

Application for Michigan Net Operating Loss Refund MI-1045

Issued under authority of Public Act 281 of 1967, as amended. **Type or print in blue or black ink.**

	Year (YYYY)		Month-Year (MM-YYYY)		Month-Year (MM-YYYY)
For loss year		or for loss year beginning		and ending	
Filer's First Name		M.I.	Last Name		Filer's Full Social Security No. (Example: 123-45-6789)
If a Joint Return, Spouse's First Name		M.I.	Last Name		Spouse's Full Social Security No. (Example: 123-45-6789)
Home Address (Number, Street, or P.O. Box)					
City or Town				State	ZIP Code

IMPORTANT: Use your U.S. Form 1040 to complete this form. Do not consider net operating losses from other years. **Do not include** income and losses sourced to other states, income and losses from oil and gas production and nonferrous metallic minerals extraction that are subject to Michigan severance tax, or a federal net operating loss deduction (NOLD).

PART 1: COMPUTING THE NET OPERATING LOSS (NOL) (see instructions, page 4).

1. Wages, salaries, tips, etc.....	1.		00
2. Interest income.....	2.		00
3. Dividends.....	3.		00
4. Business income or loss (attach U.S. Schedules C and F).....	4.		00
5. Capital gain or loss (attach U.S. Schedule D).....	5.		00
6. Other gains or losses (attach U.S. Form 4797).....	6.		00
7. Pension, IRA, and annuities included in Adjusted Gross Income (AGI).....	7.		00
8. Net rent or royalty income.....	8.		00
9. Income or losses from partnerships, estates, trusts and S corporations (attach U.S. Schedule E).....	9.		00
10. Other (e.g., all state and local refunds, alimony, taxable Social Security, unemployment compensation) Describe:.....	10.		00
11. Total Michigan Gross Income. Add lines 1 through 10.....	11.		00
12. ADJUSTMENTS: Only list adjustments to Michigan-sourced income			
a. Payments to a retirement plan as an individual or self-employed person	12a.		00
b. Deduction for self-employment tax and self-employed health insurance	12b.		00
c. Educator expenses and/or moving expenses.....	12c.		00
d. Alimony paid and/or penalty for early withdrawal of savings.....	12d.		00
e. Domestic production activities deduction (DPAD) sourced to Michigan..	12e.		00
f. Other adjustments to income including health savings account deduction	12f.		00
13. Total adjustments. Add lines 12a through 12f.....	13.		00
14. Michigan AGI. Subtract line 13 from line 11. If greater than zero, you do not have an NOL.....	14.		00
15. Nonbusiness deductions: Add lines 12a, 12d and 12f.....	15.		00
16. Nonbusiness income included in line 11			
a. Interest income.....	16a.		00
b. Dividend income.....	16b.		00
c. Net nonbusiness capital gains (before any allowable exclusion).....	16c.		00
d. Pension, IRA, and annuities.....	16d.		00
e. Alimony received.....	16e.		00
f. Other income.....	16f.		00
17. Total nonbusiness income. Add lines 16a through 16f.....	17.		00
18. Excess of nonbusiness deductions over nonbusiness income, subtract line 17 from line 15. If less than zero, enter "0".....	18.		00
19. Excess capital loss deduction (enter as a positive number. See instr.).....	19.		00
20. DPAD sourced to Michigan (enter as a positive number).....	20.		00
21. Add lines 18, 19 and 20.....	21.		00
22. Net operating loss. Combine lines 14 and 21. If greater than zero, STOP; you do not have an NOL..	22.		00

The Michigan NOL may be carried back or forward in the same manner as is allowed by the Internal Revenue Code (IRC), which is typically back two years and forward twenty. See U.S. Form 1045 for exceptions. An election to forgo the carryback period must be filed in the same manner as required by the IRC (attach a statement to your return for the NOL year). Any loss in excess of income subject to Michigan tax must be carried forward to the next year.

Filer's Full Social Security Number

—	—
---	---

PART 2: COMPUTING A REFUND FROM AN NOL CARRYBACK

Step 1. Redetermine Michigan Income Tax

	A	B	C
23. Year to which NOL is being carried back.....			
24. Reported federal AGI for the year indicated on line 23	00	00	00
25. Additions from MI-1040, Schedule 1	00	00	00
26. Balance. Add lines 24 and 25.....	00	00	00
27. Subtractions from MI-1040, Schedule 1	00	00	00
28. Balance. Subtract line 27 from line 26.....	00	00	00
29. Enter Net Operating Loss from line 22	00	00	00
30. Balance. Subtract line 29 from line 28.....	00	00	00
31. Michigan exemption allowance.....	00	00	00
32. Taxable balance. Subtract line 31 from line 30	00	00	00
33. Tax. Multiply line 32 by tax rate of carryback year. If less than zero, enter "0".....	00	00	00
34. Nonrefundable tax credits.....	00	00	00
35. Tax due. Subtract line 34 from line 33. If less than zero, enter "0"	00	00	00
36. a. Refundable tax credits.....	00	00	00
b. Tax withheld.....	00	00	00
c. Tax paid with prior returns.....	00	00	00
d. Estimated tax payments	00	00	00
37. Total of items 36a through 36d	00	00	00
38. Tax previously refunded or carried to next year.....	00	00	00
39. Balance of tax paid. Subtract line 38 from line 37	00	00	00
40. Overpayment. Subtract line 35 from line 39.....	00	00	00

Step 2. Computing the NOL deduction for subsequent carryback year(s)

Enter all numbers as positive numbers.

41. NOL from line 30	00	00	00
42. DPAD attributable to Michigan included on line 28.....	00	00	00
43. NOL carryforward. Subtract line 42 from line 41. Enter line 43 on line 29 of subsequent year	00	00	00

PART 3: COMPUTING THE NOL CARRYFORWARD

Required for NOL carryforward after carryback(s) or when making an election to forgo carryback.

Enter all numbers as positive numbers.

44. Year to which you are applying NOL			
45. Prior year NOL carryforward.....	00	00	00
46. NOLD from year on line 44 (see instructions)	00	00	00
47. Subtract line 46 from line 45. If less than zero, enter "0", no carryforward remains.....	00	00	00
48. DPAD attributable to Michigan claimed in year on line 44.....	00	00	00
49. Subtract line 48 from line 47. Carry this amount to next year's column until NOL is exhausted. Attach additional pages if necessary	00	00	00

Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.		Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.	
Filer's Signature	Date	Preparer's PTIN, FEIN or SSN	
Spouse's Signature	Date	Preparer's Name (print or type)	
<input type="checkbox"/> By checking this box, I authorize Treasury to discuss my return with my preparer.		Preparer's Business Name, Address and Telephone Number	

Mail your completed form to: **Michigan Department of Treasury, Lansing, MI 48956**

—	—
---	---

Computation of Federal Modified Taxable Income (FMTI) for Household Income Only

NOTE: Do not complete Part 4 if electing to forgo carryback. The purpose of Part 4 is to compute the allowable NOLD when determining eligibility for a Farmland Preservation Tax Credit. This part is also used to compute the allowable NOLD when determining eligibility for the Homestead Property Tax Credit for years 2011 and prior. Effective 2012, FMTI is not used and an NOL is not allowed in determining Total Household Resources.

PART 4: ADJUSTING THE NOL FOR HOUSEHOLD INCOME

Step 1. Figure the FMTI

	A	B	C
50. Year to which NOL is being carried			
51. Reported AGI for year shown on line 50 without current NOLD	00	00	00
52. a. Adjustments to AGI including DPAD (see instructions).....	00	00	00
b. Capital losses, in excess of capital gains (\$3,000 maximum) ...	00	00	00
53. MODIFIED federal AGI. Add lines 51, 52a and 52b	00	00	00
54. 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 instructions)	00	00	00
h. Limit on itemized deductions	00	00	00
i. If you did not itemize, use the standard deduction	00	00	00
55. Enter the total of 54a through 54h, or 54i if you did not itemize	00	00	00
56. FMTI. Subtract line 55 from line 53. If less than zero, enter "0"	00	00	00

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

57. Unabsorbed NOL. Enter your federal NOL as a positive amount in column A.....	00	00	00
58. NOL to be carried to next succeeding year through 2011. Subtract line 56 from line 57. Carry the amount on this line to the next column, line 57. If less than zero, enter "0".....	00	00	00

Step 3. Figure the Carryforward

59. Year the federal NOL occurred			
60. Enter the amount of the original federal NOL as a positive amount	00	00	00
61. Total of all NOLs used for previous years	00	00	00
62. Subtract line 61 from line 60. This is the remaining NOL that can be carried forward to the year on line 50.....	00	00	00
63. Subtract line 56 (FMTI) from line 62. This is the remaining NOL to carry forward. If less than zero, enter "0"	00	00	00

Instructions for Form MI-1045, *Application for Michigan Net Operating Loss Refund*

What is a Net Operating Loss?

A net operating loss (NOL) occurs when a business has losses in excess of its gains. In general terms, a federal NOL is computed by starting with federal taxable income and making the following modifications: (1) eliminate the personal exemption allowance, (2) eliminate capital losses in excess of capital gains and any excluded capital gains, (3) eliminate NOL carryovers from other years, and (4) eliminate the excess of nonbusiness deductions over nonbusiness income. If the end result is negative, a federal NOL has been created for use in another tax year.

The excess capital loss deduction is calculated on a U.S. Form *1045 Schedule A*, line 21 or 22. An excess capital loss includes a U.S. Form *1040 Schedule D* loss that is limited to \$3,000. The capital loss may be greater than \$3,000 if nonbusiness capital losses were offset by business gains that are also reported on U.S. Form *1040 Schedule D*. Example: \$10,000 nonbusiness stock loss and \$50,000 gain from the sale of a business asset (U.S. Form *4797*) produce a U.S. Form *Schedule D* gain of \$40,000. The \$10,000 stock loss is an excess capital loss.

The Michigan NOL

The Michigan NOL and net operating loss deduction (NOLD) are computed independently from the federal NOL and NOLD. The calculation of a Michigan NOL (for taxable income purposes) follows the same general format of the federal NOL calculation but uses federal adjusted gross income (AGI) as a starting point rather than federal taxable income. Therefore, federal itemized deductions that may be used to create or contribute to the federal NOL are not taken into consideration in the calculation of the Michigan NOL.

In addition, the Michigan NOL calculation must be further modified to remove, to the extent included in federal AGI, any income and losses sourced to other states, income and related expenses from Michigan oil and gas production and nonferrous metallic minerals extraction subject to Michigan severance tax and a federal NOLD. The Michigan NOLD is subject to allocation and apportionment as required by the Michigan Income Tax Act. See *Revenue Administrative Bulletin 1998-3* for additional guidance.

In order to determine whether an NOL was incurred from Michigan sources, regardless of whether or not there is a corresponding federal NOL, complete page 1 of Form MI-1045.

Carryover of a Michigan NOL

The Michigan NOL may be carried over in the same manner and to the same time periods as provided for in Section 172 of the Internal Revenue Code (IRC) in effect for the year the loss was incurred. If the NOL is not exhausted in the carryback years, or if an election is made to forgo the carryback (election is irrevocable), an NOL carryforward will exist for subsequent years. The carryback period is generally limited to two years for both federal and Michigan taxes, and any unused loss may be carried forward for 20 consecutive years. Exceptions to the

general carryover periods used for federal NOLs also apply to Michigan.

When there is a change in filing status, special rules apply to carrying over a Michigan NOL, which follow the federal rules. See Internal Revenue Service (IRS) Publication 536. A schedule showing the calculations for the Michigan carryover must be attached to the Form MI-1045.

The amount of the Michigan NOL used in carryover years must be reduced by any domestic production activities deduction (DPAD), attributable to Michigan, claimed in the carryover year. For example, an NOL carryforward claimed in 2016 must be reduced by any Michigan sourced DPAD included in your 2015 AGI.

When to File Form MI-1045

When carrying back a Michigan 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 2012, the original 2012 return was due April 15, 2013. Form MI-1045 must be filed by April 18, 2017 to carryback the 2012 Michigan NOL to a year that is otherwise outside of the general four-year statute of limitations and claim a refund.

When carrying the loss forward, the first year that a loss is used, a copy of the federal income tax return (U.S. Form *1040*) and all supporting federal tax schedules and statements that substantiate the NOL (see Required Attachments) must be attached to the Form MI-1045. This documentation must be submitted for every year a loss occurred that was elected to carry forward. If a carryover remains and until that loss is exhausted, include a copy of the originally filed Form MI-1045 with each Form MI-1040 that claims the NOLD. A schedule demonstrating how the Michigan NOL has been used must also be included.

If an election to forgo the carryback is made, you are not required to file a Form MI-1045 until the year the loss is actually used to offset Michigan income (the first year in which there is taxable income). **Keep all records for the loss year(s) until the NOL has been used and exhausted.** If a Michigan NOL is carried forward, Form MI-1045 should be filed with Form MI-1040 to claim the Michigan NOLD. The NOL carryover must be used in consecutive years.

Using Form MI-1045

Use page 1 of Form MI-1045 to calculate the Michigan NOL for the year of the loss. If the loss is carried back, also complete "Redetermine Michigan Income Tax" on page 2. Page 3 is used to determine the amount of the federal NOLD that may be used to compute household income for the homestead property tax credit for tax years prior to 2012. Page 3 is also used to compute the federal NOLD used in household income for the farmland preservation tax credit.

When filing a refund claim from the carryback of a Michigan NOL, prepare the appropriate amended credit claim forms for each year the loss is being carried back and attach 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, Schedule 1. The Michigan NOLD is then subtracted on Form MI-1040, Schedule 1. This amount is the NOL determined on Form MI-1045, page 1, line 22, less any of the loss used in previous years. See the MI-1040 instruction booklet for specific line references for the years involved.

If there are Michigan NOLs from multiple tax years, the total unused losses must be combined and reported on Form MI-1040, Schedule 1.

Nonresidents and Part-Year Residents

Nonresidents and part-year residents may also be entitled to a Michigan NOLD. In order to determine whether a Michigan NOL was incurred, complete Part 1 of Form MI-1045 in the same manner as described in the section, “The Michigan NOL.” Only items sourced to Michigan may create a Michigan NOL.

A federal NOLD must be removed from taxable income to the extent included in federal AGI. Nonresidents and part-year residents accomplish this by allocating the entire federal NOLD to Column C on Michigan Schedule NR. Do not add back the federal NOLD as an addition on Michigan Schedule 1.

In a carryforward year, the Michigan NOL must be claimed on the Michigan Schedule 1 as a subtraction. Do not report a Michigan NOL on Michigan Schedule NR.

Required Attachments

Attach a copy of the federal income tax return (U.S. Form 1040) and all supporting federal tax schedules and statements that substantiate the NOL. Be sure to indicate the location (city and state) of each source of income or loss. If there is income or loss subject to apportionment, see Schedule of Apportionment (Form MI-1040H).

Include any of the following schedules and accompanying statements that support the Michigan NOL:

- U.S. Form 1040, pages 1 and 2
- U.S. Form 1040 Schedule(s) A, B, C, D, E, F
- U.S. Form 4797
- U.S. Form 4835
- Any other applicable documents, including U.S. Form 1040 or 1041 Schedule(s) K-1.

NOL Effects on Household Income

An NOLD allowed in household income cannot exceed Federal Modified Taxable Income (FMTI) as defined in section 172(b)(2) of the IRC.

An NOL is not used to determine total household resources. An NOLD requiring an FMTI adjustment is only applicable when computing household income for a homestead property tax credit (Form MI-1040CR) for a carryback year prior to 2012.

Alternatively, an NOLD requiring an FMTI adjustment is applicable when computing household income for a farmland

preservation tax credit (Form MI-1040CR-5) for any year, subject to the statute of limitations. The farmland preservation tax credit continues to be computed using household income, not total household resources.

The amount of the NOLD that is allowed cannot exceed FMTI in the year to which it is being carried back or carried forward.

FMTI is computed by modifying federal taxable income to remove the federal exemption allowance, the capital loss deduction, DPAD, and the NOLD. For more information about FMTI, see IRS Publication 536.

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 is the smaller of lines 56 or 57, and the amount of the carryforward deduction is the smaller of lines 56 or 62.

Example: Your 2012 FMTI is \$20,000, and your 2012 federal NOLD is \$50,000. The amount of the 2012 NOLD of \$50,000 that may be used in 2012 household income for a farmland preservation tax credit is limited to \$20,000. The balance of \$30,000 will be available for use in a 2013 farmland preservation tax credit, to the extent of 2013 FMTI. There is no NOLD allowed for a homestead property tax credit for tax years 2012 and later.

Claim the amount of the NOLD allowed on the “other adjustments line” on the appropriate credit forms for each applicable year.

NOTE: To deduct an NOLD from household income, there must be a corresponding federal NOLD. If there is no federal NOLD in AGI, there is no NOLD to claim in household income. Income and losses from other states, income and losses from oil and gas production and nonferrous metallic minerals extraction subject to Michigan severance tax, and federal itemized deductions must be considered when calculating the NOL and NOLs used for household income.

LINE-BY-LINE INSTRUCTIONS

Lines not listed are explained on the form.

Part 1: Computing the Net Operating Loss

To complete Part 1, use the entries on your U.S. Form 1040 for the year the loss occurred. **Do not include** income and losses sourced to other states, income and losses from oil and gas production and nonferrous metallic minerals extraction that are subject to Michigan severance tax, a federal net operating loss (NOL) deduction, or net operating loss deductions (NOLs) from other years.

Line 10: Include all state and local refunds, alimony, taxable Social Security, unemployment compensation, and other income in your federal adjusted gross income sourced to Michigan.

Line 14: Subtract line 13 from line 11. This amount will equal your federal AGI, less any federal NOLD, unless you have income or losses sourced to other states, income or losses subject to Michigan severance tax, or NOLs from other years.

Line 19: The excess capital loss deduction must be calculated on a U.S. Form 1045 Schedule A, line 21 or 22, then entered

on this line. An excess capital loss includes a *U.S. Form 1040 Schedule D* loss that is limited to \$3,000. The capital loss may be greater than \$3,000 if non-business capital losses were offset by business gains that are also reported on *U.S. Form 1040 Schedule D*.

Line 20: Enter as a positive number the domestic production activities deduction (DPAD) as calculated on line 12e.

Part 2: Computing a Refund From an NOL Carryback

Step 1. Redetermining Michigan income tax for carryback year(s)

Line 36a: Enter the total of refundable credits for homestead property tax, farmland preservation and any other refundable credits claimed for the tax year(s) to which you are carrying the loss. Any credit entered here must be adjusted for the NOLD adjustment to household income, if applicable. Be sure to attach your amended credit form.

Line 36c: For the year listed on line 23, enter total tax paid with Form MI- 1040 plus any additional tax paid after original return was filed.

Step 2. Computing the NOL deduction for subsequent carryback year(s)

Step 2 removes DPAD from the amount of the NOL available to be carried forward to the next year.

Line 41: Enter the NOL from line 30 as a positive number.

Line 42: Enter the amount of DPAD allocated or apportioned to Michigan.

Line 43: Subtract line 42 from line 41, if less than zero enter "0". Then, enter your NOL carryforward on line 29 of the next column.

Part 3: Computing the NOL Carryforward for the Subsequent Years

The purpose of Part 3 is to calculate the NOL carryforward after utilizing an NOL carryback or after making an election to forgo a carryback.

Line 45: Enter the remaining NOL carryforward from the prior year

Line 46: Enter the amount of the NOL absorbed in the year listed on line 44.

Line 48: Enter the DPAD attributable to Michigan that was claimed in the year listed on line 44.

Line 49: NOL Carryforward. Enter this amount on line 45 of the next column. Continue using Part 3 to calculate the NOL carryforward for the following year until the NOL has been exhausted or expires, whichever comes first. Use additional forms if necessary.

Part 4: Adjusting the NOL for Household Income

Line 50: May be applied to tax years 2011 and prior carrybacks and the Farmland Preservation Tax Credit.

Line 51: Include NOL carryovers or carrybacks from earlier years.

Line 52a: Add back any DPAD. Also, adjustments to AGI, such as taxable Social Security benefits and IRA deductions, must be recalculated based on federal modified AGI.

Line 54: Use 54a through 54h if you itemized. If you didn't itemize, use 54i.

54a: Medical adjustments. The amount of medical adjustments allowed 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 50.

54c: Percentage limitations on charitable contributions are based on modified federal AGI.

54g: Miscellaneous deductions are limited to 2 percent of AGI. This amount cannot exceed 2 percent of modified federal AGI.

54h: If modified AGI exceeds certain amounts, itemized deductions may be limited. See limitations in effect for the year entered on line 50.

Line 56: This is your FMTI. Your Michigan NOLD will be the amount on this line or the amount from line 57 (or line 60 for carryforwards), whichever is smaller. This amount cannot be less than zero.

Line 57: Enter your federal NOL in column A as a positive amount. Each succeeding year will be the unabsorbed portion (if any) from line 58 of the preceding column.

Line 58: Subtract line 56 from line 57. If the result is more than zero, this is the excess NOL to be carried forward to the next year. If it is less than zero, the NOLD is limited to the unabsorbed portion on line 57. This is the last year affected by the NOL.

NOTE: Effective January 1, 2012 an NOLD cannot reduce total household resources and is no longer used on Michigan Property Tax Credit and Home Heating Credit claims.

Line 63: If line 56 is less than line 62, subtract line 56 from line 62 and enter here; then use line 56 as your NOLD to recalculate your credit. If line 56 is greater than line 62 enter "0" and use line 62 as your NOLD to recalculate your Michigan credits.

Forms or Questions

Michigan tax forms are available at www.michigan.gov/taxes. Call 517-636-4486 if you have questions or to request tax forms.

Michigan NOL Carryforward Example

A full-year Michigan resident born in 1942 has the following business and rental activity reported on their U.S. Form 1040 in tax **Year 00**: Form MI-1040 for tax **Year 00** reports the following:

- *Schedule C*
\$18,000 Michigan and \$2,500 Indiana
- *Schedule E*, Part 1, rental income
\$6,500 Arizona
- *Schedule E*, Part 2, flow-through income (loss)
(\$87,000) Michigan and (\$8,500) Ohio
- Self-employment tax deduction
\$202 Michigan and \$28 Indiana
- Domestic Production Activities Deduction [DPAD]
\$2,000 Michigan and \$1,200 Ohio

Federal adjusted gross income [AGI] is (\$41,170) for **Year 00**.

- Federal AGI (\$41,170)
- Additions
 - Schedule 1, line 2: Deduction for SE taxes \$230
 - Schedule 1, line 4: Business loss, Ohio \$8,500
 - Schedule 1, line 7: Federal NOLD \$4,000
 - Schedule 1, line 8: DPAD, Ohio \$1,200
- Subtractions
 - Schedule 1, line 13: Business income, Indiana \$2,500
 - Schedule 1, line 13: Rental income, Arizona \$6,500
 - Schedule 1, line 16: Michigan income tax refunds included in AGI \$560
 - Schedule 1, line 25: Pension subtraction \$12,500
- Michigan income subject to tax (\$49,300)

The taxpayer must complete the first page of the MI-1045 to determine (1) if a **Year 00** Michigan NOL exists, and (2) the amount of the **Year 00** Michigan NOL. In this example, a Michigan NOL exists and the taxpayer elects to forgo an NOL carryback. The full NOL will be carried forward beginning with **Year 01**. The Michigan **Year 00** NOL is calculated below.

Federal AGI Year 00		Michigan Adjustments	MI-1045 Part 1 Year 00
Wages	\$25,000		\$25,000
Interest Income	120		120
Dividend Income	80		80
<i>Schedule C</i> Income (Loss)	20,500	2,500 Indiana	18,000 Business income attributable to Michigan
Capital Gain (Loss)	(3,000)		(3,000)
Pension	12,500		12,500
<i>Schedule E</i> , Part 1, Income (Loss)	6,500	6,500 Arizona	0
<i>Schedule E</i> , Part 2, Income (Loss)	(95,500)	(8,500) Ohio	(87,000) Business loss attributable to Michigan
Misc: State Tax Refunds	560		560
Other: Prior Year Federal NOL	(4,000)		0 A federal NOL does not affect a Michigan NOL calculation.
Total Income	(\$37,240)		(\$33,740)
Adjustments			
Retirement Plan Contributions	500		500
Deductions for Self-Employment Tax	230	28 Indiana	202
DPAD	3,200	1,200 Ohio	2,000 DPAD attributable to Michigan
Total Adjustments	3,930		2,702
Federal AGI	(\$41,170)		(\$36,442) Federal AGI attributable to Michigan
**For demonstration purposes assume for Year 00 the federal NOL computes to \$66,200. The carryforward to Year 01, minus the DPAD, is \$63,000. The DPAD is removed in the initial calculation of an NOL, it cannot be used to create or increase an NOL.			3,000 Excess capital loss deduction (MI-1045, line 19)
			2,000 DPAD (MI-1045, line 20)
			(\$31,442) Michigan NOL for Year 00

The **Year 01** federal AGI is (\$30,700), which consists of the following:

Wages	\$10,000
<i>Schedule C</i> - MI	(2,000)
<i>Schedule C</i> - IN	3,000
<i>Schedule E</i> , Part 1 – AZ	(4,000)
<i>Schedule E</i> , Part 2 – MI	15,000
<i>Schedule E</i> , Part 2 – OH	(1,500)
Pension	12,500
Total Income	\$33,000
Federal NOLD from Year 00 carryforward	(63,000)
Adjustment for DPAD – MI	(500)
Adjustment for DPAD – IN	(200)
Federal AGI	(\$30,700)

To determine the amount, if any, of a Michigan NOL that remains after being carried to another year, a calculation must be made to determine how much Michigan income was offset in the carryover year. To calculate this amount, determine income subject to Michigan tax (before the exemption allowance) without regard to the subtraction allowed for the Michigan NOLD. If this amount is greater than the Michigan NOLD, the entire NOL is used up, and none is available to carry to the next year. If this figure is less than the Michigan NOLD, the difference will be the NOL available to be carried to the next year.

The NOL available for carryover from **Year 00** (\$31,442) exceeds Michigan taxable income (\$22,500) in **Year 01**, which is calculated without regard to the Michigan NOLD and Michigan exemptions. As such, the Michigan NOL absorbed in **Year 01** equals Michigan taxable income without regard to the Michigan NOLD and Michigan exemptions. A subtraction is taken on the Michigan Schedule 1 for a Michigan NOLD, reporting the **entire** NOLD balance available in the tax year, in this case, \$31,442. The NOL carryforward to **Year 02** computes to \$8,442.

Year 01 Michigan NOL Carryforward Computation

Federal AGI	(\$30,700)
Michigan Additions:	
<i>Schedule E</i> , Part 1 – AZ	4,000
<i>Schedule E</i> , Part 2 – OH	1,500
Federal NOLD	63,000
Adjustment for DPAD – IN	200
Subtotal	38,000
Michigan Subtractions:	
<i>Schedule C</i> – IN	3,000
Pension	12,500
Total income subject to MI tax, without regard to the MI NOLD or MI exemptions	\$22,500
Michigan NOL carryover available from Year 00	31,442
Total income subject to MI tax, without regard to the MI NOLD or MI exemptions	22,500
MI NOL available for carryforward to Year 02 before adjustment for Michigan DPAD.	\$8,942
DPAD attributable to Michigan	(500)
Total MI NOL available for Year 02	\$8,442

According to IRC section 172(b)(2) and modifications referred to in IRC section 172(d), any remaining NOL, after redetermining the tax must be reduced by the amount of DPAD reported in that year before carrying the NOL to another year.

The Michigan NOL available as a carryforward to **Year 02**, (\$8,942) was reduced by DPAD attributed to Michigan (\$500), thereby decreasing the Michigan NOL amount to \$8,442.

The **Year 02** federal AGI is \$19,350, which consists of the following:

Wages	\$15,000
Interest	250
Dividend	100
<i>Schedule C</i> – MI	14,000
<i>Schedule C</i> – IN	2,500
<i>Schedule E</i> , Part 1 – AZ	5,000
<i>Schedule E</i> , Part 2 – MI	(5,000)
<i>Schedule E</i> , Part 2 – OH	5,000
Pension	12,500
Total Income	\$49,350

Remaining federal NOLD from Year 01	
carryforward after adjusting for DPAD of \$700	(30,000)
Federal AGI	\$19,350

In **Year 02** a subtraction is taken on the Michigan Schedule 1 for a Michigan NOLD reporting the full amount available of \$8,442. The available Michigan NOL does not exceed Michigan taxable income of \$24,350, calculated without regard to the Michigan NOLD and Michigan exemptions. The balance of the Michigan NOL from loss **Year 00** is exhausted in the carryforward used in **Year 02**.

Year 02 Michigan NOL Carryforward Computation

Federal AGI	\$19,350
Michigan Additions:	
Federal NOLD	30,000
Subtotal	49,350
Michigan Subtractions:	
<i>Schedule C</i> – IN	2,500
<i>Schedule E</i> , Part 1 – AZ	5,000
<i>Schedule E</i> , Part 2 – OH	5,000
Pension	12,500
Total income subject to MI tax, without regard to the MI NOLD or MI exemptions	\$24,350
Michigan NOL carryforward available from Year 01	\$8,442
Total income subject to MI tax after applying MI NOL (NOL absorbed)	\$15,908
MI NOL available for carryforward to Year 03	\$0