

# GLOBAL TAX RETURN ANALYSIS

## QUICK REFERENCE GUIDE

UPDATED FOR **2022** RETURNS

### WHAT'S IN THE GUIDE?

Worksheets for:

- Complex Individuals
- Business Borrowers
- Farming Operations

Plus:

- Hints and tips for analysis
- Common guidelines and variations
- Intro to our Online Training



**lendersonline** training

Say "Yes" to good loans!™



**LINDA KEITH CPA**  
Founder & Chief Credit Trainer

**BRIAN KEITH, President**  
*Mitigating risk on Mt. Rainier*

This **Quick Reference Guide to Global Tax Return Analysis** is one of the tools we use in our training for lending and credit professionals. **Lenders Online Training** is the premier resource for tax return and financial statement analysis online.

#### **NEW HIRES/PROMOTIONS OR THE ENTIRE CREDIT AND LENDING TEAM**

Whether our learner is an individual onboarding into a lending or credit role, or a company hiring us to train all of their lending and credit staff, the **Quick Reference Guide** is an essential tool to move them from numbers- to knowledge-based lending.

#### **LENDING TO BUSINESS, FARM OPERATIONS, OR COMPLEX INDIVIDUAL BORROWERS**

If you are a lender, analyst, or underwriter and your customers are small- to mid-size **businesses, farmers, or individuals with complex situations and multiple, interrelated tax returns**, this tool and our training is for you.

#### **ARE YOU THE TEAM LEADER?**

Perhaps you are the person responsible for a team, and need to be sure your group has consistent, skills-based, practical tools, and training to:

- **Obtain the required documents**, statements, and returns
- **Determine qualifying income** to cover debt service and/or payments to owners
- **Spot red flags** and **ask good questions**
- **Document the file** with the insights gained from their analysis
- **Recognize additional loan opportunities** and pursue them

And do it all **easier, faster, and with more confidence.**

Enjoy the use of this worksheet and let us know when we can become your 'basic training' resource for global tax return analysis.

**Linda & Brian**

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# CUSTOMIZED WORKSHEETS AVAILABLE

For our **Enterprise-Custom** clients, whether training online or onsite, we create a **customized guide** that mimics your software/worksheets and follows (and explains) your guidelines. [Click here to learn more about the Enterprise-Custom plan.](#)

## WORKSHEETS IN THIS GUIDE: WHICH TO USE?

01.

### FOR INDIVIDUALS OR GUARANTORS

Use the Schedule Analysis Method Worksheet on page 5. This is the method we recommend for complex borrowers. If your company uses the AGI method, email us at [support@LendersOnlineTraining.com](mailto:support@LendersOnlineTraining.com) and we will send you that worksheet.

If you have more than one guarantor, use an extra page to bring the 1040 analysis from all guarantors into the business analysis.

Check your guidelines for what to add or subtract for historical or recurring cashflow available to pay debt and/or the owners.

If you are focused on the owner/guarantor and they own a business, use their % ownership to determine their share of the business cashflow. In some cases, you will use the k-1 worksheet for pass-through entities (typically less than 25% ownership) instead.

02.

### FOR BUSINESS ANALYSIS

Use the 1120 worksheet on page 10, the 1065 worksheet on page 11, or the 1120S worksheet on page 12. Those worksheets allow for entity level debt coverage ratio.

If your company combines debt from entities and guarantors on a global debt list, there's no need to calculate the entity-level debt coverage. That said, you might find it helpful for understanding how the company on its own has been doing.

If you are lending to the business, keep the % at 100% to bring it into the page one analysis. Consider subtracting distributions from capital from the business and adding k-1 distributions to the owners who are guarantors. It will wash if all the owners are guarantors, but this way, if that guarantor is part of another entity analysis, you already have what you need.

For our Enterprise-Custom clients, we customize this worksheet for your software and guidelines.

03.

### FOR FARMING OPERATIONS

Use the AgLending worksheets on pages 14 and 15. The questions on the left will help you uncover your guidelines.

We train Farm Credit organizations and community/regional banks offering AgLending throughout the country and this worksheet is an amalgamation of what is in use in our curriculum.

For our Enterprise-Custom clients, we customize this worksheet for your software and guidelines.

# 1040 SCHEDULE ANALYSIS METHOD

Partial comments from Excel Worksheet

P=Page  
L=Line  
S=Schedule

\* From another worksheet

Modules from Lenders Online Training

**Wages:** Use current. Consider W2- Line 5 or year-end paystub.

**Tax-exempt:** Unless you subtract federal taxes, consider multiplying by 1.25 before you add any **nontaxed** income to cashflow.

**Capital Gains:** Actual or Projected? Recurring or Nonrecurring? Check guidelines. Enter zero if not using to qualify.

**Rents, Pships, etc:** Ignore the gain or loss listed on Line 17. Use worksheets to calculate cashflow from rentals, partnerships, s-corporations, estates and trusts on the lines that follow.

**CAUTION:** Use either K1- Summary **OR** cashflow from pass-through entities, **NOT** both.

**Other Income/NOL's:**  
**Actual:** Enter income but do not include noncash NOL.  
**Projecting:** Enter zero if nonrecurring income or Net Operating Loss (NOL).

**Other Explain:** These lines are available to make entries specific to your tax return analysis guidelines.

	2021/2022	Year:	Modules:
<b>Wages</b>	P 1   L 1		1040 Intro & Method
<b>C-Corp Owner from W/S</b>	<b>1120 Tax Return</b>	*	1120 (3 modules)
<b>Interest</b>	P 1   L 2b > S B		B Interest/Dividends
Note Payments Rec'd	<b>From Client</b>		"
Tax-exempt	P 1   L 2a		"
<b>Dividends</b>	P 1   L 3b > S B		"
<b>IRA/Pension Distributions</b>	P 1   L 4/5		1040 Intro & Method
<b>Social Security</b>	P 1   L 6		"
<b>Capital Gains (Loss)</b>	P 1   L 7 > S D		D/4797 Cap Gains
<b>State Tax</b>	S 1   L 1		1040 Intro & Method
<b>Alimony Received</b>	S 1   L 2a		"
<b>Sch C Business from W/S</b>	S 1   L 3 > S C	*	C (2 modules)
<b>Other Gains</b>	S 1   L 4 > 4797		D/4797 Cap Gains
<b>Rents, Pships, etc</b>	<del>S 1   L 5</del>	<del></del>	<del></del>
Do not use			
Rental C/F from W/S		*	E/Rentals
K-1 Summary		*	1065/1120S
Partnership C/F from W/S	S 1   L 5 > S E	*	1065 (3 modules)
S Corp C/F from W/S		*	1120S (3 modules)
Estates/ Trusts			1040 Intro & Method
<b>Sch F Farm from W/S</b>	S 1   L 6 > S F	*	F Farming
<b>Unemployment Comp</b>	S 1   L 7		1040 intro & Method
<b>Other Income/NOL's</b>	S 1   L 8		"
<b>Other Explain:</b>	S 1   Part II	<del></del>	<del></del>
ie: 1/2 SE Tax			1040 Intro & Method
ie: minus Fed/State Tax			"
ie: minus Family Living			"
ie: minus personal debt			"
<b>Annual Cashflow</b>			
<b>Monthly Cashflow</b>			

**COMMENTS:**

**Comments:** Explain calculations or numbers from other sources. List income you do not document and use because you do not need it to qualify. What else does you future self, loan review or the regulators need to know?

Do not count on remembering your questions. Do not count on remembering your answers. This documentation is for you now, for you next time you work on a loan for this borrower, for your manager, for loan review, and for the regulators.

As you are learning, consider keeping a personal FAQ for yourself. When you ask us a question in class or your manager a question on a specific loan, enter your question and our answers. You can use it for reference later.

<b>Prepared By &gt;&gt;</b>	
<b>Spoke with &amp; date:</b>	
<b>Question #</b>	<b>Source of question:</b>
<b>Question for whom:</b>	
<b>Question/Item:</b>	
<b>Documentation needed:</b>	
<b>Response:</b>	
<b>Question #</b>	<b>Source of question:</b>
<b>Question for whom:</b>	
<b>Question/Item:</b>	
<b>Documentation needed:</b>	
<b>Response:</b>	

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**“I recommend the course for teams** because it will keep our approach to global cash flow **consistent.**”

*~ Donald Volkman, Chief Credit Officer, MegaBank*

# 1040 SCHEDULE C CASHFLOW WORKSHEET

Partial comments from Excel Worksheet

**Schedule Analysis Method:**

Enter Net Profit

**AGI Method:** Do not enter net profit. It is already in AGI.

**Interest Expense:** Add back to eliminate it. Then subtract loan payments below or enter them on the entity or global debt list for debt-coverage ratio.

**Term Debt:** This information is not on the 1040 tax return. You must get the monthly debt payments from the borrower's application, credit report, or other records.

Be careful that you do not count a payment against the business here and also count it on their personal debt list. One place or the other, not both.

**LOC (Line of Credit):** Line of Credit (LOC) interest-only payments are simply 'rent' on a short-term use of credit.

1) Three common methods:

- a) Subtract annual interest-only payments.
- b) Subtract the annual interest payments that would occur if they borrow the entire available line and keep it out all year.
- c) Some financial institutions substitute assumed term debt payments for LOC interest only payments, especially if the LOC is not seasoned. Term outs over three to five years are common.

**Business Name and Type >>>**

		Year:
Net Profit (NOT AGI METHOD!!!)	Line 31	
Add back noncash depreciation	Line 13	
Add back interest expense*	Line 16	
Subtract term debt payments**	Borrower	
Subtract line of credit payments**	Borrower	
Subtract proposed payments	Borrower	
Subtract nondeducted meals	Line 24b	
Add noncash home office	Line 30	
+/- Additional adjustments		X
<b>Total AGI Adjustments of S/A Cashflow</b>		

**COMMENTS:**

\* Some secondary-market mortgage lenders do not add back interest or subtract business debt.

\*\* Subtract annual debt payments for net cashflows to owner. Omit debt if calculating cashflow available to pay debt. CAUTION: Need owner's draws (aka family living) to calculate debt coverage.

**PLEASE NOTE:** If you are using the AGI method be sure you do not enter the Net Profit from the business on Line 31 above. That amount is already in AGI. You will be calculating the adjustment to the figure already included in AGI.

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“Linda’s courses are **easy to understand**. Through her unique presentation, she captures the essence of credit analysis and **makes it come to life** with meaning and comprehension.”

~ **Stephen Bryant, First National Bank of Tennessee**

## 1040 SCHEDULE E RENTALS CASHFLOW WORKSHEET

Most lenders use the Tax Return Method if the borrower has owned the rentals at least one full year. They fall back on the Formula Method if the rental is new, or if it was not rented for part of the year due to rehab or damage.

The payment adjustment approach depends on your guidelines.

Rental Address	+ Line 3 & 4 Income	- Line 20: Expenses including Depreciation (Enter as-) Line	+/- Payment Adjustment*	+/- Other (Depreciation, Non-recurring, amortization, etc... explain in comment column)	= Actual Net Cash flow from/ (to) entity
	<b>TAX RETURN METHOD</b>				

<b>*Payment Adjustment Options</b>
May not be required.
Common: -PITI + Int + Tax + Ins
Common: -PI + Int

**\*Payment Adjustment Calculation**

Subtract Annual Payments \_\_\_\_\_

Add back Interest (Line 12) \_\_\_\_\_

If PITI Payment: \_\_\_\_\_

Add back Taxes (Line 16) \_\_\_\_\_

Add back Insurance (Line 9) \_\_\_\_\_

**Payment Adjustment** \_\_\_\_\_

# OR

Rental Address	Monthly Scheduled Rents	Vacancy/Costs % Factor	Monthly PITI Payments	Calculated Net cash flow from/(to) entity**
	<b>FORMULA METHOD</b>			

**\*\*Formula Calculation**

Monthly Rent X 75% X 12 \_\_\_\_\_

Subtract Monthly Pmnt X 12 \_\_\_\_\_

**Calculated Net Cash Flow** \_\_\_\_\_

**Total all rentals**



## SCHEDULE F: FARM CASHFLOW/ADJUSTMENTS

**AgLenders PLEASE NOTE:** This Schedule F worksheet is used primarily by individual and business lenders who are not focused on aglending. Aglenders, please see the Ag-Specific Worksheets on page 14.

**Borrower >>>**

**Prepared by >>>**

**Business Name and Type >>>**

Consider stability and health of business, adequacy of insurance, and liquidity. Note that significant, regular farm income may also be on Schedule D or Form 4797.

		Year:	Year:
<b>Net Profit (NOT AGI METHOD!!!)</b>	Line: 34		
<b>Add back noncash depreciation</b>	Line: 14		
<b>Add back interest expense*</b>	Line: 21		
<b>Subtract term debt**</b>	Borrower		
<b>Subtract line of credit interest-only</b>	Borrower		
<b>Subtract proposed payments</b>	Borrower		
<b>Subtract nondeducted meals</b>	If on Ln: 32		
<b>+/- Additional adjustments</b>			
Optional: <b>Subtract</b> 20% Debt for 1.2 DCR			
<b>(AGI) Adjustments or (S/A) Cashflow</b>			

**CAUTION:** Do not calculate Debt Coverage Ratio without subtracting 'Owner Withdrawals' (aka 'Family Living'). The amount the owner paid him/herself is not found on the tax return. Use the amount shown on their Balance Sheet if available, ask the borrower what they take home annual as compensation, or use your company guidelines for family living.

**COMMENTS:**

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"I recommend this course to anyone who has been working in credit at least six months. I liked the ability to **re-watch the sessions** as many times as I wanted and was able to pause and take notes **at my own pace**. This led to **better retention**."

~ Jacob Bingham, AgWest Farm Credit

Company name and type of business >>>

This page can be used for entity-only or for cashflow available from the entity to an owner/guarantor.

		Year:
<b>A: Business Cashflow Available to pay debt</b>		
1	Enter <b>income/loss</b> from line 28 of 1120	
2	<b>Add back interest expense</b> (Line 18)	
3	<b>Add back depreciation</b> (Line 20)	
4	<b>Subtract total tax</b> (Line 31)	
5	Add'l +/- from front page, see comments below	
6		+/- from line 26, see comments below
7		+/- from M-1 or M-2, see comments below
8	<b>[Add 1-7] Business Cashflow Before Debt</b>	
<b>B: Annual Debt</b>		
9	Borrower Term debt annual payments	
10		LOC/ interest-only payments
11		Proposed loan annual payments
12	<b>[Add 9-11] Total debt</b>	
<b>C: Debt Coverage Ratio</b>		
13	<b>[8/(9+10)]</b> Before Proposed Loan	
14	<b>[8/12]</b> After Proposed Loan	
<b>D: Personal Cashflow to Owner/Guarantor:</b>		
15	<b>Optional: Enter required DCR</b>	
16	<b>[8-(12*15)]</b> Cashflow Available to Distribute	
17	Owner/guarantor's % ownership (Sch E/1125-E)	
18	<b>[16*17]</b> Excess (Shortfall) to 1040 Pg 1	

COMMENTS:

**Additional adjustments from Front Page examples:**

- 1) Add back **nonrecurring** and optional expenses if **projecting** cashflow.
- 2) Subtract **nonrecurring** income or **new** expenses if **projecting** cashflow.
- 3) Add **new** income if **projecting** cashflow.
- 4) If **charitable contributions** are more personal than promoting the business consider adding it back.

**Line 26, Other Deductions Supporting Schedule**

- 1) If **projecting** cashflow, add back **nonrecurring** items.
- 2) Add back **noncash** amortization
- 3) Consider whether the company has **adequate insurance**. No adjustment necessary if they do.

**Schedule M-1:** The items on Schedule M-1 are not yet included on page one of the return.

**Line 5: Actual/historical** subtract cash spent. Projected subtract recurring cash spent. Otherwise ignore.

**Line 7: Actual/historical** add cash received. Projected add recurring cash received. Otherwise ignore.

**Schedule M-2:** Generally only of interest to commercial lenders determining cashflow left in the business to service debts or subtracting entity-level distributions and adding owner distributions to individual cashflow. Subtract Line 5a.

**Source for debt:** The return does not have current debt info. Get from borrower. **Estimate:** Used only when you are not doing a thorough analysis of the corporation. ESTIMATE debt by adding the interest expense on page one of the return (Line 18) to principal due in the next twelve months from Schedule L Balance Sheet, Line 17, Column D. Clearly indicate in the comment section at bottom that it IS an ESTIMATE and show your calculation.

**Commercial Lenders using debt coverage approach:** You may enter debt in these lines. It will provide the information to calculate the debt coverage ratio in Section C and will be subtracted to determine excess to (or shortfall needed from) the owner/guarantors in Section D. Or put debt on global debt list for global DCR.

**Business lenders will use 100% of the generated cashflow** in global analysis rather than a guarantor's %. You may not use Section D at all. Check your guidelines and worksheets.

# FORM 1065 PARTNERSHIPS

## Company name and type of business >>>

This page can be used for entity-only or for cashflow available from the entity to an owner/guarantor.

Partial comments from Excel Worksheet:

		Year:
A:	<b>Business Cashflow Available to pay debt</b>	
1	Enter <b>ordinary income</b> (Line 22)	
2	<b>Add back interest expense</b> (Line 15)	
3	<b>Add back depreciation</b> (Line 16a)	
4	Add'l	+/- if any from <b>Front Page</b> , see comments:
5		+/- if any from <b>Line 20</b> , see comments:
6		+/- if any from <b>Sch K</b> , see comments:
7		+/- if any from <b>Sch M-1</b> , see comments:
8	<b>[Add 1-7] Cashflow Before debt &amp; distributions</b>	
9	<b>Subtract Cash distributions (M-2, Ln 6)</b>	
10	<b>Add Capital contributions (M-2, Ln 2)</b>	
11	<b>[8-9+10] Cashflow Available to Pay Debt</b>	
B:	<b>Annual Debt</b>	
12	Borrower	Enter <b>term debt</b> annual payments
13		Enter LOC/ <b>interest-only</b> payments
14		Enter <b>proposed</b> loan payments
15	<b>[Add 12 thru 14] Total debt</b>	
C:	<b>Debt Coverage Ratio</b>	
16	<b>[11/(12+13)]</b> DCR Before Proposed Loan	
17	<b>[11/15]</b> DCR After Proposed Loan	
D:	<b>Personal Cashflow to Owner/Guarantor:</b>	
18	<b>Optional: Enter required DCR</b>	
19	<b>[8-15] or (8-(15*18))</b> Cashflow Available to Distribute	
20	Enter partner's % profit/loss from K-1	
21	<b>[19*20] Owner's share before gntd pmnts</b>	
22	Add this owner's guaranteed pmnts ( <b>K-1</b> , Ln 4)	
23	<b>[21+22] Available Personal Cashflow</b>	
	Use Available Cashflow in Personal Analysis? (Y or N)	
	Personal Cashflow to 1040 Pg 1	

**OR**

**Actual Personal Cashflow:**  
Use K-1 Summary sheet instead of this worksheet.

### COMMENTS:

**Business lenders will use 100% of the generated cashflow** in global analysis rather than a guarantor's %. You might not use Section D at all. Check your guidelines.

**CAUTION:** Use either Actual Cashflow to the owner (K-1 Summary) OR Cashflow Available to the Owner (from this worksheet) for the 1040 Pg1 Cashflow Worksheet.

**Front Page Adjustments:**  
Consider **nonrecurring** income/ expenses or unusual bad debts if projecting cashflow.

**Add'l from Line 20:** Trace to supporting schedule. Add back **nonrecurring** items if projecting cashflow. Add back **noncash** amortization.

**Add'l from Schedule K:**  
Consider including income or expenses from Lines 1-13 of the Schedule K. These are not yet in your figures. If projecting and they are **nonrecurring**, leave them out.

Most commonly used are **Line 2 for rentals** (calculate cashflow from From 8825) and **Line 5 for interest income**.

**Line 12 Section 179** is depreciation not in your figures so ignore here.

**Line 13a charitable contributions** are not yet in your figures. Subtract if you are doing actual/historical. If you are doing recurring, consider if business related and recurring before subtracting.

**Schedule M-1 Adjustments:**  
These figures are not yet in your cashflow calculations.

**Line 4: Actual Cashflow** subtract cash outlays. **Recurring Cashflow** only subtract if recurring cash outlays.

**Line 6: Actual Cashflow** add cash received. **Recurring Cashflow** only add if recurring cash received.

**FORM 1120 S CORPORATION CASHFLOW**

**Company name and type of business >>>**

This page can be used for entity-only or for cashflow available from the entity to an owner/guarantor.

Partial comments from Excel Worksheet:

		Year:
<b>A: Business Cashflow Available to pay debt</b>		
1	Enter <b>ordinary income</b> (Line 21)	
2	<b>Add back interest expense</b> (Line 13)	
3	<b>Add back depreciation</b> (Line 14)	
4	+/- if any from <b>Page One</b> , see comments below:	
5	Misc: +/- if any from <b>Line 19</b> , see comments below:	
6	+/- if any from <b>Sch K</b> , see comments below:	
7	+/- if any from <b>Sch M-1</b> , see comments below:	
8	<b>[Add 1-7] Cashflow Before debt &amp; distributions</b>	
9	<b>Subtract distributions</b> to all shareholders (M-2, Ln 7a)	
10	<b>Add Capital contributed</b> (Increase in Sch L, Lns 22, 23)	
11	<b>[Combine 8-10] Cashflow Available to Pay Debt</b>	
<b>B: Annual Debt</b>		
12	Borrower Enter <b>term debt</b> annual payments	
13	Enter <b>LOC/ interest-only</b> payments	
14	Enter <b>proposed</b> loan payments	
15	<b>[Add 12 thru 14] Total debt</b>	
<b>C: Debt Coverage Ratio</b>		
16	<b>[11/(12+13)] DCR Before Proposed Loan</b>	
17	<b>[11/15] DCR After Proposed Loan</b>	
<b>D: Personal Cashflow to Owner/Guarantor:</b>		
18	<b>Optional: Enter required DCR</b>	
19	<b>[8-15] or (8-(15*18))</b> Cashflow Available to Distribute	
20	Enter personal % <b>ownership</b> (K-1, Item F)	
21	<b>[19*20] Available Personal Cashflow</b>	
	Use Available Cashflow in Personal Analysis? (Y or N)	
	Personal Cashflow to 1040 Pg 1	

**OR**

**Actual Personal Cashflow:**  
Use K-1 Summary sheet for Actual Cashflow. Don't use both!

**COMMENTS:**

**Business lenders will use 100% of the generated cashflow** in global analysis rather than a guarantor's %. You may not use Section D at all.

**Distributions:** Check your guidelines. You may subtract distributions from Schedule M-2 on this worksheet but then add the distributions from individual K-1a to each owner. If all owners are included in global cashflow, this will wash.

**CAUTION:** When doing owner/guarantor analysis, use either the K-1 Summary (Actual Cashflow to the Owner) **OR** from this worksheet (Cashflow Available to the Owner), not both.

**Page One adjustments:** Examples could be nonrecurring income or expenses or unusual bad debts.

**Line 19, Other Deductions Supporting Schedule**

**1)** Look for this schedule at the end of the tax return with other miscellaneous taxpayer-prepared schedules.

**2)** Add back **nonrecurring** items if projecting.

**3)** Add back **noncash** amortization.

**4)** Consider whether the company has adequate insurance. No adjustment necessary if they do.

**Schedule K adjustments:**  
Most common...Line 2: Calculate rental cashflow from Form 8825.

**Line 4-10: Historical?** Add income, subtract losses. Recurring? Add recurring income or subtract recurring losses.

**Line 11:** Ignore...this is depreciation that has not yet been deducted.

**Line 12a:** Only subtract if you count charitable contributions against all other business entities or are doing actual/historical.

**Schedule M-1 adjustments:**  
Items listed here have not been included elsewhere in this return.

**Line 3: Historical...** Subtract cash outlays. **Recurring...** Subtract recurring cash outlays. Otherwise ignore.

**Line 5: Historical...** Add cash received. **Recurring...** Add recurring cash received. Otherwise ignore.

## K-1 SUMMARY SHEET

This K-1 summary sheet can use the FNMA rules (in gold) or determine actual cashflow (my preference). If you use a secondary market approach, be sure you understand how to calculate actual cashflow.

Tax Form	Type	Own	Entity Name	PLUS	PLUS	PLUS	(MINUS)	EQUALS
1065 1120S	SCorp/ LLC/ GP/ Ltd P	%		1120S Ordinary income	1065 Ordinary income	1065 Guaranteed Payments		FNMA Substitute for Cashflow
			<b>FNMA/Secondary Mkt</b>	Ln 1	Ln 1	Ln 4		
				1120S Distributions	1065 Withdrawals	1065 Guaranteed Payments	1065 Contributions	Actual New cashflow from/(to) entity
			<b>Portfolio and other ...</b>	Ln 16 'D'	L or 19	Ln 4	L	

### Total Net Cashflow all entities

**To avoid double-counting of K-1 cashflow**, do not include cashflow available from a 'Partnership' or 'S Corporation' worksheet for any K-1's cashflow included from this worksheet.

**OR:** Include the cashflow here and in the individual guarantor analysis, but also subtract total distributions paid from the entity on the entity worksheet. This washes out if you are including all of the guarantors in the global analysis. But it captures distributions paid to non-guarantors if you are not.

### FannieMae and friends: Taxable Income versus Actual Cashflow

Secondary Market Lenders often use a simplified approach. Ordinary (and some other) income plus guaranteed payments (if a 1065 k-1) instead of distributions and guaranteed payments. That is not actual cash flow. Know your guidelines! And if you use this simplifying approach, just recognize you have now switched back to using taxable income instead of cashflow!

If distributions are significantly different, higher or lower, than ordinary income, pause and consider if you need to understand this better. This is a great example of being misled by being overdependent on your worksheet/software instead of understanding what you are seeing.

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"I just finished the **audit with our federal and state regulators**. They asked how we are handling global analysis of tax returns and I broke out the manual I got from Linda 14 years ago. **It still holds up today as bulletproof for letting the examiners know we know what we are doing.**"

~ Rob Farrington, Senior VP Commercial RE, American First CU

**Guidelines and software**

**vary.** When we do training for your company we customize this guide for you.

**Guidelines determine if you:**

- Make your entries to tie back to the tax return
- Adjust for nonrecurring items
- Use historical for each year and use a projection column to adjust for nonrecurring
- Enter Capital Gains/Losses (G/L) separately from other Income/Expenses

**Income | Do you:**

- Include Farm Income reported elsewhere such as cull cows reported on a Form 4797?
- Include the Principal received on Notes/Contracts Receivable or just the Interest Income?
- Consider multi-year operating cycles when projecting?

**Expenses | Do you:**

- Leave major pre-paid items out of expenses?
- Consider adequacy of Insurance?
- Split Interest-Term from Interest-Operating or combine them?
- Notice if there are expenses that are below a reasonable minimum for this operation?
- Enter Depreciation as it is on the tax return or substitute a 'Use Cost' or 'Normalized Depreciation' based on the amount of equipment they have or other metrics?
- Consider multi-year operating cycles when projecting?

	Year:	Ln	NOTES
<b>FARM INCOME</b>			
Gross Sales (Livestock or Other)		1	
Cost of Sales/Revenue		2	
<b>Gross Profit (Calculated)</b>		3	Line 1 minus 2
Patronage & Retains		4	
Gov't Programs		5	
Other Business Income		6	
<b>Operating Income Total</b>		7	Lines 3 thru 6
<b>FARM EXPENSES</b>			
Chemicals		8	
Custom Hire		9	
Depreciation			
Employee Benefits			
Feed			
Fertilizer and Lime			
Freight and Trucking			
Fuel and Oil			
Insurance			
Interest Expense-Term Debt			
Interest Expense-Other			
Labor Hired			
Rent or Lease			
Repairs and Maintenance			
Seeds and Plants purchased			
Supplies		23	
Taxes		24	
Utilities		25	
Vet, Breeding, Medications		26	
Other Expenses		27	Up from Line i
<b>Farm Expenses Total</b>		28	Lines 8 thru 27
<b>Net Farm Earnings</b>		29	Line 7 minus 28
Gain/Loss (G/L) on Disposal of Assets		30	
<b>Net Farm Earnings after G/L</b>		31	Line 29 +/- 30
<b>OTHER EXPENSES SCHEDULE</b>			
		a	
		b	
		c	
		d	
		e	
		f	
		g	
		h	
<b>Total Other Expenses</b>		i	

**Schedule F Line #s**

**Crop and Livestock:**  
Ln 1a, Ln 2, D, 4797

**Cost of Sales:** Ln 1b

**Ag Program Payments:** Ln 4a

**Crop Insurance Proceeds:** Ln 6a

**Custom Hire Income:** Ln 7

**Other Business Income:**  
Ln 3a, Ln 5b, Ln 8  
Form 4835 (Farm Rental)

**Other Business Returns:**

- 1120 Front Page and M-1
- 1065 or 1120S Front Page, Schedule K and M-1
- 1065 Schedule F

# AGLENDERS: PAGE TWO OF TWO

**Family Living Expenses**  
Do you use a standard formula or do you consider:

- If they live on- or off-farm?
- If Schedule A shows unusual amounts for Medical or Charitable Contributions?
- If they have boat loans or other expensive hobbies?

**Income Taxes**  
If you use Schedule A for State Taxes, can you offset it by any State Tax Refunds on Sch 1, Line 1?

Do you also count Medicare and Social Security Taxes from the W-2s?

**Depreciation/Amortization/ Depletion and Interest**  
Do you combine Farm and Nonfarm Depreciation and/or Interest on one line for Margin Analysis?

**Net Nonfarm Earnings**  
If Income on a Nonfarm schedule/form is Farm-related, do you move it up to Farm Income? (Example: Cull Cows.)

If proceeds on a Nonfarm Capital Gain item is more relevant than gain/loss because the loan is paid off, proceeds are significant and it is a continuing source, can you include proceeds instead of gain/loss and make a note? If not, how do you show the addition to cashflow?

Do you exclude Income (Alimony, Capital Gains etc.) if nonrecurring?

Do you include the Principal received on Notes/Contracts Receivable or just the Interest Income?

Do you eliminate related Income/Expenses when from a consolidating entity? (Example: Wages paid from the Farming Operation if a corporation.)

	Year:		NOTES
<b>EARNINGS ANALYSIS</b>			
<b>Net Farm Earnings after G/L</b>		31	From page one
Net Nonfarm Earnings ←		32	From Line z (below)
<b>Net Earnings (Overall)</b>		33	Line 31 plus 32
-less: Family Living		34	
-less Income Taxes		35	
<b>Earned Net Worth Change</b>		36	Lines 33 thru 35
plus: Depr/Amort		37	
plus: Interest Expense		38	
minus: Nonrecurring Cap Gains		39	I included
plus: Nonrecurring Cap Losses		40	additional lines
		41	in case you have
		42	more adjustments
		43	than the four on
			Lines 37 thru 40.
<b>Debt Repayment Capacity</b>		44	Lines 36 thru 43
Capital Debt Servicing		45	
Capital Asset Replacement		46	
<b>Margin/(Deficit)</b>		47	Lines 44 thru 46
<b>NET NONFARM EARNINGS</b>			
Wages		l	
Interest/Dividend		m	
Nonfarm Business Income		n	
Nonfarm Business Expenses**		o	
Rental Income		p	
Rental Expenses**		q	K-1, placeholder
S Corp/Partnership		r	or leave blank for
Social Security/IRA/Pension		s	consolidation
Other:		t	
Nonfarm Interest**		v	
Nonfarm Depreciation**		w	
<b>Net Nonfarm Earnings</b> ←		z	Lines l thru y

**COMMENTS:**

**\*\* Nonfarm Business and Rentals: Interest and Depreciation**  
For either Nonfarm Business or Rental Expenses, be sure to either back-out interest and depreciation in your side calculation or list them on a separate line so your software can add them back.  
One way or the other, interest and depreciation must be eliminated for purposes of Debt Repayment Capacity and Margin.

# Tax Return Analysis

ONLINE  
LEARNING  
20-24  
HOURS



Are you still doing basic training of tax return analysis through on-the-job training?

By outsourcing your basic training to a team that does it extremely well, you save on-the-job training time for transferring critical knowledge about your type of lending and company guidelines. Experienced lenders focus on providing higher level learning because the basics are covered.

Training on the basics is not a universal skill among lending and credit managers who have many other demands on their time. How would you like results like these?

**Average Percentage Increase**

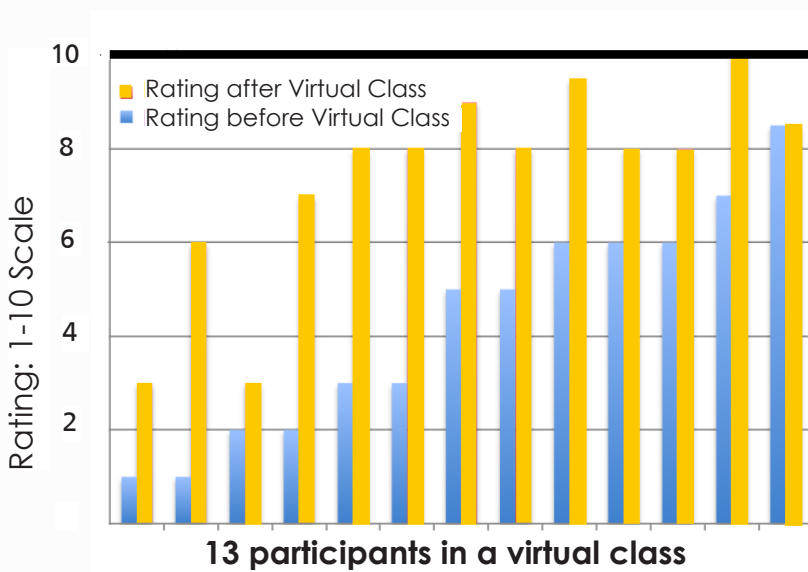
**31%**

### Participant rating:

The graph displays the self-rating of a virtual class of 13 participants on their competence and confidence in tax return analysis. The average improvement was 31%.

### Participant feedback:

- The pace is good.
- It forms a good basis for analysis.
- I have a much better understanding.
- I find myself spotting red flags and asking important questions.
- Interactive modules, quizzes, and case studies helped me gain in-depth knowledge.
- You opened my eyes to additional cashflow.
- Training in small chunks doesn't get boring.



“What sets you apart is your **willingness to answer questions** long after the training is over. I sent in a question and had my answer the next day. You are **a continuing resource.**”

~ Ruth Algarate, First Commerce Bank



# YOUR TRAINING CHOICES

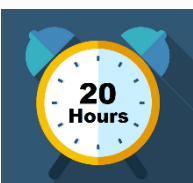
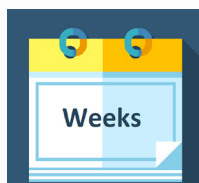
## MODULES, PRINT RESOURCES, VIRTUAL MEETINGS

All participants of Lenders Online Training have access to over thirty five 30-minute-or-less modules on tax return and financial statement analysis. Each module includes a 3–8 page handout as a tool for learning, and everyone is invited to our interactive virtual meetings.



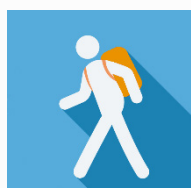
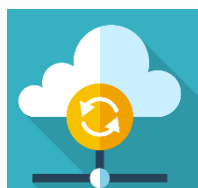
## ONLINE STRUCTURED CLASSES

If you or your team work better with more structure and accountability, the virtual classes deliver it. In typically 20 hours over a 4- or 8-week period, you can take tax return analysis or financial statement analysis. When you finish the first one, you can take the second one. There is no additional charge for the classes.



## SELF-STUDY

For individuals or teams, go at your own pace and in any order you prefer. At a company level, you may choose to use the modules as the core of the training, schedule your own team meetings and follow-up, and develop your own case studies using actual client returns and your software.



## CUSTOMIZED ONLINE OR ONSITE

Enterprise-Custom Clients may choose online or onsite delivery. Either way, the training is customized for your type of lending, the experience of your learners and your training goals. We also work with you to create the case study solutions using your software/worksheets. If you choose online, you can use the modules as a base for the training and enjoy customized virtual meetings solely for your learners. Or you can use customized virtual meetings as a base for the training with the modules optional. [Click to book a call](#) to talk with a senior credit trainer about this option.

**CREDIT ANALYSIS BASICS**

1

**TYPES OF ENTITIES**

- Advantages and disadvantages
- Risk exposure
- How owners get paid
- Forms filed

3

**DEPRECIATION**

- Definitions and methods
- Financial Statements vs Tax Returns
- Impact on G/L on Asset Disposal
- Why we add it back for cash flow

2

**CASH VS ACCRUAL BASIS**

- What is the difference?
- How it impacts your impression
- Which is best for the business
- Which is best for the lender

4

**DEBT, DEBT RATIOS, SHORTCUTS**

- Where to get debt information
- How to calculate ratios
- Which ratios to use
- Shortcuts: how and when to use

**TAX RETURNS: 1040 & BUSINESS BASICS**

5

**GREEN LEGOS, SIX NS AND A MAP**

- How to approach any tax return
- Where to find what you need
- What are the relevant forms
- Keep track as you go

8

**SCHEDULE C BUSINESS BASICS**

- Which entities file this form
- Choose quick or thorough review
- Why type of lending matters
- Snapshot of the business

6

**1040 INTRO & METHOD**

- Adjust Page One & Sch 1 items
- Understand AGI, SAM & hybrid

9

**SCHEDULE C DETAILED REVIEW**

- Determine recurring cash flow
- Spot and resolve red flags
- Ask good questions & dig deeper
- Look for opportunities

7

**SCHEDULE B INTEREST/DIVIDENDS**

- Three types of interest
- Notes and contracts receivable
- K-1 pass-through interest

10

**SCHEDULE D/4797 CAPITAL GAINS**

- What is cash flow and what is not
- When and how can you count it
- Why it matters if not recurring

## MODULE DESCRIPTIONS

### TAX RETURNS: 1040 & BUSINESS BASICS (CONT)

11

#### SCHEDULE E RENTALS

- Calculate actual and projected
- Use formula method when needed
- How to handle payments

12

#### SCHEDULE F FARMING

- Farm types of income
- Like a Schedule C, but different
- Terminology specific to AgLending
- IRS rules that can throw you off

### TAX ANALYSIS: ADVANCED BUSINESS RETURNS

13

#### CORPORATION 1120: BASICS

- Legal definition and which corporations file the 1120
- Quick review or deep dive
- Snapshot of the business

16

#### S CORPORATION 1120S: BASICS

- C-Corp vs S-Corp
- Choose quick or thorough
- Snapshot of the business

14

#### 1120: COMPANY CASH FLOW

- Which schedules to use and which to (safely) ignore
- What to add and subtract
- How to decide what is material
- Find and resolve red flags

17

#### 1120S: COMPANY CASH FLOW

- Recurring cash flow to pay debt
- Spot and resolve red flags
- Ask good questions & dig deep
- Uncover more loan opportunities

15

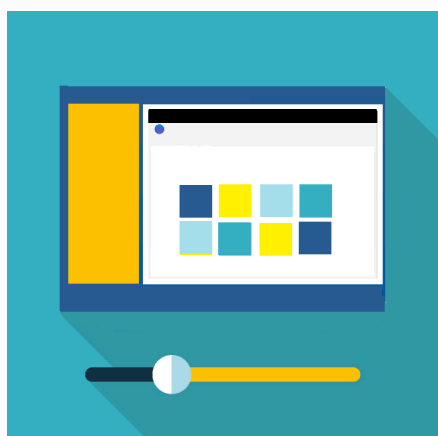
#### 1120: OWNER AND GLOBAL

- What the company can afford to pay the owners
- How much the owner needs
- Why the company may look weak when it is not

18

#### 1120S: K-1/OWNER

- Why the \$ on the 1040 is NOT cashflow
- How much can the company afford to pay owners
- What did the owner get paid
- Number to use for personal loans



**TAX ANALYSIS: ADVANCED BUSINESS (CONT)**

**REQUIRED CASE STUDIES**

19

**PARTNERSHIP/LLC 1065: BASICS**

- What entities file a 1065
- Is the liability limited or unlimited
- Snapshot of the business

**Team work**

Work in teams of 3 at virtual meetings to complete case studies. We work our way through break-out rooms getting teams unstuck, answering questions, and reviewing the final submission.

20

**1065: COMPANY CASH FLOW**

- Recurring cash flow to pay debt
- Spot and resolve red flags
- Ask good questions & dig deep
- Uncover more loan opportunities

**Personal attention**

We answer questions, spot and clear up confusion, and leave the learner confident they got what they needed.

21

**1065: K-1/OWNER**

- Why 'guaranteed' payments are not guaranteed
- When to count capital contribution
- Where the K-1 entry hits the 1040
- Which number to use for personal loans

1

**1040 ANALYSIS**

- Includes business, rentals, and capital gains
- Choose AGI, SAM, or AgLending worksheet

2

**PASS THROUGH ENTITIES**

- Includes 1040, 1065, 1120S
- General or AgLending worksheets
- Work with our credit trainers

## INTERACTIVE VIRTUAL MEETINGS

Live weekly meetings include topics that span across forms and schedules to provide a deeper understanding of how analysis fits into the loan decision. Our training is designed to move people from over-reliance on software to understanding and judgment. These meetings are high participation with chat, polls, exercises, and games. To earn the course certificate, the learner must attend four meetings.

### Enterprise-Custom Clients: Three Options

- 1) Learners utilize the self-study modules and attend our open weekly meetings
- 2) We deliver customized meetings to deliver the content, supplemented with modules
- 3) We provide onsite training

#### OPEN WEEKLY MEETING TOPICS

1

##### SIX CS OF CREDIT

- What questions do they answer?
- Clues in tax returns and financial statements
- How can they help make a good loan decision?

5

##### TAX RETURN INCOME STATEMENTS

- Basic adjustments
- Red flags and how to resolve them
- Indications the business owner is mitigating risk

2

##### BALANCE SHEETS RED FLAGS

- Borrowing long-term to solve short-term problems?
- Working capital accounts out of whack?
- How are the owners paying themselves?

6

##### RED FLAGS AND GREEN LIGHTS

- Combat the most pervasive bias in lending
- Spot red flags
- Change your approach to avoid jumping to conclusions
- Recognize when a red flag is really a green light (and vice versa)

3

##### CPA-PREPARED STATEMENTS

- Prepared, compiled, reviewed, and audited
- What assurance do they provide?
- Cost and time-frame

7

##### TAX RETURN JEOPARDY GAME

- A fun way to review your knowledge of tax return analysis
- 1040 Schedule C & Rentals
- Pass-Through Entities

4

##### HOW TO GET ANSWERS FAST

- Six ways to get answers to tax return or financial statement questions
- Which are safer than others

8

##### CREDIT RISK READINESS

- Respond to some of the same survey questions from the 2018 study and compare your answers
- Understand your role in credit risk readiness

## LENDERS ONLINE TRAINING PLANS

### INDIVIDUALS ONLINE

- 35 On-demand Modules
- Handouts Included
- 4- or 8-week virtual class option
- 2 Case Studies w/ Feedback from senior credit trainers
- 4 Interactive Virtual Meetings
- 3 digital manuals (500+pages)
- Tax Return & Financial Statement Analysis Classes

### ENTERPRISE - STANDARD ONLINE

- Minimum of 15 seats
- Includes all the elements of the Individual learner
- PLUS:**
- Enroll learners directly into training
- Monitor their progress
- Receive a manager/ team leader guide
- Enroll new hires as soon as they come on board
- Additional seats at discounted rate

### ENTERPRISE - CUSTOM ONLINE OR ONSITE

- Minimum of 30 seats
- Online or onsite
- Customized training for your needs
- Customized Quick Reference Guide covering your guidelines and worksheets
- Fee based on number of learners and/or meetings and level of customization.
- Additional seats at discounted rate

## EXPLORE YOUR OPTIONS

**Find out more about our training at:** [www.LendersOnlineTraining.com](http://www.LendersOnlineTraining.com)

**Book a meeting with our Chief Credit Trainer:** [Click to book a call](#)

**Call:** 360-455-1569

**Email:** [Info@LendersOnlineTraining.com](mailto:Info@LendersOnlineTraining.com)

“Linda does **a good job of teaching a very difficult and complicated subject**, with many answers being ‘it depends’. Becoming familiar with each tax form is key. The course and your worksheets do just that. **I liked the virtual training.**”

*Nial Bradshaw, Commercial Loan Officer  
Bank of Eastern Oregon*

## A personal note from our chief credit trainer:



**Are you wondering why we would give away a valuable resource like this?**

### ***Lending and Credit Managers***

We believe you need to **focus on the critical on-the-job training** that transfers your judgment and experience to those with less experience.

If your company is ready to **delegate the basic training** on tax return analysis to a team that excels at this, we believe this resource **demonstrates our expertise and effectiveness.**

Is consistency key? Is your lending and credit environment more challenging? We can help.

### ***Lending and Credit Professionals on the Front-Line***

Did you download this resource for your own use? 98% of senior credit professionals surveyed (per the 2018 Credit Risk Readiness Study our company commissioned) listed the need to **transfer skills and knowledge** to the next generation of bankers as a critical challenge.

Take it upon yourself to request this training to **enhance your career prospects, better serve your borrowers** and **be a strong contributor** to the success of your company. If you are not the only one at your company who needs this training, let others know.

### ***If you are not ready to get outside help***

This resource will help you **serve your borrowers, enhance your career, and succeed as a financial institution.** We also answer questions from anyone in lending or credit. Get in touch at [INFO@LENDERSONLINE TRAINING.COM](mailto:INFO@LENDERSONLINE TRAINING.COM).

### ***How can we help?***

Linda Keith CPA, Founder and Chief Credit Trainer



**lendersonline** training  
Say "Yes" to good loans!™

360-455-1569 | [Info@LendersOnlineTraining.com](mailto:Info@LendersOnlineTraining.com)

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