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

For use in preparing

2004 Returns



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Contents

Reminder	1
Introduction	1
NOL Steps	2
How To Figure an NOL	2
Illustrated Schedule A (Form 1045)	3
When To Use an NOL	3
How To Claim an NOL Deduction	7
Deducting a Carryback	7
Deducting a Carryforward	7
Change in Marital Status	8
Change in Filing Status	8
Illustrated Form 1045	9
How To Figure an NOL Carryover	11
Illustrated Schedule B (Form 1045)	11
NOL Carryover From 2004 to 2005	14
Worksheet Instructions	14
How To Get Tax Help	17
Index	18

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

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.

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 instructions for Form 1045, Application for Tentative Refund.

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

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Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to one of the three addresses shown under *How To Get Tax Help* in the back 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 figure appears on the line below:

Individuals — Form 1040, line 40.

Estates and trusts — Form 1041, line 22.

If the amount on that line is not negative, 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 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 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. The following discussion explains Schedule A and includes an illustrated example.

First, complete 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 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,
- 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 6. 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 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, 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).

NOLs from other years (line 23). You cannot deduct any NOL carryovers or carrybacks from other years. Enter 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 2004.

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	<u>2,000</u>
Glenn's total income	<u>\$3,650</u>
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	4,850
Personal exemption	<u>3,100</u>
Glenn's total deductions	<u>\$13,950</u>

Glenn's deductions exceed his income by \$10,300 (\$13,950 – \$3,650). However, to figure whether he has an NOL, certain deductions are not allowed. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045), later.

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

Nonbusiness net short-term capital loss	\$1,000
Nonbusiness deductions (standard deduction, \$4,850) minus nonbusiness income (interest, \$425)	4,425
Deduction for personal exemption	<u>3,100</u>

Total adjustments to net loss \$8,525

Therefore, Glenn's NOL for 2004 is figured as follows:

Glenn's total 2004 income	\$3,650
Less:	
Glenn's original 2004 total deductions	\$13,950
Reduced by the disallowed items	<u>– 8,525</u> <u>– 5,425</u>
Glenn's NOL for 2004	<u>\$1,775</u>

When To Use an NOL

Generally, if you have an NOL for a tax year ending in 2004, 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 and farming losses, 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.

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 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 2004 income tax return filed on or before the due date (including extensions) that you are choosing to treat any 2004 farming losses as if they were not farming losses under section 172(i)(3) of the Internal Revenue Code. If you do not make this election on your timely filed return, you have until 6 months after the due date of the return (excluding extensions) to make the choice by filing an amended return. 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 2004 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*, next.

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 elect 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.



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

Label

(See instructions on page 16.)

Use the IRS label.

Otherwise, please print or type.

Presidential Election Campaign

(See page 16.)

Form fields for personal information: Name (Glenn M. Johnson), Address (5603 E. Main Street, Anytown, VA 20000), and Social Security Numbers.

Form fields for OMB No. 1545-0074, Your social security number (765 00 4321), and Spouse's social security number.

Important! You must enter your SSN(s) above.

Form fields for Presidential Election Campaign: You (Yes/No) and Spouse (Yes/No).

Filing Status

Check only one box.

- 1 Single (checked), 2 Married filing jointly, 3 Married filing separately, 4 Head of household, 5 Qualifying widow(er).

Exemptions

Exemptions section including 6a (Yourself), 6b (Spouse), 6c (Dependents table), and 6d (Total number of exemptions claimed = 1).

Income

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

If you did not get a W-2, see page 19.

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

Table for Income (lines 7-22) with columns for description, amount, and tax status. Total income is 2,350.

Adjusted Gross Income

Table for Adjusted Gross Income (lines 23-36) showing deductions and final adjusted gross income of 2,350.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 75.

Cat. No. 11320B

Form 1040 (2004)

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

Schedule A—NOL (see page 5 of the instructions)

1	Enter the amount from your 2004 Form 1040, line 40. Estates and trusts, enter taxable income increased by the total of the charitable deduction, income distribution deduction, and exemption amount			1	(7,200)
2	Nonbusiness capital losses before limitation. Enter as a positive number	2	1,000		
3	Nonbusiness capital gains (without regard to any section 1202 exclusion)	3			
4	If line 2 is more than line 3, enter the difference; otherwise, enter -0-	4	1,000		
5	If line 3 is more than line 2, enter the difference; otherwise, enter -0-	5	-0-		
6	Nonbusiness deductions (see page 5 of the instructions)	6	4,850		
7	Nonbusiness income other than capital gains (see page 5 of the instructions)	7	425		
8	Add lines 5 and 7.	8	425		
9	If line 6 is more than line 8, enter the difference; otherwise, enter -0-			9	4,425
10	If line 8 is more than line 6, enter the difference; otherwise, enter -0-. But do not enter more than line 5	10	-0-		
11	Business capital losses before limitation. Enter as a positive number	11			
12	Business capital gains (without regard to any section 1202 exclusion)	12	2,000		
13	Add lines 10 and 12	13	2,000		
14	Subtract line 13 from line 11. If zero or less, enter -0-	14	-0-		
15	Add lines 4 and 14	15	1,000		
16	Enter the loss, if any, from line 16 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 15, 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 16 through 21 and enter on line 22 the amount from line 15	16			
17	Section 1202 exclusion. Enter as a positive number			17	
18	Subtract line 17 from line 16. If zero or less, enter -0-	18	-0-		
19	Enter the loss, if any, from line 21 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16 of Schedule D (Form 1041).) Enter as a positive number	19			
20	If line 18 is more than line 19, enter the difference; otherwise, enter -0-	20	-0-		
21	If line 19 is more than line 18, enter the difference; otherwise, enter -0-			21	-0-
22	Subtract line 20 from line 15. If zero or less, enter -0-			22	1,000
23	NOL deduction for losses from other years. Enter as a positive number			23	
24	NOL. Combine lines 1, 9, 17, 21, 22, and 23. 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			24	(1,775)

carry the rest to the next earliest carryback year, and so on.

If you do not use up the NOL in the 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 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 2004 and had a \$42,000 NOL for the year. No part of the NOL qualifies for the 3-year or 5-year carryback. You begin using your NOL in 2002, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
2002	\$42,000	\$40,000
2003	40,000	37,000
2004 (NOL year)		
2005	37,000	31,500
2006	31,500	22,500
2007	22,500	12,700
2008	12,700	4,000
2009	4,000	-0-

If your loss were larger, you could carry it forward until the year 2024. If you still had an unused 2004 carryforward after the year 2024, 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 2001. As shown in the following chart, \$3,000 of this NOL is used in 2001. The remaining \$1,000 is carried to 2002 with the \$38,000 NOL that you must begin using in 2002.

Year	Carryback/ Carryover	Unused Loss
2001	\$3,000	\$1,000
2002	39,000	37,000
2003	37,000	34,000
2004 (NOL year)		
2005	34,000	28,500
2006	28,500	19,500
2007	19,500	9,700
2008	9,700	1,000
2009	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). 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. If the last day of the 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 2004 to 2002, you must file Form 1045 on or after the date you file your tax return for 2004, but no later than January 3, 2006.

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 2001 return by the April 15, 2002, due date, you must file a claim for refund of 1999 tax because of an NOL carryback from 2001 by April 15, 2005.

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 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. Student loan interest deduction.
7. 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 after applying the above refigured items but without the NOL deduction.)

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 casualty losses.
- Miscellaneous itemized deductions subject to the 2% limit.
- The overall limit on itemized deductions.
- The phaseout of the deduction for exemptions.

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 to, the amount of tax. (On Form 1045, use lines 16 through 25, 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 2004). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2004).

You must attach a statement that shows all the important facts about the NOL. Your state-

ment 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 2004. They have an NOL of \$5,000. They carry the NOL back to 2002, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2004 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 2002 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2004 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 ($\$5,000 \times \$1,800/\$4,800$) 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 dis-

ussion), 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 2002 and separate returns for 2003 and 2004. In 2004, 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 2002 joint return and claim a \$20,000 NOL deduction.

Their joint modified taxable income (MTI) for 2002 is \$15,000, and their joint NOL carryover to 2003 is \$5,000 ($\$20,000 - \$15,000$). Sam and Wanda each figure their separate MTI for 2002 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 2003		\$5,000
Joint carryover to 2003	\$5,000	
Sam's carryover	- 5,000	
Wanda's carryover to 2003		\$-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 2003. 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 2003 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 2004 deductions are more than her 2004 income because of a business loss. She uses Form 1045 to carry back her NOL 2 years and claim an NOL deduction in 2002. (See the filled-in Form 1045 on page 10.) Her filing status in both years was single.

Martha figures her 2004 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 Schedule A, line 24, on Form 1045, line 1a.

Martha completes lines 10 through 25, using the "Before carryback" column under the column for the second preceding tax year ended 12/31/02 on page 1 of Form 1045 using the following amounts from her 2002 return.

2002 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	\$3,000
Income tax	\$5,465
Self-employment tax	\$6,120

Martha refigures her taxable income for 2002 after carrying back her 2004 NOL as follows:

2002 Adjusted gross income . . .	\$50,000
Less:	
NOL from 2004	<u>-10,000</u>
2002 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	<u>- 3,000</u>
2002 Taxable income after	
carryback	<u>\$23,000</u>

Martha then completes lines 10 through 25, using the "After carryback" column under the column for the second preceding tax year ended 12/31/02. On line 10, Martha enters her \$10,000 NOL deduction. Her new adjusted gross income on line 11 is \$40,000 (\$50,000 - \$10,000). To complete line 12, 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 (\$23,000) from line 15, and the tax tables in her 2002 Form 1040 instructions to find her income tax. She enters the new amount, \$3,154, on line 16, and her new total tax liability, \$9,274, on line 25.

Martha used up her \$10,000 NOL in 2002 so she does not complete a column for the first preceding tax year ended 12/31/2003. The decrease in tax because of her NOL deduction (line 27) is \$2,311.

Martha files Form 1045 after filing her 2004 return, but no later than January 3, 2006 (since December 31, 2005 is a Saturday). She mails it to the Internal Revenue Service Center where she filed her 2004 return and attaches a copy of her 2004 return (including the applicable forms and schedules).

Application for Tentative Refund

Department of the Treasury
Internal Revenue Service

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

2004

Type or print	Name(s) shown on return <i>Martha Sanders</i>	Social security or employer identification number <i>123-00-4567</i>	
	Number, street, and apt. or suite no. If a P.O. box, see page 2 of the instructions. <i>9876 Holly Street</i>	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. <i>Yardley, PA 19067</i>	Daytime phone number <i>(041) 123-4567</i>	
1 This application is filed to carry back:	a Net operating loss (NOL) (Sch. A, line 24, page 2) <i>\$ 10,000</i>	b Unused general business credit \$	c Net section 1256 contracts loss \$
2a For the calendar year 2004, or other tax year beginning , 2004, ending , 20	b Date tax return was filed <i>3-5-2005</i>		

- 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 or net section 1256 contracts loss, 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

	preceding tax year ended ▶		2nd preceding tax year ended ▶ 12-31-02		1st preceding tax year ended ▶ 12-31-03	
	Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10 NOL deduction after carryback (see page 3 of the instructions)				<i>10,000</i>		
11 Adjusted gross income			<i>50,000</i>	<i>40,000</i>		
12 Deductions (see page 4 of the instructions)			<i>13,250</i>	<i>14,000</i>		
13 Subtract line 12 from line 11			<i>36,750</i>	<i>26,000</i>		
14 Exemptions (see page 4 of the instructions)			<i>3,000</i>	<i>3,000</i>		
15 Taxable income. Line 13 minus line 14			<i>33,750</i>	<i>23,000</i>		
16 Income tax. See page 4 of the instructions and attach an explanation			<i>5,465</i>	<i>3,154</i>		
17 Alternative minimum tax						
18 Add lines 16 and 17			<i>5,465</i>	<i>3,154</i>		
19 General business credit (see page 4 of the instructions)						
20 Other credits. Identify						
21 Total credits. Add lines 19 and 20						
22 Subtract line 21 from line 18			<i>5,465</i>	<i>3,154</i>		
23 Self-employment tax			<i>6,120</i>	<i>6,120</i>		
24 Other taxes						
25 Total tax. Add lines 22 through 24			<i>11,585</i>	<i>9,274</i>		
26 Enter the amount from the "After carryback" column on line 25 for each year			<i>9,274</i>			
27 Decrease in tax. Line 25 minus line 26			<i>2,311</i>			
28 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation)						

Sign Here 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.

Keep a copy of this application for your records.	Your signature <i>Martha Sanders</i>	Date <i>4-11-2005</i>
	Spouse's signature. If Form 1045 is filed jointly, both must sign.	Date
Preparer Other Than Taxpayer	Name ▶	Date
	Address ▶	

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 a deduction for 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 2004 return includes an NOL deduction from an NOL year before 2004 that reduced your taxable in-

come to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2004 to 2005*, 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 2004, she has an NOL of \$36,000 that she carries back to 2002. She has no other carrybacks or carryovers to 2002.

Ida's adjusted gross income in 2002 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 \$3,000. 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 ($.075 \times \$29,000 = \$2,175$; $\$2,725 - \$2,175 = \$550$). 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 2002. She had no other deductions in 2002. Her taxable income for the year was \$21,225.

Ida's \$36,000 carryback will reduce her 2002 taxable income to zero. She completes the column for the second preceding tax year ended 12/31/02 of Schedule B (Form 1045) to figure how much of her NOL she uses up in 2002 and how much she can carry over to 2003. See the illustrated Schedule B shown on page 12. Ida does not complete the column for the first preceding tax year ended 12/31/03 because the \$10,700 carryover to 2003 is completely used up that year. (See the information for line 9 below.)

Line 1. Ida enters \$36,000, her 2004 net operating loss, on line 1.

Line 2. She enters \$21,225, her 2002 taxable income, on line 2.

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

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. Ida had itemized deductions and entered \$1,000 on line 3, so 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 2002 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 2002 is now \$30,000.

Line 13. On her 2002 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 2002 and enters zero on line 19.

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

Line 21. Her actual contributions for 2002 were \$1,450, which she enters on line 21.

Line 22. She now refigures her charitable contributions based on her modified adjusted gross income. Her contributions are well below the 50% limit, so 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 2002 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 the deduction for her personal exemption of \$3,000 for 2002.

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

Line 9. Ida figures her carryover to 2003 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 the \$10,700 as her NOL deduction for 2003 on Form 1045, page 1, line 10, in the "After carryback" column under the column for the first preceding tax year ended 12/31/03. (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 5 of the instructions)

Complete one column before going to the next column. Start with the earliest carryback year.	<u>2nd</u> preceding tax year ended ► 12-31-02	_____ preceding tax year ended ►	_____ preceding tax year ended ►
1 NOL deduction (see page 5 of the instructions). Enter as a positive number	36,000		
2 Taxable income before 2004 NOL carryback (see page 5 of the instructions). Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction	21,225		
3 Net capital loss deduction (see page 6 of the instructions)	1,000		
4 Section 1202 exclusion. Enter as a positive number	-0-		
5 Adjustment to adjusted gross income (see page 6 of the instructions) . .	-0-		
6 Adjustment to itemized deductions (see page 6 of the instructions) . .	75		
7 Individuals, enter deduction for exemptions. Estates and trusts, enter exemption amount	3,000		
8 Modified taxable income. Combine lines 2 through 7. If zero or less, enter -0-	25,300		
9 NOL carryover (see page 6 of the instructions). Subtract line 8 from line 1. If zero or less, enter -0-	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 2004 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.

	<u>2nd</u> preceding tax year ended ► 12-31-02	_____ preceding tax year ended ►	_____ 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 2004 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 (or as previously adjusted)	1,450		
22 Refigured charitable contributions (see page 6 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 (or as previously adjusted)			
30 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (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 8 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). <ul style="list-style-type: none"> ● \$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. ● \$132,950 for 2001. ● \$137,300 for 2002. ● \$139,500 for 2003. Otherwise, combine lines 17, 23, 28, and 33; enter the result here and on line 6 (page 3)			
	75		



NOL Carryover From 2004 to 2005

If you had an NOL deduction carried forward from a year prior to 2004 that reduced your taxable income on your 2004 return to zero (to less than zero, if an estate or trust), complete Table 1, Worksheet for NOL Carryover From 2004 to 2005. It will help you figure your NOL to carry to 2005. 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 2004 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 NOL carryover to 2005 is the total of the amount on line 9 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2004 is \$4,000 without your \$9,000 NOL deduction. Your NOL deduction includes a \$2,000 carryover from 2002 and a \$7,000 carryover from 2003. Subtract your 2002 NOL of \$2,000 from \$4,000. This gives you taxable income of \$2,000. Your 2002 NOL is now completely used up. Subtract your \$7,000 2003 NOL from \$2,000. This gives you taxable income of (\$5,000). You now complete the worksheet for your 2003 NOL. Your NOL carryover to 2005 is the unused part of your 2003 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.
7. Tuition and fees 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. 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 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 Form 1041, line 15b, 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.

- The adjusted gross income on the return.
- The amounts from lines 3 and 4 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 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 2003 to 2004 and your NOL deduction includes an amount from an NOL year before 2003, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 2003 charitable contributions deduction when figuring your NOL carryover to 2004. Use the reduced contributions carryover to figure the amount to enter on line 19.

Table 1. Worksheet for NOL Carryover From 2004 to 2005 (For an NOL Year Before 2004)*

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under NOL Carryover From 2004 to 2005.



NOL YEAR: _____

USE YOUR 2004 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 2004 (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 37 or line 41 (see instructions)
7. Enter your deduction for exemptions from line 41 (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 2005.** 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 2005

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 22 above by 10% (.10)
24. Subtract line 23 from line 21. 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 27 above by 2% (.02)
29. Subtract line 28 from line 26. 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 \$142,700 or less (\$71,350 or less if married filing separately), also enter the result on line 6 above and **stop here.** Otherwise, go to line 32

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***Note:** If you choose to waive the carryback period, and instead you choose to only carry your 2004 NOL forward, use Schedule A, Form 1045 to compute your 2004 NOL that will be carried over to 2005. Report your 2004 NOL from line 27, Schedule A, Form 1045 on the "other income" line of your 2005 Form 1040 or the line on Form 1041 for deductions NOT subject to the 2% floor in 2003.

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 \$142,700 (\$71,350 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	

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit www.irs.gov/advocate.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.

- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 business days after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



CD-ROM for tax products. You can order Publication 1796, IRS Federal Tax Products CD-ROM, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, or saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$22 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is

available in early January and the final release is available in late February.



CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any

taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The de-

sign of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.

Index



To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

<p>A</p> <p>Assistance (See Tax help)</p> <hr/> <p>C</p> <p>Carryback period 3</p> <p>Carryback, waiving 3</p> <p>Carryforward period 3</p> <p>Carryover from 2003 to 2004: Estates and trusts 14</p> <p>Carryover from 2004 to 2005: Worksheet instructions 14</p> <p>Claiming an NOL deduction 7</p> <p>Comments on publication 2</p> <hr/> <p>D</p> <p>Deducting a carryback 7</p> <p>Deducting a carryforward 7</p> <hr/> <p>E</p> <p>Eligible loss 3</p> <hr/> <p>F</p> <p>Farming business 3</p>	<p>Farming loss 3</p> <p>Figuring an NOL:</p> <p>Capital losses 3</p> <p>Carryover 11</p> <p>NOL deduction 3</p> <p>Nonbusiness income 2</p> <p>Schedule A (Form 1045) 2</p> <p>Filing status, change in 8</p> <p>Forms and schedules:</p> <p>Form 1040X 7</p> <p>Form 1045 7</p> <p>Schedule A (Form 1045) 2</p> <p>Schedule B (Form 1045) 11</p> <p>Free tax services 17</p> <hr/> <p>H</p> <p>Help (See Tax help)</p> <p>How to carry an NOL back or forward 3</p> <p>How to figure an NOL 2</p> <hr/> <p>I</p> <p>Illustrated forms and schedules: Form 1045 9</p>	<p>Schedule A (Form 1045) 3</p> <p>Schedule B (Form 1045) 11</p> <hr/> <p>M</p> <p>Marital status, change in 8</p> <p>Modified taxable income 11</p> <p>More information (See Tax help)</p> <hr/> <p>N</p> <p>NOL more than taxable income 7</p> <p>NOL year 1, 3</p> <hr/> <p>P</p> <p>Publications (See Tax help)</p> <hr/> <p>Q</p> <p>Qualified small business 3</p> <hr/> <p>R</p> <p>Refiguring tax 7</p>	<p>S</p> <p>Schedule A (Form 1045) 2</p> <p>Schedule B (Form 1045) 11</p> <p>Steps in figuring NOL 2</p> <p>Suggestions for publication 2</p> <hr/> <p>T</p> <p>Tax help 17</p> <p>Taxpayer Advocate 17</p> <p>TTY/TDD information 17</p> <hr/> <p>W</p> <p>Waiving the 5-year carryback 3</p> <p>Waiving the carryback period 3</p> <p>When to use an NOL 3</p> <p>Worksheet: Carryover from 2004 to 2005 14</p>
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Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509 Tax Calendars for 2005
- 553 Highlights of 2004 Tax Changes
- 910 IRS Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
- 225 Farmer's Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions
- 530 Tax Information for First-Time Homeowners

- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 571 Tax-Sheltered Annuity Plans (403(b) Plans)
- 575 Pension and Annuity Income
- 584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587 Business Use of Your Home (Including Use by Daycare Providers)
- 590 Individual Retirement Arrangements (IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 What You Should Know About the IRS Collection Process
- 595 Tax Highlights for Commercial Fishermen
- 596 Earned Income Credit (EIC)
- 721 Tax Guide to U.S. Civil Service Retirement Benefits
- 901 U.S. Tax Treaties

- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 How Do I Adjust My Tax Withholding?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 The IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 969 Health Savings Accounts and Other Tax-Favored Health Plans
- 970 Tax Benefits for Education
- 971 Innocent Spouse Relief
- 972 Child Tax Credit
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546 The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A&B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch D-1 Continuation Sheet for Schedule D	10424	3903 Moving Expenses	12490
Sch E Supplemental Income and Loss	11344	4562 Depreciation and Amortization	12906
Sch EIC Earned Income Credit	13339	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch F Profit or Loss From Farming	11346	4952 Investment Interest Expense Deduction	13177
Sch H Household Employment Taxes	12187	5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
Sch J Farm Income Averaging	25513	6251 Alternative Minimum Tax—Individuals	13600
Sch R Credit for the Elderly or the Disabled	11359	8283 Noncash Charitable Contributions	62299
Sch SE Self-Employment Tax	11358	8582 Passive Activity Loss Limitations	63704
1040A U.S. Individual Income Tax Return	11327	8606 Nondeductible IRAs	63966
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8812 Additional Child Tax Credit	10644
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8822 Change of Address	12081
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8829 Expenses for Business Use of Your Home	13232
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8863 Education Credits	25379
1040-ES Estimated Tax for Individuals	11340	9465 Installment Agreement Request	14842
1040X Amended U.S. Individual Income Tax Return	11360		