



TAX RETURN ANALYSIS

Red Light or Green Light?

Don't Get your Signals Crossed!

Linda Keith CPA

Helping Lenders Say "YES" to Good Loans

www.LendersOnlineTraining.com

www.LindaKeithCPA.com

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NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Linda Keith, CPA, CSP works with banks and credit unions and their lenders, underwriters and analysts to say "Yes" to good loans.

Linda is known as the CPA who likes to play. Making the right loan decision is serious business. But there is no reason not to have some fun while learning about it. People learn better when having fun.

EXPERIENCE

- Public Accounting and Tax Practice
- Training lenders since 1986
- Open-enrollment and onsite training
- Real Estate investor
- Commercial borrower many times over for family owned construction company
- Invited by the Central Bank of Russia to present on business lending

CREDENTIALS

- Certified Public Accountant
- Certified Speaking Professional. The highest earned designation from the National Speakers Association, the premier professional association of independent keynoters and trainers in the country. Only 8 CPAs have earned this designation.

AFFILIATIONS

- American Institute of Certified Public Accountants
- National Speakers Association

RESOURCES

www.LendersOnlineTraining.com

Access online modules, live webinars and other resources.

VIRTUAL CLASSES

Join a virtual class on Financial Statement or Tax Return Analysis. They combine self-study online modules with live webinars and an active online discussion group over the four-week session.

ONLINE SELF-STUDY

This option allows you to take whichever modules you want, in any order.

- Short, concise, convenient and practical (each is 30 minutes or less)
- Take the modules before, after or as an alternative to 'live training'
- Includes additional topics Linda cannot fit into the live-training agenda
- Fast-paced, interactive, colorful...just like Linda!

www.LindaKeithCPA.com

Also found at our website....

- Linda's Good Loans Blog
- Ask Linda Section
- Excel-based Global Cashflow

Worksheets

- Credit manuals covering financial statement and tax return analysis
- Articles and more.....

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

About this Report

I have compiled my best ideas from our Tax Return Analysis manuals, our two-day in person training, and our virtual class live webinars for spotting a red light and as importantly, recognizing when it is a green light instead.

More than just numbers, formulas and spreadsheets, Tax Return Analysis is about understanding the borrower and their business, getting the story behind the numbers and making a good loan decision.

Spotting and resolving concerns, red flags, something that should stop you in your tracks, is a key aspect which is often learned haphazardly as things go wrong!

As important, lending and credit professionals need to differentiate when something that initially seems like a red flag has an explanation that resolves the concern.

Please note: (This is the wording from our full manuals reminding you to always check your guidelines.)

This publication is designed to provide accurate and authoritative information in regard to the subject covered.

It is sold with the understanding that the author is not engaged in rendering legal or accounting services. Do not use this manual as a substitute for adequate training or consultations with professional advisors, when necessary.

Policies and procedures vary. Consult the policies and procedures of your company or a senior lender before making adjustments recommended here.

RED FLAGS ARE HERE>>>>>>>

For this report I compiled most of the 'Watch for' icons from the manual.

KEY TO ICONS

My manual on [Tax Return Analysis: Essentials and 1040 Review](#) has tips and suggestions throughout. Here is the key to the icons in the manual to help you digest the high level of content you'll find there.

To Do



When you need to do something this icon signals exactly what steps to take.

Self-Study Students



If you are working through this manual without attending my workshop, or reviewing it later, this paragraph will give you crucial information that I generally cover in class.

Tip



This icon signals an idea that is beyond the nuts and bolts of filling in the numbers.

Digging for Dollars



Sometimes the basics are not enough. These tips will help you find more adjustments that are appropriate and justifiable to better predict future cashflow.

Worksheet Users



This paragraph will help you make the best use of my Excel Worksheet if you have purchased it.

Watch For



This one is self-explanatory. These are red flags -- or, in some cases, things that many people THINK are red flags but really aren't.

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)**SCHEDULE C
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)**Profit or Loss From Business**
(Sole Proprietorship)

OMB No. 1545-0074

► **Information about Schedule C and its separate instructions is at www.irs.gov/schedulec.**
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

Name of proprietor

Imin Fashion

Social security number (SSN)

123-45-6789

A Principal business or profession, including product or service (see instructions)

Retail Clothing Store

B Enter code from instructions

► 4 4 8 1 2 0

C Business name. If no separate business name, leave blank.

Milady Fashions

D Employer ID number (EIN), (see instr.)**E** Business address (including suite or room no.) ► 725 North St

City, town or post office, state, and ZIP code Lacey, WA 98507

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**G** Did you "materially participate" in the operation of this business during 2015? If "No," see instructions for limit on losses . ☒ Yes ☐ No**H** If you started or acquired this business during 2015, check here ► ☐**I** Did you make any payments in 2015 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☒ No**J** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Income**

| | | | |
|----------|--|----------|----------|
| 1 | Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ► <input type="checkbox"/> | 1 | 427,742. |
| 2 | Returns and allowances | 2 | 1,442. |
| 3 | Subtract line 2 from line 1 | 3 | 426,300. |
| 4 | Cost of goods sold (from line 42) | 4 | 239,349. |
| 5 | Gross profit. Subtract line 4 from line 3 | 5 | 186,951. |
| 6 | Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) | 6 | |
| 7 | Gross income. Add lines 5 and 6 ► | 7 | 186,951. |

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

| | | | | | | | |
|-----------|--|------------|---------|------------|---|------------|--|
| 8 | Advertising | 8 | 3,500. | 18 | Office expense (see instructions) | 18 | 975. |
| 9 | Car and truck expenses (see instructions). | 9 | 2,250. | 19 | Pension and profit-sharing plans | 19 | |
| 10 | Commissions and fees | 10 | | 20 | Rent or lease (see instructions): | | |
| 11 | Contract labor (see instructions) | 11 | | a | Vehicles, machinery, and equipment | 20a | |
| 12 | Depreciation | 12 | | b | Other business property | 20b | 36,000. |
| 13 | Depreciation and section 179 expense deduction (not included in Part III) (see instructions). | 13 | 5,727. | 21 | Repairs and maintenance | 21 | 1,776. |
| 14 | Employee benefit programs (other than on line 19) | 14 | | 22 | Supplies (not included in Part III) | 22 | 1,203. |
| 15 | Insurance (other than health) | 15 | 2,400. | 23 | Taxes and licenses | 23 | 8,858. |
| 16 | Interest: | | | 24 | Travel, meals, and entertainment: | | |
| a | Mortgage (paid to banks, etc.) | 16a | | a | Travel | 24a | |
| b | Other | 16b | 2,633. | b | Deductible meals and entertainment (see instructions) | 24b | 460. |
| 17 | Legal and professional services | 17 | | 25 | Utilities | 25 | 3,570. |
| 28 | Total expenses before expenses for business use of home. Add lines 8 through 27a ► | 28 | | 26 | Wages (less employment credits) | 26 | 59,050. |
| 29 | Tentative profit or (loss). Subtract line 28 from line 7 | 29 | 42,598. | 27a | Other expenses (from line 48) | 27a | 15,951. |
| 30 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 | | | b | Reserved for future use | 27b | |
| 31 | Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32. | | | | | 31 | 42,598. |
| 32 | If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited. | | | | | 32a | <input type="checkbox"/> All investment is at risk. |
| | | | | | | 32b | <input type="checkbox"/> Some investment is not at risk. |

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

The following items are from the six-page section on Schedule C in the manual:

Tax Return Analysis: Fundamentals and 1040

Many of these ideas apply equally as well to the 1120, 1120S and 1065 returns covered in the manual: **Business Returns: Corporations, Partnerships and LLCs**

Watch For Gross Income (Ln 1)

Dropping taxable business income could be caused by the timing of receipts in a cash-basis borrower or depreciation on purchase of new equipment.

Watch For 'Discretionary' (Ln 8-27)

'Discretionary' expenses are one of the first places cut back if times are tough. Don't jump to conclusions, though. There can be a reasonable explanation. Watch for a pattern.

Digging for Dollars- Car (Ln 9)

Check to see if Line 9 includes car interest expense. If so, you may be able to add that back if you are subtracting the entire car loan payment elsewhere.

Watch For Depreciation (Ln 13)

If a Form 4562 is attached or you have access to the business' equipment list, watch for sell-off of equipment critical to operations of the business.

If the Form 4562 is missing both years and you seem to have a complete tax return otherwise, consider if it seems reasonable for a healthy business of this type to go two years without replacing equipment. Form 4562 provides some helpful information.

Tip

The back of Form 4562 may indicate what vehicles were used for business and if Line 9 is mileage.

Watch For Insurance (Ln 15)

No insurance or woefully inadequate insurance. In general, we ignore blank lines when reviewing a tax return. This is a line that should not be blank.

Watch For Interest Expense (Ln 16)

Sole Proprietors regularly mix personal debt and business debt on their application. Don't count business debt against them twice, on business and personal list.

Watch For Legal/Professional (Ln 17)

A huge jump in legal and professional fees could mean a lawsuit. Or it could mean they finally hired an accountant or had their lawyer rewrite all their contracts.

If a lawsuit is in progress, consider what is the worst that can happen. Is it limited to losing money that will not harm them? If a loss will damage the viability of their business proceed with caution.

Digging for Dollars - Pension (Ln 19)

If Line 19 is profit-sharing you may be able to add it back as nonrecurring.

Watch For Repairs (Ln 21)

A large decrease on Line 21 Repairs and maintenance could be a hint of trouble. It may not be a concern, however, if they have replaced equipment or did a lot of preventative maintenance last year.

If the business suffered from a natural disaster or a fire last year, there may be significant nonrecurring expenses here. Compare to the previous year.

Watch For Taxes and Licenses (Ln 23)

If they are not paying enough on Line 23, taxes and licenses, they are in trouble. Calculate estimated payroll taxes. 10% of wages (Line 26) is a minimum and for high-risk jobs can go up to 40% of wages.

Watch For Wages (Ln 26)

If this is a family-run business, find out if the family members are paid wages on Line 26. You'll have a very different impression of this business if you find out the profits are really paying four family members instead of just the owner.

Watch For Home Office (Ln 30)

The bulk of the home office deduction on Line 30 is part of their house payment which you are already counting against them as a debt.

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Schedule C (Form 1040) 2015

Page **2****Part III Cost of Goods Sold** (see instructions)

| | |
|-----------|--|
| 33 | Method(s) used to value closing inventory: a <input type="checkbox"/> Cost b <input checked="" type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation) |
| 34 | Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| 35 | Inventory at beginning of year. If different from last year's closing inventory, attach explanation 35 42,843. |
| 36 | Purchases less cost of items withdrawn for personal use 36 240,252. |
| 37 | Cost of labor. Do not include any amounts paid to yourself 37 |
| 38 | Materials and supplies 38 |
| 39 | Other costs 39 |
| 40 | Add lines 35 through 39 40 283,095. |
| 41 | Inventory at end of year 41 43,746. |
| 42 | Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4 42 239,349. |

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

| | |
|------------|---|
| 43 | When did you place your vehicle in service for business purposes? (month, day, year) ▶ |
| 44 | Of the total number of miles you drove your vehicle during 2015, enter the number of miles you used your vehicle for: |
| a | Business |
| b | Commuting (see instructions) |
| c | Other |
| 45 | Was your vehicle available for personal use during off-duty hours? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 46 | Do you (or your spouse) have another vehicle available for personal use? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 47a | Do you have evidence to support your deduction? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| b | If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No |

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

| | |
|--|--------|
| Bank Service Charges | 180. |
| Chamber of Commerce | 160. |
| Trash Removal | 1,600. |
| Merchant Service Fees | 4,756. |
| Paris trip | 9,255. |
| | |
| | |
| | |
| 48 Total other expenses. Enter here and on line 27a 48 15,951. | |

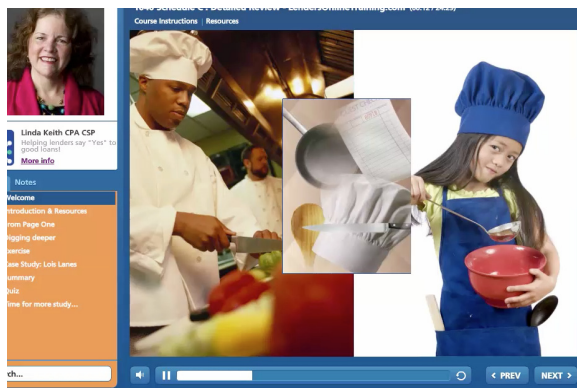
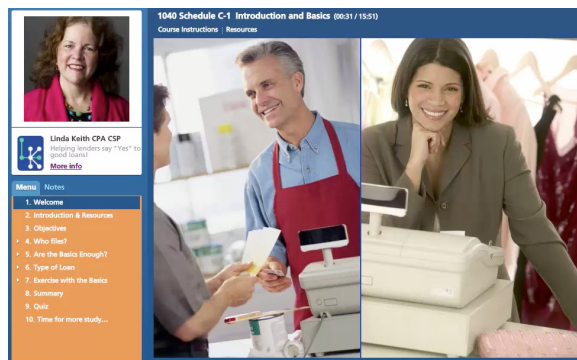
NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Schedule C: Page Two

Look for noncash (amortization) and nonrecurring expenses to add back. Most important when you are Digging for Dollars.

You may spot nonrecurring expenses because of what they are called (moving expenses) or by comparing two year's (or more) tax returns.

Check your guidelines before adding back nonrecurring expenses. If your company uses historical cashflow, mention significant nonrecurring expenses or losses in the write-up rather than adding them back.

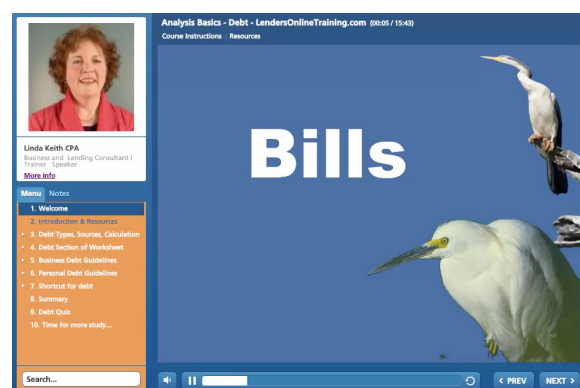
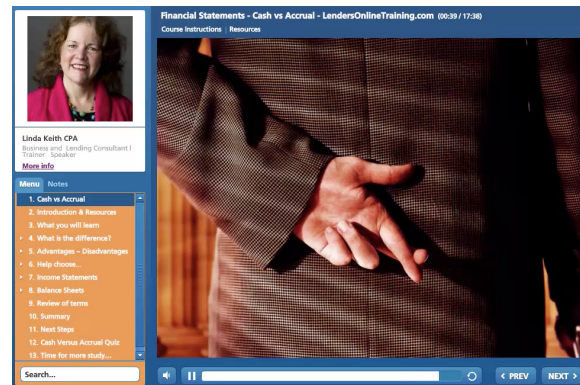


Digging for Dollars



Compare to prior year to find significant nonrecurring expenses to add back. I thought the Paris Trip seemed unusual for a retail store. If I were digging for dollars, I'd ask about it.

Related Modules at
www.LendersOnlineTraining.com



NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)**SCHEDULE D
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)**Capital Gains and Losses**

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Schedule D and its separate instructions is at www.irs.gov/scheduled.

▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

Name(s) shown on return

Imin & Outa Fashion

Your social security number

123-45-6789

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

| | (d) Proceeds (sales price) | (e) Cost (or other basis) | (g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g) | (h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g) |
|--|----------------------------------|---------------------------------|---|---|
| 1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b . | | | | |
| 1b Totals for all transactions reported on Form(s) 8949 with Box A checked | | | | |
| 2 Totals for all transactions reported on Form(s) 8949 with Box B checked | | | | |
| 3 Totals for all transactions reported on Form(s) 8949 with Box C checked | | | | |
| 4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . | | | | 4 |
| 5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 | | | | 5 |
| 6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions | | | | 6 () |
| 7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back | | | | 7 |

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

| | (d) Proceeds (sales price) | (e) Cost (or other basis) | (g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g) | (h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g) |
|---|----------------------------------|---------------------------------|--|---|
| 8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b . | Proceeds | | | |
| 8b Totals for all transactions reported on Form(s) 8949 with Box D checked | 9,699. | 17,875. | | -8,176. |
| 9 Totals for all transactions reported on Form(s) 8949 with Box E checked | | | | |
| 10 Totals for all transactions reported on Form(s) 8949 with Box F checked | | | | |
| 11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 | | | | 11 |
| 12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 | | | | 12 |
| 13 Capital gain distributions. See the instructions | | | | 13 |
| 14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions | | | | 14 (3,696.) |
| 15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back | | | | 15 -11,872. |

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

The following items are from the four-page section on Schedule D in the manual:
Tax Return Analysis: Fundamentals and 1040

Guidelines about the use of Capital Gains and losses vary widely, as do the shortcuts you can use and the documentation you require.

Be sure to check guidelines before applying the information provided here.

Digging for Dollars

Check to see if the entries on Schedule D are all on Lines 5, 6, 12 and 14. Neither K-1 Pass-through gains/losses nor carryovers are cash flow in the current year.



Watch For

If there are significant losses in the long-term section, it can appear that the borrower is in a deficit position related to capital sales. Be cautious that you do not get the wrong impression.



Digging For Dollars

Consider including the full proceeds of the stock sale in cashflow, not just the gain. At first that doesn't sound right, but hear me out.



The Fashion return is a great example. They had a taxable loss on XYZ stock of \$8,176. If you follow the information through to the Form 8949, you would discover they bought this stock back in 2006.

So what is the impact of the transaction in 2015? An increase in cashflow of \$9,699! They paid for it so long ago that the amount they paid is not relevant to current cashflow. This is also true when there is a taxable gain of \$2,000 and the increase to cashflow is \$9,699. Consider the cash impact of the transaction, not just the gain or loss for tax purposes.

Some lenders may be able to 'annuitize' the stock portfolio to give the borrower credit for the available pool of funds.



Watch For

Double-check their application for evidence that they still have plenty of stock to sell.

Watch For

There is no way to tell from the 1040 alone if the borrower just traded one stock for another. I recommend that you get the broker's statement if you want to use capital gains and losses from stock transactions in cashflow.



Related Module at
www.LendersOnlineTraining.com



NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)**SCHEDULE E
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return**Supplemental Income and Loss**
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041.

▶ Information about Schedule E and its separate instructions is at www.irs.gov/schedulee.

OMB No. 1545-0074

Imin & Outa Fashion

Your social security number

123-45-6789

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 or C-EZ** (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 2015 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☒ No**B** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No

| | | | | | |
|-----------|---|--|-------------------------|--------------------------|--------------------------|
| 1a | Physical address of each property (street, city, state, ZIP code) | | | | |
| A | 411 S 3rd St Lacey WA 98500 | | | | |
| B | 315 D St Tumwater WA 98500 | | | | |
| C | Jade St Lacey WA | | | | |
| 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 | 1 | | A 365 | 0 | <input type="checkbox"/> |
| B | 1 | | B 365 | 0 | <input type="checkbox"/> |
| C | 1 | | C 150 | 0 | <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 | 13,521. | 15,981. | 6,200. |
| 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 | 570. | 623. | |
| 10 | Legal and other professional fees | 10 | | | |
| 11 | Management fees | 11 | | | |
| 12 | Mortgage interest paid to banks, etc. (see instructions) | 12 | 10,524. | 8,308. | 4,815. |
| 13 | Other interest. | 13 | | | |
| 14 | Repairs. | 14 | 1,260. | 1,275. | |
| 15 | Supplies | 15 | | | |
| 16 | Taxes | 16 | 1,782. | 1,924. | 1,275. |
| 17 | Utilities | 17 | | | |
| 18 | Depreciation expense or depletion | 18 | 4,682. | 7,685. | 2,400. |
| 19 | Other (list) ▶ See Line 19 Other Expenses | 19 | 1,251. | 7,057. | 1,200. |
| 20 | Total expenses. Add lines 5 through 19 | 20 | 20,069. | 26,872. | 9,690. |
| 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 | -6,548. | -10,891. | -3,490. |
| 22 | Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) | 22 | (4,163.) | (6,924.) | (2,218.) |
| 23a | Total of all amounts reported on line 3 for all rental properties | 23a | | 35,702. | |
| 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 | | 23,647. | |
| d | Total of all amounts reported on line 18 for all properties | 23d | | 14,767. | |
| e | Total of all amounts reported on line 20 for all properties | 23e | | 56,631. | |
| 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 | | (13,305.) | |
| 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 Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2 | 26 | | | -13,305. |

For Paperwork Reduction Act Notice, see the separate instructions. **BAA** REV 03/14/16 TTW

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Watch For Depreciation is in there!

Also, instead of the totals for all rentals down the right column, they are at the bottom. It is all there, just in a different spot! And you have to add back depreciation.



Related Module at
www.LendersOnlineTraining.com

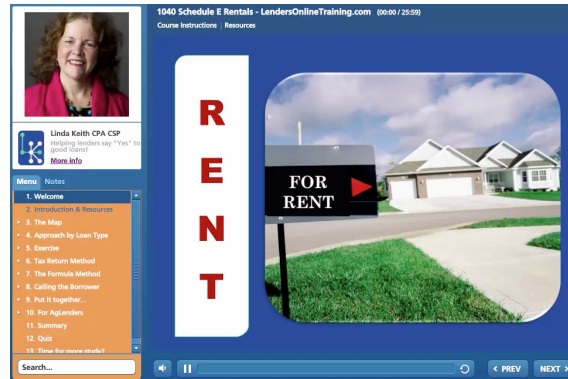
Watch For

You may penalize the borrower by using the easier formula. Actual cash flow often beats the formula significantly.



Digging for Dollars

If a rental has been sold, ask if they carried the contract on the sale.



HISTORICAL CASHFLOW

If your borrower is a real estate developer/investor, or if your guidelines call for historical rather than recurring cashflow, just use the total at the bottom of the form and the tax return method. Here is your calculation:

| | |
|---------------------------------------|--|
| Add Line 23a + 23b Income | |
| Subtract Line 23e Expense | |
| Add back Line 23d Depreciation | |
| Estimated Net Cashflow | |
| Add back Line 23c Interest | |
| Cashflow Available to Pay Debt | |

Recurring Cashflow

If your borrower is a casual rental owner, calculate cashflow only on rentals they still own.

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

| | | | | | | |
|--|---|--|---------------------|----------------|------------|----------------------------|
| Form 4562 Department of the Treasury Internal Revenue Service (99) | Depreciation and Amortization (Including Information on Listed Property) ▶ Attach to your tax return. ▶ Information about Form 4562 and its separate instructions is at www.irs.gov/form4562 . | OMB No. 1545-0172 Identifying number 123-45-6789 | | | | |
| Name(s) shown on return Imin & Outa Fashion | | Business or activity to which this form relates Sch C Retail Clothing Store | | | | |
| Part I Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I. | | | | | | |
| 1 Maximum amount (see instructions) | | 1 500,000. | | | | |
| 2 Total cost of section 179 property placed in service (see instructions) | | 2 4,472. | | | | |
| 3 Threshold cost of section 179 property before reduction in limitation (see instructions) | | 3 2,000,000. | | | | |
| 4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | | 4 0. | | | | |
| 5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | | 5 500,000. | | | | |
| 6 (a) Description of property Computer | | (b) Cost (business use only) 2,472. (c) Elected cost 2,472. | | | | |
| 7 Listed property. Enter the amount from line 29 | | 7 | | | | |
| 8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 | | 8 2,472. | | | | |
| 9 Tentative deduction. Enter the smaller of line 5 or line 8 | | 9 2,472. | | | | |
| 10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562 | | 10 | | | | |
| 11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions) | | 11 132,553. | | | | |
| 12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11 | | 12 2,472. | | | | |
| 13 Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12 ▶ | | 13 0. | | | | |
| Note: Do not use Part II or Part III below for listed property. Instead, use Part V. | | | | | | |
| Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.) | | | | | | |
| 14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions) | | 14 | | | | |
| 15 Property subject to section 168(f)(1) election | | 15 | | | | |
| 16 Other depreciation (including ACRS) | | 16 | | | | |
| Part III MACRS Depreciation (Do not include listed property.) (See instructions.) | | | | | | |
| Section A | | | | | | |
| 17 MACRS deductions for assets placed in service in tax years beginning before 2015 | | 17 889. | | | | |
| 18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/> | | | | | | |
| Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation System | | | | | | |
| (a) Classification of property | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only—see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
| 19a 3-year property | | | | | | |
| b 5-year property | | | | | | |
| c 7-year property | | 2,000. | 7.0 | HY | 200 DB | 286. |
| d 10-year property | | | | | | |
| e 15-year property | | | | | | |
| f 20-year property | | | | | | |
| g 25-year property | | | 25 yrs. | | S/L | |
| h Residential rental property | | | 27.5 yrs. | MM | S/L | |
| i Nonresidential real property | | | 27.5 yrs. | MM | S/L | |
| | | | 39 yrs. | MM | S/L | |
| | | | | MM | S/L | |
| Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System | | | | | | |
| 20a Class life | | | | | S/L | |
| b 12-year | | | 12 yrs. | | S/L | |
| c 40-year | | | 40 yrs. | MM | S/L | |
| Part IV Summary (See instructions.) | | | | | | |
| 21 Listed property. Enter amount from line 28 | | 21 2,080. | | | | |
| 22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions | | 22 5,727. | | | | |
| 23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs | | 23 | | | | |

For Paperwork Reduction Act Notice, see separate instructions. BAA

REV 01/29/16 TTW

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

This form is used to report depreciation on equipment/furnishings and real property. The same form is used for partnerships and corporations. Detail is not required as to the items being depreciated, although you can often find that information on a supporting schedule.

For sole proprietorships, Form 4562 does not need to be filed if there are no acquisitions during the tax year and no deductions for listed property.

Tip

Even if you have no equipment list for the business, the location of entries on the 4562 can give you a hint as to what they have purchased.

Anything in Part I Line 6 (c) or Part III (Lines 19 & 20) is new to the borrower this year. Part IV, Line 21 Listed Property is a mixed bag.

Part III Lines 19a -19c (3-, 5-, and 7-year property) is vehicles, machinery, equipment and furnishings.

Part III Line 19d is nonpermanent agricultural buildings (like some greenhouses).

Part III Line 19e -19i (15+ year property) is buildings.

Watch For

Don't get fooled. You add back depreciation to business income because it does not represent cash expenditures on the part of the business. It is a bookkeeping entry.

But don't forget that it takes cash to replace that equipment. Take a look at the equipment list (if attached). If your borrower barely qualifies for the loan you are considering and you are relying on the business income, what happens when he comes back in and needs an equipment loan to continue the business?

Tip

If the borrower needs equipment financing, there may be another loan you can "sell".

Watch For

Large, unfinanced purchases? We add back depreciation because it is noncash. However, in Part I, the borrower is allowed to deduct as an expense up to \$500,000 spent on assets other than buildings. If this acquisition were financed, it is still appropriate to add back the expense because it is noncash. The loan payments will be counted against cashflow.

However, if this was not financed and is significant, recurring, and necessary to do the job, it would be a mistake to wipe out the expense just because it sits on the depreciation schedule.

Follow your guidelines most of the time -- in this case, adding back depreciation. But keep your mind turned on. Sometimes adding back everything on a depreciation schedule will be misleading.

EXAMPLE: Truck driver replaces an \$18,000 engine every 3 years out of cashflow. He writes it off as depreciation. You might add back one third if doing a two-year average.

Video, furniture and equipment rental stores: Commercial lenders have told me they do not add back depreciation of videos and small rental equipment since they have to be replaced so rapidly and often are purchased out of cashflow.

Related Module at www.LendersOnlineTraining.com



NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Form 4562

Page **2****Part V Listed Property** (Include automobiles, certain other vehicles, certain aircraft, certain computers, and property used for entertainment, recreation, or amusement.)**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.**Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)****24a** Do you have evidence to support the business/investment use claimed? ☒ **Yes** ☐ **No** **24b** If "Yes," is the evidence written? ☒ **Yes** ☐ **No**

| (a) Type of property (list vehicles first) | (b) Date placed in service | (c) Business/ investment use percentage | (d) Cost or other basis | (e) Basis for depreciation (business/investment use only) | (f) Recovery period | (g) Method/ Convention | (h) Depreciation deduction | (i) Elected section 179 cost |
|--|----------------------------------|--|----------------------------|--|---------------------------|------------------------------|----------------------------------|------------------------------------|
|--|----------------------------------|--|----------------------------|--|---------------------------|------------------------------|----------------------------------|------------------------------------|

25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) . **25****26** Property used more than 50% in a qualified business use:

| | | | | | | | | |
|-----|------------|---------|--------|--------|------|-----------|--------|--|
| Van | 03/20/2014 | 75.00 % | 8,667. | 6,500. | 5.00 | 200 DB-HY | 2,080. | |
| | | % | | | | | | |
| | | % | | | | | | |

27 Property used 50% or less in a qualified business use:

| | | | | | | | | |
|--|--|---|--|--|--|-------|--|--|
| | | % | | | | S/L - | | |
| | | % | | | | S/L - | | |
| | | % | | | | S/L - | | |

28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 . **28** 2,080.**29** Add amounts in column (i), line 26. Enter here and on line 7, page 1 . **29****Section B—Information on Use of Vehicles**

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

| | (a) Vehicle 1 | (b) Vehicle 2 | (c) Vehicle 3 | (d) Vehicle 4 | (e) Vehicle 5 | (f) Vehicle 6 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| 30 Total business/investment miles driven during the year (do not include commuting miles) . | 7,500 | | | | | |
| 31 Total commuting miles driven during the year | 2,025 | | | | | |
| 32 Total other personal (noncommuting) miles driven | 475 | | | | | |
| 33 Total miles driven during the year. Add lines 30 through 32 | 10,000 | | | | | |
| 34 Was the vehicle available for personal use during off-duty hours? | Yes No | Yes No | Yes No | Yes No | Yes No | Yes No |
| 35 Was the vehicle used primarily by a more than 5% owner or related person? . . . | X | | | | | |
| 36 Is another vehicle available for personal use? | X | | | | | |

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

| | | |
|--|-----|----|
| 37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? | Yes | No |
| 38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners . . . | | |
| 39 Do you treat all use of vehicles by employees as personal use? | | |
| 40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received? | | |
| 41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.) | | |

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.**Part VI Amortization**

| (a) Description of costs | (b) Date amortization begins | (c) Amortizable amount | (d) Code section | (e) Amortization period or percentage | (f) Amortization for this year |
|-----------------------------|------------------------------------|---------------------------|---------------------|--|-----------------------------------|
|-----------------------------|------------------------------------|---------------------------|---------------------|--|-----------------------------------|

42 Amortization of costs that begins during your 2015 tax year (see instructions):

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

43 Amortization of costs that began before your 2015 tax year **43****44** **Total.** Add amounts in column (f). See the instructions for where to report **44**

REV 01/29/16 TTW

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

Form 4562: Depreciation, Page Two

PART V LISTED PROPERTIES

If vehicles are listed on Line 26, these are vehicles used more than 50% for business.

1: Be sure you are not counting vehicles against a borrower personally that are also counted against them on Schedule C or F.

2: Recognize that your borrower may have included interest expense on a vehicle loan on Line 9 of the Schedule C instead of Line 16. Be sure you add back all interest and subtract business loans from the business or put on a business debt list.

If listed on Line 27, I would treat it as a personal debt. You still should verify that your borrower did not include interest expense on Line 9 of the Schedule C if using actual expenses. If they did, add the interest back.

Tip

Character is one of the "Six C's" of CREDIT. This is a chance to get a sense of whether your borrower has been straightforward in the information entered on the return.



Does the percentage use of listed property entered and the type of asset seem consistent with your understanding of the type of business and the level of activity?

This can be particularly enlightening if the business use is less than 100% in a business where the individual could easily have gotten away with 100%. This might indicate a high degree of honesty.

Watch For

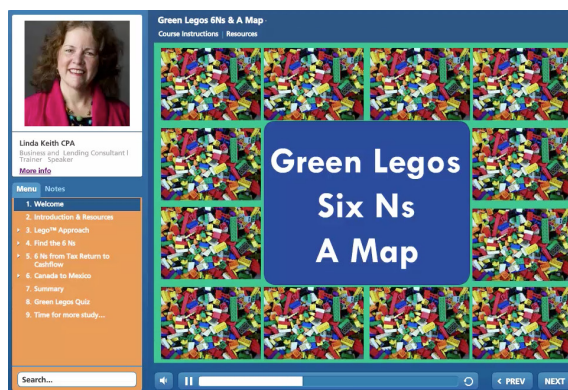
Be careful not to use only one indicator as a litmus test for whether the information presented in the return is accurate and complete. You are looking for a trend.

Also, if you see listed property that seems unusual for that type of business, ask about it. A photographer with an airplane just might be an aerial photographer!

PART VI AMORTIZATION:

You may see amortization here before you notice it on the back of Schedule C. It is a bookkeeping entry similar to depreciation and can be added back for the same reason, it is noncash. Look for it on Schedule C, Page 2, Part V and add it back on the sole proprietorship section of the cashflow worksheet.

Related Module at
www.LendersOnlineTraining.com



NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

| | | | | | | | |
|---|---|--|--------------------------------------|------------------------------|--|---|--|
| Form 4797 Department of the Treasury Internal Revenue Service | Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ► Attach to your tax return. ► Information about Form 4797 and its separate instructions is at www.irs.gov/form4797. | OMB No. 1545-0184 Attachment Sequence No. 27 | | | | | |
| Name(s) shown on return Imin & Outa Fashion | | Identifying number 123-45-6789 | | | | | |
| 1 Enter the gross proceeds from sales or exchanges reported to you for 2015 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) | | 1 | | | | | |
| Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions) | | | | | | | |
| 2 | (a) Description of property | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) | (d) Gross sales price | (e) Depreciation allowed or allowable since acquisition | (f) Cost or other basis, plus improvements and expense of sale | (g) Gain or (loss) Subtract (f) from the sum of (d) and (e) |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 3 | Gain, if any, from Form 4684, line 39 | | | | | | 3 |
| 4 | Section 1231 gain from installment sales from Form 6252, line 26 or 37 | | | | | | 4 |
| 5 | Section 1231 gain or (loss) from like-kind exchanges from Form 8824 | | | | | | 5 |
| 6 | Gain, if any, from line 32, from other than casualty or theft. | | | | | | 6 |
| 7 | Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: | | | | | | 7 |
| Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below. | | | | | | | |
| 8 | Nonrecaptured net section 1231 losses from prior years (see instructions) | | | | | | 8 |
| 9 | Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) | | | | | | 9 |
| Part II Ordinary Gains and Losses (see instructions) | | | | | | | |
| 10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less): | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 11 | Loss, if any, from line 7 | | | | | | 11 () |
| 12 | Gain, if any, from line 7 or amount from line 8, if applicable | | | | | | 12 |
| 13 | Gain, if any, from line 31 | | | | | | 13 |
| 14 | Net gain or (loss) from Form 4684, lines 31 and 38a | | | | | | 14 |
| 15 | Ordinary gain from installment sales from Form 6252, line 25 or 36 | | | | | | 15 |
| 16 | Ordinary gain or (loss) from like-kind exchanges from Form 8824. | | | | | | 16 |
| 17 | Combine lines 10 through 16 | | | | | | 17 |
| 18 | For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below: | | | | | | |
| a | If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions | | | | | | 18a |
| b | Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 | | | | | | 18b |

For Paperwork Reduction Act Notice, see separate instructions. BAA

REV 12/27/15 TTW

Form **4797** (2015)

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

We want to count recurring cashflow from normal business operations, not from the occasional sale of business assets.

Related Module at
www.LendersOnlineTraining.com

Watch For

Be concerned if the company is selling off assets critical to operations of the business (as you understand it), when those assets have not been replaced.

This may indicate significant cashflow problems, or perhaps a borrower in the process of retiring or changing the business in a fundamental way. Ask questions!

BUSINESS CASUALTY LOSS

If there is an entry on Lines 3 or 14, this represents a Business Casualty Loss coming from Form 4684.

Watch For

The amount of casualty loss they may take is reduced by insurance proceeds. If the casualty loss listed here is significant, consider if it indicates inadequate insurance.

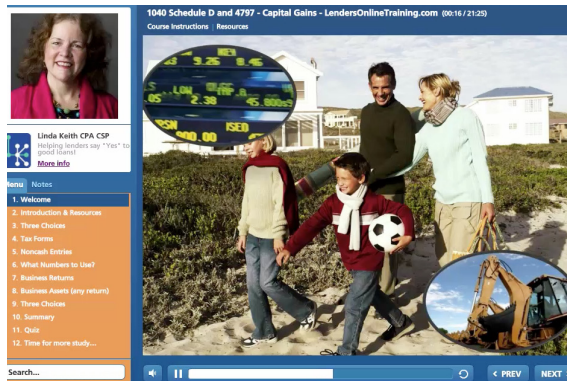
INSTALLMENT SALES

If there is an entry on Lines 4 or 15, it just means that the installment sale on Form 6252 represented a business or investment asset rather than a personal asset.

See page 50 to get a look at that form.

LIKE-KIND EXCHANGES

An entry on Lines 5 or 16 indicate a like-kind exchange where the borrower has traded one property for another. It will come in here if it was business property and cash changed hands as well as the properties that were exchanged. Details will be on Form 8824. See manual for more details.



NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

| | | |
|---|--|--|
| Form 6252 Department of the Treasury Internal Revenue Service Name(s) shown on return | Installment Sale Income ▶ Attach to your tax return. ▶ Use a separate form for each sale or other disposition of property on the installment method. ▶ Information about Form 6252 and its instructions is at www.irs.gov/form6252 . | OMB No. 1545-0228 Identifying number 123-45-6789 |
|---|--|--|

Name(s) shown on return: Imin & Outa Fashion

1 Description of property ▶ SAMPLE

2a Date acquired (mm/dd/yyyy) ▶ _____ b Date sold (mm/dd/yyyy) ▶ _____

3 Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4 ☐ Yes ☐ No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale ☐ Yes ☐ No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

| | | |
|--|----|--|
| 5 Selling price including mortgages and other debts. Do not include interest, whether stated or unstated | 5 | |
| 6 Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions) | 6 | |
| 7 Subtract line 6 from line 5 | 7 | |
| 8 Cost or other basis of property sold | 8 | |
| 9 Depreciation allowed or allowable | 9 | |
| 10 Adjusted basis. Subtract line 9 from line 8 | 10 | |
| 11 Commissions and other expenses of sale | 11 | |
| 12 Income recapture from Form 4797, Part III (see instructions) | 12 | |
| 13 Add lines 10, 11, and 12 | 13 | |
| 14 Subtract line 13 from line 5. If zero or less, do not complete the rest of this form (see instructions) | 14 | |
| 15 If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0- | 15 | |
| 16 Gross profit. Subtract line 15 from line 14 | 16 | |
| 17 Subtract line 13 from line 6. If zero or less, enter -0- | 17 | |
| 18 Contract price. Add line 7 and line 17 | 18 | |

Part II Installment Sale Income. Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

| | | |
|---|----|--|
| 19 Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. For years after the year of sale, see instructions | 19 | |
| 20 If this is the year of sale, enter the amount from line 17. Otherwise, enter -0- | 20 | |
| 21 Payments received during year (see instructions). Do not include interest, whether stated or unstated | 21 | |
| 22 Add lines 20 and 21 | 22 | |
| 23 Payments received in prior years (see instructions). Do not include interest, whether stated or unstated | 23 | |
| 24 Installment sale income. Multiply line 22 by line 19 | 24 | |
| 25 Enter the part of line 24 that is ordinary income under the recapture rules (see instructions) | 25 | |
| 26 Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions) | 26 | |

Part III Related Party Installment Sale Income. **Do not** complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party _____

28 Did the related party resell or dispose of the property ("second disposition") during this tax year? ☐ Yes ☐ No

29 If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.

a ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy) ▶ _____

b ☐ The first disposition was a sale or exchange of stock to the issuing corporation.

c ☐ The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.

d ☐ The second disposition occurred after the death of the original seller or buyer.

e ☐ It can be established to the satisfaction of the IRS that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).

| | | |
|---|----|--|
| 30 Selling price of property sold by related party (see instructions) | 30 | |
| 31 Enter contract price from line 18 for year of first sale | 31 | |
| 32 Enter the smaller of line 30 or line 31 | 32 | |
| 33 Total payments received by the end of your 2015 tax year (see instructions) | 33 | |
| 34 Subtract line 33 from line 32. If zero or less, enter -0- | 34 | |
| 35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale | 35 | |
| 36 Enter the part of line 35 that is ordinary income under the recapture rules (see instructions) | 36 | |
| 37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions) | 37 | |

For Paperwork Reduction Act Notice, see page 4. **BAA** REV 12/04/15 TTW

NOTE: Page # references in the text are to our [Tax Return Analysis Manuals](#)

FORM 6252: INSTALLMENT SALES

You may spot this first on Schedule B as interest income from a person or a company.

You can determine the amount of principal received at Line 21.

Watch For

You cannot assume, however, that this is a recurring amount. It may include down payments or balloon payments. It is best to request a copy of the contract from the borrower.



Tip

If the contract will balloon out (be completely paid off with a substantial final payment) within the next several years, consider leaving some or all of the interest in income.



QUICK AND DIRTY SHORTCUT:

(I knew that would get your attention!) If you do not have detail on the contract and it was not entered into in the current year (see Line 2b), determine full payments received by adding interest from Schedule B for this contract to the principal received on Line 21.



Watch For

This will not give a valid result if Line 21 included a balloon payment, payments are escalating, payments are not being received as agreed, or the contract is almost paid off.

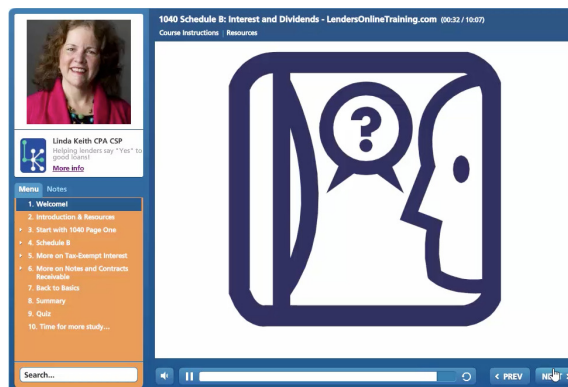
RECEIVING PAYMENTS AS AGREED?

Add interest from Schedule B for this contract to principal from Line 21. Compare to what the contract says they should have received. (This is only worth your time if the contract payments are a significant source of income for the borrower.)

And finally, if they have more than one note/contract receivable you may also have numerous Forms 6252. You may not be able to tell which interest on Schedule B goes with which 6252.

No Form 6252 is required if the sale did not result in a taxable gain.

Related Modules at
www.LendersOnlineTraining.com



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