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Department  
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Internal  
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Service

# Net Operating Losses

- Trade or business
- Employee business expenses
- Casualty and theft

For use in preparing  
**1994** Returns

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## Introduction

If your deductions for the year are more than your income for the year, you may have a net operating loss (NOL). You can use an NOL by deducting it from your income in another year or years. This publication discusses NOLs for individuals, estates and trusts, and corporations. It explains how to figure an NOL, when to use it, how to claim an NOL deduction, and how to figure an NOL carryover.

To have an NOL, your loss must be caused by:

- 1) Deductions from a trade or business,
- 2) Deductions from your work as an employee, or
- 3) Deductions for casualty and theft losses.

A loss from operating a business is the most common reason for an NOL.

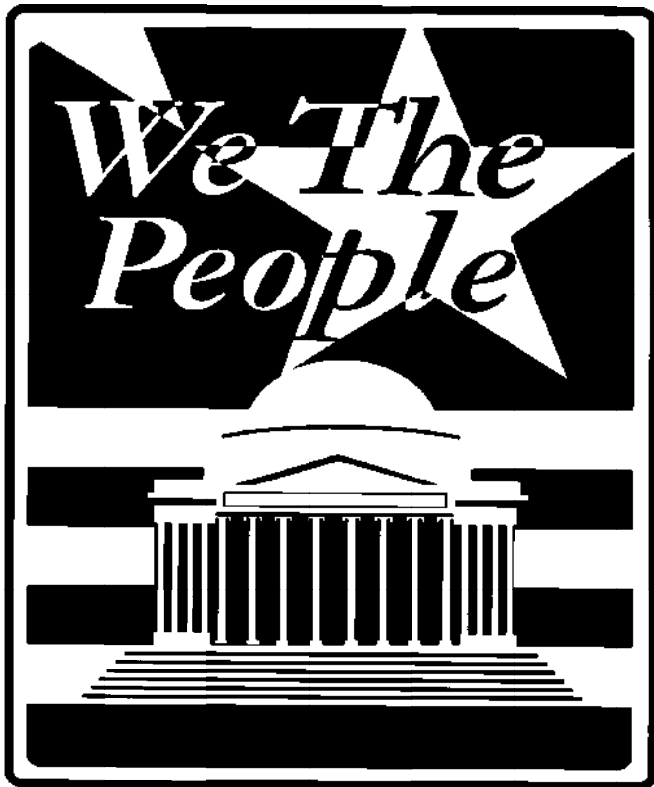
Partnerships and S corporations cannot use an NOL. But partners or shareholders can use their separate shares of the partnership's or S corporation's business income and business deductions to figure their individual NOLs.

### Useful Items

You may want to see:

#### Publication

- ☐ **542** Tax Information on Corporations



## Form (and Instructions)

- 1040X** Amended U.S. Individual Income Tax Return
- 1045** Application for Tentative Refund
- 1120X** Amended U.S. Corporation Income Tax Return
- 1138** Extension of Time for Payment of Taxes by a Corporation Expecting a Net Operating Loss Carryback
- 1139** Corporation Application for Tentative Refund

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## NOL Steps

Figure and use your NOL in the following steps:

**Step 1.** Complete your tax return for the year. You may have an NOL if a negative figure appears on the line below:

Individuals — line 35 of Form 1040.

Estates and trusts — line 22 of Form 1041.

Corporations — line 30 of Form 1120 or line 26 of Form 1120-A.

If the amount on that line is **not** a negative figure, **stop here** — you do not have an NOL.

**Step 2.** Determine whether you have an NOL and its amount. See *How To Figure an NOL*, later. If you do not have an NOL, **stop here**.

**Step 3.** Decide whether to carry the NOL back to a past year or to forgo any carryback and instead carry forward the NOL to a future year. See *When To Use an NOL*, later.

**Step 4.** Deduct the NOL in the carryback or carryforward year. See *How To Claim an NOL Deduction*, later. If your NOL deduction is equal to or smaller than your taxable income without the deduction, **stop here** — you have used up your NOL.

**Step 5.** Determine the amount of your unused NOL. See *How To Figure an NOL Carryover*,

later. Carry over the unused NOL to the next carryback or carryforward year and begin again at Step 4.

**Note.** If your NOL deduction includes more than one NOL amount, apply Step 5 separately to each NOL amount, starting with the earliest.

## How To Figure an NOL

If your deductions for the year are more than your income for the year, you have a potential NOL.

There are rules that limit what you can deduct when figuring an NOL. In general, these rules do not allow:

- 1) Exemptions,
- 2) Net capital losses,
- 3) Nonbusiness losses, or
- 4) Nonbusiness deductions.

**Schedule A (Form 1045).** You can use Schedule A (Form 1045) to figure an NOL for an individual, estate, or trust. This discussion explains Schedule A and includes an illustrated example.

First, complete lines 1–3 of Schedule A, using amounts from your return. If line 3 is a negative amount, you have a net loss and a potential NOL.

Next, complete the rest of Schedule A to figure your NOL. Adjust the amount on line 3 for deductions that are allowed when figuring your taxable income but not when figuring an NOL. The following discussions explain these adjustments.

**Adjustment for exemptions (line 4).** You cannot deduct your personal exemption or exemptions for dependents. An estate or trust cannot deduct its exemption amount. Your adjustment is the total amount you deducted.

**Adjustment for nonbusiness deductions (line 12).** You can deduct your nonbusiness deductions (line 9) only up to the total of:

- 1) Your nonbusiness capital gains that are more than your nonbusiness capital losses (line 8), and
- 2) Your nonbusiness income (line 10).

Your adjustment is your nonbusiness deductions that are more than the total of (1) and (2).

**Nonbusiness deductions (line 9).** Enter on line 9 as your nonbusiness deductions only those that are unrelated to your trade or business or your employment. For example, enter your deductions for alimony, contributions to an IRA or other retirement plan, medical expenses, and charitable contributions. If you do not itemize deductions, include your standard deduction.

Do **not** include your deductions for personal casualty and theft losses or for one-half of self-employment tax. Treat these as business deductions.

Also do not include your deductions for expenses that are ordinary and necessary in carrying on your trade or business or your employment, or the following related deductions for:

- Moving expenses,
- State income tax on business profits,
- Interest and litigation expenses on state and federal income taxes related to your business income,
- Payments by a federal employee to buy back sick leave used in an earlier year,
- Loss on property you rent out,
- Loss on the sale or exchange of business real estate or depreciable business property,
- Loss on the sale of accounts receivable (if you use an accrual method of accounting),
- Loss on the sale or exchange of stock in a small business corporation or a small business investment company, if treated as ordinary loss, and
- Unrecovered investment in a pension or annuity claimed on a decedent's final return.

**Nonbusiness income (line 10).** Enter on line 10 as your nonbusiness income only income that is unrelated to your trade or business or your employment. For example, enter your annuity income, dividends, and interest from investments. Also include your share of nonbusiness income from partnerships and S corporations.

Do **not** include the income you receive from your trade or business or your employment. This includes salaries and wages, self-employment income, and your share of business income from partnerships and S corporations. Also, do not include rental income or ordinary gain from the sale or other disposition of business real estate or depreciable business property.

**Adjustment for capital losses (line 22).** You can deduct your nonbusiness capital losses (line 5) only up to the amount of your nonbusiness capital gains (line 6). If your nonbusiness capital losses are more than your nonbusiness capital gains, you cannot deduct the excess.

You can deduct your business capital losses (line 14) only up to the total of:

- 1) Your nonbusiness capital gains that are more than the total of your nonbusiness capital losses and excess nonbusiness deductions (line 13), and
- 2) Your business capital gains (line 15).

Your adjustment is your nondeductible capital losses (line 18) that are more than the nondeductible net capital loss on your return (line 21). (You had a nondeductible net capital loss if your net capital loss was more than your capital loss deduction.)

**Adjustment for NOL deduction (line 23).** You cannot deduct any NOL carryovers or carrybacks from other years. Your adjustment is the total amount of your NOL deduction for losses from other years.

## Illustrated Schedule A (Form 1045)

The following example illustrates how to figure an NOL. It includes filled-in pages 1 and 2 of Form 1040 and Schedule A (Form 1045).

**Example.** In 1994, Glenn Johnson started a retail record business. For 1994, he is single and has the following income and deductions on his Form 1040.

INCOME	
Wages from part-time job .....	\$ 1,225
Interest on savings .....	425
Net long-term capital gain on sale of real estate used in business .....	2,000
<b>Glenn's total income</b> .....	<u>\$ 3,650</u>
DEDUCTIONS	
Net loss from business (sales of \$67,000 minus expenses of \$72,000) .....	\$ 5,000
Net short-term capital loss on sale of stock .....	1,000
Personal exemption .....	2,450
Standard deduction .....	3,800
Loss on small business investment company stock .....	300
Loss on small business stock .....	700
<b>Glenn's total deductions</b> .....	<u>\$13,250</u>

Glenn's deductions exceed his income by \$9,600 (\$13,250 – \$3,650). However, to figure whether he has an NOL, he must modify certain deductions. He can use Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045) included here.

Glenn cannot deduct the following:

Nonbusiness net short-term capital loss ...	\$1,000
Personal exemption .....	2,450
The excess of his nonbusiness deductions (standard deduction amount, \$3,800) over his nonbusiness income (interest, \$425) .....	3,375
<b>Total adjustments to net loss</b> .....	<u>\$6,825</u>

When these items are eliminated, Glenn's net loss is reduced to \$2,775 (\$9,600 – \$6,825). This amount is his NOL for 1994.

## When To Use an NOL

Generally, you carry back an NOL to the 3 tax years before the NOL year (the carryback years), and then carry forward any NOL remaining for up to 15 years after the NOL year (the carryforward years). However, see *Forgoing the carryback period*, later. The "NOL year" is the year in which the NOL occurred. You cannot deduct any part of the NOL remaining after the 15-year carryforward period.

You must first carry the entire NOL to the earliest carryback year. If your NOL is not used up, you can carry the remainder to the next earliest carryback year, and so on.

If you do not use up the NOL in the 3 carryback years, carry forward what remains of it to the 15 tax years following the NOL year. Start by carrying it to the first tax year after the NOL year. If you do not use it up, carry over the unused part to the next year. Continue to carry over any unused part of the NOL until you complete the 15-year carryforward period.

**Example.** You started your business in 1994 and had a \$42,000 NOL for the year. You begin using your NOL in 1991, the third year before the NOL year, as shown in the following chart.

Year	Carryback or Carryover	Unused Loss
1991 .....	\$42,000	\$40,000
1992 .....	40,000	37,000
1993 .....	37,000	31,500
1994 (NOL year) .....		
1995 .....	31,500	22,500
1996 .....	22,500	12,700
1997 .....	12,700	4,000
1998 .....	4,000	–0–

If your loss were larger, you could carry it forward until the year 2009. If you still had an unused 1994 carryforward after the year 2009, you could not deduct it.

**Forgoing the carryback period.** You can choose not to carry back your NOL. If you make this choice, you use your NOL only in the 15-year carryforward period. To make this choice, attach a statement to your tax return for the NOL year. This statement must show that you are choosing to forgo the carryback period under section 172(b)(3) of the Internal Revenue Code.

You must file this statement by the due date, including extensions, for filing your return for the NOL year. If you do not file it on time, you cannot forgo the carryback period. Once you make this choice, you cannot change it. If you want to forgo the carryback period for more than one NOL, you must make a separate choice for each NOL year.

## How To Claim an NOL Deduction

If you have not already carried the NOL to an earlier year, your NOL deduction is the total amount of the NOL. If you carried the NOL to an earlier year, your NOL deduction is the amount of the NOL minus the amount you used in the earlier year or years.

If you carry more than one NOL to the same year, your NOL deduction is the total of these carrybacks and carryovers.

**NOL more than taxable income.** If your NOL is more than the taxable income of the year you carry it to (figured before deducting the NOL), your income tax for that year is zero. You generally will have an NOL carryover to the next year. See *How To Figure an NOL Carryover*, later, to determine how much NOL you

have used and how much you carry to the next year.

## Deducting a Carryback

If you carry back your NOL, you can use either Form 1045 or Form 1040X. You can get your refund faster by using Form 1045, but you have a shorter time to file it. A Form 1045 can be used to apply an NOL to all three carryback years. If you use Form 1040X, a separate Form 1040X is required for each carryback year to which the NOL is applied.

Estates and trusts not filing Form 1045 must file an amended Form 1041 (instead of Form 1040X) for each carryback year the NOL is applied. Use a copy of the appropriate year's Form 1041, check the "Amended return" box, and follow the Form 1041 instructions for amended returns. Include the NOL deduction with other deductions not subject to the 2% limit (line 15a for 1991, 1992, and 1993). Also see the special procedures for filing an amended return due to an NOL carryback, explained under *Form 1040X*, later.

**Form 1045.** You can apply for a quick refund by filing Form 1045. This form results in a tentative adjustment of tax in the carryback year. See the Form 1045 illustrated at the end of this discussion.

If the IRS refunds or credits an amount to you on the basis of Form 1045 and later determines that the refund or credit is too much, the IRS may assess and collect the excess immediately.

You must file Form 1045 on or after the date you file the return for the NOL year, but not later than one year after the NOL year. For example, if you are a calendar year taxpayer with a carryback from 1994 to 1991, you must file Form 1045 on or after the date you file your tax return for 1994, but no later than January 2, 1996.

The IRS will ordinarily act on Form 1045 within 90 days from the day you file it.

**Form 1040X.** If you do not file Form 1045, you can file Form 1040X to get a refund of tax because of an NOL carryback. File Form 1040X within 3 years after the due date, including extensions, for filing the return for the NOL year. For example, if you are a calendar year taxpayer and filed your 1991 return by the April 15, 1992, due date, you must file a claim for refund of 1988 tax because of an NOL carryback from 1991 by April 17, 1995.

Attach a computation of your NOL using Schedule A (Form 1045) and, if applicable, your NOL carryover using Schedule B (Form 1045), discussed later.

**Refiguring your tax.** You must refigure the carryback year's income and deductions that are affected by a percentage of your adjusted gross income, such as medical expenses and casualty losses. Use the lower adjusted gross income resulting from your NOL deduction. However, do not refigure your deduction for charitable contributions. That deduction does not change because of an NOL carryback.

Next, refigure your income tax and alternative minimum tax. However, do **not** refigure your self-employment tax.

Finally, refigure any credits that are based on or limited by the amount of tax. Refigure these credits on the basis of your new tax liability.

## Deducting a Carryforward

If you carry forward your NOL to a tax year after the NOL year, list your NOL deduction as a negative figure on the "Other income" line of Form 1040 (line 21 for 1994). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 1994).

You must attach a statement that shows all the important facts about the NOL. Your statement should include a computation showing how you figured the NOL deduction. If you deduct more than one NOL in the same year, your statement must cover each of them.

## Change in Marital Status

If you and your spouse were not married to each other in all years involved in figuring NOL carrybacks and carryovers, only the spouse who had the loss can take the NOL deduction. If you file a joint return, the NOL deduction is limited to the income of that spouse.

For example, if your marital status changes because of death or divorce, and in a later year you have an NOL, you can carry back that loss only to the part of the income reported on a joint return (filed with your former spouse) that was **your** taxable income. After you deduct the NOL in the carryback year, the joint rates apply to the resulting taxable income.

**Amount of refund.** If you are not married in the NOL year (or are married to a different spouse), and in the carryback year you were married and filed a joint return, your refund for the overpaid joint tax may be limited. You can claim a refund for the difference between your share of the refigured tax and your contribution toward the tax paid on the joint return. The refund cannot be more than the joint overpayment. Attach a statement showing how you figured your claim.

**Figuring your share of a joint tax liability.** There are five steps for figuring your share of the refigured joint tax liability.

- 1) Figure your total tax as though you had filed as "married filing separately,"
- 2) Figure your spouse's total tax as though your spouse had also filed as "married filing separately,"
- 3) Add the amounts in (1) and (2) together,
- 4) Divide the amount in (1) by the amount in (3), and
- 5) Multiply the refigured tax on your joint return by the amount figured in (4). This is your share of the joint tax liability.

**Figuring your contribution toward tax paid.** Unless you have an agreement or clear

evidence of each spouse's contributions toward the payment of the joint tax liability, figure your contribution by adding the tax withheld on your wages and your share of joint estimated tax payments or tax paid with the return. If the original return for the carryback year resulted in an overpayment, reduce your contribution by your share of the tax refund. Figure your share of a joint payment or refund by the same method used in figuring your share of the joint tax liability. Use your taxable income as originally reported on the joint return in steps (1) and (2), and substitute the joint payment or refund for the refigured joint tax in step (5).

## Change in Filing Status

If you and your spouse were married and filed a joint return for each year involved in figuring NOL carrybacks and carryovers, figure the NOL deduction on a joint return as you would for an individual. However, treat the NOL deduction as a joint NOL. Figure it on the basis of the joint NOLs.

If you and your spouse were married and filed separate returns for each year involved in figuring NOL carrybacks and carryovers, the spouse who sustained the loss may take the NOL deduction on a separate return.

Special rules apply, however, for figuring the NOL carrybacks and carryovers of married people whose filing status changes for any tax year involved in figuring an NOL carryback or carryover.

**Separate to joint return.** If you and your spouse file a joint return for a carryback or carryforward year, and were married but filed separate returns for any of the tax years involved in figuring the NOL carryback or carryover, treat the separate carryback or carryover as a joint carryback or carryover.

**Joint to separate returns.** If you and your spouse file separate returns for a carryback or carryforward year, but filed a joint return for any or all of the tax years involved in figuring the NOL carryover, figure each of your carryovers separately.

**Joint return in NOL year.** Figure each spouse's share of the joint NOL in the following steps:

- 1) Figure each spouse's NOL as if he or she filed a separate return. See *How To Figure an NOL*, earlier. If only one spouse has an NOL, **stop here**. All of the joint NOL is that spouse's NOL.
- 2) If both spouses have an NOL, multiply the joint NOL by a fraction, the numerator of which is spouse A's NOL figured in (1) and the denominator of which is the total of the spouses' NOLs figured in (1). The result is spouse A's share of the joint NOL. The remainder of the joint NOL is spouse B's share.

**Example 1.** Mark and Nancy are married and file a joint return for 1994. They have an NOL of \$5,000. They carry the NOL back to

1991, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 1994 deductions were more than her income, and Mark's income was more than his deductions. Mark does not have any NOL to carry back. Nancy may carry back the entire \$5,000 NOL to her 1991 separate return.

**Example 2.** The facts are the same as Example 1, except that both Mark and Nancy had deductions in 1994 that were more than their income. Figured separately, Mark's NOL is \$1,800 and Nancy's is \$3,000. (The sum of their separate NOLs is less than their \$5,000 joint NOL because Mark's deductions included a \$200 net capital loss that is not allowed in figuring his separate NOL. The loss is allowed in figuring their joint NOL because it was offset by Nancy's capital gains.) Mark's share of their \$5,000 joint NOL is \$1,875 ( $\$5,000 \times \$1,800 / \$4,800$ ) and Nancy's is \$3,125 ( $\$5,000 - \$1,875$ ).

**Joint return in previous carryback or carryforward year.** If only one spouse had an NOL deduction on the previous year's joint return, all of the joint carryover is that spouse's carryover. If both spouses had an NOL deduction (including separate carryovers of a joint NOL, figured as explained in the previous discussion), figure each spouse's share of the joint carryover in the following steps:

- 1) Figure each spouse's modified taxable income as if he or she filed a separate return. See *Modified taxable income* under *How To Figure an NOL Carryover*, later.
- 2) Multiply the joint modified taxable income you used to figure the joint carryover by a fraction, the numerator of which is spouse A's modified taxable income figured in (1) and the denominator of which is the total of the spouses' modified taxable incomes figured in (1). This is spouse A's share of the joint modified taxable income.
- 3) Subtract the amount figured in (2) from the joint modified taxable income. This is spouse B's share of the joint modified taxable income.
- 4) Reduce the amount figured in (3), but not below zero, by spouse B's NOL deduction.
- 5) Add the amounts figured in (2) and (4).
- 6) Subtract the amount figured in (5) from spouse A's NOL deduction. This is spouse A's share of the joint carryover. The remainder of the joint carryover is spouse B's share.

**Example.** Sam and Wanda filed a joint return for 1991 and separate returns for 1992, 1993, and 1994. In 1994, Sam had an NOL of \$18,000 and Wanda had an NOL of \$2,000. They carry back both NOLs to their 1991 joint return and claim a \$20,000 NOL deduction.

Sam and Wanda's joint modified taxable income (MTI) for 1991 is \$15,000, and their joint NOL carryover to 1992 is \$5,000 ( $\$20,000 - \$15,000$ ). They figure their shares of the \$5,000 carryover as follows:

<b>Step 1.</b>	
Sam's separate MTI .....	\$ 9,000
Wanda's separate MTI .....	+ 4,500
Total:	\$ 13,500
<b>Step 2.</b>	
Joint MTI .....	\$ 15,000
Sam's MTI + total MTI (\$9,000 + 13,500) .....	× .67
Sam's share of joint MTI:	\$ 10,050
<b>Step 3.</b>	
Joint MTI .....	\$ 15,000
Sam's share of joint MTI .....	- 10,050
Wanda's share of joint MTI:	\$ 4,950
<b>Step 4.</b>	
Wanda's share of joint MTI .....	\$ 4,950
Wanda's NOL deduction .....	- 2,000
Wanda's remaining share:	\$ 2,950
<b>Step 5.</b>	
Sam's share of joint MTI .....	\$ 10,050
Wanda's remaining share of joint MTI .....	+ 2,950
Joint MTI to be offset:	\$ 13,000
<b>Step 6.</b>	
Sam's NOL deduction .....	\$ 18,000
Joint MTI to be offset .....	- 13,000
Sam's carryover to 1992:	\$ 5,000
<hr/>	
Joint carryover to 1992 .....	\$ 5,000
Sam's carryover .....	- 5,000
Wanda's carryover to 1992:	\$ -0-

Wanda's \$2,000 NOL deduction offsets \$2,000 of her \$5,000 share of the joint modified taxable income and is completely used up. She has no carryover to 1992. Sam's \$18,000 NOL deduction offsets all of his \$10,050 share of joint modified taxable income and the remaining \$2,950 of Wanda's share. His carryover to 1992 is \$5,000.

## Illustrated Form 1045

The following example illustrates how to use Form 1045 to claim an NOL deduction in a carryback year. It includes a filled-in page 1 of Form 1045.

**Example.** Martha Sanders is a self-employed contractor. Because of a business loss, Martha's 1994 deductions are more than her 1994 income. She uses Form 1045 to carry back her NOL and claim an NOL deduction in 1991. See the filled-in Form 1045 included here. Her filing status both years was "Single."

Martha figures her 1994 NOL on Schedule A, Form 1045 (not shown). (For an example using Schedule A, see *Illustrated Schedule A (Form 1045) under How To Figure an NOL*, earlier.) She enters the \$10,000 NOL amount from line 25 of Schedule A on line 1a of page 1 of Form 1045.

Martha completes lines 9 through 25 under "3rd preceding tax year ended 12/31/91" on page 1 of Form 1045 using the following amounts from her 1991 return.

Adjusted gross income .....	\$50,000
Itemized deductions:	
Medical expenses (\$6,000 minus 7.5% of adjusted gross income) .....	\$ 2,250
State income tax .....	2,000
Real estate tax .....	4,000
Home mortgage interest .....	5,000
Total .....	\$13,250
Exemption .....	\$ 2,150
Income tax .....	\$ 7,050
Self-employment tax .....	\$ 6,120

On line 10, column (b), Martha enters her \$10,000 NOL deduction. Her new adjusted gross income on line 11, column (b), is \$40,000 (\$50,000 - \$10,000).

To complete line 12, column (b), she must refigure her medical expense deduction using her new adjusted gross income. Her refigured medical expense deduction is \$3,000 (\$6,000 - (\$40,000 × 7.5%)). This increases her total deductions to \$14,000 (\$13,250 + (\$3,000 - \$2,250)).

Martha uses her refigured taxable income (\$23,850) from line 15, column (b), and the tax tables in her 1991 Form 1040 instructions to find her income tax. She enters the new amount, \$4,040, on line 16, column (b), and her new total tax liability, \$10,160, on line 25, column (b).

Martha's \$10,000 NOL is used up in 1991, so she does not complete the columns for the second and first preceding tax years. The decrease in tax because of her NOL deduction (line 27) is \$3,010.

Martha files Form 1045 after filing her 1994 return, but no later than January 2, 1996. She mails it to the Internal Revenue Service Center where she filed her 1994 return and attaches a copy of her 1994 return (including its attached forms and schedules).

## How To Figure an NOL Carryover

If your NOL is more than your taxable income for the year to which you carry it (figured before deducting the NOL), you must make certain modifications to your taxable income to determine how much NOL you will use up in that year and how much you can carry over to the next tax year. Your carryover is the excess of your NOL deduction over your modified taxable income for the carryback or carryforward year. If your NOL deduction includes more than one NOL, apply the NOLs against your modified taxable income in the same order in which you incurred them, starting with the earliest.

**Modified taxable income.** Your modified taxable income is your taxable income figured with the following changes:

- 1) You cannot claim an NOL deduction for the NOL whose carryover you are figuring or for any later NOL.
- 2) You cannot claim a deduction for a net capital loss.

- 3) You cannot claim your exemptions for yourself or dependents.
- 4) You must figure any item affected by the amount of your adjusted gross income after making the changes in (1) and (2), above, and certain other changes to your adjusted gross income that result from (1) and (2). This includes income and deduction items used to figure adjusted gross income (for example, IRA deductions), as well as certain itemized deductions. To figure a charitable contribution deduction, the change in (1) is treated as including an NOL deduction for a carryback of an earlier NOL.

Your taxable income as modified cannot be less than zero.

**Schedule B (Form 1045).** You can use Schedule B (Form 1045) to figure your modified taxable income for carryback years and your carryover from each of those years. Do **not** use Schedule B for a carryforward year. If your 1994 return includes an NOL deduction from an NOL year before 1994 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 1994 to 1995*, later.

## Illustrated Schedule B (Form 1045)

The following example illustrates how to figure an NOL carryover from a carryback year. It includes a filled-in Schedule B (Form 1045).

**Example.** Ida Brown runs a small clothing shop. In 1994, she has an NOL of \$36,000 that she chooses to carry back to 1991. She has no other carrybacks or carryovers to 1991.

Ida's adjusted gross income in 1991 was \$29,000, consisting of her salary of \$30,000 minus a \$1,000 capital loss deduction. She is single and claimed only one personal exemption of \$2,150. During that year, she gave \$1,450 in charitable contributions. Her medical expenses were \$2,725. She also deducted \$1,650 in taxes and \$1,125 in home mortgage interest.

Her deduction for charitable contributions was not limited because the amount of her contributions, \$1,450, was less than 50% of her adjusted gross income. The deduction for medical expenses was limited to expenses over 7.5% of adjusted gross income (.075 × \$29,000 = \$2,175; \$2,725 - \$2,175 = \$550). The deductions for taxes and home mortgage interest are not subject to any limits. She was able to claim \$4,775 (\$1,450 + \$550 + \$1,650 + \$1,125) in itemized deductions for 1991. She had no other deductions in 1991. Her taxable income for the year was \$22,075.

Ida's \$36,000 carryback will reduce her 1991 taxable income to zero. She completes column (a) of Schedule B (Form 1045) to figure how much of her NOL is used up in 1991 and how much she can carry over to 1992. See the illustrated Schedule B shown here. Ida does not complete columns (b) and (c) because the \$10,700 carryover to 1992 is completely used up that year.

**Line 1.** Ida enters \$36,000, the amount of her 1994 net operating loss, on line 1.

**Line 2.** She enters \$22,075, her 1991 taxable income on line 2.

**Line 3.** Ida enters on line 3 her net capital loss deduction of \$1,000.

**Line 4.** Although Ida's entry on line 3 modifies her adjusted gross income, that does not affect any other items included in her adjusted gross income. Ida enters zero on line 4.

**Line 5.** Since Ida had itemized deductions and entered \$1,000 on line 3, she completes lines 9 through 33 to figure her adjustment to itemized deductions. On line 5, she enters the total adjustment from line 33.

**Line 9.** Ida's adjusted gross income for 1991 was \$29,000.

**Line 10.** She adds the amounts on lines 3 and 4 and enters \$1,000 on line 10. (This is her net capital loss deduction added back, which modifies her adjusted gross income.)

**Line 11.** Her modified adjusted gross income for 1991 is now \$30,000.

**Line 12.** Her actual medical expenses were \$2,725.

**Line 13.** Her modified adjusted gross income, \$30,000, is multiplied by .075. She enters \$2,250 on line 13.

**Line 14.** The difference between her actual medical expenses and the amount she is allowed to deduct is \$475.

**Line 15.** On her 1991 tax return, she deducted \$550 as medical expenses.

**Line 16.** The difference between her medical deduction and her modified medical deduction is \$75. This is entered on line 16.

**Line 17.** She enters her modified adjusted gross income of \$30,000 on line 17.

**Line 18.** She had no other carrybacks to 1991 and enters zero on line 18.

**Line 19.** Her modified adjusted gross income remains \$30,000.

**Line 20.** She now refigures her charitable contributions based on her modified adjusted gross income. Since she is well below the 50% limit, she enters \$1,450 on line 20.

**Line 21.** The amount of her actual contributions for 1991 was \$1,450, which she enters on line 21.

**Line 22.** The difference is zero.

**Lines 23 through 32.** Since Ida had no casualty losses or deductions for miscellaneous items in 1991, she leaves these lines blank.

**Line 33.** She combines lines 16, 22, 27, and 32 and enters \$75 on line 33. She carries this figure to **line 5**.

**Line 6.** Ida enters her personal exemption of \$2,150 for 1991.

**Line 7.** After combining lines 2 through 6, Ida's modified taxable income is \$25,300.

**Line 8.** Ida figures her carryover to 1992 by subtracting her modified taxable income (line 7) from her NOL deduction (line 1). She enters the \$10,700 carryover on line 8. She also enters this \$10,700 on page 1 of Form 1045, line 10 of column (d), as her NOL deduction for 1992. (For an illustrated example of page 1 of Form 1045, see *Illustrated Form 1045* under *How To Claim an NOL Deduction*, earlier.)

## NOL Carryover From 1994 to 1995

If you had an NOL deduction that reduced your taxable income on your 1994 return to zero (to less than zero, if an estate or trust), complete the *Worksheet for NOL Carryover From 1994 to 1995*. It will help you figure the amount of your NOL to carry to 1995.

### Worksheet Instructions

At the top of the worksheet, enter the NOL year for which you are figuring the carryover.

**More than one NOL.** If your 1994 NOL deduction includes amounts for more than one loss year, complete this worksheet only for one loss year. To determine which year, start with your negative taxable income. (An individual's negative taxable income is figured by combining the amounts on lines 35 and 36 of Form 1040.) Then, beginning with the earliest NOL, add each NOL (treated as a positive amount) separately to your negative taxable income. Complete this worksheet for the earliest NOL that increases your taxable income to zero or more. Your earlier NOLs will be completely used up in 1994. Your NOL carryover to 1995 is the total of the amount on line 8 of the worksheet and all later NOL amounts.

For example, assume your negative taxable income is (\$4,000). Your NOL deduction includes \$2,000 for 1991, \$7,000 for 1992, and \$5,000 for 1993. Add your 1991 NOL of \$2,000 to (\$4,000). This gives you taxable income of (\$2,000). Your 1991 NOL is now completely used up. Add your \$7,000 1992 NOL to (\$2,000). This gives you taxable income of \$5,000. You now complete the worksheet for your 1992 NOL. Your NOL carryover to 1995 is the unused part of your 1992 NOL from line 8 of the worksheet, plus your \$5,000 1993 NOL.

**Line 2.** Treat your NOL deduction for the NOL year entered at the top of the worksheet and later years as a positive amount. Add it to your negative taxable income. Enter the result on line 2.

**Line 4.** You must refigure certain income and deductions based on adjusted gross income. These are:

- 1) The special allowance for passive activity losses from rental real estate activities,
- 2) Taxable social security and tier 1 railroad retirement benefits,
- 3) IRA deductions, and
- 4) Excludable savings bond interest.

If none of these items applies to you, enter zero on line 4. Otherwise, increase your adjusted gross income by the total of the amount on line 3 and your NOL deduction for the NOL year entered at the top of the worksheet and later years. Using this increased adjusted

gross income amount, refigure the items that apply, in the order listed above. Your adjustment for each item is the difference between the refigured amount and the amount included on your return. Add the adjustments for previous items to your adjusted gross income before refiguring a subsequent item. Keep a record of your computations.

Enter your total adjustments for the above items on line 4.

**Line 5.** Enter zero if you claimed the standard deduction. Otherwise, use lines 9 through 44 of the worksheet to figure the amount to enter on this line. Complete only those sections that apply to you.

**Estates and trusts.** Enter zero on line 5 if you did not claim any miscellaneous deductions on line 15b (Form 1041) or a casualty or theft loss. Otherwise, refigure these deductions by substituting modified adjusted gross income (see below) for adjusted gross income. Subtract the recomputed deductions from those claimed on the return. Enter the result on line 5.

**Modified adjusted gross income.** To refigure miscellaneous itemized deductions of an estate or trust (Form 1041, line 15b), modified adjusted gross income is the total of:

- 1) The adjusted gross income on the return,
- 2) The amount from line 3 of the worksheet,
- 3) The exemption amount from Form 1041, line 20, and
- 4) The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

To refigure the casualty and theft loss deduction of an estate or trust, modified adjusted gross income is the total of:

- 1) The adjusted gross income amount you used to figure the deduction claimed on the return,
- 2) The amount from line 3 of the worksheet, and
- 3) The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

**Line 9.** Treat your NOL deduction for the NOL year entered at the top of the worksheet and for later years as a positive amount. Add it to your adjusted gross income. Enter the result on line 9.

**Line 17.** If you had a contributions carryover from 1993 to 1994 and your NOL deduction includes an amount from an NOL year before 1993, you may have to reduce your contributions carryover. This reduction is the amount of any adjustment you made to your 1993 charitable contributions deduction when figuring your NOL carryover to 1994. Use the reduced contributions carryover amount to figure the amount to enter on line 17.

**Label**

(See instructions on page 12.)  
 Use the IRS label. Otherwise, please print or type.

Your first name and initial: **GJ**      Last name: **765-00-4321 CAR-RT-SORT \*\*CRO1**

**GLENN M. JOHNSON**  
**5603 E. MAIN STREET**  
**ANYTOWN, VA 20000**

Apt. no. \_\_\_\_\_

Print, type, or post office, state, and zip code. If you have a foreign address, see page 12.

Your social security number \_\_\_\_\_  
 Spouse's social security number \_\_\_\_\_

**For Privacy Act and Paperwork Reduction Act Notice, see page 4.**

**Presidential Election Campaign**  
 (See page 12.)

Do you want \$3 to go to this fund?  Yes  No  
 If a joint return, does your spouse want \$3 to go to this fund?  Yes  No

Yes No Note: Checking "Yes" will not change your tax or reduce your refund.

**Filing Status**

(See page 12.)  
 Check only one box.

1  Single  
 2  Married filing joint return (even if only one had income)  
 3  Married filing separate return. Enter spouse's social security no. above and full name here. ▶ \_\_\_\_\_  
 4  Head of household (with qualifying person). (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ \_\_\_\_\_  
 5  Qualifying widow(er) with dependent child (year spouse died ▶ 19 \_\_\_\_\_). (See page 13.)

**Exemptions**

(See page 13.)  
 If more than six dependents, see page 14.

6a  Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2

b  Spouse

c Dependents:	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1994	No. of boxes checked on 6a and 6b	No. of your children on 6c who:
(1) Name (first, initial, and last name)						• lived with you
						• didn't live with you due to divorce or separation (see page 14)
						Dependents on 6c not entered above
						Add numbers entered on lines above ▶ <b>1</b>

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here

e Total number of exemptions claimed

**Income**

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see page 15.

Enclose, but do not attach, any payment with your return.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	<b>1,225</b>
8a	Taxable interest income (see page 15). Attach Schedule B if over \$400	8a	<b>425</b>
b	Tax-exempt interest (see page 16). DON'T include on line 8a	8b	
9	Dividend income. Attach Schedule B if over \$400	9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 15)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	<b>(5,000)</b>
13	Capital gain or (loss). If required, attach Schedule D (see page 16)	13	<b>1,000</b>
14	Other gains or (losses). Attach Form 4797	14	<b>(1,000)</b>
15a	Total IRA distributions	15a	
b	Taxable amount (see page 17)	15b	
16a	Total pensions and annuities	16a	
b	Taxable amount (see page 17)	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation (see page 18)	19	
20a	Social security benefits	20a	
b	Taxable amount (see page 16)	20b	
21	Other income. List type and amount—see page 18	21	
22	Add the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	<b>(3,350)</b>

**Adjustments to Income**

Caution: See instructions . . . ▶

23a	Your IRA deduction (see page 19)	23a	
b	Spouse's IRA deduction (see page 19)	23b	
24	Moving expenses. Attach Form 3903 or 3903-F	24	
25	One-half of self-employment tax	25	
26	Self-employed health insurance deduction (see page 21)	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. Recipient's SSN ▶ _____	29	
30	Add lines 23a through 29. These are your total adjustments	30	

**Adjusted Gross Income**

31 Subtract line 30 from line 22. This is your adjusted gross income. If less than \$25,296 and a child lived with you (less than \$9,000 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶ **31 (3,350)**

\* This amount is the net of the capital gain (\$2,000) and the capital loss (\$1,000).  
 \* This amount is made up of the two losses on "small business" stock (\$300 + \$700).

## Corporations

A corporation generally figures and deducts an NOL the same way an individual, estate, or trust does. The same carryback and carryforward periods apply, and the same sequence applies when it carries two or more NOLs to the same year. See *When To Use an NOL* and *How To Figure an NOL Carryover*, earlier.

A corporation's NOL generally differs from an individual's, estate's, or trust's in two ways:

- 1) A corporation can take different deductions when figuring an NOL, and
- 2) A corporation must make different modifications to its taxable income in the carryback or carryforward year when figuring how much of the NOL is used and how much is carried to the next year.

A corporation also uses different forms when claiming an NOL deduction from those used by individuals, estates, and trusts.

The following discussions explain these differences.

### How a Corporation Figures an NOL

A corporation figures an NOL in the same way as its taxable income. It starts with the corporation's gross income and subtracts its deductions. If its deductions are more than its gross income, the corporation has an NOL.

However, there are rules for figuring the NOL that either limit what it can deduct, or permit deductions not ordinarily allowed. These rules are:

- 1) A corporation cannot deduct any NOL carrybacks or carryovers from other years,
- 2) A corporation can take the deduction for dividends received, explained later, without limiting it to a percentage of its taxable income, and
- 3) A corporation can figure the deduction for dividends paid on certain preferred stock of public utilities without limiting it to its taxable income for the year.

**Dividends-received deduction.** The amount of a corporation's deduction for dividends received from domestic corporations (70% or 80% of the dividends) is generally limited to 70% or 80% of its taxable income. However, if a corporation sustains an NOL for a tax year, the limit on this deduction based on taxable income does not apply. In determining if a corporation has an NOL, the corporation figures the dividends-received deduction without regard to the 70% or 80% of taxable income limit.

See Publication 542 for more information on the dividends-received deduction.

**Example.** A corporation had \$500,000 gross income from business operations and

\$625,000 of allowable business expenses. It also received \$150,000 in dividends from a domestic corporation for which it can take an 80% deduction, ordinarily limited to 80% of its taxable income before the deduction. It figures its NOL as follows:

Income from business .....	\$ 500,000
Dividends .....	150,000
Gross income .....	\$ 650,000
Deductions (expenses) .....	(625,000)
Taxable income before special deductions .....	\$ 25,000
Minus: Deduction for dividends received, 80% of \$150,000 .....	(120,000)
<b>Net operating loss</b> .....	<b>(\$ 95,000)</b>

### How a Corporation Claims an NOL Deduction

The form a corporation uses to deduct its NOL depends on whether it carries the NOL back or forward.

**For a carryback.** If a corporation carries back the NOL, it can use either Form 1120X or Form 1139. A corporation can get a refund faster by using Form 1139. It cannot file Form 1139 before filing the return for the corporation's NOL year, but it must file Form 1139 no later than one year after the NOL year.

If the corporation does not file Form 1139, it must file Form 1120X within 3 years of the due date, plus extensions, for filing the return for the year in which it has the NOL.

**For a carryforward.** If a corporation carries forward its NOL, it enters the carryover on Schedule K (Form 1120), line 15. It also enters the deduction for the carryover (but not more than the corporation's taxable income after special deductions) on line 29(a) of Form 1120 or line 25(a) of Form 1120-A.

**Carryback expected.** If a corporation expects to have an NOL in its current year, it may automatically extend the time for payment of all or part of its income tax for the immediately preceding year. It does this by filing Form 1138. It must explain on the form why it expects the loss. This explanation must comply with the instructions on Form 1138.

The extension applies to previously determined unpaid tax required to be paid after filing Form 1138. This amount cannot exceed the tax overpayment in the carryback years due to the NOL carryback.

**Period of extension.** The extension is in effect until the end of the month in which the return for the NOL year is due, including extensions.

If the corporation files Form 1139 before this date, the extension will continue until the date the IRS notifies the corporation that its Form 1139 is disallowed in whole or in part.

### How a Corporation Figures an NOL Carryover

If the NOL available for a carryback or carryforward year is greater than the taxable income for that year, the corporation must modify its taxable income to figure how much of the NOL it will use up in that year and how much it can carry to the next tax year. Its carryover is the excess of the available NOL over its modified taxable income for the carryback or carryforward year.

**Modified taxable income.** A corporation figures its modified taxable income in the same way as its taxable income. But it can deduct NOLs only from years before the NOL year whose carryover is being figured. The corporation must figure its deduction for charitable contributions without considering any NOL carrybacks.

Modified taxable income is used only to figure how much of an NOL the corporation uses up in the carryback or carryover year and how much it carries to the next year. It is not used to fill out the corporation's tax return or figure its tax.

**Ownership change.** A loss corporation that has an ownership change is limited on the amount of taxable income it can offset by NOL carryforwards arising before the date of the ownership change. This limit applies to any year ending after the change of ownership.

See section 382 of the Internal Revenue Code and the related regulations for more information about the limits on corporate NOL carryovers and corporate ownership changes.

### Worksheet for Figuring a Corporation's Carryover

A corporation can use the following worksheet to figure how much of its NOL is used up in a carryback or carryforward year and how much to carry over to the next year.

On line A, Part I, enter the carryback or carryforward year from which the NOL is being carried. For example, if the worksheet is used to figure the carryover from 1994 to 1995, enter 1994. On line B, enter the NOL year whose carryover must be figured.

**More than one NOL.** If the corporation's NOL deduction for the carryback or carryforward year (year A) includes amounts for more than one loss year, complete the worksheet only for one loss year (year B). To determine which year, treat the NOL deduction as a positive amount. Start with the earliest NOL and add each NOL separately to the corporation's negative taxable income. Complete the worksheet for the earliest NOL that increases the corporation's taxable income to zero or more. The earlier NOLs are completely used up in year A. The later NOLs are carried over in full.



**Tax Computation**

(See page 23.)

32	Amount from line 31 (adjusted gross income)	32	(3,350)
33a	Check if: <input type="checkbox"/> You were 65 or older, <input type="checkbox"/> Blind; <input type="checkbox"/> Spouse was 65 or older, <input type="checkbox"/> Blind. Add the number of boxes checked above and enter the total here. ▶ 33a		
b	If your parent (or someone else) can claim you as a dependent, check here. ▶ 33b		
c	If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 23 and check here. ▶ 33c		
34	Enter the larger of your: <b>Itemized deductions</b> from Schedule A, line 28. <b>OR</b> <b>Standard deduction</b> shown below for your filing status. But if you checked any box on line 33a or b, go to page 23 to find your standard deduction. If you checked box 33c, your standard deduction is zero. • Single—\$3,800 • Head of household—\$5,600 • Married filing jointly or Qualifying widow(er)—\$6,350 • Married filing separately—\$3,175	34	3,800
35	Subtract line 34 from line 32	35	(7,150)
36	If line 32 is \$83,850 or less, multiply \$2,450 by the total number of exemptions claimed on line 6e. If line 32 is over \$83,850, see the worksheet on page 24 for the amount to enter	36	2,450
37	<b>Taxable income.</b> Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-	37	- 0 -
38	Tax. Check if from a <input type="checkbox"/> Tax Table, b <input type="checkbox"/> Tax Rate Schedules, c <input type="checkbox"/> Capital Gain Tax Worksheet, or d <input type="checkbox"/> Form 8615 (see page 24). Amount from Form(s) 8814 ▶ a	38	
39	Additional taxes. Check if from a <input type="checkbox"/> Form 4970 b <input type="checkbox"/> Form 4972	39	
40	Add lines 38 and 39	40	

If you want the IRS to figure your tax, see page 24.

**Credits**

(See page 24.)

41	Credit for child and dependent care expenses. Attach Form 2441	41	
42	Credit for the elderly or the disabled. Attach Schedule R	42	
43	Foreign tax credit. Attach Form 1116	43	
44	Other credits (see page 25). Check if from a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8396 c <input type="checkbox"/> Form 8801 d <input type="checkbox"/> Form (specify)	44	
45	Add lines 41 through 44	45	
46	Subtract line 45 from line 40. If line 45 is more than line 40, enter -0-	46	

**Other Taxes**

(See page 25.)

47	Self-employment tax. Attach Schedule SE	47	
48	Alternative minimum tax. Attach Form 6251	48	
49	Recapture taxes. Check if from a <input type="checkbox"/> Form 4255 b <input type="checkbox"/> Form 8611 c <input type="checkbox"/> Form 8828	49	
50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	50	
51	Tax on qualified retirement plans, including IRAs. If required, attach Form 5329	51	
52	Advance earned income credit payments from Form W-2	52	
53	Add lines 46 through 52. This is your total tax	53	

**Payments**

Attach Forms W-2, W-2G, and 1099-R on the front.

54	Federal income tax withheld. If any is from Form(s) 1099, check ▶ <input type="checkbox"/>	54	
55	1994 estimated tax payments and amount applied from 1993 return	55	
56	Earned income credit. If required, attach Schedule EIC (see page 27). Nontaxable earned income: amount ▶ and type ▶	56	
57	Amount paid with Form 4868 (extension request)	57	
58	Excess social security and RRTA tax withheld (see page 32)	58	
59	Other payments. Check if from a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136	59	
60	Add lines 54 through 59. These are your total payments	60	

**Refund or Amount You Owe**

61	If line 60 is more than line 53, subtract line 53 from line 60. This is the amount you OVERPAID. ▶	61	
62	Amount of line 61 you want REFUNDED TO YOU. ▶	62	
63	Amount of line 61 you want APPLIED TO YOUR 1995 ESTIMATED TAX ▶	63	
64	If line 53 is more than line 60, subtract line 60 from line 53. This is the AMOUNT YOU OWE. For details on how to pay, including what to write on your payment, see page 32	64	
65	Estimated tax penalty (see page 33). Also include on line 64	65	

**Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation
<i>Glenn M. Johnson</i>	2-5-95	Self-employed
Spouse's signature. If a joint return, BOTH must sign	Date	Spouse's occupation

**Paid Preparer's Use Only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

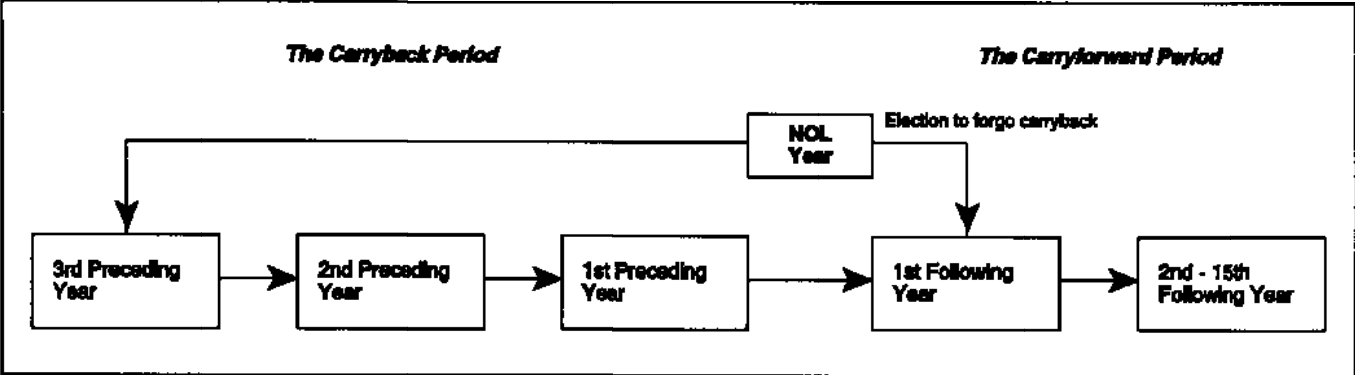
**Schedule A—Net Operating Loss (NOL).** See instructions.

1	Adjusted gross income from 1994 Form 1040, line 32. Estates and trusts, skip lines 1 and 2 . . .	1	(3,350)
2	Deductions (individuals only):		
a	Enter amount from your 1994 Form 1040, line 34 . . . . .	2a	3,800
b	Enter your deduction for exemptions from 1994 Form 1040, line 36 . . . . .	2b	2,450
c	Add lines 2a and 2b . . . . .	2c	(6,250)
3	Combine lines 1 and 2c. Estates and trusts, enter your taxable income . . . . .	3	(9,600)
<p><i>Note: If line 3 is zero or more, do not complete rest of schedule. You do not have a net operating loss.</i></p> <p><b>Adjustments:</b></p>			
4	Deduction for exemptions from line 2b above. Estates and trusts, enter exemption amount from your tax return . . . . .	4	2,450
5	Total nonbusiness capital losses before limitation. Enter as a positive number . . . . .	5	1,000
6	Total nonbusiness capital gains . . . . .	6	
7	If line 5 is more than line 6, enter difference; otherwise, enter -0- . . . . .	7	1,000
8	If line 6 is more than line 5, enter difference; otherwise, enter -0- . . . . .	8	-0-
9	Nonbusiness deductions. See instructions . . . . .	9	3,800
10	Nonbusiness income other than capital gains. See instructions . . . . .	10	425
11	Add lines 8 and 10 . . . . .	11	425
12	If line 9 is more than line 11, enter difference; otherwise, enter -0- . . . . .	12	3,375
13	If line 11 is more than line 9, enter difference; otherwise, enter -0-. Do not enter more than line 8 . . . . .	13	-0-
14	Total business capital losses before limitation. Enter as a positive number . . . . .	14	
15	Total business capital gains . . . . .	15	2,000
16	Add lines 13 and 15 . . . . .	16	2,000
17	If line 14 is more than line 16, enter difference; otherwise, enter -0- . . . . .	17	-0-
18	Add lines 7 and 17 . . . . .	18	1,000
19	Enter the loss, if any, from line 18 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 17, column (c), of Schedule D (Form 1041).) Enter as a positive number. If you do not have a loss on that line, skip lines 19 through 21 and enter on line 22 the amount from line 18 . . . . .	19	
20	Enter the loss from line 19 of Schedule D (Form 1040). (Estates and trusts, enter the loss from line 18 of Schedule D (Form 1041).) Enter as a positive number . . . . .	20	
21	Subtract line 20 from line 19 . . . . .	21	
22	Subtract line 21 from line 18 . . . . .	22	1,000
23	Net operating loss deduction for losses from other years. Enter as a positive number . . . . .	23	
24	Add lines 4, 12, 22, and 23 . . . . .	24	6,825
25	Net operating loss. Combine lines 3 and 24. If the combined amount is less than zero, enter it here and on page 1, line 1a. If the combined amount is zero or more, you do not have a net operating loss . . . . .	25	(2,775)

COPY 25, 1994

COPY 25, 1994

Figure A. When to Use an NOL



**Application for Tentative Refund**

**1994**

Department of the Treasury  
Internal Revenue Service

- ▶ Before you fill out this form, read the separate instructions.
- ▶ Do not attach to your income tax return—mail in a separate envelope.
- ▶ For use by individuals, estates, or trusts.

Please type or print	Name <b>MARTHA SANDERS</b>	Social security or employer identification number <b>123-00-4567</b>
	Number, street, and apt. or suite no. If you have a P.O. box or a foreign address, see the instructions. <b>9876 HOLLY STREET</b>	Spouse's social security number
	City, town or post office, state, and ZIP code <b>YARDLEY, PA 19067</b>	Telephone no. (optional)

1 This application is filed to carry back: <b>\$ 10,000</b>	a Net operating loss (from Schedule A, page 2, line 25) <b>\$ 10,000</b>	b Unused general business credit
2a For the calendar year 1994, or other tax year beginning 1994, ending 19	b Date tax return was filed <b>3-5-95</b>	c Service center where tax return was filed <b>Philadelphia</b>

- 3 If this application is for an unused credit created by another carryback, give year of the first carryback ▶
- 4 If you filed a joint return (or separate return) for some, but not all, of the tax years involved in figuring the carryback, enter the years of the joint or separate returns ▶
- 5 If social security number for carryback year is different from above, enter a SSN ▶ and b Year(s) ▶
- 6 If you changed your accounting period, give date permission to change was granted ▶
- 7 Have you filed a petition in Tax Court for the year(s) to which the carryback is to be applied?  Yes  No
- 8 Does this carryback include a loss or credit from a tax shelter required to be registered?  Yes  No

	3rd preceding tax year ended ▶ 12-31-91		2nd preceding tax year ended ▶		1st preceding tax year ended ▶	
	(a) Before carryback	(b) After carryback	(c) Before carryback	(d) After carryback	(e) Before carryback	(f) After carryback
9 Adjusted gross income from tax return or as previously adjusted	50,000	50,000				
10 Net operating loss deduction after carryback. See instructions	10,000	10,000				
11 Subtract line 10 from line 9	50,000	40,000				
12 Deductions. See instructions	13,250	14,000				
13 Subtract line 12 from line 11	36,750	26,000				
14 Exemptions	2,150	2,150				
15 Taxable income. Subtract line 14 from line 13	34,600	23,850				
16 Income tax. See instructions—attach explanation	7,050	4,040				
17 General business credit						
18 Other credits. Identify						
19 Total credits. Add lines 17 and 18						
20 Subtract line 19 from line 16	7,050	4,040				
21 Recapture taxes						
22 Alternative minimum tax						
23 Self-employment tax	6,120	6,120				
24 Other taxes						
25 Total tax liability. Add lines 20 through 24	13,170	10,160				
26 Enter amount from line 25, cols. (b), (d), and (f)	10,160					
27 Decrease in tax. Subtract line 26 from line 25	3,010					
28 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1)—attach computation						

**Sign Here** Under penalty of perjury, I declare that I have examined this application and accompanying schedule and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Your signature <i>Martha Sanders</i>	Date <b>4-10-95</b>
Spouse's signature (if Form 1045 is filed jointly, BOTH must sign)	Date
Preparer Other Than Taxpayer Name ▶	Date
Address ▶	

**Schedule B—Net Operating Loss Carryover.** See instructions.

Complete one column before going to the next column.

	(a) 3rd preceding tax year ended ▶ 12-31-91	(b) 2nd preceding tax year ended ▶	(c) 1st preceding tax year ended ▶
<b>1 Net operating loss deduction.</b> In column (a), enter as a positive number the net operating loss from Schedule A, line 25. In columns (b) and (c), enter amounts from line 8 below, columns (a) and (b), respectively . . . . .	36,000		
<b>2 Taxable income from tax return</b> (or as previously adjusted) before 1994 NOL carryback. (For individuals, if line 37 of Form 1040 is zero, subtract line 36 (Form 1040) from line 35 (Form 1040), and enter the difference as a negative number . . . . .	22,075		
<b>3 Net capital loss deduction from Sch. D</b> (Form 1040) (line 19 of 1993 Sch. D, line 20 of 1992 Sch. D, line 18 of 1991 Sch. D), or from Sch. D (Form 1041), line 18. Enter as a positive number . . . . .	1,000		
<b>4 Adjustments to adjusted gross income.</b> See instructions . . . . .	-0-		
<b>5 Adjustment to itemized deductions.</b> See instructions . . . . .	75		
<b>6 Deduction for exemptions from tax return</b> (or as previously adjusted). Estates and trusts, enter your exemption amount . . . . .	2,150		
<b>7 Modified taxable income.</b> Combine lines 2 through 6. If zero or less, enter -0- . . . . .	25,300		
<b>8 Net operating loss carryover.</b> Subtract line 7 from line 1. If zero or less, enter -0-. See instructions . . . . .	10,700		
<b>Adjustment to Itemized Deductions (Individuals Only)</b> Complete lines 9 through 15 ONLY if, for any of the 3 preceding years, you itemized deductions and line 3 above has an entry other than zero.			
<b>9 Adjusted gross income per return</b> (or as previously adjusted) before 1994 NOL carryback . . . . .	29,000		
<b>10 Add lines 3 and 4 above</b> . . . . .	1,000		
<b>11 Modified adjusted gross income.</b> Add lines 9 and 10 . . . . .	30,000		
<b>12 Medical expenses from Sch. A</b> (Form 1040), line 1 . . . . .	2,725		
<b>13 Multiply line 11 by .075</b> . . . . .	2,250		
<b>14 Subtract line 13 from line 12.</b> If zero or less, enter -0- . . . . .	475		
<b>15 Medical expenses from Sch. A</b> (Form 1040), line 4 (or as previously adjusted) . . . . .	550		
<b>16 Subtract line 14 from line 15</b> . . . . .	75		

**Schedule B—Net Operating Loss Carryover (Continued)**

Complete one column before going to the next column.	(a) 3rd preceding tax year ended ▶   2-31-91	(b) 2nd preceding tax year ended ▶	(c) 1st preceding tax year ended ▶
17 Modified adjusted gross income from line 11 . . . . .	30,000		
18 Enter as a positive number any NOL carryback from a year before 1994 that was deducted in figuring line 9 on page 3 . . . . .	-0-		
19 Add lines 17 and 18 . . . . .	30,000		
20 Refigure your charitable contributions using line 19 as your adjusted gross income. See instructions . . . . .	1,450		
21 Charitable contributions from Sch. A (Form 1040), line 16 . . . . .	1,450		
22 Subtract line 20 from line 21 . . . . .	-0-		
23 Casualty and theft losses from Form 4684, line 18 . . . . .			
24 Multiply line 11 by .10 . . . . .			
25 Subtract line 24 from line 23. If zero or less, enter -0- . . . . .			
26 Casualty and theft losses from Form 4684, line 18 (or as previously adjusted) . . . . .			
27 Subtract line 25 from line 26 . . . . .			
28 Miscellaneous itemized deductions from Sch. A (Form 1040), line 21 . . . . .			
29 Multiply line 11 by .02 . . . . .			
30 Subtract line 29 from line 28. If zero or less, enter -0- . . . . .			
31 Miscellaneous itemized deductions from Sch. A (Form 1040), line 24 (or as previously adjusted) . . . . .			
32 Subtract line 30 from line 31 . . . . .			
33 Combine lines 18, 22, 27, and 32. If line 11 is more than \$100,000 for 1991 (\$50,000 if married filing separately), more than \$105,250 for 1992 (\$52,625 if married filing separately), or more than \$108,450 for 1993 (\$54,225 if married filing separately), complete the worksheet on page 4 of the instructions. Otherwise, enter the amount from this line on line 5 (page 3) . . . . .		75	

Table 1. **Worksheet for NOL Carryover From 1994 to 1995 (For an NOL Year Before 1994)**

*For Use by Individuals, Estates, and Trusts (Keep for your records)  
See the instructions under NOL Carryover From 1994 to 1995.*

<b>NOL Year:</b> _____	
<b>USE YOUR 1994 FORM 1040 (OR FORM 1041) TO COMPLETE THE WORKSHEET:</b>	
1. Enter as a positive number your NOL deduction for the NOL year entered above from line 21 (Form 1040) .....	
2. Enter your taxable income without the NOL deduction for the NOL year entered above or later years. (See instructions.) .....	
3. Enter as a positive number any net capital loss deduction on line 13, Form 1040 .....	
4. Enter any adjustments to your adjusted gross income. (See instructions.) .....	
5. Enter any adjustments to your itemized deductions from line 30 or line 44 below. (See instructions.) .....	
6. Enter your deduction for personal exemptions from line 36 (Form 1040) .....	
7. <b>Modified taxable income.</b> Combine lines 2 through 6 and enter the result (but not less than zero) ...	
8. <b>NOL carryover to 1995.</b> Subtract line 7 from line 1 and enter the result (but not less than zero) .....	
<b>ADJUSTMENTS TO ITEMIZED DEDUCTIONS (Individuals Only).</b>	
9. Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (See instructions.) .....	
10. Combine lines 3 and 4 above .....	
11. <b>Modified adjusted gross income.</b> Combine lines 9 and 10 above. ....	
<b>ADJUSTMENT TO MEDICAL EXPENSES:</b>	
12. Enter your medical expenses from Schedule A (Form 1040), line 1 .....	
13. Multiply line 12 by .075. ....	
14. Subtract line 13 from line 12 and enter the result (but not less than zero) .....	
15. Enter your medical expenses from Schedule A (Form 1040), line 4 .....	
16. Subtract line 14 from line 15. ....	
<b>ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:</b>	
17. Refigure your charitable contributions deduction using line 11 above as your adjusted gross income. (See instructions.) .....	
18. Enter your charitable contributions deduction from Schedule A (Form 1040), line 18 .....	
19. Subtract line 17 from line 18. ....	
<b>ADJUSTMENT TO CASUALTY AND THEFT LOSSES:</b>	
20. Enter your casualty and theft losses from Form 4684, line 16 .....	
21. Multiply line 20 by .10. ....	
22. Subtract line 21 from line 20 and enter the result (but not less than zero) .....	
23. Enter your casualty and theft losses from Form 4684, line 18 .....	
24. Subtract line 22 from line 23. ....	
<b>ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:</b>	
25. Enter your miscellaneous itemized deductions from Schedule A (Form 1040), line 23 .....	
26. Multiply line 25 by .02. ....	
27. Subtract line 26 from line 25. ....	
28. Enter your miscellaneous itemized deductions from Schedule A (Form 1040), line 26 .....	
29. Subtract line 27 from line 28. ....	
<b>TENTATIVE TOTAL ADJUSTMENT:</b>	
30. Combine lines 16, 19, 24, and 29. If line 11 is \$111,800 or less (\$55,900 or less if married filing separately), enter the amount from this line on line 5 above and stop here. Otherwise, complete lines 31 through 44 .....	

Table 1. (Continued)

<b>ADJUSTMENT TO OVERALL ITEMIZED DEDUCTIONS LIMIT:</b>	
31. Add lines 14, 17, 22, and 27. ....	
32. Add lines 9, 14, 27, and 28 of Schedule A (Form 1040).....	
33. Combine lines 31 and 32. ....	
34. Add lines 14 and 22. ....	
35. Add any gambling losses included on line 28 of Schedule A (Form 1040) to line 13, Schedule A. ....	
36. Add lines 34 and 35. ....	
37. Subtract line 36 from line 33. ....	
38. Multiply line 37 by .80. ....	
39. Subtract \$111,800 (\$55,900 if married filing separately) from the amount on line 11. ....	
40. Multiply line 39 by .03. ....	
41. Enter the smaller of line 38 or line 40. ....	
42. Subtract line 41 from line 33. ....	
43. Enter the amount from line 29 of Schedule A (Form 1040) ....	
44. Subtract line 42 from line 43. Enter here and on line 5.....	



**Table 2. Worksheet for Figuring a Corporation's NOL Carryover**  
 See the instructions under *Corporations*.

<b>PART I</b>	
A. Carryback or carryforward year—Enter the year from which the NOL is being carried.....	
B. NOL year—Enter the year in which the NOL occurred (the loss year). If the corporation has more than one NOL, see the instructions .....	
C. NOL amount—Enter the amount of year B's NOL that was carried to year A .....	
D. If more than one NOL was carried to year A, enter the total of all—	
1. Carryovers of NOLs that preceded both years A and B .....	
2. Carrybacks of NOLs that preceded year B .....	
<b>PART II</b>	
1. Taxable income for year A before the NOL deduction and special deductions:	
a. Enter the amount from line 28, Form 1120 (line 24, Form 1120-A).....	
b. If year A is a carryforward year, enter the amount from line 19, Form 1120 or Form 1120-A. Otherwise, enter zero .....	
c. Subtract line 1b from line 1a.....	
2. Enter the amount from line D1 of Part I.....	
3. Subtract line 2 from line 1c.....	
4. If year A is a carryforward year, enter the deduction for charitable contributions figured by using the amount on line 3 as taxable income. Otherwise, enter zero .....	
5. Enter the amount from line D2 of PART I.....	
6. Dividends received deduction:	
a. Subtract line 4 from line 1c.....	
b. Dividends received deduction figured by using the amount on line 6a as taxable income.....	
7. Add lines 4, 5, and 6b .....	
8. Modified taxable income—Subtract line 7 from line 3. (If line 7 is more than line 3, enter zero.) .....	
9. Carryover—Subtract line 8 from line C, PART I.....	

