

Filer's Social Security Number
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Computation of Federal Modified Taxable Income (FMTI) for Household Income Only

PART 3: ADJUSTING YOUR NOL FOR HOUSEHOLD INCOME

Step 1. Figure Your FMTI

	A	B	C
40. Year you are carrying the NOL to			
41. Reported AGI for year shown on line 40 without NOLD	00	00	00
42. a. Adjustments to AGI (see instructions).....	00	00	00
b. Capital losses, in excess of capital gains (\$3,000 maximum) ...	00	00	00
43. MODIFIED Federal AGI. Add lines 41 and 42a or 42b	00	00	00
44. a. Medical (see instructions for limitations).....	00	00	00
b. Taxes	00	00	00
c. Contributions.....	00	00	00
d. Interest.....	00	00	00
e. Casualty loss	00	00	00
f. Moving expenses.....	00	00	00
g. Miscellaneous (attach U.S. <i>Schedule A</i> ; see inst.).....	00	00	00
h. Limit on itemized deductions	00	00	00
i. If you did not itemize, use the standard deduction	00	00	00
45. Enter the total of 44a through h, or 44i if you did not itemize	00	00	00
46. FMTI. Subtract line 45 from line 43. If less than zero, enter "0"	00	00	00

Step 2. Figure Your Carryback (If you are not carrying the loss back, go to Step 3.)

47. Unabsorbed NOL. Enter in column A your federal NOL as a positive amount	00	00	00
48. NOL to be carried to next succeeding year. Subtract line 46 from line 47. Carry the amount on this line to the next column, line 47. If less than zero, enter "0"	00	00	00

Step 3. Figure Your Carryforward

49. Year the federal NOL occurred			
50. Enter the amount of the original federal NOL as a positive amount	00	00	00
51. Total of all NOLs used for previous years	00	00	00
52. Subtract line 51 from line 50. This is the remaining NOL that can be carried forward to the year on line 40	00	00	00
53. Subtract line 46 (FMTI) from line 52. This is the remaining NOL to carry forward. If less than zero, enter "0"	00	00	00

Line-by-Line Instructions for Part 3

Part 3: Adjusting Your NOL for Household Income

Line 41: Include NOL carryovers or carrybacks from earlier years.

Line 42a: Adjustments to AGI, such as taxable Social Security benefits and IRA deductions, must be recalculated based on federal modified AGI.

Line 44: Use 44a through h if you itemized. If you didn't itemize, use 44i.

44a: Medical adjustments. The amount of medical adjustments you can take varies with federal law from year to year. You must recalculate your medical expense deduction based on modified federal AGI and the federal limitation in effect for the year entered on line 40.

44c: Percentage limitations on charitable contributions are based on modified federal AGI.

44g: Miscellaneous deductions are limited to 2 percent of AGI. This amount cannot exceed 2 percent of modified federal AGI.

44h: If modified AGI exceeds certain amounts, itemized deductions may be limited. See limitations in effect for the year entered on line 40.

Line 46: This is your FMTI. Your Michigan NOLD will be the amount on this line or the amount from line 47 (or line 52 for carryforwards), whichever is smaller. This amount cannot be less than zero.

Line 47: Enter your federal NOL in column A as a positive amount. Each succeeding year will be the excess portion (if any) from line 48 of the preceding column.

Line 48: Subtract line 46 from line 47. If the result is more than zero, this is the excess NOL to be carried to the next year. If it is less than zero, the NOLD is limited to the excess on line 47. This is the last year affected by the NOL.

Line 53: If line 46 is less than line 52, subtract line 46 from line 52 and enter here; then use line 46 as your NOLD to recalculate your credit. If line 46 is greater than line 52 enter "0" and use line 52 as your NOLD to recalculate your Michigan credits.

Instructions for Form MI-1045

Note: The Michigan NOL is generally carried back two years. Any remaining unused loss after the carryback period, may be carried forward 20 years. Certain exceptions and limitations to the general carryback period that apply to federal NOLs also apply to Michigan NOLs. See U.S. Form 1045 instructions for more information on the general carryback rules for federal NOLs.

What is a Net Operating Loss?

A net operating loss (NOL) occurs when a business has losses in excess of its gains. The Michigan NOL deduction (NOLD) is subject to allocation and apportionment as required by the Michigan Income Tax Act. Income and losses attributed to other states, and income and losses from oil and gas production included in the federal NOL must be eliminated from the Michigan NOL calculation in the loss year. The Michigan NOL may be carried back in the same manner as prescribed in Section 172 of the Internal Revenue Code as in effect for the year the loss was incurred. If your NOL is not exhausted in the carryback years, or you elect to forego the carryback, an NOL carryforward will exist for subsequent years. The carryover period is limited to 15 years for loss years before 1998. Beginning with the 1998 tax year, the carryback period is generally limited to two years for both federal and Michigan taxes, and any unused loss may be carried forward 20 years. Exceptions to the general carryback periods for federal purposes also apply to Michigan.

The Michigan NOL

The Michigan Court of Appeals has ruled in two separate cases, *Preston v Treasury*, 190 Mich App 491; 476 NW 2d 455, (1991) and *Beznos v Treasury*, 224 Mich App 717; 569 NW 2d 908 (1997), that the Michigan NOL and NOLD are computed separately and independently of the federal NOL and NOLD. If you incurred a federal NOL that you are carrying back to previous years, you must determine the allowed Michigan NOL, if any, by completing page 1 of Form MI-1045. If you incurred a Michigan NOL, but are electing to forego the carryback, and carry the Michigan NOL forward, you do not need to file this form until the year you actually use the loss to offset Michigan income. If you incurred an NOL from Michigan sources, but did not incur a corresponding federal NOL, you must complete page 1 of Form MI-1045, to determine your allowable Michigan NOL.

When to File Form MI-1045

If you are carrying back your NOL to prior years, Form MI-1045 must be filed within four years after the date set for filing the return in which the NOL was incurred. For example: If the original NOL was incurred in 2006, then the original 2006 return was due April 17, 2007. You must file Form MI-1045 by April 18, 2011, to carryback the 2006 Michigan NOL to a year that is otherwise outside of the general 4 year statute of limitations.

If your Michigan NOL is carried forward, Form MI-1045 should be filed in the year to which it is being carried forward.

Using Form MI-1045

Use page 1 of Form MI-1045 to calculate your Michigan NOL for the year of the loss. If you are carrying the loss back, you must also complete page 2, *Redetermining Your Michigan Income Tax*. Page 3 is used to determine the amount of your federal NOLD that may be used to compute your household income.

See "NOL Effects on Homestead Property Tax Credit" below.

If you are filing a refund claim from the carryback of a Michigan NOL, you must also file the appropriate amended credit claim forms for each year the loss is being carried back. Attach the amended credit claim forms to Form MI-1045.

The total amount of the federal NOLD used to arrive at federal AGI must be added back on Form MI-1040. The Michigan NOLD is then subtracted in its place on Form MI-1040. This amount will be the NOL determined on Form MI-1045, page 1, line 21, less any of the loss used in previous years. See the MI-1040 instruction booklet for specific line references for the years involved.

Required Attachments

You must attach a copy of your federal income tax return (U.S. Form 1040) and any supporting federal tax schedules or forms that support the NOL. Be sure to indicate the location (city and state) of any income or loss. If you have income or loss subject to apportionment, see *MI-1040H Schedule of Apportionment*.

NOL Effects on Homestead Property Tax Credit

To determine household income for purposes of computing the homestead property tax credit, the home heating credit, and the farmland preservation tax credit, an NOLD is allowed. The amount of the NOLD that is allowed cannot exceed your FMTI in the year to which it is being carried back or carried forward. Claim the amount of the allowed NOLD on the "other adjustments line" on the appropriate credit forms for each applicable year. *Caution: To deduct an NOLD from household income, you must have a corresponding federal NOLD. If you have a Michigan NOLD, but no federal NOLD, you cannot take an NOLD in household income. Income and losses from other states, income and losses from oil and gas production, and federal itemized deductions must be considered when calculating the NOL and NOLDS used for household income.* The amount of the allowable NOLD for use in household income is calculated on page 3 of the MI-1045 form for both carrybacks and carryforwards. The amount of the carryback deduction will be the smaller of lines 46 or 47, and the amount of the carryforward deduction will be the smaller of lines 46 or 52.

Example: Your 2008 FMTI is \$20,000, and your 2008 federal NOLD is \$50,000. The amount of the 2008 NOLD of \$50,000 that may be used in 2008 household income is limited to \$20,000. The balance of \$30,000 will be available for use in 2007 to the extent of your 2009 FMTI.

Forms or Questions

Michigan tax forms are available on Treasury's Web site at www.michigan.gov/taxes. You may also call (517) 636-4486 to have tax forms mailed to you or to ask technical questions.