



Foundations On-Demand

K1 Income Workbook

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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 Me!
IRS Schedule K1
Introduction



Click Tips
Self-Employed
Cash Flow Analysis
Calculator

Notes:

Foundations On-Demand

K1 Income

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

SCHEDULE E (Form 1040)		Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)			OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (95)		► Attach to Form 1040, 1040-SR, 1040-NR, or 1041.			2021 Attachment Sequence No. 13	
Name(s) shown on return		► Go to www.irs.gov/ScheduleE for instructions and the latest information.			Your social security number	
Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.						
A Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No B If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No						
1a Physical address of each property (street, city, state, ZIP code)						
A						
B						
C						
1b Type of Property (from list below)	2 For each rental real estate property listed, report the number of days rented and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.		Fair Rental Days	Personal Use Days	QJV	
A	A				<input type="checkbox"/>	<input type="checkbox"/>
B	B				<input type="checkbox"/>	<input type="checkbox"/>
C	C				<input type="checkbox"/>	<input type="checkbox"/>
Type of Property:						
1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental			
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe)			
Income:	Properties:		A	B	C	
3 Rents received		3				
4 Royalties received		4				
Expenses:						
5 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 instructions)		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 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198		21				
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)		22	()	()	()	()
23a Total of all amounts reported on line 3 for all rental properties		23a				
b Total of all amounts reported on line 4 for all royalty properties		23b				
c Total of all amounts reported on line 12 for all properties		23c				
d Total of all amounts reported on line 18 for all properties		23d				
e Total of all amounts reported on line 20 for all properties		23e				
24 Income. Add positive amounts shown on line 21. Do not include any losses		24				
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here		25	()			
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2		26				

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11344L

Schedule E (Form 1040) 2021

Schedule E (Form 1040) 2021

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?

 Why do we need K1s from the borrower?

 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?

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



Watch Me!
Why are K1s
Required?



Answer Me!

Notes:

Foundations On-Demand K1 Income

Partnership 1065 K1

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2021

For calendar year 2021, or tax year

beginning / / 2021 ending / /

Partner's Share of Income, Deductions, Credits, etc. ▶ See back of form and 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 partnership filed return ▶	
D <input type="checkbox"/> 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.	
G <input type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member	
H1 <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner	
H2 <input type="checkbox"/> 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 ▶ <input type="checkbox"/>	
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 ▶ <input type="checkbox"/>	
K Partner's share of liabilities:	
Beginning	Ending
Nonrecourse . . . \$	\$
Qualified nonrecourse financing . . . \$	\$
Recourse . . . \$	\$
Check this box if Item K includes liability amounts from lower tier partnerships ▶ <input type="checkbox"/>	
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)? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach statement. See instructions.	
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)	
Beginning \$	
Ending \$	

<input type="checkbox"/> Final K-1	<input type="checkbox"/> Amended K-1
Part III Partner's Share of Current Income, Deductions, Credits, and Other Items	
1 Ordinary business income (loss)	14
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	15

Confirm neither
Final nor
Amended
checked.

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

Left side of K1 identifies
your applicant and name of
partnership.

5 Interest income	
6a Ordinary dividends	
8	19 Distributions
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1259 gain (loss)	
10 Net section 1231 gain (loss)	
11 Other income (loss)	
12 Section 179 deduction	21 Foreign taxes paid or accrued
13 Other deductions	

Code A
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.

Lines G through M give
applicant partnership
involvement info.

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?



Watch Me!
Partnership 1065 K1



Answer Me!

Notes:

6.21.1.21

6.21.1.21

Schedule K-1 (Form 1120-S) Department of the Treasury Internal Revenue Service		2021	For calendar year 2021, or tax year beginning <input style="width: 100px; border: 1px solid black; height: 15px; vertical-align: middle;"/> / <input style="width: 100px; border: 1px solid black; height: 15px; vertical-align: middle;"/> / 2021 ending <input style="width: 100px; border: 1px solid black; height: 15px; vertical-align: middle;"/> / <input style="width: 100px; border: 1px solid black; height: 15px; vertical-align: middle;"/>	
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 _____				
Part II Information About the Shareholder				
E Shareholder's identifying number				
F Shareholder's name, address, city, state, and ZIP code				
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 \$ _____				
For IRS Use Only				
Part III Shareholder's Share of Income, Deductions, Credits, and				
<input type="checkbox"/> Final K-1 <input type="checkbox"/> Amended K-1				
1	Ordinary business income (loss)		13	
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 . . .
8c	Unrecaptured section 1250 gain			
9	Net section 1231 gain (loss)		16	Items affecting shareholder basis
10	Other income (loss)			

Confirm
neither
Final nor
Amended
boxes are
ticked.

Left side of K1 identifies the S
Corp and explains involvement

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

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

Confirm
neither
Final nor
Amended
boxes are
ticked.

Left side of K1 identifies the S Corp and explains involvement

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

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

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

1	Ordinary business income (loss)
2	Net rental real estate income (loss)
3	Other net rental income (loss)
4	Interest income

Line 1: Compare amount K1, Line 16
Lines 2 & 3: Net rental income(s)

- **Add if income. Subtract if loss.**

Form 8825

US Qualified Dividends

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

OMB No. 1545-0123

► Attach to Form 1065 or Form 1120S.
► Go to www.irs.gov/Form8825 for the latest information.

8825
(Rev. November 2018)
Department of the Treasury
Internal Revenue Service

Name _____

Employer identification number _____

1 Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.

Physical address of each property—street, city, state, Type—Enter code 1-8; ZIP code see page 2 for list _____

Fair Rental Days _____

Personal Use Days _____

A _____

B _____

C _____

D _____

Rental Real Estate Income

2 Gross rents

2 **A** **B** **C** **D**

Rental Real Estate Expenses

3 Advertising

3 **A** **B** **C** **D**

4 Auto and travel

4 **A** **B** **C** **D**

5 Cleaning and maintenance

5 **A** **B** **C** **D**

6 Commissions

6 **A** **B** **C** **D**

7 Insurance

7 **A** **B** **C** **D**

8 Legal and other professional fees

8 **A** **B** **C** **D**

9 Interest (see instructions)

9 **A** **B** **C** **D**

10 Repairs

10 **A** **B** **C** **D**

11 Taxes

11 **A** **B** **C** **D**

12 Utilities

12 **A** **B** **C** **D**

13 Wages and salaries

13 **A** **B** **C** **D**

14 Depreciation (see instructions)

14 **A** **B** **C** **D**

15 Other (list) ►

15 **A** **B** **C** **D**

16 Total expenses for each property. Add lines 3 through 15

16 **A** **B** **C** **D**

17 Income or (loss) from each property. Subtract line 16 from line 2

17 **A** **B** **C** **D**

18a Total gross rents. Add gross rents from line 2, columns A through H

18a **A** **B** **C** **D**

18b Total expenses. Add total expenses from line 16, columns A through H

18b **A** **B** **C** **D**

19 Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities

19 **A** **B** **C** **D**

20a Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partner

20a **A** **B** **C** **D**

b Identify below

20a. Attach

21 Net rental real estate income (loss). Combine lines 18a through 20a. Enter the result here and on:

- **Form 1065 or 1120S: Schedule K, line 2**

21 Net rental real estate income (loss). Combine lines 18a through 20a. Enter the result here and on:

21 **A** **B** **C** **D**

• **Form 1065 or 1120S: Schedule K, line 2**

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 10136Z

Form 8825 (Rev. 11-2018)

17 Other Information

11 Section 179 deduction

12 Other deductions

Code D

Compare amount to income on K1, Line 1.

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?



Watch Me!
S Corporation K1



Answer Me!



Click Tips
Watch Radian's
video series on
Liquidity

Notes: