

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		— —
Home Address (Number, Street, or P.O. Box)					Spouse's Full Social Security No. (Example: 123-45-6789)
					— —
City or Town				State	ZIP Code

Check the box to forgo the entire carryback period for the NOL. When you check the box, you are electing to carry the NOL forward instead of carrying it back to previous years. **Once the election is made, it is irrevocable.**

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 and the related production expenses; or a federal net operating loss deduction (NOLD).

PART 1: COMPUTE THE NET OPERATING LOSS (NOL)

1. Wages, salaries, tips, etc.....				00
2. Interest income.....				00
3. Dividends.....				00
4. Business income or loss (include U.S. Schedules C and F).....				00
5. Capital gain or loss (include U.S. Schedule D).....				00
6. Other gains or losses (include U.S. Form 4797).....				00
7. Pension, IRA, and annuities included in Adjusted Gross Income (AGI).....				00
8. Net rent or royalty income.....				00
9. Income or losses from partnerships, estates, trusts and S corporations (include U.S. Schedule E).....				00
10. Other (e.g., all state and local refunds, alimony, taxable Social Security, unemployment compensation) Describe:.....				00
11. Total Michigan Gross Income. Add lines 1 through 10.....				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.....				00
14. Michigan AGI. Subtract line 13 from line 11. If greater than zero, you do not have an NOL.....				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

Filer's Full Social Security Number

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PART 2: COMPUTE 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: Compute the NOL deduction for subsequent carryback year(s). Enter all numbers as positive numbers.

41. Enter the NOL balance from line 30	00	00	00
42. Excess Capital Loss deduction included on line 28.....	00	00	00
43. DPAD included on line 28.....	00	00	00
44. NOL carryforward. Subtract line 42 and 43 from line 41. Enter line 44 on line 29 of subsequent year	00	00	00

PART 3: COMPUTE THE NOL CARRYFORWARD. Enter all numbers as positive numbers.

45. Year to which you are applying NOL			
46. Prior year NOL carryforward(s)			00
47. NOLD. Amount of NOL absorbed in year on line 45.....			00
48. Subtract line 47 from line 46. If less than zero, enter "0", no carryforward remains.....			00
49. Excess Capital Loss deduction attributable to Michigan claimed in the year on line 45			00
50. DPAD attributable to Michigan claimed in the year on line 45.....			00
51. Subtract line 49 and 50 from line 48. This is the NOL carryforward available for the subsequent tax year ...			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**

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

The purpose of Part 4 is to compute the allowable NOLD when determining eligibility for a Farmland Preservation Tax Credit. An NOLD allowed in household income cannot exceed Federal Modified Taxable Income (FMTI).

PART 4: ADJUST THE NOL FOR HOUSEHOLD INCOME

Step 1: Compute the FMTI

	A	B	C
52. Year to which NOL is being carried			
53. Reported AGI for year shown on line 52 without current NOLD	00	00	00
54. 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
55. MODIFIED federal AGI. Add lines 53, 54a and 54b	00	00	00
56. 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 (include 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
57. Enter the total of 56a through 56h, or 56i if you did not itemize	00	00	00
58. FMTI. Subtract line 57 from line 55. If less than zero, enter "0"	00	00	00

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

59. Unabsorbed NOL. Enter your federal NOL as a positive amount in column A	00	00	00
60. NOL to be carried to next succeeding year. Subtract line 58 from line 59. Carry the amount on this line to the next column, line 59. If less than zero, enter "0"	00	00	00

Step 3: Compute the Carryforward

61. Year the federal NOL occurred			
62. Enter the amount of the original federal NOL as a positive amount	00	00	00
63. Total of all NOLs used for previous years	00	00	00
64. Subtract line 63 from line 62. This is the remaining NOL that can be carried forward to the year on line 52.....	00	00	00
65. Subtract line 58 (FMTI) from line 64. This is the remaining NOL to carry forward. If less than zero, enter "0"	00	00	00

Complete and submit this page only if filing a Farmland Preservation Tax Credit (MI-1040CR-5).

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 business losses exceed income in a particular year. In general terms, a federal NOL is computed by starting with federal taxable income and making the following modifications by eliminating:

- Personal exemption allowance
- Capital losses in excess of capital gains and any excluded capital gains
- NOL carryovers from other years
- Excess of nonbusiness deductions over nonbusiness income
- Domestic production activities deduction (DPAD).

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

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

- Page 1 of Form MI-1045 is used to compute the Michigan NOL for the year of the loss
- Page 2 is used to compute a refund from a carryback or to determine the amount of a carryforward
- Page 3 is used to compute the federal net operating loss deduction (NOLD) allowed in household income for the farmland preservation tax credit.

The Michigan NOL is computed independently from the federal NOL. The calculation of a Michigan NOL (for taxable income purposes) follows the same general format of the federal NOL calculation but begins with 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 when calculating the Michigan NOL.

In addition to the federal modifications, 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 from Michigan oil and gas production and nonferrous metallic minerals extraction subject to Michigan severance tax and related production expenses
- A federal NOLD.

The Michigan NOL is subject to allocation and apportionment as required by the Michigan Income Tax Act. See *Revenue Administrative Bulletin* 2017-14 for additional guidance.

A claim for refund based on an NOL must be filed within the four-year statute of limitations period. Therefore, when carrying back an NOL to prior years, the MI-1045 must be filed within four years of the date set for filing the return for the year in which the NOL was incurred. If an NOL is determined to have been sustained in a year that is outside the four-year statute of limitations period, a taxpayer may still claim the NOLD for the open tax years. However, the taxpayer must calculate the amount of the Michigan NOL that would have been absorbed by Michigan income subject to tax in the closed tax year(s) to determine the amount that can be carried over to the open year(s). The Michigan Department of Treasury may redetermine the correct taxable income in a closed tax year in order to ascertain either the amount of an NOL or the amount of an NOL that is absorbed in the closed tax year to determine the correct NOLD for an open tax year.

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. The amount of the Michigan NOL used in carryover years must be reduced by any excess capital loss and/or DPAD, attributable to Michigan, claimed in the carryover year. For example, an NOL carryforward claimed in 2017 must be reduced by any Michigan-sourced excess capital loss and/or DPAD included in your 2016 AGI, to the extent the deduction(s) reduced Michigan taxable income.

The amount of the NOLD for a given taxable year is equal to the sum of all NOL carryforwards and carrybacks for the taxable year. The entire amount of the NOL for a loss year must be carried back to the earliest of the taxable years to which the loss may be carried. The earliest year's loss must be used first until it is completely absorbed or lost. Later years' losses can then be used until they are also absorbed or lost.

A copy of the U.S. Form *1040* and all supporting federal tax schedules and statements **for the loss year(s)** that substantiate the NOL (see "Required Supporting Documentation" on page 5) must be included with Form MI-1045. If a carryover remains, this documentation must be submitted for every year an NOLD is claimed.

When there is a change in filing status, special rules apply to carrying over a Michigan NOL, which follow the federal rules. For additional information, see Internal Revenue Service (IRS) Publication 536.

Carryback

The carryback period is generally limited to two years for both federal and Michigan taxes, and any unused loss may carry forward for 20 consecutive years following the loss year. Exceptions to the general carryback periods used for federal NOLs also apply to Michigan. Page 2 of the Form MI-1045 is used to request a refund for the prior year(s). **It is not necessary to amend an MI-1040 return to claim a refund of an NOL carryback.**

When carrying back a Michigan NOL to prior years, Form MI-1045 and supporting documentation must be filed within four years after the date set for filing the return for the year in which the NOL was incurred. For example, if the original NOL was incurred in 2013, the original 2013 return was due April 15, 2014. Form MI-1045 must be filed by April 15, 2018 to carry back the 2013 Michigan NOL to a year that is otherwise outside the general four-year statute of limitations period to claim a refund. If Form MI-1045 is filed after the four-year statutory period has expired, no refund is allowed for the carryback year. However, after absorbing the NOL in those carryback periods, a carryforward may still exist to offset income in subsequent years.

Carryforward

The carryforward period is limited to 20 consecutive years following the loss year for both federal and Michigan taxes. Include a copy of the originally filed Form MI-1045 with each Form MI-1040 that claims the NOLD until that loss is exhausted. A schedule demonstrating how the Michigan NOL has been used must be included. See instructions for “Part 3: Compute the NOL Carryforward for the Subsequent Years” on page 6. The NOL carryover must be used in consecutive years.

The total amount of the federal NOLD used to arrive at federal AGI must be added back on Michigan Schedule 1. The Michigan NOLD is entered as a subtraction on the Michigan Schedule 1. If there are Michigan NOLs from multiple tax years, the total unused losses must be combined. This amount is the NOL determined on Form MI-1045, line 22, less any of the loss used in previous years.

Keep all records for the loss year(s) until the NOL has been exhausted or the carryforward period expired.

Farmland Preservation Tax Credit

The farmland preservation tax credit is computed using household income, not total household resources which does not allow for an NOL.

The NOLD allowed in household income cannot exceed Federal Modified Taxable Income (FMTI) in the year to which it is being carried back or carried forward as defined in section 172(b)(2) of the IRC. 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.

When filing a refund claim from the carryback of a Michigan NOL for the farmland preservation tax credit, prepare an amended Form MI-1040CR-5 for each year the loss is being carried back and include with Form MI-1045. The amount of the allowable NOLD for use in household income is calculated on page 3 of Form MI-1045 for both carrybacks and carryforwards. The amount of the carryback deduction is the lesser of lines 58 or 59 and the amount of the carryforward deduction is the lesser of lines 58 or 64. Claim the amount of the NOLD allowed on the “federal net operating loss deduction” line on Form MI-1040CR-5 for each applicable year.

Example: Your 2015 FMTI is \$20,000, and your 2015 federal NOLD is \$50,000. The amount of the 2015 NOLD of \$50,000 that may be used in 2015 household income for a farmland

preservation tax credit is limited to \$20,000. The balance of \$30,000 will be available for use on your 2016 farmland preservation tax credit, limited to your 2016 FMTI.

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.

Nonresidents and Part-Year Residents

Nonresidents and part-year residents may also be entitled to a Michigan NOLD. To determine if a Michigan NOL was incurred, complete Part 1 of Form MI-1045. Only Michigan-sourced income, losses or deductions may create a Michigan NOL. In a carryforward year, the federal NOLD must be removed from taxable income to the extent included in federal AGI. Nonresidents and part-year residents enter the entire federal NOLD in Column C on Michigan Schedule NR. The Michigan NOL is claimed on the Michigan Schedule 1 as a subtraction.

NOTE: Do not report a Michigan NOL on Michigan Schedule NR or claim the federal NOLD as an addition on Michigan Schedule 1.

Required Supporting Documentation

Include a copy of the federal income tax return with applicable schedules and statements that substantiate 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 Schedule(s) K-1 from U.S. Form 1040 and the detailed schedule explained in the instructions for Part 3
- MI-1041 and final Schedule K-1 from the U.S. Form 1041 when an NOL is created from the termination of a trust.

Be sure to indicate the business activity and location (city and state) of each source of income or loss. If there is income or loss subject to apportionment, a *Schedule of Apportionment* (Form MI-1040H) must be included.

Amending the NOL

To amend an NOL carryforward, complete a revised Form MI-1045 and file an amended MI-1040. Beginning with tax year 2017, check the Amended return box at the top of page 1 of the MI-1040 form and include the *Michigan Amended Return Explanation of Changes* (Schedule AMD) and all applicable schedules and supporting documentation to amend your return.

To amend an NOL carryback, complete Form MI-1045. Write “Amended” across the top and provide all required supporting documentation to substantiate the change(s). It is not necessary to amend a Form MI-1040 return for the carryback year to claim a refund of an NOL carryback.

LINE-BY-LINE INSTRUCTIONS

Lines not listed are explained on the form.

Part 1: Compute 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 and the related production expenses
- A federal net operating loss deduction (NOLD)
- 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: Michigan AGI 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 the (DPAD) reported on line 12e as a positive number.

Part 2: Compute a Refund From an NOL Carryback

Step 1: Redetermine 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 back the loss. A farmland preservation tax credit entered here must be recomputed for the NOLD adjustment to household income, if applicable. Include an amended Form MI-1040CR-5.

Line 36c: For the year listed on line 23, enter total tax paid with Form MI-1040 plus any additional tax paid after the original return was filed. Do not include penalty or interest that was reported on the return or included with any payment(s).

Step 2: Compute the NOL deduction for subsequent carryback year(s)

Lines 41 through 43 remove the excess capital loss and DPAD from the amount of the NOL available to be carried forward to the next year.

Part 3: Compute 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. If an NOL carryforward exists in subsequent

years, provide a detailed schedule that: (1) shows the calculation in the same manner as Part 3 and (2) tracks how the NOL is being exhausted.

Part 4: Adjust the NOL for Household Income

Line 53: Include NOL carryovers or carrybacks from earlier years.

Line 54a: Adjustments to AGI, such as taxable Social Security benefits and IRA deductions, must be recalculated based on modified federal AGI. Add back any DPAD.

Line 56: Enter itemized deductions claimed on U.S. Form 1040 Schedule A on lines 56 a through 56h. If the standard deduction was claimed enter that amount on line 56i.

56a: 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 52.

56c: Percentage limitations on charitable contributions are based on modified federal AGI.

56g: Miscellaneous deductions are limited to 2 percent of AGI. This amount cannot exceed 2 percent of modified federal AGI.

56h: If modified federal AGI exceeds certain amounts, itemized deductions may be limited. See limitations in effect for the year entered on line 52.

Line 58: This is your federal modified taxable income (FMTI). Your NOLD will be the amount on this line or the amount from line 59 (or line 64 for carryforwards), whichever is smaller. This amount cannot be less than zero.

Line 59: Enter your federal NOL in column A as a positive amount. Each succeeding year will be the unabsorbed portion, if any, from line 60 of the preceding column.

Line 60: Subtract line 58 from line 59. 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 59. This is the last year affected by the NOL.

Line 65: If line 58 is less than line 64, subtract line 58 from line 64 and enter here; then use line 58 as your NOLD to recalculate your farmland preservation tax credit. If line 58 is greater than line 64 enter "0" and use line 64 as your NOLD to recalculate your 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

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.

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**:

- *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 or (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**.

Form MI-1040 for tax **Year 00** reports the following:

- 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)

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 or (Loss) 20,500	2,500 Indiana	18,000 Business income attributable to Michigan
Capital Gain or (Loss) (3,000)		(3,000)
Pension 12,500		12,500
<i>Schedule E</i> , Part 1, Income or (Loss) 6,500	6,500 Arizona	0
<i>Schedule E</i> , Part 2, Income or (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 excess capital loss and DPAD are removed in the initial calculation of an NOL and 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 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 tax (before the exemption allowance) without regard to the subtraction allowed for the Michigan NOLD. If this amount is greater than the NOLD, the entire NOL is used and not available to carry to the next year. If this figure is less than the NOLD, the difference will be the NOL available to be carried to the next year after removing excess capital loss deduction and DPAD sourced to Michigan.

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. 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 \$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 NOLD 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