Department of the Treasury

Internal Revenue Service

Publication 536

Cat. No. 46569U

Net Operating Losses (NOLs) for Individuals, Estates, and Trusts

For use in preparing

2001 Returns

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Contents

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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.

What this publication covers. This publication discusses NOLs for individuals, estates, and trusts. It covers:

- How to figure an NOL,
- When to use an NOL,
- How to claim an NOL deduction, and
- How to figure an NOL carryover.

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

- Trade or business,
- Work as an employee,
- Casualty and theft losses,
- Moving expenses, or
- Rental property.

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

Partnerships and S corporations generally 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.

What is not covered in this publication? The following topics are not covered in this publication.

- Bankruptcies. See Publication 908, *Bankruptcy Tax Guide.*
- NOLs of Corporations. See Publication 542, *Corporations.*
- Specified liability losses. See the Form 1045 instructions.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Form (and Instructions)

- ❏ **1040X** Amended U.S. Individual Income Tax Return
- ❏ **1045** Application for Tentative Refund

See *How To Get Tax Help* near the end of this publication for information about getting these forms.

NOL Steps

Figure and use your NOL through 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 37 of Form 1040.

Estates and trusts — line 22 of Form 1041.

If the amount on that line is zero or more, ***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 waive the carryback period and instead carry the NOL forward 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 less 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 amount from the earliest year.

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, you cannot deduct the following items.

- Personal exemptions.
- Capital losses in excess of capital gains.
- The section 1202 exclusion of 50% of the gain from the sale or exchange of qualified small business stock.
- Nonbusiness deductions in excess of nonbusiness income.
- Net operating loss deduction.

Schedule A (Form 1045). Use Schedule A (Form 1045) to figure an NOL. 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 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 allowed when figuring an NOL. The following discussions explain these adjustments.

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

Adjustment for nonbusiness deductions (line 12). The amount of your nonbusiness deductions (line 9) is limited to the total of:

1) Your nonbusiness capital gains less your nonbusiness capital losses (not including any section 1202 exclusion shown as a loss on Schedule D, Form 1040) (line 8), and
2) Your nonbusiness income other than capital gains (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 deductions that are not connected to your trade or business or your employment. Examples of deductions not related to your trade or business are:

- Alimony,
- Contributions to an IRA or other self-employed retirement plan,
- Itemized deductions (except for casualty and theft losses and any employee business expenses), and
- The standard deduction (if you do not itemize your deductions).

Do not enter business deductions on line 9. These are deductions that are connected to your trade or business. They include the following.

- State income tax on business profits.
- Moving expenses.
- The deduction of one-half of your self-employment tax or your deduction for self-employed health insurance.
- Rental losses.
- Loss on the sale or exchange of business real estate or depreciable property.
- Your share of a business loss from a partnership or S corporation.
- Ordinary loss on the sale or exchange of stock in a small business corporation or a small business investment company.
- If you itemize your deductions, casualty and theft losses (even if they involve nonbusiness property) and employee business expenses (such as union dues, uniforms, tools, education expenses, and travel and transportation expenses).
- Loss on the sale of accounts receivable (if you use an accrual method of accounting).
- Interest and litigation expenses on state and federal income taxes related to your business.
- Unrecovered investment in a pension or annuity claimed on a decedent's final return.
- Payment by a federal employee to buy back sick leave used in an earlier year.

Nonbusiness income (line 10). Enter on line 10 only income that is not related to your trade or business or your employment. For example, enter your annuity income, dividends, and interest on investments. Also, include your share of nonbusiness income from partnerships and S corporations.

Do ***not*** include on line 10 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 section 1202 exclusion (line 20). Enter on line 20 any gain you excluded under section 1202 on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 24 and 25). The amount deductible for capital losses is limited based on whether the losses are business capital losses or nonbusiness capital losses.

Nonbusiness capital losses. You can deduct your nonbusiness capital losses (line 5) only up to the amount of your nonbusiness capital gains (line 6), without regard to any section 1202 exclusion. If your nonbusiness capital losses are more than your nonbusiness capital gains, you cannot deduct the excess.

Business capital losses. 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 total business capital gains (line 15), without regard to any section 1202 exclusion.

Line 24. The adjustment on line 24 is your capital loss deduction (line 22) that is more than your net capital loss, without regard to any section 1202 exclusion (line 21).

Line 25. The adjustment on line 25 is your nondeductible capital losses (line 18) that are more than the nondeductible net capital loss (line 23) on your return, without regard to any section 1202 exclusion claimed on Schedule D. (You had a nondeductible net capital loss if your net capital loss was more than your capital loss deduction.

Adjustment for NOL deduction (line 26). 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. Glenn Johnson is in the retail record business. He is single and has the following income and deductions on his Form 1040 for 2001.

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
Glenn's total income	$3,650

DEDUCTIONS	
Net loss from business (gross income of $67,000 minus expenses of $72,000)	$5,000
Net short-term capital loss on sale of stock	1,000
Standard deduction	4,550
Personal exemption	2,900
Glenn's total deductions	$13,450

Glenn's deductions exceed his income by $9,800 ($13,450 – $3,650). However, to figure whether he has an NOL, he must adjust certain deductions. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045) included later.

Glenn cannot deduct the following items on Schedule A (Form 1045).

Nonbusiness net short-term capital loss	$1,000
Nonbusiness deductions (standard deduction, $4,550) minus nonbusiness income (interest, $425)	4,125
Personal exemption	2,900
Total adjustments to net loss	$8,025

Therefore, Glenn's NOL for 2001 is figured as follows:

Glenn's total 2001 income		$3,650
Less:		
Glenn's original 2001 total deductions	$13,450	
Less:		
Glenn's total adjustments to net loss (above)	– 8,025	– 5,425
Glenn's NOL for 2001		$1,775

When the total adjustments are made, Glenn's net loss is reduced to $1,775 ($9,800 – $8,025).

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2001**

IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning , 2001, ending , 20 — OMB No. 1545-0074

Label

(See instructions on page 19.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Glenn M.	Last name: Johnson		**Your social security number**: 765 : 00 : 4321
If a joint return, spouse's first name and initial	Last name		**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see page 19. 5603 E. Main Street		Apt. no.	**Important!** You **must** enter your SSN(s) above.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. Anytown, VA 20000			

Presidential Election Campaign (See page 19.)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? ▶ You: ☑ Yes ☐ No — Spouse: ☐ Yes ☐ No

Filing Status

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 19.) 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 ▶). (See page 19.)

Exemptions

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 — No. of boxes checked on 6a and 6b: 1

b ☐ **Spouse**

c **Dependents:**

If more than six dependents, see page 20.

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 20)
			☐
			☐
			☐
			☐
			☐
			☐

No. of your children on 6c who:
- lived with you
- did not live with you due to divorce or separation (see page 20)

Dependents on 6c not entered above

Add numbers entered on lines above ▶ 1

d Total number of exemptions claimed

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 21.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	1,225	
8a	**Taxable** interest. Attach Schedule B if required	8a	425	
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b			
9	Ordinary dividends. Attach Schedule B if required	9		
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 22)	10		
11	Alimony received	11		
12	Business income or (loss). Attach Schedule C or C-EZ	12	(5,000)	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	1,000	*
14	Other gains or (losses). Attach Form 4797	14		
15a	Total IRA distributions — 15a — **b** Taxable amount (see page 23)	15b		
16a	Total pensions and annuities — 16a — **b** Taxable amount (see page 23)	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	19		
20a	Social security benefits — 20a — **b** Taxable amount (see page 25)	20b		
21	Other income. List type and amount (see page 27)	21		
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	(2,350)	

Adjusted Gross Income

23	IRA deduction (see page 27)	23			
24	Student loan interest deduction (see page 28)	24			
25	Archer MSA deduction. Attach Form 8853	25			
26	Moving expenses. Attach Form 3903	26			
27	One-half of self-employment tax. Attach Schedule SE	27			
28	Self-employed health insurance deduction (see page 30)	28			
29	Self-employed SEP, SIMPLE, and qualified plans	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid **b** Recipient's SSN ▶	31a			
32	Add lines 23 through 31a			32	
33	Subtract line 32 from line 22. This is your **adjusted gross income** ▶			33	(2,350)

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 72. Cat. No. 11320B Form **1040** (2001)

* Net capital gain ($2,000 gain less $1,000 loss)

Tax and Credits

Standard Deduction for—
- People who checked any box on line 35a or 35b **or** who can be claimed as a dependent, see page 31.
- All others:

Single, $4,550
Head of household, $6,650
Married filing jointly or Qualifying widow(er), $7,600
Married filing separately, $3,800

34	Amount from line 33 (adjusted gross income)	34	(2,350)
35a	Check if: ☐ **You** were 65 or older, ☐ Blind; ☐ **Spouse** was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here ▶ 35a		
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 31 and check here ▶ 35b ☐		
36	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	36	4,550
37	Subtract line 36 from line 34	37	(6,900)
38	If line 34 is $99,725 or less, multiply $2,900 by the total number of exemptions claimed on line 6d. If line 34 is over $99,725, see the worksheet on page 32	38	2,900
39	**Taxable income.** Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-	39	-0-
40	**Tax** (see page 33). Check if any tax is from a ☐ Form(s) 8814 b ☐ Form 4972	40	
41	**Alternative minimum tax** (see page 34). Attach Form 6251	41	
42	Add lines 40 and 41 ▶	42	
43	Foreign tax credit. Attach Form 1116 if required	43	
44	Credit for child and dependent care expenses. Attach Form 2441	44	
45	Credit for the elderly or the disabled. Attach Schedule R	45	
46	Education credits. Attach Form 8863	46	
47	Rate reduction credit. See the worksheet on page 36	47	
48	Child tax credit (see page 37)	48	
49	Adoption credit. Attach Form 8839	49	
50	Other credits from: a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify) ______	50	
51	Add lines 43 through 50. These are your **total credits**	51	
52	Subtract line 51 from line 42. If line 51 is more than line 42, enter -0- ▶	52	

Other Taxes

53	Self-employment tax. Attach Schedule SE	53	
54	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	54	
55	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	55	
56	Advance earned income credit payments from Form(s) W-2	56	
57	Household employment taxes. Attach Schedule H	57	
58	Add lines 52 through 57. This is your **total tax** ▶	58	

Payments

If you have a qualifying child, attach Schedule EIC.

59	Federal income tax withheld from Forms W-2 and 1099	59	
60	2001 estimated tax payments and amount applied from 2000 return	60	
61a	**Earned income credit (EIC)**	61a	
b	Nontaxable earned income 61b		
62	Excess social security and RRTA tax withheld (see page 51)	62	
63	Additional child tax credit. Attach Form 8812	63	
64	Amount paid with request for extension to file (see page 51)	64	
65	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136	65	
66	Add lines 59, 60, 61a, and 62 through 65. These are your **total payments** ▶	66	

Refund

Direct deposit? See page 51 and fill in 68b, 68c, and 68d.

67	If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you **overpaid**	67	
68a	Amount of line 67 you want **refunded to you** ▶	68a	
▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
▶ d	Account number		
69	Amount of line 67 you want **applied to your 2002 estimated tax** ▶ 69		

Amount You Owe

70	**Amount you owe.** Subtract line 66 from line 58. For details on how to pay, see page 52 ▶	70	
71	Estimated tax penalty. Also include on line 70 71		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 53)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign Here

Joint return? See page 19.
Keep a copy for your records.

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	Daytime phone number
Glenn M. Johnson	2-5-2002	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 ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	
	Phone no. ( )	

Schedule A—NOL. See page 4 of the instructions.

1	Adjusted gross income from your 2001 Form 1040, line 34. Estates and trusts, skip lines 1 and 2		1 (2,350)	
2	Deductions:			
a	Enter the amount from your 2001 Form 1040, line 36	2a 4,550		
b	Enter your deduction for exemptions from your 2001 Form 1040, line 38	2b 2,900		
c	Add lines 2a and 2b		2c 7,450	
3	Subtract line 2c from line 1. Estates and trusts, enter taxable income increased by the sum of the charitable deduction and income distribution deduction			3 (9,800)
	Note: *If line 3 is zero or more, do not complete the rest of the schedule. You* ***do not*** *have an NOL.*			
4	Deduction for exemptions from line 2b above. Estates and trusts, enter the exemption amount from tax return			4 2,900
5	Total nonbusiness capital losses before limitation. Enter as a positive number		5 1,000	
6	Total nonbusiness capital gains (without regard to any section 1202 exclusion)		6	
7	If line 5 is more than line 6, enter the difference; otherwise, enter -0-		7 1,000	
8	If line 6 is more than line 5, enter the difference; otherwise, enter -0-	8 -0-		
9	Nonbusiness deductions. See page 4 of the instructions		9 4,550	
10	Nonbusiness income other than capital gains. See page 4 of the instructions	10 425		
11	Add lines 8 and 10		11 425	
12	If line 9 is more than line 11, enter the difference; otherwise, enter -0-			12 4,125
13	If line 11 is more than line 9, enter the difference; otherwise, enter -0-. **But 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 (without regard to any section 1202 exclusion)	15 2,000		
16	Add lines 13 and 15		16 2,000	
17	Subtract line 16 from line 14. If zero or less, enter -0-		17 -0-	
18	Add lines 7 and 17		18 1,000	
19	Enter the loss, if any, from line 17 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16, column (3), of Schedule D (Form 1041).) Enter as a positive number. If you do not have a loss on that line (and do not have a section 1202 exclusion), skip lines 19 through 24 and enter on line 25 the amount from line 18		19	
20	Section 1202 exclusion. Enter as a positive number			20
21	Subtract line 20 from line 19. If zero or less, enter -0-		21	
22	Enter the loss, if any, from line 18 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 17 of Schedule D (Form 1041).) Enter as a positive number		22	
23	If line 21 is more than line 22, enter the difference; otherwise, enter -0-		23 -0-	
24	If line 22 is more than line 21, enter the difference; otherwise, enter -0-			24
25	Subtract line 23 from line 18. If zero or less, enter -0-			25 1,000
26	NOL deduction for losses from other years. Enter as a positive number			26 -0-
27	**NOL.** Combine lines 3, 4, 12, 20, 24, 25, and 26. If the result is less than zero, enter it here and on page 1, line 1a. If the result is zero or more, you **do not** have an NOL			27 (1,775)

When To Use an NOL

Generally, you must carry back the entire amount of the NOL to the 2 tax years before the NOL year (the carryback period), and then carry forward any remaining NOL for up to 20 years after the NOL year (the carryforward period). You can, however, choose not to carry back an NOL and only carry it forward. See *Waiving 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 20-year carryforward period.

Exceptions to 2-year carryback rule. Eligible losses and farming losses (as defined below) qualify for longer carryback periods.

Eligible loss. The carryback period for eligible losses is 3 years. An eligible loss is any part of an NOL that:

- Is from a casualty or theft, or
- Is attributable to a Presidentially declared disaster for a qualified small business.

Qualified small business. A qualified small business is a sole proprietorship or a partnership that has average annual gross receipts (reduced by returns and allowances) of $5 million or less during the 3-year period ending with the tax year of the NOL. If the business did not exist for this entire 3-year period, use the period the business was in existence.

Farming loss. The carryback period for a farming loss is 5 years. A farming loss is the ***smaller*** of:

1) The amount which would be the NOL for the tax year if only income and deductions attributable to farming businesses were taken into account, or
2) The NOL for the tax year.

Waiving of 5-year carryback. You can choose to treat a farming loss as if it were not a farming loss. If you make this choice, the carryback period will be 2 years. To make this choice, attach a statement to your 2001 income tax return filed on or before the due date (including extensions) that you are choosing to treat any 2001 farming losses as if they were not farming losses under section 172(i)(3) of the Internal Revenue Code. If you filed your return timely without making that choice, you may still make the choice by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach a statement to your amended return and write "Filed pursuant to section 301.9100-2" at the top of the statement. Send your amended return to the same address that you filed your original return. Once you make this choice, it is irrevocable.

Note. If you choose not to carry back any of your farming loss, you need to attach a statement to your 2001 income tax return clearly identifying what carryback or carrybacks are being completely waived and stating that you are waiving them under sections 172(b)(3) and 172(i)(3) of the Internal Revenue Code. This choice, once made, is also irrevocable. See, *Waiving the carryback period*, later.

Note. Farming losses that are attributable to Presidentially declared disasters in tax years that began after August 5, 1997, and before January 1, 1998, are considered eligible losses subject to a 3-year carryback period. Otherwise, **all** farming losses are considered farming losses subject to a 5-year carryback period.

Farming business. A farming business is a trade or business involving cultivation of land, raising or harvesting of any agricultural or horticultural commodity, operating a nursery or sod farm, raising or harvesting of trees bearing fruit, nuts, or other crops, or ornamental trees. The raising, shearing, feeding, caring for, training, and management of animals is also considered a farming business.

A farming business does not include contract harvesting of an agricultural or horticultural commodity grown or raised by someone else. It also does not include a business in which you merely buy or sell plants or animals grown or raised by someone else.

Waiving the carryback period. You can choose not to carry back your NOL. If you make this choice, then you can use your NOL only in the 20-year carryforward period. (This choice means you also choose not to carry back any alternative tax NOL.)

To make this choice, attach a statement to your original return filed by the due date (including extensions) for the NOL year. This statement ***must*** show that you are choosing to waive the carryback period under section 172(b)(3) of the Internal Revenue Code.

If you filed your return timely but did not file the statement with it, you must file the statement with an amended return for the NOL year within 6 months of the due date of your original return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the statement.

Once you make this choice to waive the carryback period, it is irrevocable. If you choose to waive the carryback period for more than one NOL, you must make a separate choice and attach a separate statement for each NOL year.

CAUTION: *If you do not file this statement on time, you cannot waive the carryback period.*

How to carry an NOL back or forward. If you choose to carry back the NOL, you must first carry the entire NOL to the earliest carryback year. If your NOL is not used up, you can carry the rest to the next earliest carryback year, and so on.

If you do not use up the NOL in the 2 carryback years, carry forward what remains of it to the 20 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 the unused part to the next year. Continue to carry any unused part of the NOL until you complete the 20-year carryforward period.

Example 1. You started your business as a sole proprietor in 2001 and had a $42,000 NOL for the year. No part of the NOL qualifies for the 3-year or 5-year carryback period. You begin using your NOL in 1999, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
1999	$42,000	$40,000
2000	40,000	37,000
2001 (NOL year)		
2002	37,000	31,500
2003	31,500	22,500
2004	22,500	12,700
2005	12,700	4,000
2006	4,000	–0–

If your loss were larger, you could carry it forward until the year 2021. If you still had an unused 2001 carryforward after the year 2021, you could not deduct it.

Example 2. Assume the same facts as in Example 1, except that $4,000 of the NOL is attributable to a casualty loss and this loss qualifies for a 3-year carryback period. You begin using the $4,000 in 1998. As shown in the following chart, $3,000 of this NOL is used in 1998. The remaining $1,000 is carried to 1999 along with the $38,000 NOL that you must begin using in 1999.

Year	Carryback/ Carryover	Unused Loss
1998	$3,000	$1,000
1999	39,000	37,000
2000	37,000	34,000
2001 (NOL year)		
2002	34,000	28,500
2003	28,500	19,500
2004	19,500	9,700
2005	9,700	1,000
2006	1,000	–0–

How To Claim an NOL Deduction

If you have not already carried the NOL to an earlier year, your NOL deduction is the total NOL. If you carried the NOL to an earlier year, your NOL deduction is 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), 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. You can use Form 1045 to apply an NOL to all carryback years. If you use Form 1040X, you must use a separate Form 1040X for each carryback year to which you apply the NOL.

Estates and trusts not filing Form 1045 must file an amended Form 1041 (instead of Form 1040X) for each carryback year to which NOLs are 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 1999 and 2000). 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 from Form 1045 and later determines that the refund or credit is too much, the IRS may assess and collect the excess immediately.

Generally, you must file Form 1045 on or after the date you file your tax 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 2001 to 1999, you must file Form 1045 on or after the date you file your tax return for 2001, but no later than December 31, 2002.

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 1998 return by the April 15, 1999, due date, you must file a claim for refund of 1996 tax because of an NOL carryback from 1998 by April 15, 2002.

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

Refiguring your tax. To refigure your total tax liability for a carryback year, first refigure your adjusted gross income for that year. (On Form 1045, use lines 10 through 12 and the ***After carryback*** column for the applicable carryback year.) Use your adjusted gross income after applying the NOL deduction to refigure income or deduction items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

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.
4) Excludable savings bond interest.
5) Excludable employer-provided adoption benefits.
6) Student loan interest deduction.

If more than one of these items apply, refigure them in the order listed above, using your adjusted gross income after applying the NOL deduction and any previous item. (On line 10 of Form 1045, using the After carryback column, enter your adjusted gross income after applying the above refigured items but without the NOL deduction. Enter your NOL deduction on line 11.)

Next, refigure your taxable income. (On Form 1045, use lines 13 through 16 and the After carryback column.) Use your refigured adjusted gross income (line 12 of Form 1045, using the After carryback column) to refigure certain deductions and other items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

1) The itemized deduction for medical expenses.
2) The itemized deduction for casualty losses.
3) Miscellaneous itemized deductions subject to the 2% limit.
4) The overall limit on itemized deductions.
5) The phaseout of the deduction for exemptions.

Do not refigure the itemized deduction for charitable contributions.

Finally, use your refigured taxable income (line 16 of Form 1045, using the After carryback column) to refigure your total tax liability. Refigure your income tax, your alternative minimum tax, and any credits that are based on, or limited to, the amount of tax. (On Form 1045, use lines 17 through 26, and the After carryback column.) The earned income credit, for example, may be affected by changes to adjusted gross income or the amount of tax (or both) and, therefore, must be recomputed. If you become eligible for a credit because of the carryback, complete the form for that specific credit (such as the EIC Worksheet) for that year.

While it is necessary to refigure your income tax, alternative minimum tax, and credits, ***do not refigure your self-employment tax.***

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 2001). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2001).

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 the joint return (filed with your former spouse) that was related to ***your*** taxable income. After you deduct the NOL in the carryback year, the joint rates apply to the resulting taxable income.

Refund limit. 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 refund.

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).
4) Divide the amount in (1) by the amount in (3).
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) (above), 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.

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 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 through 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 rest of the joint NOL is spouse B's share.

Example 1. Mark and Nancy are married and file a joint return for 2001. They have an NOL of $5,000. They carry the NOL back to 1999, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2001 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 can carry back the entire $5,000 NOL to her 1999 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2001 that were more than their income. Figured separately, his NOL is $1,800 and hers is $3,000. The sum of their separate NOLs ($4,800) is less than their $5,000 joint NOL because his 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 × $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 through 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 rest of the joint carryover is spouse B's share.

Example. Sam and Wanda filed a joint return for 1999 and separate returns for 2000 and 2001. In 2001, Sam had an NOL of $18,000 and Wanda had an NOL of $2,000. They carry back both NOLs to their 1999 joint return and claim a $20,000 NOL deduction.

Their joint modified taxable income (MTI) for 1999 is $15,000, and their joint NOL carryover to 2000 is $5,000 ($20,000 − $15,000). Sam and Wanda each figure their separate MTI for 1999 as if they had filed separate returns. Then they figure their shares of the $5,000 carryover as follows.

Step 1.	
Sam's separate MTI	$9,000
Wanda's separate MTI	+ 3,000
Total MTI	$12,000
Step 2.	
Joint MTI	$15,000
Sam's MTI ÷ total MTI ($9,000 ÷ $12,000)	× .75
Sam's share of joint MTI	$11,250
Step 3.	
Joint MTI	$15,000
Sam's share of joint MTI	− 11,250
Wanda's share of joint MTI	$3,750
Step 4.	
Wanda's share of joint MTI	$3,750
Wanda's NOL deduction	− 2,000
Wanda's remaining share	$1,750
Step 5.	
Sam's share of joint MTI	$11,250
Wanda's remaining share	+ 1,750
Joint MTI to be offset	$13,000
Step 6.	
Sam's NOL deduction	$18,000
Joint MTI to be offset	− 13,000
Sam's carryover to 2000	$5,000
Joint carryover to 2000	$5,000
Sam's carryover	− 5,000
Wanda's carryover to 2000	$−0−

Wanda's $2,000 NOL deduction offsets $2,000 of her $3,750 share of the joint modified taxable income and is completely used up. She has no carryover to 2000. Sam's $18,000 NOL deduction offsets all of his $11,250 share of joint modified taxable income and the remaining $1,750 of Wanda's share. His carryover to 2000 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. Martha's 2001 deductions are more than her 2001 income because of a business loss. She uses Form 1045 to carry back her NOL and claim an NOL deduction in 1999. (See the filled-in Form 1045 on page 10.) Her filing status in both years was ***single.***

Martha figures her 2001 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 from line 27 of Schedule A on line 1a of page 1 of Form 1045.

Martha completes lines 10 through 26, using the ***Before carryback*** column under the column labeled ***2nd preceding tax year ended 12/31/99*** on page 1 of Form 1045 using the following amounts from her 1999 return.

1999 Adjusted gross income		$50,000
Itemized deductions:		
Medical expenses [$6,000 − ($50,000 × 7.5%)]	$2,250	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		$13,250
Exemption		$2,750
Income tax		$6,180
Self-employment tax		$6,120

Martha refigures her taxable income for 1999 after carrying back her 2001 NOL as follows:

1999 Adjusted gross income		$50,000
Less:		
NOL from 2001		−10,000
1999 Adjusted gross income after carryback		$40,000
Less:		
Itemized deductions:		
Medical expenses [$6,000 − ($40,000 × 7.5%)]	$3,000	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		−14,000
Less:		
Exemption		− 2,750
1999 Taxable income after carryback		$23,250

Martha then completes lines 10 through 26, using the After carryback column under the column labeled 2nd preceding tax year ended 12/31/99. On line 11, Martha enters her $10,000 NOL deduction. Her new adjusted gross income on line 12, is $40,000 ($50,000 − $10,000). To complete line 13, 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 ($23,250) from line 16, and the tax tables in her 1999 Form 1040 instructions to find her income tax. She enters the new amount, $3,491, on line 17, and her new total tax liability, $9,611, on line 26.

Martha used up her $10,000 NOL in 1999 so she does not complete a column for the first preceding tax year ended 12/31/2000. The decrease in tax because of her NOL deduction (line 28) is $2,689.

Martha files Form 1045 after filing her 2001 return, but no later than December 31, 2002. She mails it to the Internal Revenue Service Center where she filed her 2001 return and attaches a copy of her 2001 return (including the applicable forms and schedules).

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

► See separate instructions.
► Do not attach to your income tax return—mail in a separate envelope.
► For use by individuals, estates, or trusts.

OMB No. 1545-0098

2001

Type or print

Name(s) shown on return: Martha Sanders	**Social security or employer identification number**: 123-00-4567
Number, street, and apt. or suite no. If a P.O. box, see page 2 of the instructions.: 9876 Holly Street	**Spouse's social security number (SSN)**
City, town or post office, state, and ZIP code. If a foreign address, see page 2 of the instructions.: Yardley, PA 19067	Daytime phone number (041) 123-4567

1 This application is filed to carry back:	**a** Net operating loss (NOL) (Schedule A, line 27, page 2) $ $10,000	**b** Unused general business credit $
2a For the calendar year 2001, or other tax year beginning , 2001, ending , 20		**b** Date tax return was filed 3-5-2002

3 If this application is for an unused credit created by another carryback, enter year of 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, list the years and specify whether joint (J) or separate (S) return for each ►

5 If SSN 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 Is any part of the decrease in tax due to a loss or credit from a tax shelter required to be registered? ☐ Yes ☑ No

9 If you are carrying back an NOL, did this cause the release of foreign tax credits or the release of other credits due to the release of the foreign tax credit? See page 2 of the instructions ☐ Yes ☑ No

Computation of Decrease in Tax See page 2 of the instructions. **Note:** *If **1a** is blank, skip lines 10 through 16.*	___ preceding tax year ended ►		2nd preceding tax year ended ► 12-31-99		1st preceding tax year ended ► 12-31-2000	
	Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10 Adjusted gross income			50,000	50,000		
11 NOL deduction after carryback. See page 2 of the instructions				10,000		
12 Subtract line 11 from line 10			50,000	40,000		
13 Deductions. See page 3 of the instructions			13,250	14,000		
14 Subtract line 13 from line 12			36,750	26,000		
15 Exemptions. See page 3 of the instructions			2,750	2,750		
16 Taxable income. Line 14 minus line 15			34,000	23,250		
17 Income tax. See page 3 of the instructions and attach an explanation			6,180	3,491		
18 Alternative minimum tax						
19 Add lines 17 and 18			6,180	3,491		
20 General business credit. See page 3 of the instructions						
21 Other credits. Identify						
22 Total credits. Add lines 20 and 21						
23 Subtract line 22 from line 19			6,180	3,491		
24 Self-employment tax			6,120	6,120		
25 Other taxes						
26 Total tax. Add lines 23 through 25			12,300	9,611		
27 Enter the amount from the "After carryback" column on line 26 for each year			9,611			
28 Decrease in tax. Line 26 minus line 27			2,689			

29 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation)

30 Suspended research credit allowed for current year (see page 3 of the instructions)

Sign Here

Keep a copy of this application for your records.

Under penalties of perjury, I declare that I have examined this application and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Your signature: Martha Sanders — Date: 4-10-2002

Spouse's signature. If Form 1045 is filed jointly, **both** must sign. — Date

Preparer Other Than Taxpayer

Name ►

Address ►

Date

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 5 of the instructions. Cat. No. 10670A Form **1045** (2001)

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 may have an NOL carryover. 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 carryover you are figuring or for any later NOL.
2) You cannot claim a deduction for capital losses in excess of your capital gains. Also, you must increase your taxable income by the amount of any section 1202 exclusion claimed on Schedule D (Form 1040).
3) You cannot claim your exemptions for yourself, your spouse, 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, do not include deductions for NOL carrybacks in the change in (1) but do include deductions for NOL carryforwards from tax years before the NOL year.

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 2001 return includes an NOL deduction from an NOL year before 2001 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2001 to 2002,* 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 2001, she has an NOL of $36,000 that she chooses to carry back to 1999. She has no other carrybacks or carryovers to 1999.

Ida's adjusted gross income in 1999 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 $2,750. 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 her contributions, $1,450, were 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 were not subject to any limits. She was able to claim $4,775 ($1,450 + $550 + $1,650 + $1,125) in itemized deductions for 1999. She had no other deductions in 1999. Her taxable income for the year was $21,475.

Ida's $36,000 carryback will reduce her 1999 taxable income to zero. She completes the column labeled 2nd preceding tax year ended 12/31/1999 of Schedule B (Form 1045) to figure how much of her NOL she uses up in 1999 and how much she can carry over to 2000. See the illustrated Schedule B shown on page 12. Ida does not complete the column for the first preceding tax year ended 12/31/2000 because the $10,700 carryover to 2000 is completely used up that year. (See the information for line 9, below.)

Line 1. Ida enters $36,000, her 2001 net operating loss, on line 1.

Line 2. She enters $21,475, her 1999 taxable income, on line 2.

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

Line 5. 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 5.

Line 6. Since Ida had itemized deductions and entered $1,000 on line 3, she completes lines 10 through 34 to figure her adjustment to itemized deductions. On line 6, she enters the total adjustment from line 34.

Line 10. Ida's adjusted gross income for 1999 was $29,000.

Line 11. She adds lines 3 through 5 and enters $1,000 on line 11. (This is her net capital loss deduction added back, which modifies her adjusted gross income.)

Line 12. Her modified adjusted gross income for 1999 is now $30,000.

Line 13. On her 1999 tax return, she deducted $550 as medical expenses.

Line 14. Her actual medical expenses were $2,725.

Line 15. She multiplies her modified adjusted gross income, $30,000, by .075. She enters $2,250 on line 15.

Line 16. The difference between her actual medical expenses and the amount she is allowed to deduct is $475.

Line 17. The difference between her medical deduction and her modified medical deduction is $75. She enters this on line 17.

Line 18. She enters her modified adjusted gross income of $30,000 on line 18.

Line 19. She had no other carrybacks to 1999 and enters zero on line 19.

Line 20. Her modified adjusted gross income remains $30,000.

Line 21. Her actual contributions for 1999 were $1,450, which she enters on line 21.

Line 22. 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 22.

Line 23. The difference is zero.

Lines 24 through 33. Ida had no casualty losses or deductions for miscellaneous items in 1999 so she leaves these lines blank.

Line 34. She combines lines 17, 23, 28, and 33 and enters $75 on line 34. She carries this figure to ***line 6.***

Line 7. Ida enters her personal exemption of $2,750 for 1999.

Line 8. After combining lines 2 through 7, Ida's modified taxable income is $25,300.

Line 9. Ida figures her carryover to 2000 by subtracting her modified taxable income (line 8) from her NOL deduction (line 1). She enters the $10,700 carryover on line 9. She also enters this $10,700 as her NOL deduction for 2000 on line 11 of page 1, Form 1045, in the After carryback column under the column labeled 1st preceding tax year ended 12/31/2000. (For an illustrated example of page 1 of Form 1045, see *Illustrated Form 1045* under *How To Claim an NOL Deduction,* earlier.)

Schedule B—NOL Carryover. See page 4 of the instructions.

Complete one column before going to the next column. Start with the earliest carryback year.	_____ preceding tax year ended ▶		2nd preceding tax year ended ▶ 12-31-99		1st preceding tax year ended ▶	
1 **NOL deduction.** Enter as a positive number. See page 4 of the instructions				36,000		
2 Taxable income before 2001 NOL carryback. Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction. See page 4 of the instructions			21,475			
3 Net capital loss deduction. See page 4 of the instructions			1,000			
4 Section 1202 exclusion. Enter as a positive number			-0-			
5 Adjustments to adjusted gross income. See page 4 of the instructions			-0-			
6 Adjustment to itemized deductions. See page 4 of the instructions			75			
7 Deduction for exemptions. Estates and trusts, enter exemption amount			2,750			
8 Modified taxable income. Combine lines 2 through 7. If zero or less, enter -0-				25,300		
9 **NOL carryover.** Subtract line 8 from line 1. If zero or less, enter -0-. See page 5 of the instructions				10,700		
Adjustment to Itemized Deductions (Individuals Only) Complete lines 10 through 34 for the carryback year(s) for which you itemized deductions **only** if line 3 or line 4 above is more than zero.						
10 Adjusted gross income before 2001 NOL carryback			29,000			
11 Add lines 3 through 5 above			1,000			
12 Modified adjusted gross income. Add lines 10 and 11			30,000			
13 Medical expenses from Sch. A (Form 1040), line 4 (or as previously adjusted)			550			
14 Medical expenses from Sch. A (Form 1040), line 1 (or as previously adjusted)			2,725			
15 Multiply line 12 by 7.5% (.075)			2,250			
16 Subtract line 15 from line 14. If zero or less, enter -0-			475			
17 Subtract line 16 from line 13				75		

Schedule B—NOL Carryover *(Continued)*

Complete one column before going to the next column. Start with the earliest carryback year.	____ preceding tax year ended ▶		2nd preceding tax year ended ▶ 12-31-99		1st preceding tax year ended ▶	
18 Modified adjusted gross income from line 12 on page 3			30,000			
19 Enter as a positive number any NOL carryback from a year before 2001 that was deducted to figure line 10 on page 3			-0-			
20 Add lines 18 and 19			30,000			
21 Charitable contributions from Sch. A (Form 1040), line 18 (line 16 for 1991-93) (or as previously adjusted)			1,450			
22 Refigured charitable contributions. See page 5 of the instructions			1,450			
23 Subtract line 22 from line 21				-0-		
24 Casualty and theft losses from Form 4684, line 18 (or as previously adjusted)						
25 Casualty and theft losses from Form 4684, line 16 (or as previously adjusted)						
26 Multiply line 18 by 10% (.10)						
27 Subtract line 26 from line 25. If zero or less, enter -0-						
28 Subtract line 27 from line 24						
29 Miscellaneous itemized deductions from Sch. A (Form 1040), line 26 (line 24 for 1991-93) (or as previously adjusted)						
30 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (line 21 for 1991-93) (or as previously adjusted)						
31 Multiply line 18 by 2% (.02)						
32 Subtract line 31 from line 30. If zero or less, enter -0-						
33 Subtract line 32 from line 29						
34 Complete the worksheet on page 6 of the instructions if line 18 is **more than** the applicable amount shown below (more than one-half that amount if married filing separately for that year). • $100,000 for 1991. • $105,250 for 1992. • $108,450 for 1993. • $111,800 for 1994. • $114,700 for 1995. • $117,950 for 1996. • $121,200 for 1997. • $124,500 for 1998. • $126,600 for 1999. • $128,950 for 2000. Otherwise, combine lines 17, 23, 28, and 33; enter the result here and on line 6 (page 3)				75		

NOL Carryover From 2001 to 2002

If you had an NOL deduction that reduced your taxable income on your 2001 return to zero (to less than zero, if an estate or trust), complete Table 1, *Worksheet for NOL Carryover From 2001 to 2002.* It will help you figure your NOL to carry to 2002. Keep the worksheet for your records.

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 2001 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 earliest NOL and subtract each NOL separately from your taxable income figured without the NOL deduction. Complete this worksheet for the earliest NOL that reduces your taxable income below zero. Your earlier NOLs will be completely used up in 2001. Your NOL carryover to 2002 is the total of the amount on line 9 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2001 is $4,000 without your $9,000 NOL deduction. Your NOL deduction includes $2,000 for 1999 and $7,000 for 2000. Subtract your 1999 NOL of $2,000 from $4,000. This gives you taxable income of $2,000. Your 1999 NOL is now completely used up. Subtract your $7,000 2000 NOL from $2,000. This gives you taxable income of ($5,000). You now complete the worksheet for your 2000 NOL. Your NOL carryover to 2002 is the unused part of your 2000 NOL from line 9 of the worksheet.

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 5. You must refigure the following income and deductions based on adjusted gross income.

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 deduction.
4) Excludable savings bond interest.
5) Excludable employer-provided adoption benefits.
6) Student loan interest deduction.

If none of these items apply to you, enter zero on line 5. Otherwise, increase your adjusted gross income by the total of lines 3 and 4 and your NOL deduction for the NOL year entered at the top of the worksheet and later years. Using this increased adjusted gross income, 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 the next item. Keep a record of your computations.

Enter your total adjustments for the above items on line 5.

Line 6. Enter zero if you claimed the standard deduction. Otherwise, use lines 10 through 41 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 6 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 6.

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 the following amounts.

1) The adjusted gross income on the return.
2) The amounts from lines 3 and 4 of the worksheet.
3) The exemption amount from Form 1041, line 20.
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 the following amounts.

- The adjusted gross income amount you used to figure the deduction claimed on the return.
- The amounts from lines 3 and 4 of the worksheet.
- The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

Line 10. 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 10.

Line 19. If you had a contributions carryover from 2000 to 2001 and your NOL deduction includes an amount from an NOL year before 2000, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 2000 charitable contributions deduction when figuring your NOL carryover to 2001. Use the reduced contributions carryover to figure the amount to enter on line 19.

Table 1. **Worksheet for NOL Carryover From 2001 to 2002 (For an NOL Year Before 2001)***

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under *NOL Carryover From 2001 to 2002.*

NOL YEAR: ____________

USE YOUR 2001 FORM 1040 (OR FORM 1041) TO COMPLETE THIS WORKSHEET:

1. Enter as a positive number your NOL deduction for the NOL year entered above from line 21 (Form 1040) or line 15a (Form 1041)		
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		
4. Enter as a positive number any gain excluded on the sale or exchange of qualified small business stock		
5. Enter any adjustments to your adjusted gross income (see instructions)		
6. Enter any adjustments to your itemized deductions from line 31 or line 41 (see instructions)		
7. Enter your deduction for exemptions from line 38 (Form 1040) or line 20 (Form 1041)		
8. **Modified taxable income.** Combine lines 2 through 7. Enter the result (but not less than zero)		
9. **NOL carryover to 2002.** Subtract line 8 from line 1. Enter the result (but not less than zero) here and on the "other income" line of Form 1040 (or the line on Form 1041 for deductions NOT subject to the 2% floor) in 2002		

ADJUSTMENTS TO ITEMIZED DEDUCTIONS (INDIVIDUALS ONLY):

10. Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (See instructions.)		
11. Combine lines 3, 4, and 5 above		
12. **Modified adjusted gross income.** Combine lines 10 and 11 above		

ADJUSTMENT TO MEDICAL EXPENSES:

13. Enter your medical expenses from Schedule A (Form 1040), line 4		
14. Enter your medical expenses from Schedule A (Form 1040), line 1		
15. Multiply line 12 above by 7.5% (.075)		
16. Subtract line 15 from line 14. Enter the result (but not less than zero)		
17. Subtract line 16 from line 13		

ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:

18. Enter your charitable contributions deduction from Schedule A (Form 1040), line 18		
19. Refigure your charitable contributions deduction using line 12 above as your adjusted gross income. (See instructions)		
20. Subtract line 19 from line 18		

ADJUSTMENT TO CASUALTY AND THEFT LOSSES:

21. Enter your casualty and theft losses from Form 4684, line 18		
22. Enter your casualty and theft losses from Form 4684, line 16		
23. Multiply line 12 above by 10% (.10)		
24. Subtract line 23 from line 22. Enter the result (but not less than zero)		
25. Subtract line 24 from line 21		

ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:

26. Enter your miscellaneous deductions from Schedule A (Form 1040), line 26		
27. Enter your miscellaneous deductions from Schedule A (Form 1040), line 23		
28. Multiply line 12 above by 2% (.02)		
29. Subtract line 28 from line 27. Enter the result (but not less than zero)		
30. Subtract line 29 from line 26		

TENTATIVE TOTAL ADJUSTMENT:

31. Combine lines 17, 20, 25, and 30, and enter the result here. If line 12 above is $132,950 or less ($66,475 or less if married filing separately), also enter the result on line 6 above and **stop here.** Otherwise, go to line 32		

***Note:** *If you choose to waive the carryback period, and instead you choose to only carry your 2001 NOL forward, use Schedule A, Form 1045 to compute your 2001 NOL that will be carried over to 2002. Report your 2001 NOL from line 27, Schedule A, Form 1045 on the "other income" line of Form 1040 or the line on Form 1041 for deductions NOT subject to the 2% floor in 2001.*

Table 1. **(Continued)**

ADJUSTMENT TO OVERALL ITEMIZED LIMIT:		
32. Enter the amount on Schedule A (Form 1040), line 28		
33. Add lines 16, 19, 24, and 29, and the amounts on Schedule A (Form 1040), lines 9, 14, and 27		
34. Add lines 16 and 24, the amount on Schedule A (Form 1040), line 13, and any gambling losses included on Schedule A (Form 1040), line 27		
35. Subtract line 34 from line 33. If the result is zero, enter the amount from line 31 on line 6 above and **stop here.** Otherwise, go to line 36		
36. Multiply line 35 by 80% (.80)		
37. Subtract $132,950 ($66,475 if married filing separately) from the amount on line 12		
38. Multiply line 37 by 3% (.03)		
39. Enter the smaller of line 36 or line 38		
40. Subtract line 39 from line 33. Enter the result (but not less than your standard deduction amount)		
41. Subtract line 40 from line 32. Enter the result here and on line 6		

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To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

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