TAXLOGIC

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We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – http://www.taxlogic.com. If you're ready to file your return, returning users just sign-on and last years information will be carried over. New Users, registration only takes a few minutes!

Corporation returns are due next week, March 15, 2002. If you are not filing on time make sure you file an extension, Form 7004, which gives you a six-month extension. However, if you have a C Corporation and will owe taxes, the taxes due will have to be mailed with the 7004. You must file an extension for your State return also, and mail it with a copy of the Form 7004.

Net Operating Loss (NOL)

Nearly every taxpayer is allowed to carry back a net operating loss (NOL) from trade or business, to apply as a deduction against prior income and to deduct from succeeding years income any unabsorbed loss. Taxpayers entitled to the carryback and carryover privilege are (1) corporations; (2) individuals; (3) estates and trusts; (4) common trust fund participants; and (5) partners, who may deduct allocable partnership loss. Among those entities excepted from this privilege are regulated investment companies and life insurance companies.

The NOL carry-back or carryover is generally that part of the NOL that has not previously been applied against income for other carryback or carryover years. In computing the income of an intervening year that must be subtracted from an NOL is determine the portion still available to carry to a subsequent year, the following adjustments must be made:

1. The NOL deduction for the intervening year is computed by taking into account only carrybacks and carryovers from tax years preceding the loss year.

2. For taxpayers other than corporations, capital losses are deductible only to the extent of capital gains.

3. Personal and dependency exemptions are not allowed.

Generally, net operating losses can be carried back to the two years preceding the loss year and then forward to the 20 years following the loss year. The three-year carryback is retained for certain casualty, theft, and disaster losses. Special rules apply to real estate investment trusts, specified losses, excess interest losses and corporate capital losses.

Generally, an NOL must be carried back unless a timely election is made to carry it forward by forgoing the carryback. If the return was filed timely without the election, the IRS will allow the election to be made on an amended return filed within 6 months. On the election use the phrase “filed pursuant to PP301.910-2”.

Net operating loss must be recomputed so that tax preferences (including tax preference items –TPI’s and items that are subject to adjustment for alternative minimum tax income – AMTI) that make up an

NOL are not a factor in reducing AMTI. A recomputed NOL, termed an alternative tax NOL, may not offset more than 90 percent of AMTI (computed without the alternative tax NOL deduction.) An alternative tax NOL is computed in the same manner as an ordinary NOL, except that TPI's and tax items that must be adjusted for AMTI calculations reduce it. It does not have to be reduced by the TPI's listed in Code Sec. 57 if those items did not increase the amount of the regular tax NOL deduction.

Example. A taxpayer's income for the tax year is $75,000, while her losses total $100,000, of which $20,000 is from TPI's. The taxpayer's NOL for regular taxation is $25,000. In computing AMTI, TPI's cannot be used. Consequently only $80,000 of the losses may offset income, leaving the taxpayer with an alternative tax NOL of $5,000.

If you need more information on the net operation losses and its affect on the alternative minimum tax, visit our site at http://www.taxlogic.com.