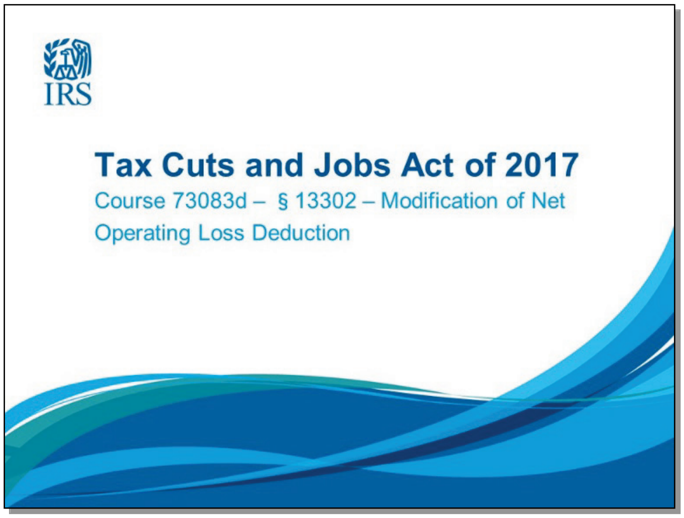
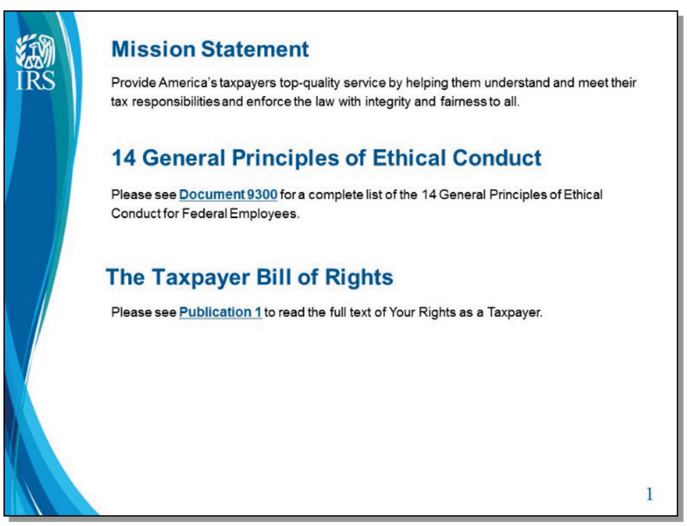
Tax Cuts and Jobs Act (TCJA)

Modification of Net Operating Loss Deduction

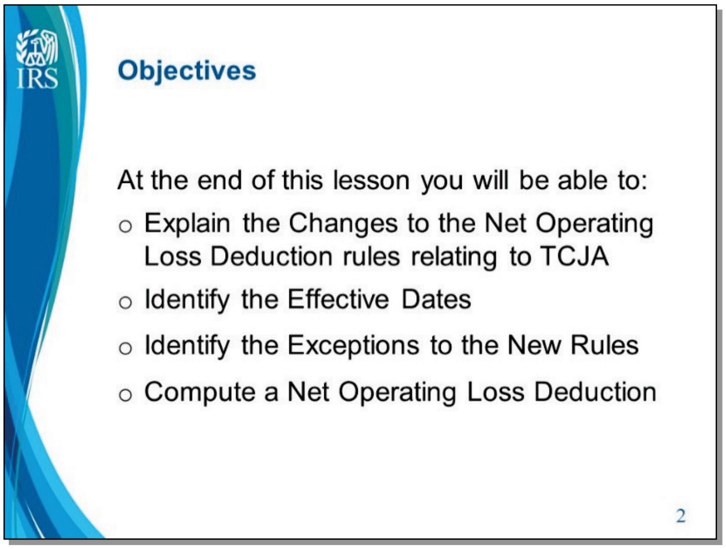
Slide 1 – Tax Cuts and Jobs Act of 2017



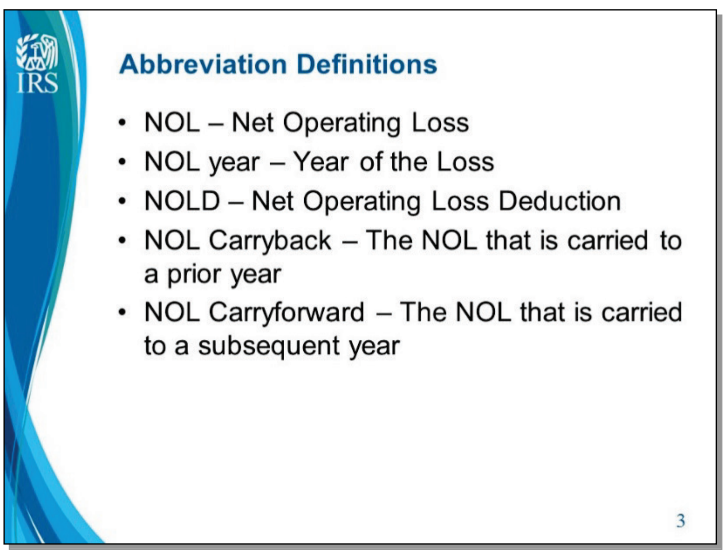
Slide 1 – Mission Statement, 14 General Principles of Ethical Conduct, The Taxpayer Bill of Rights



Slide 2 – Objectives



Slide 3 – Abbreviation Definitions



Slide 4 – Comparison of Old and New Law

Comparison of Old and New Law

Pre-TCJA (December 31, 2017)	TCJA
NOL is the amount by which a taxpayer's business deductions exceed its gross income [IRC § 172(c)]	No change
An NOL could be carried back two years and carried over 20 years to offset taxable income in those years [Former IRC § 172(b)(1)].	No carryback allowed for most taxpayers, most taxpayers must carry forward indefinitely.
NOLs offset taxable income in the order of the taxable years to which the NOL may be carried [IRC § 172(b)(2)].	No change

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Slide 5 – Comparison of Old and New Law Continued

Comparison of Old and New Law Continued

Pre-TCJA – December 31, 2017	TCJA
Different carryback periods applied with respect to NOLs arising in different circumstances. [Former IRC § 172(b)(1)(C)(E)].	Two exceptions – farming losses and nonlife insurance companies
Taxable income limitation - none	80% taxable income limitation

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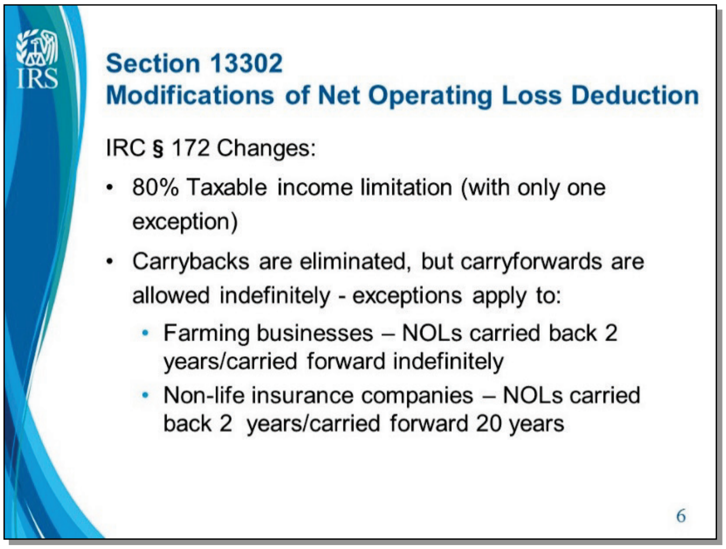
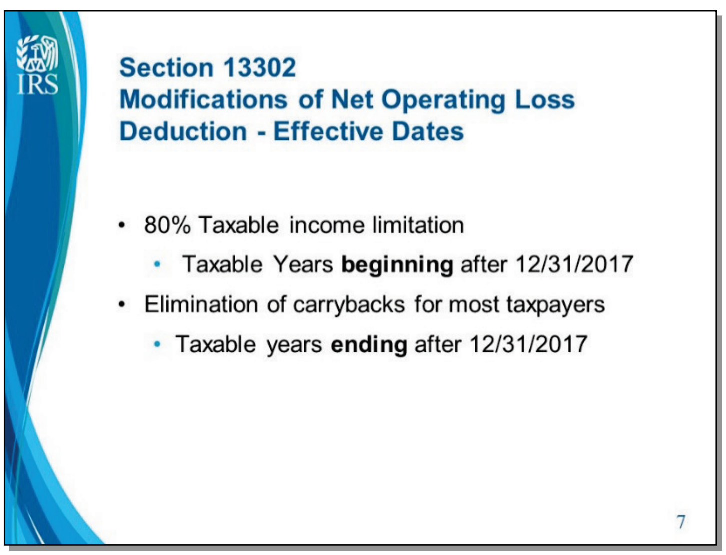
Slide 6 – Section 13302 Modification of Net Operating Loss Deduction



Slide 7 – Section 13302 Modifications of Net Operating Loss Deduction – Effective Dates



Slide 8 –Steps to determine NOLD

Steps to determine NOLD

Step 1: Determine if the Taxpayer has a Net Operating Loss and its amount.

Step 2: Determine whether the loss may be carried back or whether it must be carried forward.

Step 3: Deduct the NOL in the carryback or carryforward year.

Step 4: Determine the amount of the unused NOL. Carry the unused NOL to the next carryback or carryforward year. If there is an unused NOL, complete steps 3 & 4 again for the remainder.

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Slide 9 – Step 1 Determine if the taxpayer has an NOL Form 1045 Sch A for Individuals

Step 1 Determine if the taxpayer has an NOL Form 1045 Sch A for Individuals

Form 1045 (2018) Page 3

Schedule A—NOL (see instructions)

1	For individuals, subtract your standard deduction or itemized deductions from your adjusted gross income and enter it here. For estates and trusts, enter taxable income increased by the total of the charitable deduction, income distribution deduction, and exemption amount (see instructions)		1
2	Nonbusiness capital losses before limitation. Enter as a positive number	2	
3	Nonbusiness capital gains (without regard to any section 1202 exclusion)	3	
4	If line 2 is more than line 3, enter the difference. Otherwise, enter -0-	4	
5	If line 3 is more than line 2, enter the difference. Otherwise, enter -0-	5	
6	Nonbusiness deductions (see instructions)	6	
7	Nonbusiness income other than capital gains (see instructions)	7	
8	Add lines 5 and 7	8	
9	If line 6 is more than line 8, enter the difference. Otherwise, enter -0-		9
10	If line 8 is more than line 6, enter the difference. Otherwise, enter -0-. **But don't enter more than line 5**	10	
11	Business capital losses before limitation. Enter as a positive number	11	

http://core.publish.no.irs.gov/forms/public/pdf/f1045--2018-00-00.pdf

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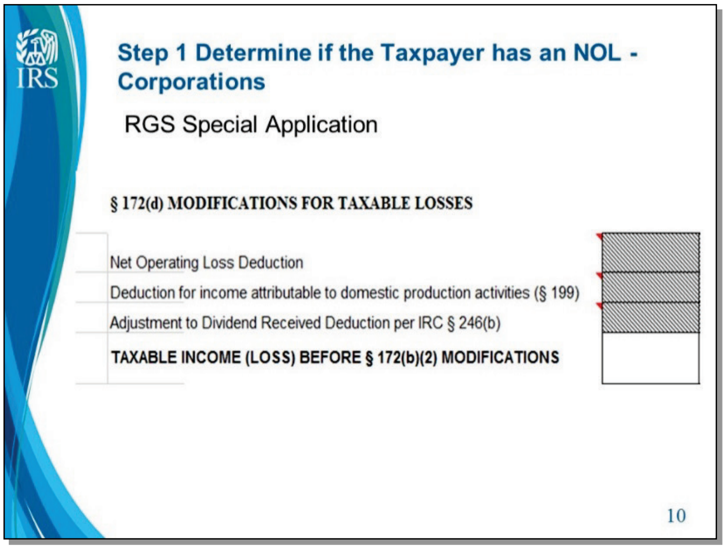
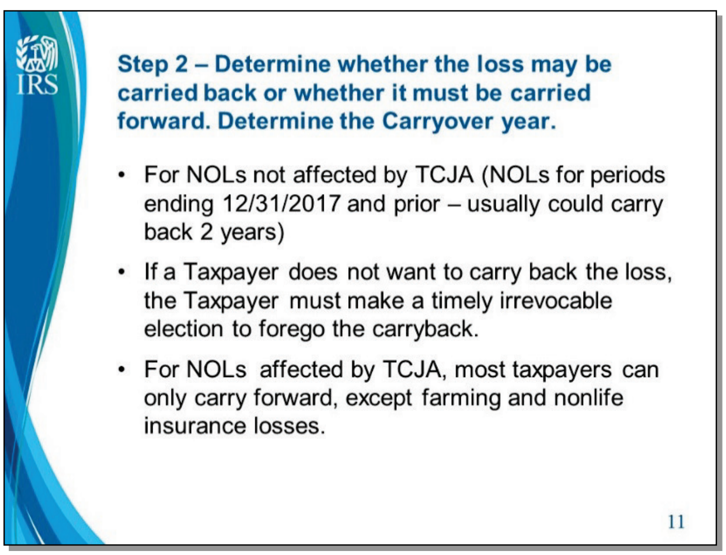
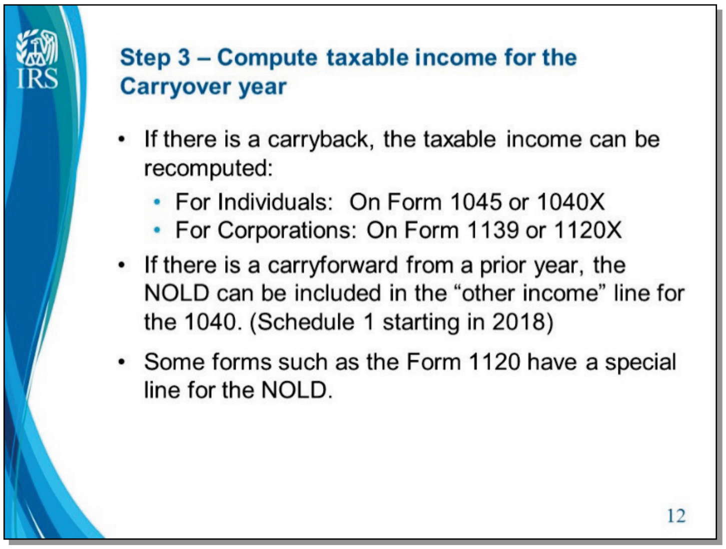
Slide 10 – Step 1 Determine if the Taxpayer has an NOL Corporations



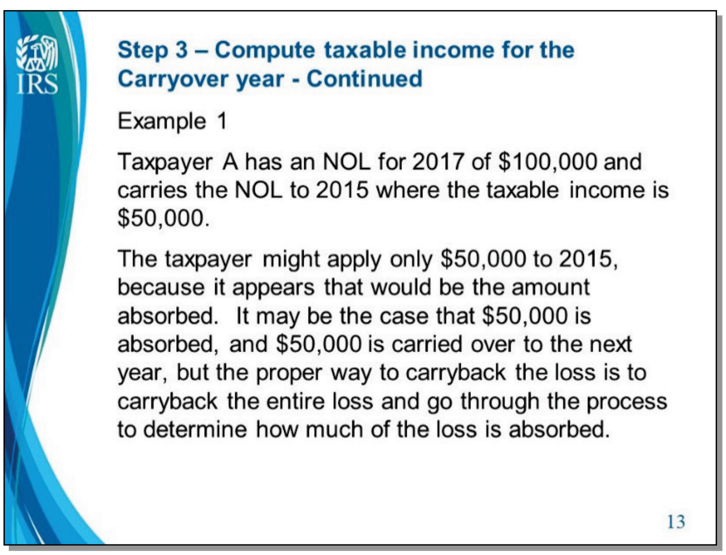
Slide 11 – Step 2 Determine whether the loss may be carried back or whether it must be carried forward. Determine the Carryover year.



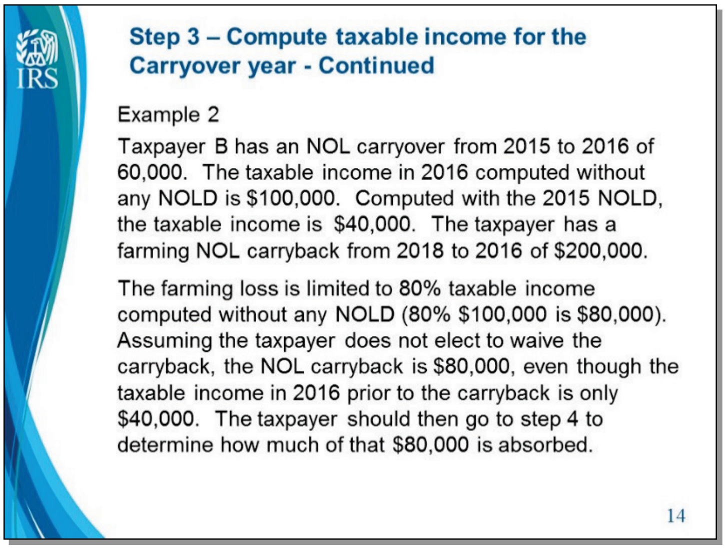
Slide 12 – Step 3 Compute taxable income for the Carryover year



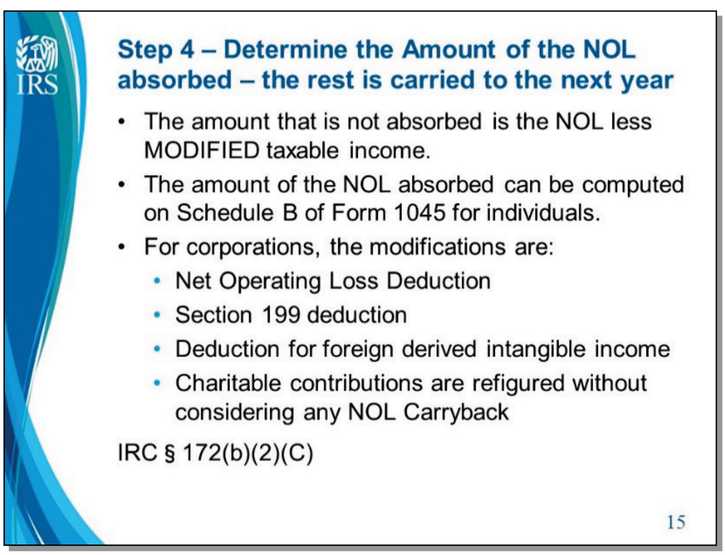
Slide 13– Step 3 Compute taxable income for the Carryover year - Continued



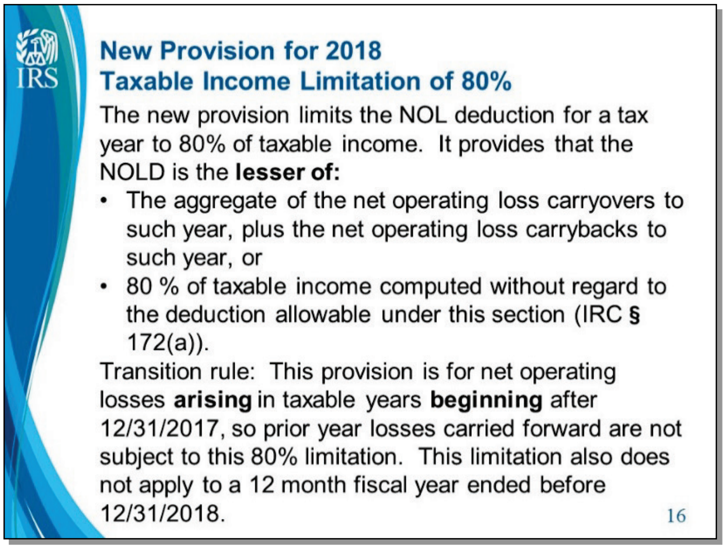
Slide 14 – Step 3 Compute taxable income for the Carryover year - Continued



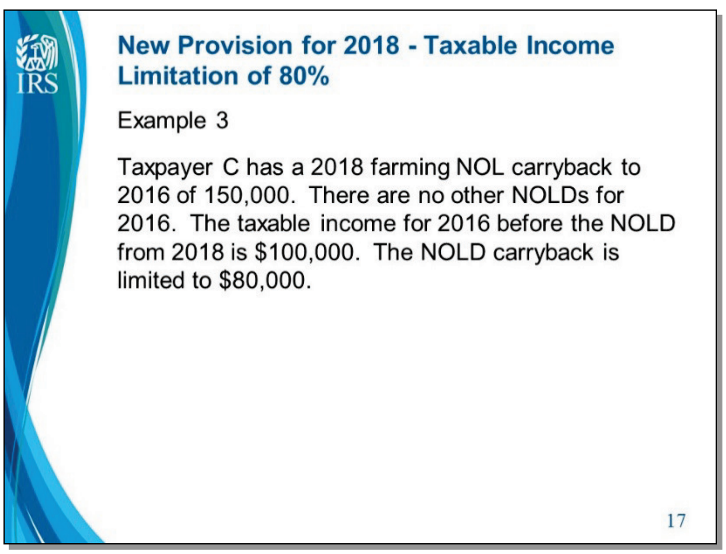
Slide 15 – Step 4 Determine the Amount of the NOL absorbed – the rest is carried to the next year



Slide 16 – New Provision for 2018 Taxable Income Limitation of 80%



Slide 17 – New Provision for 2018 - Taxable Income Limitation of 80%



Slide 18 – New Provision for 2018 2018 - Taxable Income Limitation of 80%

IRS

New Provision for 2018 - Taxable Income Limitation of 80%

Example 4

Assume the same facts as Example 3, except that Taxpayer C's taxable income included an NOLD from 2015 of $20,000. The 80% limitation has to be computed without the 2015 NOLD. So, the 2016 taxable income for the purposes of this computation is $120,000, if there are no other items on the return that are affected by the increase in AGI or taxable income. If there are amounts such as medical or contributions, the computation can be more involved.

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Slide 19 – New Provision for 2018 2018 - Taxable Income Limitation of 80%

IRS

New Provision for 2018 -80% Taxable Income Limitation

Under TCJA, most taxpayers can only carry the NOL forward.

Example 5

Taxpayer D has a $90,000 NOL in 2018 which must be carried forward to 2019. The taxpayer completes his 2019 tax return without the NOLD and arrives at a taxable income of $100,000. So, the NOLD for 2019 is limited to 80% or $80,000. Now the taxpayer includes the $80,000 in the "other income" line of Schedule 1. This will result in a reduction in AGI, which can affect other amounts (such as medical, charitable contributions, and amounts that are limited by modified AGI such as IRA, credits, and the special $25,000 allowance on a rental).

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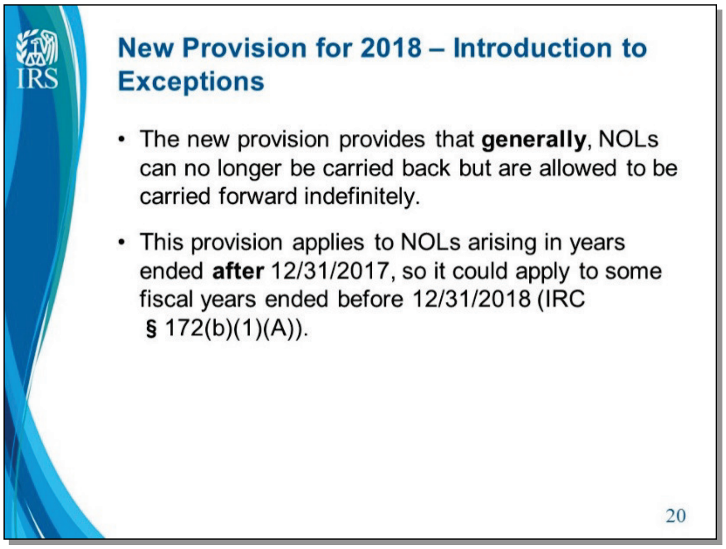
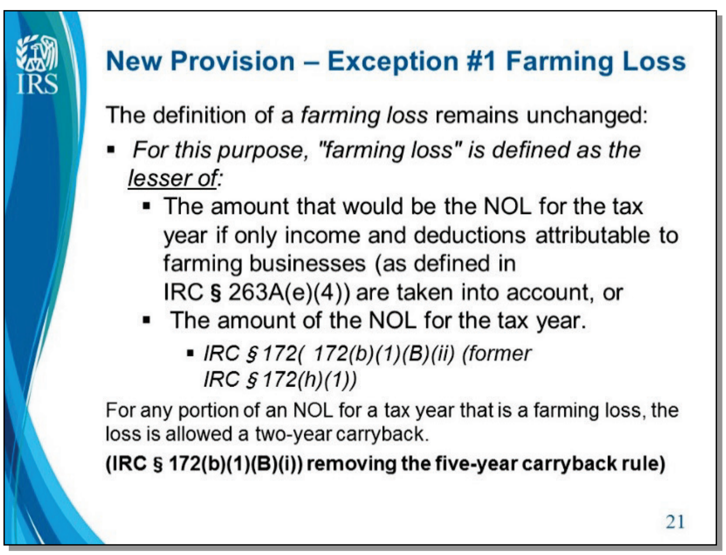
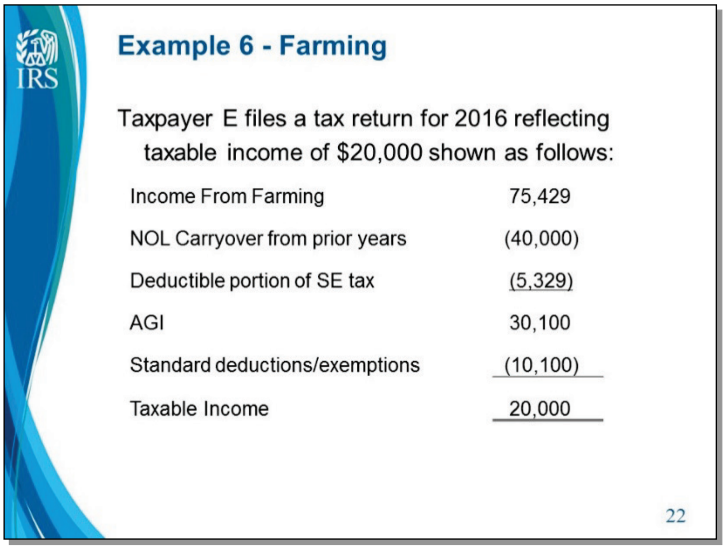
Slide 20 – New Provision for 2018 – Introduction to Exceptions



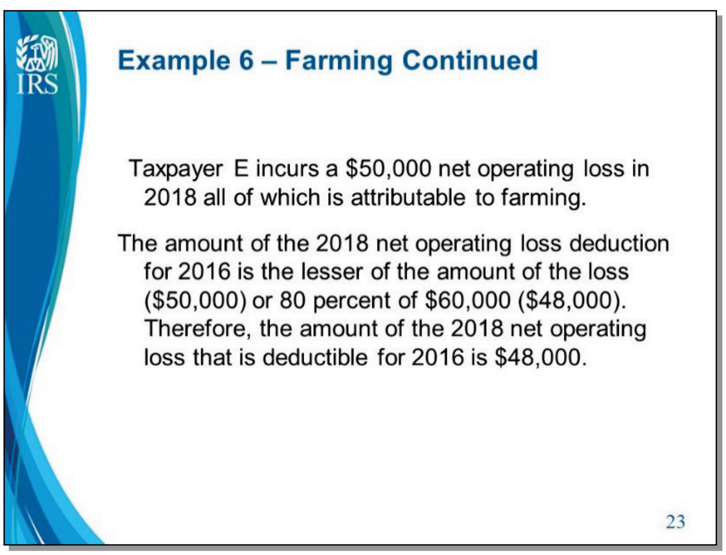
Slide 21 – New Provision Exception #1 Farming Loss



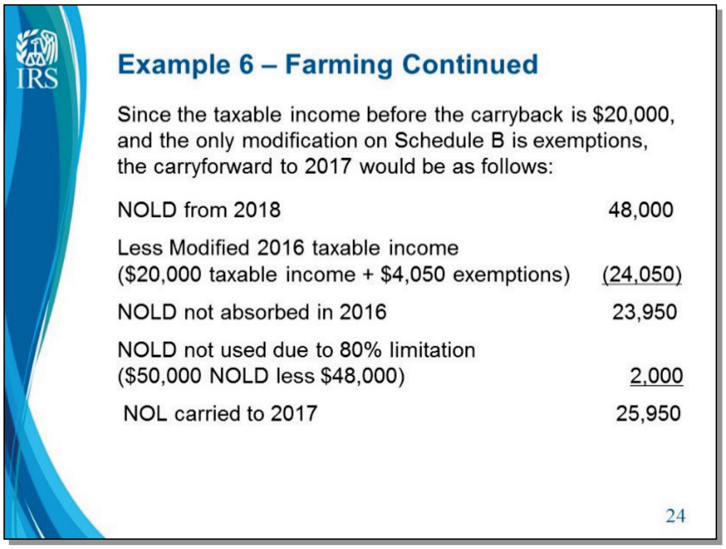
Slide 22 – Example 6 – Farming



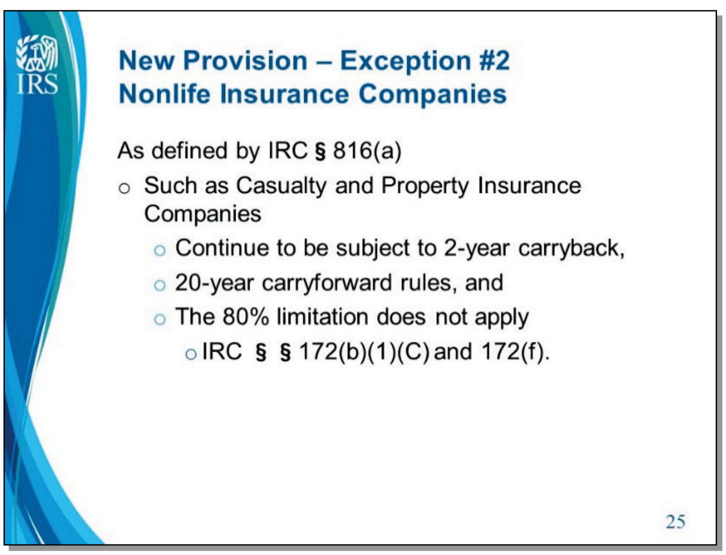
Slide 23 – Example 6 – Farming Continued



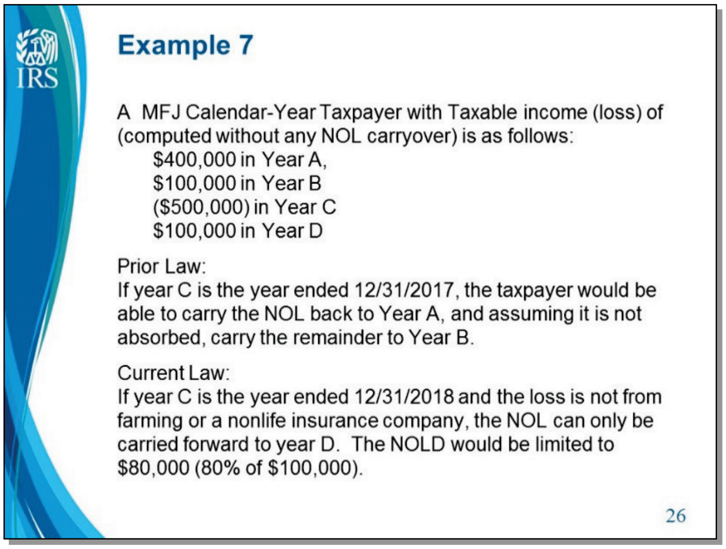
Slide 24 – Example 6 – Farming Continued



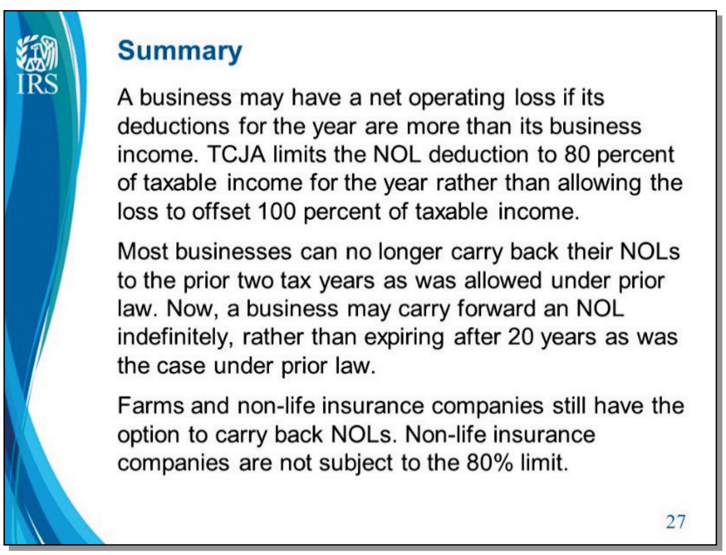
Slide 25 – New Provision – Exception #2 Nonlife Insurance Companies



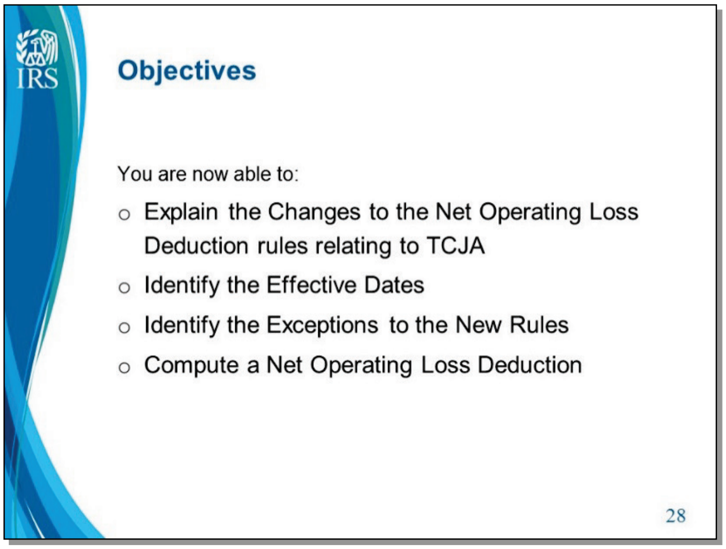
Slide 26 – Example 7



Slide 27 – Summary



Slide 28 – Objectives



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