



Evaluating Self-Employed Borrowers

SAM Worksheet Help Document | Tax Year 2021

The Schedule Analysis Method, or SAM worksheet, is used to calculate self-employed borrowers' cash flow.

This help resource provides line-by-line explanations for personal and business tax returns following the SAM cash flow method.

When you see the heading **Effect On Cash Flow Analysis Worksheet**, you'll find guidance as to whether you should add/deduct the amount of a line item to/from the borrower's cash flow.

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Schedule B: Interest and Ordinary Dividends from Self-Employment

Note: The borrower needs to complete Schedule B only if interest and dividend income is greater than \$1,500.

Line 1: List Name of Payer

Interest Income

Identify interest income paid to the borrower from the borrower's business. Review Schedule B, Part I and/or IRS Schedule K-1 or Form 1099-INT to confirm that the payer is the borrower's business.

Effect on Cash Flow Analysis Worksheet

- Add recurring interest income from self-employment

Line 5: List Name of Payer

Dividend Income

Identify dividend income paid to the borrower from the borrower's business. Review Schedule B, Part II and/or IRS Schedule K-1 or Form 1099-DIV to confirm that the payer is the borrower's business.

Effect on Cash Flow Analysis Worksheet

- Add recurring dividend income from self-employment

Schedule C: Profit or Loss From Business (Sole Proprietorship)

A sole proprietorship is a business with a single owner. Sole proprietorships report profit and loss on Schedule C. All profits from a sole proprietorship flow directly to the owner. The owner pays taxes on these profits.

Line 31: Net Profit or (Loss)

The amount the borrower has reported on this line is income or loss generated from business operations.

Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

Line 6: Other Income

This amount represents money the business received that was not obtained by the profits of the business, e.g., interest income from notes or accounts receivable, or income from miscellaneous receipts. Analyze this income to determine whether it's stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss or expense

Line 12: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 13: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 24b: Deductible Meals

These cash expenses relate to the cost of business-related meals. In general, borrowers deduct 50% of these out-of-pocket costs on the tax return, sometimes more depending upon their occupation. However, since the borrower paid 100% of the expense, subtract the difference from cash flow.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on line 24b

***Note:** Per IRS Notice 2021-25, the IRS will temporarily allow for a 100% deduction for expenses paid or incurred in 2021 and 2022 for food or beverages provided by a restaurant. Please consult your internal guidelines as to how to proceed.

Line 30: Expenses for Business Use of Your Home

An individual may operate a business out of the home for which tax deductions for a portion of rent, utilities or maintenance may be available.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Schedule C: Profit or Loss From Business (Page 2)

Part IV – Information on Your Vehicle

A sole proprietor who uses the standard mileage deduction to estimate vehicle expenses will calculate that expense either here or on Form 4562. The standard deduction includes an estimate for depreciation. Depreciation factors for the 3 most recent years are:

Year	Standard Deduction	Depreciation
2019	58.0¢	26¢
2020	57.5¢	27¢
2021	56.0¢	26¢

Line 44a: Business Miles Driven

Effect on Cash Flow Analysis Worksheet

- Multiply the number of miles on Line 44a by the depreciation factor for the appropriate year. Add back the amount

Part V – Other Expenses

The borrower may list certain expenses here that are either noncash expenses or nonrecurring in nature.

Look for the following items:

Amortization

Amortization is the write-off of initial costs incurred prior to the beginning of formal business operations.

Borrowers can expense these one-time costs over a period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Casualty Loss

Casualty loss is a one-time, extraordinary expense due to damage or destruction of property.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Schedule D: Capital Gains and Losses

Line 16: Capital Gains and Losses

The borrower reports total gains and losses on Line 16 of Schedule D. Review the itemized list of short- and long-term gains and compare one year's Schedule D to another to determine whether the income or loss is recurring or not.

Capital Gains

If using capital gains as qualifying income, refer to investor guidelines for documentation and calculation. Typically, a minimum of 2 years' tax returns and evidence that the borrower will continue to acquire assets to generate capital gains is required.

Effect on Cash Flow Analysis Worksheet

- Add recurring capital gains

Capital Losses

Treatment of capital losses varies among investors.

Effect on Cash Flow Analysis Worksheet

- Follow investor guidelines

Note: Don't include pass-through income from the Schedule(s) K-1 that the borrower reported on Schedule D, Line 5 and Line 12.

Schedule E: Supplemental Income and Loss

If your borrower earns royalty income, look for the following line items.

Line 4: Royalties Received

Royalties are compensation paid for the use of another's property, based on a percentage of profit or production. The "property" is typically copyrighted material or natural resources. If the borrower has listed royalty income, verify whether it's ongoing and consistent before you use it as qualifying income.

Effect on Cash Flow Analysis Worksheet

- Add recurring royalty income/deduct loss

Line 20: Total Expenses

Effect on Cash Flow Analysis Worksheet

- Deduct royalty expenses

Line 18: Depreciation Expense or Depletion

Depreciation is a noncash expense allocated over the useful life of a declared asset. Depletion, also a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Schedule F: Profit or Loss From Farming

Borrowers with small farming operations typically file Schedule F.

Line 34: Net Farm Profit or (Loss)

Effect on Cash Flow Analysis Worksheet

- Add recurring net profit/deduct net loss

Lines 3 through 6: Non-Tax Portion Ongoing Co-op & CCC Payments

These lines represent sources of cash flow that may or may not be continuous and ongoing. Don't include any of these items if they represent one-time occurrences. If you can document the income is likely to continue, include the nontaxable portion of this income in the borrower's cash flow.

Note: There may be rare instances where it would make sense to allow a nonrecurring item to remain in cash flow. Review these exceptions on a case-by-case basis.

Effect on Cash Flow Analysis Worksheet

- Deduct income that is not consistent and nonrecurring (lines 3b, 4b, 5a, 5c, 6b, 6d); add back the nontaxable portion of recurring income (lines 3a minus 3b, 4a minus 4b, 5b minus 5c, 6a minus 6b)

Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 32: Other Expenses

The borrower reports amortization, business use of home, casualty loss and depletion here.

Effect on Cash Flow Analysis Worksheet

- Add back the amount of amortization, business use of home, casualty losses or depletion

Partnership Cash Flow (Form 1065)

A partnership is an arrangement between 2 or more individuals, generally governed by a partnership agreement.

Schedule K-1 (Form 1065)

The partnership prepares Schedule K-1 (Form 1065) to inform the individual partners of their share of income (loss), deductions and credits.

Line 1: Ordinary Business Income (Loss)

This represents the partner's allocated share of ordinary income or loss from the partnership. The partnership allocates portions of income, loss, deductions and credits earned by the business to its partners. Partners pay tax or take deductions on their personal returns for these "pass-through" items.

Because partners pay tax on income earned by the partnership, they are able to take distributions and withdrawals free of income tax consequences.

Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the partnership has positive sales and earnings trends, AND:
 - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 19, Distributions, for Code A cash distributions); OR
 - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
 - But you can document adequate liquidity to support the withdrawal of earnings; OR
 - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss from cash flow. Follow investor guidelines

Lines 2 and 3: Net Rental Real Estate Income (Loss)

If the borrower has reported income or loss from rental real estate activity on this line, the Partnership Return will, in general, include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing net rental real estate income if conditions from Line 1, Ordinary business income, are met
- In general, deduct any loss. Follow investor guidelines

Line 4c: Total Guaranteed Payments

This line displays total payments made to the partner for services rendered and/or for the use of capital. These payments are made without regard to the partnership's profits and are subject to self-employment tax.

Typically, document with 2 years' tax returns. Follow investor guidelines.

Effect on Cash Flow Analysis Worksheet

- Add guaranteed payments

Form W-2, Box 5

Identify W-2s that reflect wages paid to the borrower from the borrower's business. However, before you include any W-2 income from the business, you must consider the financial health of it.

In general, use Box 5 to locate wages from self-employment. However, in certain cases, after evaluating the source of income reported in Box 1, it may be appropriate to use the amount in Box 1. Follow investor guidelines.

Effect on Cash Flow Analysis Worksheet

- Add self-employed wages

Form 1065: U.S. Return of Partnership Income

Partnerships report profit or loss on Form 1065. The partnership itself does not pay tax. Partnership profit (loss) is passed to individual partners via Schedule K-1 (Form 1065). The partners pay tax on their proportionate share.

As you analyze cash flow from Form 1065, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1065).

Using income from Form 1065 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1065 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Line 4: Ordinary Income (Loss) from Other Partnerships, Estates, and Trusts

Partnerships can be partners in other partnerships. Income earned by a partnership waterfalls to its partners.

Effect on Cash Flow Analysis Worksheet

- To avoid double-counting this income, deduct the income/add back the loss

Lines 5-7: Income (Loss) from Other Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 16c: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 17: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 20: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Schedule L – Balance Sheets per Books

This section of Form 1065 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Schedule L, Line 16, Column D: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations that are payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column D; however, if you determine these obligations have a "rollover" clause or there are ample liquid assets to cover these obligations, a deduction may not be necessary

Schedule M-1 – Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Line 4b: Travel and Entertainment

Business related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 4b, which reflects nondeductible expenses paid. Follow investor guidelines

***Note:** Per IRS Notice 2021-25, the IRS will temporarily allow for a 100% deduction for expenses paid or incurred in 2021 and 2022 for food or beverages provided by a restaurant. Please consult your internal guidelines as to how to proceed.

S Corporation Cash Flow (Form 1120S)

An S Corporation is a legal entity with a limited number of shareholders.

Schedule K-1 (Form 1120S)

S Corporations prepare Schedule K-1 (Form 1120S) to inform individual shareholders of their share of income (loss), deductions and credits.

Line 1: Ordinary Business Income (Loss)

This represents the shareholder's allocated share of ordinary income (loss) from the S Corporation. The business allocates S Corporation shareholders portions of income, loss, deductions and credits earned. Shareholders pay tax or take deductions on their personal returns for these "pass-through" items.

Because shareholders pay tax on income earned by the S Corporation, they are able to take distributions and withdrawals free of income tax consequences.

Effect on Cash Flow Analysis Worksheet

- Add ordinary income only if the S Corporation has positive sales and earnings trends, AND:
 - Schedule K-1s reflect a history of the borrower receiving cash distributions consistent with ordinary income. (Refer to Line 16, Items affecting shareholder basis, for Code D cash distributions); OR
 - Schedule K-1s do not reflect a history of the borrower receiving cash distributions consistent with ordinary income:
 - But you can document adequate liquidity to support the withdrawal of earnings; OR
 - Limit the amount of qualifying income to the amount of distributions received
- In general, deduct any loss. Follow investor guidelines

Lines 2 and 3: Net Rental Real Estate Income (Loss)

If the borrower has reported income or loss from net rental real estate activity on this line, the S Corporation Return will generally include Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Effect on Cash Flow Analysis Worksheet

- Add continuous and ongoing net rental real estate income if conditions from Line 1, Ordinary business income, are met
- In general, deduct any loss. Follow investor guidelines

Form W-2, Box 5

Identify W-2s that reflect wages paid to the borrower from the borrower's business. However, before you include any W-2 income from the business, you must consider the financial health of it.

In general, use Box 5 to locate wages from self-employment. However, in certain cases, after evaluating the source of income reported in Box 1, it may be appropriate to use the amount in Box 1. Follow investor guidelines.

Effect on Cash Flow Analysis Worksheet

- Add self-employed wages

Form 1120S: U.S. Income Tax Return for an S Corporation

S Corporations report profit or loss on Form 1120S. The S Corporation itself does not pay tax. S Corporation profit (loss) is passed to individual shareholders via Schedule K-1 1120S. The shareholders pay tax on their proportionate share.

As you analyze cash flow from Form 1120S, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is on Schedule K-1 (Form 1120S).

Using income from Form 1120S to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120S provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Lines 4 and 5: Income (Loss) From Miscellaneous Sources

Analyze these lines to determine whether the income (loss) is stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 14: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 15: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 19: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Schedule L – Balance Sheets per Books

This section of Form 1120S provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Line 16, Column D: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column D; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

Schedule M-1 – Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Line 3b: Travel and Entertainment

Business-related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount on Line 3b, which reflects nondeductible expenses paid. Follow investor guidelines

***Note:** Per IRS Notice 2021-25, the IRS will temporarily allow for a 100% deduction for expenses paid or incurred in 2021 and 2022 for food or beverages provided by a restaurant. Please consult your internal guidelines as to how to proceed.

Corporation Cash Flow (Form 1120)

A corporation is a legal entity, separate and distinct from its shareholders.

Form W-2, Box 5

Identify W-2s that reflect wages paid to the borrower from the borrower's business. However, before you include any W-2 income from the business, you must consider the financial health of it.

In general, use Box 5 to locate wages from self-employment. However, in certain cases, after evaluating the source of income reported in Box 1, it may be appropriate to use the amount in Box 1. Follow investor guidelines.

Effect on Cash Flow Analysis Worksheet

- Add self-employed wages

Form 1120: U.S. Corporation Income Tax Return

Corporations report profit (loss) on Form 1120. They are taxed on their profits. Corporate profit (loss) is distributed to shareholders in the form of dividends.

As you analyze cash flow from Form 1120, remember to add/deduct only the borrower's share of income/losses. The borrower's ownership percentage is usually on Form 1125-E.

Using income from the 1120 to qualify the borrower depends upon the viability of the business and the borrower's ability to access funds.

The first page of Form 1120 provides a picture of the business's income and expenses at a given point in time and is basically an income statement.

Note: In order for corporate earnings to be eligible as qualifying income, investors generally require that the borrower is a 100% owner of the business.

Line 30: Taxable Income

The amount on this line represents the corporation's income after deductions, but before income tax. This is the starting point of the analysis.

Effect on Cash Flow Analysis Worksheet

- Add taxable income

Line 31: Total Tax

Unlike partnerships and S Corporations, regular corporations pay income tax. Deduct taxes before determining cash flow.

Effect on Cash Flow Analysis Worksheet

- Deduct the tax liability

Lines 8 and 9: Capital and Net Gains

Examine any capital and net gains (losses) listed on page 1 of Form 1120, details of which are reported on Schedule D and Form 4797.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring gains/add nonrecurring losses

Line 10: Other Income

Analyze this income to determine whether it's stable and recurring.

Effect on Cash Flow Analysis Worksheet

- Deduct nonrecurring income/add nonrecurring loss

Line 20: Depreciation

Depreciation is a noncash expense allocated over the useful life of a declared asset.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 21: Depletion

Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

Line 26: Other Deductions

Review the supporting statement for deductions for amortization and any one-time casualty losses.

Effect on Cash Flow Analysis Worksheet

- Add back amortization and/or casualty loss

Line 29a and 29b: Net Operating Loss and Special Deductions

When a corporation sustains a loss in one year, it has the ability to offset income earned in future years.

In ensuing years, the corporation may include a previous year's loss on its corporate tax return, even though it might not have experienced the loss that year.

A corporation that receives dividend income may be able to take a deduction for a certain percentage of the amount it received. This deduction is a noncash expense.

Effect on Cash Flow Analysis Worksheet

- Add back the amount

***Note:** Per IRS Notice 2021-25, the IRS will temporarily allow for a 100% deduction for expenses paid or incurred in 2021 and 2022 for food or beverages provided by a restaurant. Please consult your internal guidelines as to how to proceed.

Schedule L – Balance Sheets per Books

This section of Form 1120 provides a picture of the business's assets and liabilities and the owners' equity at the beginning and the end of the tax year.

Note: IRS guidelines do not require every business to complete Schedule L.

Line 17, Column D: Mortgages, Notes, Bonds Payable in Less Than 1 Year

Business obligations payable in less than 1 year may have a negative impact on cash flow.

Effect on Cash Flow Analysis Worksheet

- In general, deduct the amount in Column D; however, if you determine these obligations have a "rollover" clause, or there are ample liquid assets to cover these obligations, a deduction may not be necessary

Schedule M-1 – Reconciliation of Income (Loss) per Books With Income per Return

Line 5c: Travel and Entertainment

Business related expenses (travel, meals and entertainment) reported on Schedule M-1 have been excluded from taxable income.

Effect on Cash Flow Analysis Worksheet

- Deduct the amount from Line 5c, which reflects nondeductible expenses paid. Follow investor guidelines