



Foundations on Demand

Understanding KI Income

Workbook

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Understanding K1 Income →

1. Introduction to IRS Schedule K1s →
2. Finding out if your borrower has K1s →
3. Why are K1s required? →
4. Partnership 1065 K1 →
5. S Corporation 1120 K1 →

CHECK YOUR ANSWERS

Answer Key →

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

WATCH THE VIDEO

[Introduction to IRS Schedule K1s →](#)

ADDITIONAL RESOURCE

[Download the Self-Employed Cash Flow Analysis Calculator →](#)

Finding Your Borrower's K1s

WATCH THE VIDEO

Finding out if your borrower has 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 I loss to K1 Line 1
 - Compare Column K income to K1 Line 1

Schedule E (Form 1040)
Attachment Sequence No. **13**
Page **2**

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

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

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198**. See instructions.

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

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

Passive Income and Loss		Nonpassive Income and Loss			
	(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A					
B					
C					
D					
29a	Totals				
b	Totals				
30	Add columns (h) and (k) of line 29a				30
31	Add columns (g), (i), and (j) of line 29b				31 ()
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31				32

Why Are K1s Required?

[WATCH THE VIDEO](#)

[Why Are K1s Required? →](#)

QUESTION

Why do we need K1s from the borrower?:

QUESTION

What two guidelines must the business income meet in order to use it to qualify a borrower?

Guideline 1:

Guideline 2:

Where can you find these guidelines listed?:

QUESTION

What must you validate in order to use “Ordinary Income” from K1 Line 1?:

Partnership 1065 K1

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

beginning / / 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

C IRS center where

D Check if this

Part II Inform

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.

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				
Loss				
Capital				

Check if decrease is due to:

Sale or Exchange of partnership interest. See instructions.

K1 Partner's share of

Nonrecourse _____ Ending

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 . . . \$ _____

Final K-1 Amended K-1

Part III Partner's Share of Current Deductions, Credits, and

651,123
Confirm neither Final nor Amended checked.

1 Ordinary business income (loss) **14** Self-employment earnings (loss)

2 Net rental real estate income (loss)

3 Other net rental income (loss) **15**

Lines 2 & 3: Add if income. Subtract if loss.

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)

9a Net long-term capital gain (loss)

9b Collectibles (28%) gain (loss)

9c Unrecaptured section 1250 gain

10 Net section 1231 gain (loss)

11 Other income (loss)

12 Section 179 deduction **21** Foreign taxes paid or accrued

13 Other deductions

19 Distributions

Code A

20 Other information

Compare to K1, Line 1.

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)

Partnership 1065

[WATCH THE VIDEO](#)

[Partnership 1065 K1 →](#)

QUESTION

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

Can you use K1 income if “Final” is checked?

QUESTION

If “Amended” is checked, what is needed in order to use this income?

QUESTION

Where can you find the percentage of ownership your applicant has in the partnership?

QUESTION

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

QUESTION

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

S Corporation K1

Schedule K-1 (Form 1120-S)

Department of the Treasury
Internal Revenue Service

beginning / / ending / /

Shareholder's Share of Income, Deductions, Credits, etc.

See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code

C IRS Center where corporation filed return

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

Left side of K1 identifies the S Corp and explains involvement.

Part II Information About the Shareholder

E Shareholder's identifying number

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

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 %

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 \$

Note: Less info on S Corp 1120 S document than 1065

For IRS Use Only

Part III Shareholder's Share of Current Income, Deductions, Credits, and Other		671124	
<input type="checkbox"/> Final K-1 <input type="checkbox"/> Amended K-1			
1	Ordinary business income (loss)	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 <input type="checkbox"/>
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)		Code D
11	Section 179 deduction		
12			
		17	Other information
18	<input type="checkbox"/> More than one activity for at-risk purposes*		
19	<input type="checkbox"/> More than one activity for passive activity purposes*		
* See attached statement for additional information.			

Confirm neither Final nor amended boxes are ticked.

Line 1: Compare amount K1, Line 16
Lines 2 & 3: Net rental income(s). Add if income. Subtract if loss.

Compare amount to income on K1, Line 1.

Line G: Applicant's percentage of ownership - if more than 25% get S Corp return.

Form 8825

Form 8825 Department of the Treasury Internal Revenue Service	Rental Real Estate Income and Expenses of a Partnership or an S Corporation Attach to Form 1065 or 1120-S. Go to www.irs.gov/Form8825 for instructions and the latest information.	OMB No. 1545-0123
Name _____		Employer identification number _____

1	Enter the address and type of each rental real estate property. For each rental real estate property listed, report the number of days rented at fair rental value and number of days of personal use. Attach page 2 to list additional properties. See instructions.				
	(a)	(b)	(c)	(d)	(e)
	Physical address of each property (street, city, state, ZIP code)	Type (Enter code 1–8; see page 2 for list.)	Type (Enter code A–I; see page 2 for list.)	Fair rental days	Personal-use days
A					
B					
C					
D					

Rental Real Estate Income		Properties			
		A	B	C	D
2a	Gross rents				
2b	Other income related to rental real estate activity				
2c	Total rental real estate income for each property. Add lines 2a and 2b				
Rental Real Estate Expenses					
3	Advertising				
4	Auto and travel				
5	Cleaning and maintenance				
6	Commissions				
7	Insurance				
8	Interest (see instructions)				
9	Legal and other professional fees				
10	Real estate taxes				
11	Repairs				
12	Utilities				
13	Wages and salaries				
14	Depreciation (see instructions)				
15	Reserved for future use				
16	Reserved for future use				
17	Other deductions (attach Schedule A (Form 8825))				
18	Total rental real estate expenses for each property. Add lines 3 through 17				
19	Income or (loss) from each rental real estate property. Subtract line 18 from line 2c				
20a	Total rental real estate income. Add total rental real estate income from line 2c. See instructions				
20b	Total rental real estate expenses. Add total rental real estate expenses from line 18. See instructions				
21	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities				
22a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)				
b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 22a. Attach a statement if more space is needed.					
(1) Name		(2) Employer identification number			
_____		_____			
_____		_____			

23	Net rental real estate income (loss). Combine lines 20a through 22a. Enter the result here and on Schedule K, line 2, of Form 1065 or 1120-S	23
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S Corporation K1

[WATCH THE VIDEO](#)

[S Corporation 1120 K1 →](#)

QUESTION

What should you do if “Final” is checked at the top of the K1?

QUESTION

What should you do if “Amended” is checked?

QUESTION

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?

QUESTION

What do Distributions affect?

QUESTION

Will you use the other line on the K1 as sources of income or loss when calculating business income on the 1084 Cash Flow Analysis worksheet?
