



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.

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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
2021
Attachment Sequence No. 13

Department of the Treasury
Internal Revenue Service (99)

► Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
► Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return _____ 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 ☐ Yes ☐ No
B If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

1a Physical address of each property (street, city, state, ZIP code) _____

1b Type of Property (from list below) **2** For each rental real estate property listed above, report the number of fair rental 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			☐
B			☐
C			☐

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:
3 Rents received 4 Royalties received 5 Land 6 Royalties 7 Self-Rental 8 Other (describe) _____

Expenses:
5 Advertising 6 Auto and travel (see instructions) 7 Cleaning and maintenance 8 Commissions 9 Insurance 10 Legal and other professional fees 11 Management fees 12 Mortgage interest paid to banks, etc. (see instructions) 13 Other interest 14 Repairs 15 Supplies 16 Taxes 17 Utilities 18 Depreciation expense or depletion 19 Other (list) _____ 20 Total expenses. Add lines 5 through 19 _____ 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 _____ 22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) _____

23a Total of all amounts reported on line 3 for all rental properties _____ **23b** Total of all amounts reported on line 4 for all royalty properties _____ **23c** Total of all amounts reported on line 12 for all properties _____ **23d** Total of all amounts reported on line 18 for all properties _____ **23e** Total of all amounts reported on line 20 for all properties _____

24 Income. Add positive amounts shown on line 21. Do not include any losses _____ **25** Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here _____ **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 _____

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			☐		☐	☐
B			☐		☐	☐
C			☐		☐	☐
D			☐		☐	☐

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.

31 Add columns (g), (i), and (j) of line 29b.

32 Total partnership and S corporation income or (loss). Combine lines 30 and 31

30

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:

**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 ☐ 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 ☐ 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 . ► ☐

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 ► ☐

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 Other Income

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.

5 Interest income	
6a Ordinary dividends	

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

8 Net long-term capital gain (loss)	
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1231 gain (loss)	

19 Distributions

Code A

Compare to K1, Line 1

10 Net section 1231 gain (loss)	
11 Other income (loss)	

12 Section 179 deduction	
13 Other deductions	

21 Foreign taxes paid or accrued

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:

**Schedule K-1
(Form 1120-S)**

Department of the Treasury
Internal Revenue Service

2021

For calendar year 2021, or tax year

beginning / / 2021

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

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

☐ Final K-1 ☐ Amended K-1

Part III Shareholder's Share of Income, Deductions, Credits, and

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)

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

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)

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

Form 8825

8825 Rental Real Estate Income and Expenses of a Partnership or an S Corporation
OMB No. 1545-0123
Go to www.irs.gov/Form8825 for the latest information.

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, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days	Personal Use Days
A			
B			
C			
D			

Rental Real Estate Income

	A	B	C	D
2 Gross rents				

Rental Real Estate Expenses

3 Advertising	
4 Auto and travel	
5 Cleaning and maintenance	
6 Commissions	
7 Insurance	
8 Legal and other professional fees	
9 Interest (see instructions)	
10 Repairs	
11 Taxes	
12 Utilities	
13 Wages and salaries	
14 Depreciation (see instructions)	
15 Other (list)	

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

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

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

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

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

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

b Identify each:

(i) Name

14 Schedule K-3 is attached if checked ☐

15 Alternative minimum tax (AMT) items

16 Items affecting shareholder basis

Code D

Compare amount to income on K1, Line 1.

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

11 Section 179 deduction

12 Other deductions

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!



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Notes: