A BUSINESS LOSS CAN MEAN A FEDERAL TAX DEDUCTION

When your business makes money, you pay income tax on the profit. What happens when your business deductions are greater than the income in a particular year? In that case, the result is what's called a net operating loss, or NOL, and you may be able to benefit from federal tax rules that allow you to deduct the loss in another year.

How do NOL rules work? In general, an NOL can be carried back two years or carried forward twenty years and used to offset business profit in those years. If you choose to carry the NOL back, you can file an amended return or a request for tentative refund to apply the loss to the income in the prior years and receive money back. Any loss not absorbed in the earlier years is carried forward to the future.

You can also elect to skip the carryback period and apply the loss to future years only. Why would you choose to carry your NOL forward? One reason might be because you are expecting higher income or a higher tax rate in the near future. In that situation, carrying your NOL forward may offer more benefit.

One more consideration: the impact of other taxes on your NOL. For alternative minimum tax (AMT) purposes, an NOL carryover is limited to 90% of your AMT taxable income. Pay attention to state taxes also. For example, your state may allow only a carryforward, and for a shorter period than federal rules. Finally, keep in mind that your corporation may be able to request a quick refund of overpaid current-year estimated taxes.

Do you have questions about net operating loss rules? Contact us for answers. We're here to help you get the most tax benefit from an operating loss.

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