

IRS Form 1040 heading	Description
Wages, Salaries and Tips	<p>An amount shown under this heading may indicate that the individual:</p> <ul style="list-style-type: none"> • Is a salaried employee of a corporation, or • Has other sources of income. <p>This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the consumer's adjusted gross income.</p>
Business Income and Loss (from Schedule C)	<p>Sole proprietorship income calculated on Schedule C is business income.</p> <p>Depreciation or depletion may be added back to the adjusted gross income.</p>
Rents, Royalties, Partnerships (from Schedule E)	<p>Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.</p>
Capital Gain and Losses (from Schedule D)	<p>Capital gains or losses generally occur only one time, and should not be considered when determining effective income.</p> <p>However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earning trend. If the trend:</p> <ul style="list-style-type: none"> • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from the total income. <p>Creditor must document anticipated continuation of income through verified assets.</p> <p><i>Example:</i> A creditor can consider the capital gains for an individual who purchases old houses, remodels them, and sells them for profit.</p>
Interest and Dividend Income (from Schedule B)	<p>This taxable/tax-exempt income may be added back to the adjusted gross income only if it:</p> <ul style="list-style-type: none"> • Has been received for the past two years; and • Is expected to continue. <p>If the interest-bearing asset will be liquidated as a source of the cash investment, the creditor must appropriately adjust the amount.</p>
Farm Income or Loss (from Schedule F)	<p>Any depreciation shown on Schedule F may be added back to the adjusted gross income.</p>
IRA Distributions, Pensions, Annuities, and Social Security Benefits	<p>The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.</p>
Adjustments to Income	<p>Adjustments to income may be added back to the adjusted gross income if they are:</p> <ul style="list-style-type: none"> • IRA and Keogh retirement deductions; • Penalties on early withdrawal of savings; • Health insurance deductions; and • Alimony payments.
Employee Business Expenses	<p>Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.</p>