



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

For use in preparing
2015 Returns



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Future Developments

For the latest information about developments related to Publication 536, such as legislation enacted after it was published, go to www.irs.gov/pub536.

Reminder

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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). An NOL year is the year in which an NOL occurs. 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. However, 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.

Keeping records. You should keep records for any tax year that generates an NOL for 3 years after you have used the carryback/carryforward or 3 years after the carryforward expires.



You should attach all required documents to the Form 1045 or Form 1040X. For details, see the instructions for Form 1045 or Form 1040X.

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.

Section references. Section references are to the Internal Revenue Code unless otherwise noted.

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Tax questions. If you have a tax question not answered by this publication, check IRS.gov and *How To Get Tax Help* at the end of this publication.

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

Follow Steps 1 through 5 to figure and use your NOL.

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

- Individuals — Form 1040, line 41, or Form 1040NR, line 39.
- Estates and trusts — see the instructions for Form 1041, line 22, for information about taxable income and NOLs.

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 may have an NOL.

There are rules that limit what you can deduct when figuring an NOL. In general, the following items are not allowed when figuring an NOL.

- Any deduction for personal exemptions.
- Capital losses in excess of capital gains.

- The section 1202 exclusion of the gain from the sale or exchange of qualified small business stock.
- Nonbusiness deductions in excess of non-business income.
- The net operating loss deduction.
- The domestic production activities deduction.

Form 1045, Schedule A. Use Form 1045, Schedule A, to figure an NOL. The following discussion explains Schedule A.

First, complete Form 1045, Schedule A, line 1, using amounts from your return. If line 1 is a negative amount, you may have an NOL.

Next, complete the rest of Form 1045, Schedule A, to figure your NOL.

Nonbusiness deductions (line 6). Enter on line 6 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 paid,
- Deductions for contributions to an IRA or a self-employed retirement plan,
- Health savings account deduction,
- Archer medical savings account deduction,
- Most itemized deductions (except for casualty and theft losses, state income tax on trade and business income, and any employee business expenses), and
- The standard deduction.

Do not include on line 6 the deduction for personal exemptions for you, your spouse, or your dependents.

Do not enter business deductions on line 6. These are deductions that are connected to your trade or business. They include the following.

- State income tax on income attributable to trade or business (including wages, salary, and unemployment compensation).
- Moving expenses.
- Educator expenses.
- The deduction for the deductible part of self-employed health insurance.
- Domestic production activities deduction.
- 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 an 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 non-business 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 7). Enter on line 7 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 7 the income you receive from your trade or business or your employment. This includes salaries and wages, self-employment income, unemployment compensation included in your gross 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 17). Enter on line 17 any gain you excluded under section 1202 on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 19–22). 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 2) only up to the amount of your nonbusiness capital gains without regard to any section 1202 exclusion (line 3). If your nonbusiness capital losses are more than your nonbusiness capital gains without regard to any section 1202 exclusion, you cannot deduct the excess.

Business capital losses. You can deduct your business capital losses (line 11) only up to the total of:

- Your nonbusiness capital gains that are more than the total of your nonbusiness capital losses and excess nonbusiness deductions (line 10), and
- Your total business capital gains without regard to any section 1202 exclusion (line 12).

Domestic production activities deduction (line 23). You cannot take the domestic production activities deduction when figuring your NOL. Enter on line 23 any domestic production activities deduction claimed on your return.

NOLs from other years (line 24). You cannot deduct any NOL carryovers or carrybacks from other years. Enter the total amount of your NOL deduction for losses from other years.

Form 1045, Schedule A Example

The following example describes how to figure an NOL.

Example. Glenn Johnson is in the retail record business. He is single and has the following income and deductions on his Form 1040 for 2015.

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	6,300
Personal exemption	4,000
Glenn's total deductions	\$16,300

Glenn's deductions exceed his income by \$12,650 (\$16,300 – \$3,650). However, to figure whether he has an NOL, certain deductions are not allowed. He uses Form 1045, Schedule A, to figure his NOL.

The following items are not allowed on Form 1045, Schedule A.

Nonbusiness net short-term capital loss	\$1,000
Nonbusiness deductions (standard deduction, \$6,300) minus nonbusiness income (interest, \$425)	5,875
Deduction for personal exemption	4,000
Total adjustments to net loss	\$10,875

Therefore, Glenn's NOL for 2015 is figured as follows:

Glenn's total 2015 income	\$3,650
Less:	
Glenn's original 2015 total deductions	\$16,300
Reduced by the disallowed items	– 10,875
	– 5,425
Glenn's NOL for 2015	\$1,775

When To Use an NOL

Generally, if you have an NOL for a tax year ending in 2015, 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. You cannot deduct any part of the NOL remaining after the 20-year carryforward period.

NOL year. This is the year in which the NOL occurred.

Exceptions to 2-Year Carryback Rule

Eligible losses, farming losses, qualified disaster losses, and specified liability losses, all defined next, qualify for longer carryback periods.

Eligible loss. The carryback period for eligible losses is 3 years. Only the eligible loss portion

of the NOL can be carried back 3 years. An eligible loss is any part of an NOL that:

- Is from a casualty or theft, or
- Is attributable to a federally declared disaster for a qualified small business or certain qualified farming businesses.

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.

An eligible loss does not include a farming loss or a qualified disaster loss.

Farming loss. The carryback period for a farming loss is 5 years. Only the farming loss portion of the NOL can be carried back 5 years. A farming loss is the smaller of:

1. The amount that 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.

Farming business. A farming business is a trade or business involving cultivation of land or the raising or harvesting of any agricultural or horticultural commodity. A farming business can include operating a nursery or sod farm or raising or harvesting most ornamental trees or trees bearing fruit, nuts, or other crops. 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 entirely by someone else.

Waiving the 5-year carryback. You can choose to figure the carryback period for a farming loss without regard to the special 5-year carryback rule. To make this choice for 2015, attach to your 2015 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2015 farming losses without regard to the special 5-year carryback rule. If you filed your original return on time but did not file the statement with it, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach an election statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Qualified disaster loss. The carryback period for a qualified disaster loss is 5 years. Only the qualified disaster loss portion of the NOL can be carried back 5 years. A qualified disaster loss is the smaller of:

1. The sum of:
 - a. Any losses attributable to a federally declared disaster and occurring before January 1, 2010, in the disaster area, plus

- b. Any qualified disaster expenses that were allowable under section 198A (even if you did not choose to treat those expenses as deductions in the current year), or

2. The NOL for the tax year.

Excluded losses. A qualified disaster loss does not include any losses from property used in connection with any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, or any store for which the principal business is the sale of alcoholic beverages for consumption off premises.

A qualified disaster loss also does not include any losses from any gambling or animal racing property. Gambling or animal racing property is any equipment, furniture, software, or other property used directly in connection with gambling, the racing of animals, or the on-site viewing of such racing, and the portion of any real property (determined by square footage) that is dedicated to gambling, the racing of animals, or the on-site viewing of such racing, unless this portion is less than 100 square feet.

Specified liability loss. The carryback period for a specified liability loss is 10 years. Only the specified liability loss portion of the NOL can be carried back 10 years. Generally, a specified liability loss is a loss arising from:

- Product liability and expenses incurred in the investigation or settlement of, or opposition to, product liability claims, or
- An act (or failure to act) that occurred at least 3 years before the beginning of the loss year and resulted in a liability under a federal or state law requiring:

1. Reclamation of land,
2. Dismantling of a drilling platform,
3. Remediation of environmental contamination, or
4. Payment under any workers compensation act.

Any loss from a liability arising from (1) through (4) above can be taken into account as a specified liability loss only if you used an accrual method of accounting throughout the period in which the act (or failure to act) occurred. For details, see section 172(f).

Waiving the 10-year carryback. You can choose to figure the carryback period for a specified liability loss without regard to the special 10-year carryback rule. To make this choice for 2015 attach to your 2015 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2015 specified liability losses without regard to the special 10-year carryback rule. If you filed your original return on time but did not file the statement with it, you can make this choice on an amended return filed within 6 months after 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. Once made, this choice is irrevocable.

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).

If you filed your original return on time but did not file the statement with it, you can make this choice on an amended return filed 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.

Once you choose to waive the carryback period, it generally 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.



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 waive the carryback period or do not use up the NOL in the carryback period, carry forward what remains of the NOL 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 forward until the NOL is used up or you complete the 20-year carryforward period.

Example 1. You started your business as a sole proprietor in 2015 and had a \$42,000 NOL for the year. No part of the NOL qualifies for the 3-year, 5-year, or 10-year carryback. You begin using your NOL in 2013, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
2013	\$42,000	\$40,000
2014	40,000	37,000
2015 (NOL year)		
2016	37,000	31,500
2017	31,500	22,500
2018	22,500	12,700
2019	12,700	4,000
2020	4,000	-0-

If your loss were larger, you could carry it forward until the year 2035. If you still had an

unused 2015 carryforward after the year 2035, you would not be allowed to 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 2012. As shown in the following chart, \$3,000 of this NOL is used in 2012. The remaining \$1,000 is carried to 2013 with the \$38,000 NOL that you must begin using in 2013.

Year	Carryback/ Carryover	Unused Loss
2012	\$4,000	\$1,000
2013	39,000	37,000
2014	37,000	34,000
2015 (NOL year)		
2016	34,000	28,500
2017	28,500	19,500
2018	19,500	9,700
2019	9,700	1,000
2020	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 carried over NOL minus the NOL 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 resulting in no 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 that do not file 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). 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.

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 end of the NOL year. If the last day of the NOL year falls on a Saturday, Sunday, or holiday, the form will be considered timely if postmarked on the next business day. For example, if you are a calendar year taxpayer with a carryback from 2015 to 2013, you must file Form 1045 on or after the date you file your tax return for 2015, but no later than January 2, 2017.

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. Generally, file Form 1040X for the carryback year 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, you must generally file a claim for refund because of an NOL carryback from 2013 by April 17, 2017 (3 years after the due date for the NOL return).



Filing Form 1040X does not extend the carryback period. See When to Use an NOL, *earlier*.

Attach a computation of your NOL using Form 1045, Schedule A, and, if it applies, your NOL carryover using Form 1045, Schedule B, [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 and 11 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. The student loan interest deduction.
7. The tuition and fees 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. (Enter your NOL deduction on Form 1045, line 10. On line 11, using the “After carryback” column, enter your adjusted gross income refigured after

applying the NOL deduction and after refiguring any above items.)

Next, refigure your taxable income. (On Form 1045, use lines 12 through 15 and the “After carryback” column.) Use your refigured adjusted gross income (Form 1045, line 11, 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.

- The itemized deduction for medical expenses.
- The itemized deduction for qualified mortgage insurance premiums.
- The itemized deduction for casualty losses.
- Miscellaneous itemized deductions subject to the 2% limit.
- The overall limit on itemized deductions (does not apply to carryback years beginning after December 31, 2009 and before January 1, 2013).
- The phaseout of the deduction for exemptions (does not apply to carryback years beginning after December 31, 2009 and before January 1, 2013).
- Qualified motor vehicle tax (does not apply to carryback years beginning after December 31, 2009).



Do not refigure the itemized deduction for charitable contributions.

Finally, use your refigured taxable income (Form 1045, line 15, 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 by your adjusted gross income (AGI), modified adjusted gross income (MAGI), or tax liability. (On Form 1045, use lines 16 through 30, 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 and additional Medicare tax. For information about refiguring your net investment income tax, shared responsibility payment, and credits, see the Instructions for Form 1045.

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 or Form 1040NR (line 21 for 2015). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2015).

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 2015. They have an NOL of \$5,000. They carry the NOL back to 2013, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2015 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 2013 separate return.

Example 2. Assume the same facts as in [Example 1](#), except that both Mark and Nancy had deductions in 2015 that were more than their income. Figured separately, his NOL is \$1,800 and her NOL 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 ($\$5,000 \times \$1,800/\$4,800$) 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 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 2013 and separate returns for 2014 and 2015. In 2015, Sam had an NOL of \$18,000 and Wanda had an NOL of \$2,000. They choose to carry back both NOLs 2 years to their 2013 joint return and claim a \$20,000 NOL deduction.

Their joint modified taxable income (MTI) for 2013 is \$15,000, and their joint NOL carryover to 2014 is \$5,000 ($\$20,000 - \$15,000$). Sam and Wanda each figure their separate MTI for 2013 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	
$(\$9,000 \div \$12,000)$	$\times .75$
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 2014	\$5,000
Joint carryover to 2014	\$5,000
Sam's carryover	- 5,000
Wanda's carryover to 2014	\$-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 2014. 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 2014 is \$5,000.

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.
3. You cannot claim the domestic production activities deduction.
4. You cannot claim a deduction for your exemptions for yourself, your spouse, or dependents.
5. You must figure any item affected by the amount of your adjusted gross income after making the changes in (1), (2), and (3), above, and certain other changes to your adjusted gross income that result from (1), (2), and (3). 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.

Form 1045, Schedule B. You can use Form 1045, Schedule B, to figure your modified taxable income for carryback years and your carryover from each of those years. Do not use Form 1045, Schedule B, for a carryforward year. If your 2015 return includes an NOL deduction from an NOL year before 2015 that reduced your taxable income to zero (to less than zero, if an estate or trust), see [NOL Carryover From 2015 to 2016](#), later.

NOL Carryover From 2015 to 2016

If you had an NOL deduction carried forward from a year prior to 2015 that resulted in your having taxable income on your 2015 return of zero (of less than zero, if an estate or trust), complete [Table 1](#), Worksheet for NOL Carryover From 2015 to 2016, on the following pages. It will help you figure your NOL to carry to 2016. 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 2015 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 results in your having taxable income below zero. Your NOL carryover to 2016 is the total of the amount on line 10 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2015 is \$5,000 without your \$9,000 NOL deduction. Your NOL deduction includes a \$2,000 carryover from 2013 and a \$7,000 carryover from 2014. Subtract your 2013 NOL of \$2,000 from \$5,000. This gives you taxable income of \$3,000. Your 2013 NOL is now completely used up. Subtract your \$7,000 2014 NOL from \$3,000. This gives you taxable income of (\$4,000). You now complete the worksheet for your 2014 NOL. Your NOL carryover to 2016 is

the unused part of your 2014 NOL from line 10 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 (figured without the NOL deduction). Enter the result on line 2.

Line 6. 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 deductions.
4. Excludable savings bond interest.
5. Excludable employer-provided adoption benefits.
6. The student loan interest deduction.
7. The tuition and fees deduction.

If none of these items apply to you, enter zero on line 6. Otherwise, increase your adjusted gross income by the total of lines 3 through 5 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. Combine the adjustments for previous items with 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 6.

Line 7. Enter zero if you claimed the standard deduction and the amounts on lines 3 through 5 are zero. Otherwise, use lines 11 through 33 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 7 if you did not claim any miscellaneous deductions on Form 1041, line 15c, 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 7.

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

- The adjusted gross income on the return.
- The amounts from lines 3 through 5 of the worksheet.
- The exemption amount from Form 1041, line 20.
- 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 through 5 of the worksheet.
- The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

Line 11. 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 11.

Line 20. Is your modified adjusted gross income from line 13 of this worksheet more than \$100,000 (\$50,000 if married filing separately)?

Yes. Your deduction is limited. Refigure your deduction using the Mortgage Insurance Premiums Deduction Worksheet in the 2015 Instructions for Form 1045. On line 2 of the Mortgage Insurance Premiums Deduction Worksheet, enter the amount from line 13 of this worksheet.

No. Your deduction is not limited. Enter the amount from line 19 on line 20 and enter -0- on line 21.

Line 23. If you had a contributions carryover from 2014 to 2015 and your NOL deduction includes an amount from an NOL year before 2014, you may have to reduce your contributions carryover. Reduce the contributions carryover by the amount of any adjustment you made to your 2014 charitable contributions deduction when figuring your NOL carryover to 2015. Use the reduced contributions carryover to figure the amount to enter on line 23.

Table 1. Worksheet for NOL Carryover From 2015 to 2016 (For an NOL Year Before 2015)*

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under NOL Carryover From 2015 to 2016.



NOL YEAR: _____	
USE YOUR 2015 FORM 1040, FORM 1040NR (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 Form 1040NR) or line 15a (Form 1041)	
2. Enter your taxable income without the NOL deduction for 2015 (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	
5. Enter the amount of any domestic production activities deduction	
6. Enter any adjustments to your adjusted gross income (see instructions)	
7. Enter any adjustments to your itemized deductions from line 33 below (see instructions)	
8. Enter your deduction for exemptions from line 42 (Form 1040), line 40 (Form 1040NR), or line 20 (Form 1041)	
9. Modified taxable income. Combine lines 2 through 8. Enter the result (but not less than zero)	
10. NOL carryover to 2016. Subtract line 9 from line 1. Enter the result (but not less than zero) here and on the "other income" line of Form 1040 or Form 1040NR (or the line on Form 1041 for deductions NOT subject to the 2% floor) in 2016	
ADJUSTMENTS TO ITEMIZED DEDUCTIONS (INDIVIDUALS ONLY):	
11. Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (see instructions)	
12. Combine lines 3, 4, 5, and 6 above	
13. Modified adjusted gross income. Combine lines 11 and 12 above	
ADJUSTMENT TO MEDICAL EXPENSES:	
14. Enter your medical expenses from Schedule A (Form 1040), line 4	
15. Enter your medical expenses from Schedule A (Form 1040), line 1	
16. Multiply line 13 above by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 13 by 7.5% (.075)	
17. Subtract line 16 from line 15. Enter the result (but not less than zero)	
18. Subtract line 17 from line 14	
ADJUSTMENT TO MORTGAGE INSURANCE PREMIUMS:	
19. Enter your mortgage insurance premiums deduction from Schedule A (Form 1040), line 13	
20. Refigure your mortgage insurance premiums deduction using line 13 above as your adjusted gross income (see instructions)	
21. Subtract line 20 from line 19	
ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:	
22. Enter your charitable contributions deduction from Schedule A (Form 1040), line 19, or Schedule A (Form 1040NR), line 5	
23. Refigure your charitable contributions deduction using line 13 above as your adjusted gross income (see instructions)	
24. Subtract line 23 from line 22	
ADJUSTMENT TO CASUALTY AND THEFT LOSSES:	
25. Enter your casualty and theft losses from Form 4684, line 18	
26. Multiply line 25 above by 10% (.10)	
27. Subtract line 26 from line 25. Enter the result (but not less than zero)	
ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:	
28. Enter your miscellaneous deductions from Schedule A (Form 1040), line 27, or Schedule A (Form 1040NR), line 13	
29. Enter your miscellaneous deductions from Schedule A (Form 1040), line 24, or Schedule A (Form 1040NR), line 10	
30. Multiply line 29 above by 2% (.02)	
31. Subtract line 30 from line 29. Enter the result (but not less than zero)	
32. Subtract line 31 from line 28	

***Note:** If you choose to waive the carryback period, and instead you choose to only carry your 2015 NOL forward, use Schedule A, Form 1045, to compute your 2015 NOL that will be carried over to 2016. Report your 2015 NOL from line 25, Schedule A, Form 1045, on the "other income" line of your 2016 Form 1040 or Form 1040NR, or the line on Form 1041 for deductions NOT subject to the 2% floor in 2016.

Table 1. (Continued)

TENTATIVE TOTAL ADJUSTMENT:	
33. Combine lines 18, 21, 24, 27, and 32, and enter the result here. If line 13 above is \$309,900 or less if married filing jointly or qualifying widow(er), \$284,050 or less if head of household, \$258,250 or less if single, or \$154,950 or less if married filing separately, also enter the result on line 7 above and stop here . Otherwise, go to line 34	
ADJUSTMENT TO OVERALL ITEMIZED LIMIT:	
34. Enter the amount from Schedule A (Form 1040), line 29, or Schedule A (Form 1040NR), line 15	
35. Add lines 17, 20, 23, 26, and 31, and the amounts on Schedule A (Form 1040), lines 9, 10, 11, 12, 14, and 28, or the amounts from Schedule A (Form 1040NR), lines 1 and 14	
36. Add lines 17 and 27, the amount on Schedule A (Form 1040), line 14, and any gambling and casualty or theft losses included on Schedule A (Form 1040), line 28, or Schedule A (Form 1040NR), line 14	
37. Subtract line 36 from line 35. If the result is zero, enter the amount from line 33 on line 7 above and stop here . Otherwise, go to line 38	
38. Multiply line 37 by 80% (.80)	
39. Subtract \$309,900 if married filing jointly or qualifying widow(er), \$284,050 if head of household, \$258,250 if single, or \$154,950 if married filing separately from the amount on line 13	
40. Multiply line 39 by 3% (.03)	
41. Enter the smaller of line 38 or line 40	
42. Subtract line 41 from line 35. Enter the result (but not less than your standard deduction amount)	
43. Subtract line 42 from line 34. Enter the result here and on line 7	

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

- Go to IRS.gov and click on the Filing tab to see your options.
- Enter “Free File” in the search box to see whether you can use brand-name software to prepare and e-file your federal tax return for free.
- Enter “VITA” in the search box, download the free IRS2Go app, or call 1-800-906-9887 to find the nearest Volunteer Income Tax Assistance or Tax Counseling for the Elderly (TCE) location for free tax preparation.
- Enter “TCE” in the search box, download the free IRS2Go app, or call 1-888-227-7669 to find the nearest Tax Counseling for the Elderly location for free tax preparation.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$54,000 or less, persons with disabilities, the elderly, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax

help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.



Getting answers to your tax law questions. On IRS.gov get answers to your tax questions anytime, anywhere.

- Go to www.irs.gov/Help-&-Resources for a variety of tools that will help you with your taxes.
- Enter “ITA” in the search box on IRS.gov for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response.
- Enter “Pub 17” in the search box on IRS.gov to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2015 tax changes, and thousands of interactive links to help you find answers to your questions.
- Additionally, you may be able to access tax law information in your electronic filing software.

Tax forms and publications. You can download or print all of the forms and publications you may need on www.irs.gov/formspubs. Otherwise, you can go to www.irs.gov/orderforms to place an order and have forms mailed to you. You should receive your order within 10 business days.

Direct deposit. The fastest way to receive a tax refund is by combining direct deposit and

IRS e-file. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The majority of refunds are received within 21 days or less.

Getting a transcript or copy of a return.

- Go to IRS.gov and click on “Get Transcript of Your Tax Records” under “Tools.”
- Call the transcript toll-free line at 1-800-908-9946.
- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to IRS.gov and click on the Tools bar to use these and other self-service options.

- The [Earned Income Tax Credit Assistant](#) determines if you are eligible for the EIC.
- The [Online EIN Application](#) helps you get an employer identification number.
- The [IRS Withholding Calculator](#) estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The [Electronic Filing PIN Request](#) helps to verify your identity when you do not have your prior year AGI or prior year self-selected PIN available.
- The [First Time Homebuyer Credit Account Look-up](#) tool provides information on your repayments and account balance.

For help with the alternative minimum tax, go to IRS.gov/AMT.

Understanding identity theft issues.

- Go to www.irs.gov/uac/Identity-Protection for information and videos.

- If your SSN has been lost or stolen or you suspect you are a victim of tax-related identity theft, visit www.irs.gov/identitytheft to learn what steps you should take.

Checking on the status of a refund.

- Go to www.irs.gov/refunds.
- Download the free IRS2Go app to your smart phone and use it to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology so electronic payments are safe and secure. You can make electronic payments online, by phone, or from a mobile device. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to www.irs.gov/payments to make a payment using any of the following options.

- **IRS Direct Pay** (for individual taxpayers who have a checking or savings account).
- **Debit or credit card** (approved payment processors online or by phone).
- **Electronic Funds Withdrawal** (available during *e-file*).
- **Electronic Federal Tax Payment System** (best option for businesses; enrollment required).
- **Check or money order.**
- IRS2Go provides access to mobile-friendly payment options like IRS Direct Pay, offering you a free, secure way to pay directly from your bank account. You can also make debit or credit card payments through an approved payment processor. Simply download IRS2Go from Google Play, the Apple App Store, or the Amazon Appstore, and make your payments anytime, anywhere.

What if I can't pay now? Click on the "Pay Your Tax Bill" icon on IRS.gov for more information about these additional options.

- Apply for an [online payment agreement](#) to meet your tax obligation in monthly installments if you cannot pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- An offer in compromise allows you to settle your tax debt for less than the full amount you owe. Use the [Offer in Compromise Pre-Qualifier](#) to confirm your eligibility.

Checking the status of an amended return. Go to IRS.gov and click on the Tools tab and then [Where's My Amended Return?](#)

Understanding an IRS notice or letter. Enter "Understanding your notice" in the search box on IRS.gov to find additional information about your IRS notice or letter.

Visiting the IRS. Locate the nearest Taxpayer Assistance Center using the Office Locator tool on IRS.gov. Enter "office locator" in the search box. Or choose the "Contact Us" option on the IRS2Go app and search Local Offices. Before you visit, use the Locator tool to check hours and services available.

Watching IRS videos. The IRS Video portal www.irsvideos.gov contains video and audio presentations for individuals, small businesses, and tax professionals. You'll find video clips of tax topics, archived versions of panel discussions and Webinars, and audio archives of tax practitioner phone forums.

Getting tax information in other languages. For taxpayers whose native language is not English, we have the following resources available.

1. Taxpayers can find information on IRS.gov in the following languages.
 - a. [Spanish](#).
 - b. [Chinese](#).
 - c. [Vietnamese](#).
 - d. [Korean](#).
 - e. [Russian](#).
2. The IRS Taxpayer Assistance Centers provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service Is Here To Help You

What is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an **independent** organization within the Internal Revenue Service that helps taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](#).

What Can the Taxpayer Advocate Service Do For You?

We can help you resolve problems that you can't resolve with the IRS. And our service is free. If you qualify for our assistance, you will be

assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business,
- You face (or your business is facing) an immediate threat of adverse action, or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach Us?

We have offices [in every state, the District of Columbia, and Puerto Rico](#). Your local advocate's number is in your local directory and at www.taxpayeradvocate.irs.gov. You can also call us at 1-877-777-4778.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes ten basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at www.taxpayeradvocate.irs.gov can help you understand [what these rights mean to you](#) and how they apply. These are **your** rights. Know them. Use them.

How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to us at www.irs.gov/sams.

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) serve individuals whose income is below a certain level and need to resolve tax problems such as audits, appeals, and tax collection disputes. Some clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. To find a clinic near you, visit www.irs.gov/litc or see IRS Publication 4134, [Low Income Taxpayer Clinic List](#).

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