NOLs Step-by-Step

1. Complete tax return for NOL year. If taxable income < $0 there may be a NOL.
2. Verify the software’s calculation of the NOL and correct as needed

* Adjust state income taxes and refund to show the business portion
* Check categorization of capital gains/losses as business/nonbusiness
* Consider deducting state income taxes rather than sales tax
  + If nonbusiness income is low, deduct state income tax
  + If nonbusiness income is high, deduct whichever is higher
* Consider itemizing
  + If nonbusiness income is low, elect itemized deductions
  + If nonbusiness income is high, do not elect itemized deductions

1. Carry the NOL forward to the next year
   * Pre-TCJA NOL – Can offset 100% of taxable income
   * Post-2017 NOL - Apply the 80%-of-taxable-income rule
2. Determine the amount absorbed and the amount of carryover. After application of the NOL carryover, if taxable income is $0 there may be some NOL to carry to the next year. Determine the amount of unused NOL and carry it forward to the next year.
   * Pre-TCJA NOL - Do NOT use the worksheet produced by software. It may be incorrect!
     + Make a copy of the software program’s client file from the carryover year
     + Remove the NOL carryover amount
     + Remove the capital loss, §1202 exclusion, DPAD or §199A deduction
     + Remove any exemption deduction
     + Do NOT allow any additional §199A deduction (override)
     + Do NOT allow recalculation of charitable that was originally disallowed because of the %-of-AGI rule
     + Taxable income on this new return is “Modified Taxable Income” and is the amount of NOL that is absorbed

* If Post-2017 NOL use was limited by 80%-of-taxable-income rule, NOL absorbed is the amount allowed as a deduction.
  + Any NOL in excess of the amount absorbed carries forward to the next year.

1. Repeat steps 3 & 4 until the NOL is used up.