

MICHIGAN Net Operating Loss Schedule MI-1045

Attachment 29

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)		
			— —		

1. 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.**

PART 1: COMPUTE THE NET OPERATING LOSS (NOL)

2. **Adjusted Gross Income (AGI).** Enter the amount from MI-1040, line 10 of the loss year 2.

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Additions. Enter the corresponding amounts from Schedule 1.

3. Gains from Michigan column of MI-1040D and MI-4797 from Schedule 1, line 3.....	3.		00
4. Losses attributable to other states from Schedule 1, line 4.....	4.		00
5. Net loss from federal column of your Michigan MI-1040D or MI-4797 from Schedule 1, line 5.....	5.		00
6. Oil, gas, and nonferrous metallic mineral expenses (Michigan sourced) deducted to arrive at AGI from Schedule 1, line 6.....	6.		00
7. Federal net operating loss deduction included in AGI from Schedule 1, line 7.	7.		00

8. **Total.** Add lines 3 through 7 8.

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Subtractions. Enter the corresponding amounts from Schedule 1.

9. Gains from federal column of Michigan MI-1040D and MI-4797 from Schedule 1, line 12.....	9.		00
10. Income attributable to another state from Schedule 1, line 13.....	10.		00
11. Oil, gas, and nonferrous metallic minerals income (Michigan sourced) included in AGI from Schedule 1, line 19.....	11.		00
12. Miscellaneous subtractions from Schedule 1, line 21 (see instructions).....	12.		00

13. **Total.** Add lines 9 through 12. Enter as a negative number 13.

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14. Michigan NOL before required modifications. Combine lines 2, 8, and 13. If zero or greater, **STOP**; you do not have a Michigan NOL..... 14.

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Modifications. Complete Part 2 before continuing.

15. Excess nonbusiness deductions from line 29.....	15.		00
16. Excess capital loss (see instructions). Enter as a positive number.....	16.		00

17. **Total Modifications.** Add lines 15 and 16 17.

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18. **Michigan NOL.** Combine lines 14 and 17. If zero or greater, you do not have a Michigan NOL..... 18.

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PART 2: EXCESS NONBUSINESS DEDUCTIONS

Michigan-sourced Nonbusiness Deductions

19. Payments to a retirement plan as an individual or self-employed person	19.		00
20. Alimony deducted and/or penalty for early withdrawal of savings	20.		00
21. Other adjustments to income.....	21.		00
22. Subtotal. Add lines 19 through 21.....	22.		00

Michigan-sourced Nonbusiness Income

23. Interest income	23.		00
24. Dividend income	24.		00
25. Net nonbusiness capital gains (before any allowable exclusion)	25.		00
26. Pension, IRA and annuities	26.		00
27. Taxable alimony and other income.....	27.		00
28. Subtotal. Add lines 23 through 27.....	28.		00
29. Excess nonbusiness deductions. Subtract line 28 from line 22. If line 28 is greater than line 22, enter "0". Enter here and carry to line 15.....	29.		00

Instructions for *Michigan Net Operating Loss Schedule (Schedule MI-1045)*

Purpose

Michigan Net Operating Loss Schedule (Schedule MI-1045) is used to compute the Michigan net operating loss (NOL) and is now filed with the loss year return (including e-filed returns).

Michigan Net Operating Loss Carryforward deduction is claimed on Michigan Schedule 1. A completed Schedule MI-1045 for the loss year(s) is required before an NOL carryforward deduction can be claimed.

Michigan Net Operating Loss Carryback Refund Request (Form 5603-CARES Act) is used to request a refund from an NOL carryback. A completed Schedule MI-1045 for the loss year is required when claiming a refund for an NOL carryback on Form 5603-CARES Act.

New Terminology

Due to the federal 2017 Tax Cuts and Jobs Act (TCJA), limitations were imposed on NOL deductions for losses incurred in 2018 and future tax years. This created two groups of NOLs. For Michigan forms and instructions these are identified as Group 1 NOLs and Group 2 NOLs.

- **Group 1 NOLs** are those created in 2017 and prior.
- **Group 2 NOLs** are those created in 2018 and future tax years. These NOL deductions are limited to 80 percent of Michigan taxable income before exemptions and previously claimed NOL deductions.

Due to the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, the 80 percent limitation on Group 2 NOL deductions claimed in 2018, 2019 and 2020 was suspended and will resume in tax year 2021.

Federal CARES Act of 2020

The federal CARES Act replaced many of the provisions of the federal TCJA. The Schedule MI-1045 accommodates the changes set by the CARES Act.

The CARES Act amended the NOL provisions in the Internal Revenue Code (IRC) 172 for a carryback of any NOL arising in a taxable year beginning after December 31, 2017 and before January 1, 2021.

For tax years 2018, 2019 and 2020:

- NOL carrybacks are not limited to a farming loss
- NOLs can be carried back to the five preceding tax years
- NOL deductions are not limited to 80% of income subject to tax

The CARES Act allows NOLs created in 2018, 2019 and 2020 to be carried back five years and to be carried forward indefinitely until fully absorbed.

What is a Net Operating Loss?

An NOL occurs when business loss exceeds 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:

- Capital losses in excess of capital gains and any excluded capital gains. 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 *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 *Schedule D*.

Example: U.S. Form *1045, Schedule A*, line 22 computed a \$15,000 excess capital loss. The \$15,000 excess capital loss cannot be used to increase the NOL.

- NOL carryovers from other years
- Excess of nonbusiness deductions over nonbusiness income

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 nonbusiness and cannot be used to increase an NOL.

If the end result is negative, a federal NOL has been created for use in another tax year. For additional information on federal NOLs, see Internal Revenue Service (IRS) Publication 536.

The Michigan NOL

The Michigan NOL is computed independently of the federal NOL. The calculation of a Michigan NOL follows the same general format as the federal NOL calculation but begins with federal AGI rather than federal taxable income. Therefore, federal itemized or standard deductions that may be used to create or contribute to the federal NOL are not considered when calculating the Michigan NOL. The Michigan NOL is subject to the allocation and apportionment provisions of Chapter 3 of the Income Tax Act which excludes income and loss attributable to other states. Additionally, income from the production of oil and gas and nonferrous metallic mineral extraction subject to Michigan severance tax and expenses of production are excluded.

To determine whether an NOL was incurred from Michigan sources, regardless of whether or not there was a corresponding federal NOL, complete the Schedule MI-1045 for the year of the loss.

The Michigan NOL may be carried over in the same manner and to the same time periods as provided for

in IRC 172 in effect for the year the loss was incurred. An NOL must be claimed in consecutive years. If there is a change in filing status, Michigan follows federal regulations. Additionally, the amount of the combined Michigan NOL carryover must be reduced by any Michigan sourced excess capital loss and other modifications required under IRC 172 or elections under IRC 965 claimed in the previous carryover year.

For additional information regarding NOLs, see IRS Publication 536 and *Michigan Revenue Administrative Bulletin 2017-14*.

Nonresidents and Part-Year Residents

Nonresidents and part-year residents may also be entitled to a Michigan NOL deduction. Complete Schedule MI-1045 to determine if a Michigan NOL was incurred. Only Michigan-sourced income or loss may create a Michigan NOL. In a carryforward year, enter the total amount of the federal NOL deduction included in AGI on *Michigan Nonresident and Part-Year Resident Schedule* (Schedule NR), line 11, column C. The Michigan NOL deduction is claimed as a subtraction on the Michigan Schedule 1.

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

Amending the NOL

If you file an amended MI-1040 for a loss year which changes your NOL, you must include an amended MI-1045. Provide all required supporting documentation

to substantiate the change. To amend an NOL that was created in 2018 and prior, use *Application for Michigan Net Operating Loss Refund*. If you need to amend an NOL carryforward, see the applicable year's MI-1040 booklet on filing an amended MI-1040. Include all required documentation to substantiate the change. An NOL must be claimed in consecutive years. It is not necessary to amend Form MI-1040 to request a refund for the carryback year, see Form 5603-CARES Act to compute the NOL carryback.

Statute of Limitations for NOL Refund Claims

A claim for a refund based on an NOL must be filed within the four-year statute of limitations period (open tax year). If an NOL is sustained in a year that is outside the four-year statute of limitations period (closed tax year), a taxpayer may still claim the NOL deduction in open tax years. However, the election to forgo the carryback of an NOL is not allowed if the NOL was established outside the statute of limitations period. The taxpayer must calculate the amount of the Michigan NOL that would have been absorbed by Michigan taxable income (before exemptions) in the closed tax year(s) to determine the amount that can be carried forward to the first open tax year(s). Treasury may redetermine the correct taxable income (before exemptions) in a closed tax year to ascertain either the amount of an NOL or the amount of an NOL deduction absorbed in the closed tax year(s) to determine the correct NOL carryforward to the first open tax year.

Line-by-Line Instructions for Schedule MI-1045

Lines not listed are explained on the form.

Part 1: Compute the Net Operating Loss

To complete Part 1, use entries from your *Michigan Individual Income Tax Return* (MI-1040) and Michigan Schedule 1 for the year the loss occurred.

Line 12: Miscellaneous subtractions are limited to:

- Losses from the disposal of property reported in the Michigan column of MI-1040D, line 13, or MI-4797, line 18b
- Adjustments for out of state business activity not reported on another line of Schedule 1 or this form.

Line 15: Complete Part 2 and enter amount from line 29 on this line.

Line 16: 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.

Line 18: This is the Group 2 NOL available to claim as a carry forward to the next tax year or carry back on Form 5603-CARES Act, if eligible.

Part 2: Excess Nonbusiness Deductions

To complete Part 2, use the Michigan portion of entries from your U.S. Form *1040* for the year the loss occurred. Michigan follows the general NOL provisions of IRC 172 for determining nonbusiness deductions. See IRC Reg 1.172-3 for more information.

Lines 19 through 21: Enter the Michigan-sourced nonbusiness deductions from U.S. Form *1040*, line 10b and U.S. Form *1040 Schedule 1*, lines 10 through 21.

Lines 23 through 27: Enter the Michigan-sourced nonbusiness income included in line 14.

Required Supporting Documentation

To help reduce processing delays, review the following to ensure all supporting documents are included when establishing an NOL.

- U.S. Form *1040*
- U.S. Form *1040 Schedule(s) 1, A, B, C, D, E, F*
- U.S. Form *4797*
- U.S. Form *4835*
- U.S. Form *1045 Schedule A*
- Schedule K-1(s)*
- MI-1041 and final *Schedule K-1* from the U.S. Form *1041* when an NOL is created from the termination of a trust
- For all business activity, provide a statement indicating the type and location (city and state) of each source of income or loss. For assistance, refer to the “Business, Rental & Royalty Activity Worksheet” available on Treasury’s Web site.
- Any other applicable documentation to support the NOL.