sale or exchange of partnership interest . ▶ ☐	12 Section 179 deduction 21 Foreign taxes paid or accrued				
K Partner's share of liabilities: Beginning Ending	13 Other deductions				
Nonrecourse \$					
Qualified nonrecourse financing \$					
Recourse \$					
Check this box if Item K includes liability amounts from lower tier partnerships ▶	Mays then are activity fay at viels as unappear				
L Partner's Capital Account Analysis Beginning capital account \$	22 More than one activity for at-risk purposes* 23 More than one activity for passive activity purposes*				
Capital contributed during the year \$	*See attached statement for additional information.				
Current year net income (loss) \$ Other increase (decrease) (attach explanation) \$					
Withdrawals and distributions \$ ()	Lines G through M give				
Ending capital account \$	Lines G through M give				
M Did the partner contribute property with a built-in gain (loss)?	applicant partnership				
Yes No If "Yes," attach statement. See instructions.	involvement info.				
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) Beginning					
Ending					

Partnership 1065

? What are some reasons why might "Final" might be checked at the top of the K1?

Can you use K1 income if "Final" is checked?

- ? If "Amended" is checked, what is needed to in order to use this income?
- Where can you find the percentage of ownership your applicant has in the partnership?

? What is need if an individual owns 25% or more in a partnership? ?

? What is needed if less than 25% of business is owned?





Ν	01	es.



S Corp K1 1120S

	L71.121,
Schedule K-1 (Form 1120-S) Department of the Treasury Internal Revenue Service For calendar year 2021, or tax year	Final K-1 Part III Shareholder's Share of Confirm Deductions, Credits, and Ordinary business income (loss) 1 Ordinary business income (loss) 13 Confirm neither
beginning / / 2021 ending / /	2 Net rental real estate income (loss)
Shareholder's Share of Income, Deductions,	3 Other net rental income (loss) Amended
Credits, etc. ▶ See separate instructions.	other net rental income (loss) OXES are
Part I Information About the Corporation	ticked.
A Corporation's employer identification number	5a Ordinary dividends
B Corporation's name, address, city, state, and ZIP code	5b Qualified dividends 14 Schedule K-3 is attached if checked ▶ □
C IRS Center where corporation filed return D Corporation's total number of shares	Left side of K1 identifies the S Corp and explains involvement
Beginning of tax year	8c Unrecaptured section 1250 gain
End of tax year	·
Part II Information About the Shareholder	9 Net section 1231 gain (loss) 16 Items affecting shareholder basis
E Shareholder's identifying number	10 Other income (loss)
F Shareholder's name, address, city, state, and ZIP code	
G Current year allocation percentage	Line G: Applicant's percentage of ownership - if
H Shareholder's number of shares Beginning of tax year	more than 25% get S Corp return
I Loans from shareholder Beginning of tax year \$ End of tax year	
For IRS Use Only	
r IRS U	
	Note: Less info on S Corp 1120 S document than 1065
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) 2021

S Corp K1 1120S

	Pa							
	1	Ordinary business income (loss)			ne (loss)	Line 1: Compare amount K1, Line 16		
	2	Not rental real estate income (less)			ome (loss)	Lines 2 & 3: Net rental income(s)		
	3	3 Other net rental income (loss)			(loss)	- A	Add if income. Subtra	act if loss.
	4	Interes	t income					
	For	m 88	325					
	J.	Quami	sa aivias	as	_	14	Schedule K-3 is attached if checked ▶	
Form 8825 (Rev. November 2018) Department of the Treasury Internal Revenue Service Norme	P	artnership or Attach to Form	come and Expe an S Corporati n 1065 or Form 1120S. n8825 for the latest inform	nation.	OMB No. 1545-0123	15	Alternative minimum tax (AMT) items	
Show the type and ad rental value and days Physical address of ea ZIP code	with personal us	e. See instructions. S	ital real estate property See page 2 to list additi Type—Enter code 1–8; see page 2 for list	listed, report the num	<u> </u>			
A								
Rental Real Estate Inc 2 Gross rents		A	Pro B	perties C	D			
Rental Real Estate Ex 3 Advertising 4 Auto and travel 5 Cleaning and maintena 6 Commissions	<u>3</u>							
7 Insurance	7 8 9 10 11					16	Items affecting shareholder basis	
12 Utilities	13						Code D	
16 Total expenses for each Add lines 3 through 15 17 Income or (loss) from eac Subtract line 16 from line	h property.						Compare amount	
18a Total gross rents. Add b Total expenses. Add to 19 Net gain (loss) from Forestate activities 20a Net income (loss) from	orm 4797, Part I	I, line 17, from the	disposition of property	from rental real)		K1, Line 1.	
b Identify beld 20a. Attach 21			estate inco			es 18a t	hrough 20a. Enter the result here and or	1:
21 Net rental real estate in Form 1065 or 11208 For Paperwork Reduction Act	: Schedule K, lin	e 2	ugh 20a. Enter the resu Cat. No. 101362		Form 8825 (Rev. 11-2018)	ľ	Other information	
	11	Sectio	n 179 ded	auction	_			
	12	Other	deduction	าร				

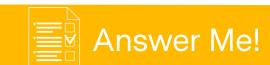
S Corporation K1

- ? What should you do if "Final" is checked at the top of the K1?
- ? What should you do if "Amended" is checked?
- ? What should you do if the S Corp K-1 contains Distributions on Line 16 Items affecting shareholder basis, with Code D?

What do you need to see to in order to use the information from Line 16?

- ? What do Distributions affect?
- Will you use the other line on the K1 as sources of income or loss when calculating business income on the 1084 Cast Flow Analysis worksheet?







Notes:

