



Table with 2 columns: Name, Social Security Number. Rows for individual and spouse.

SECTION A: Calculation of the IA NOL

- 1. Net Income for loss year
2. Additions to Net Income
3. Total Additions
4. Subtotal
5. Deductions from Net Income
6. Total subtractions from Net Income
7. COMPUTED NOL

SECTION B: Application of the IA NOL when the IA NOL is not completely absorbed in the tax year

- Application to Carryback or Carryover Year (NOL is greater than taxable income)
8. Iowa Taxable Income for carryback or carryover year
9. Additions to Iowa Taxable Income
10. Add lines 9a and 9b
11. Increase in Iowa standard deduction
12. Subtract line 11 from line 10
13. Adjusted Taxable Income
14. NOL carry forward

SECTION C: Application of the IA NOL when the IA NOL is completely absorbed in the tax year

- Application to Carryback or Carryover Year (NOL is less than taxable income)
15. Net Income for carryback or carryover year
16. NOL deduction less any prior applications
17. Adjusted Iowa Net Income
18. Enter all federal tax refund(s) and self-employment tax
19. Total
20. Deductions
21. Total Subtractions
22. TAXABLE INCOME

**NONRESIDENTS AND PART-YEAR RESIDENTS:**

In order for nonresidents and part-year residents to carry back or carry over a net operating loss, that loss must be from Iowa sources. There is no authority in Iowa law for the carryback or carryover of an all-source net operating loss.

Nonresident or part-year resident taxpayers should begin calculation of an Iowa net operating loss with their Iowa-source net income from Schedule IA 126. Additions on lines 2a, 2b, and 2c should be made only if these items are allocable to Iowa.

Federal tax refunds (line 2d) need be added only in ratio with the taxpayer's Iowa income percentage in the tax year generating the refund. Self-employment tax (line 2e) is added only to the extent it is deducted on line 5a.

Federal tax payments (line 5a) may be deducted only if the tax payment was directly attributable to Iowa-source income. This includes federal taxes withheld from Iowa-source income, or the amount of additional federal tax paid for a prior year in the current tax year prorated by the Iowa income percentage for the prior year for which the tax was paid.

Entries should be made on lines 5b and 5c only as these items relate directly to income allocated to Iowa on the IA 126.

The Iowa-source net operating loss should be applied to the Iowa-source income on Schedule IA 126 for the carryback/carryover year. This will decrease the Iowa-source net income for that tax year, creating a lower Iowa income percentage, an increase in the nonresident/part-year resident tax credit, and may result in an overpayment for the carryback/carryover tax year.

**GENERAL INSTRUCTIONS**

**Application of Net Operating Loss for Iowa Purposes:**

For tax years beginning after August 5, 1997, the net operating loss attributable to Iowa is subject to the federal two-year carryback and up to a 20-year carryover provision. This provision does not apply to casualty losses and losses of farmers and small businesses attributable to losses incurred in presidentially-declared disaster areas (back 3, forward 20). Effective for tax years beginning on or after January 1, 1998, Iowa net operating losses from farming may be carried back five years and forward 20 years. However, taxpayers with net operating losses from farming for tax years beginning in 1998 or after can elect to forego the 5-year carryback provision and can carry back the loss two years (three years for a loss in a national disaster area or due to a casualty, storm or theft.) This federal election can be made on the federal original return or on an amended federal return within the 6-month period after the due date.

**Election:**

If there is both a federal net operating loss and an Iowa net operating loss and a timely election is made to forego the carryback period for federal purposes, that election is binding for Iowa purposes.

If a net operating loss occurs for Iowa purposes but not for federal purposes, the loss must first be carried back and then carried forward for the carryback and carryforward periods applicable to that tax year. No election to forego the carryback period is allowable.

**Classification of income:**

For purposes of identifying business and nonbusiness deductions, refer to the federal guidelines since they are applicable for Iowa net operating loss purposes.

In order to allow nonbusiness deductions, a schedule showing all such nonbusiness deductions must be provided.

**Nonbusiness Adjustment to Income:**

Nonbusiness adjustments to income which are most common, but not limited to IRA, HR-10, early withdrawal penalty, alimony paid, disability income exclusion, and pension exclusion. Note: The health insurance deduction will typically be classified as a business deduction.

**Capital Gain and Loss Regarding Net Operating Loss Computation:**

An individual or other noncorporate taxpayer can deduct nonbusiness capital loss only to the extent of nonbusiness capital gain. Beginning with tax year 1994, any Iowa capital gain deduction must be added back in the computation of the Iowa NOL. Further, when applying an NOL from tax year 1994 or later, the capital gain deduction is not allowed in the carryback or carryover tax year and must be added back to income to the extent of the NOL.

**LINE-BY-LINE INSTRUCTIONS**

**LINE 5c.** Nonbusiness itemized deductions and nonbusiness adjustments are allowed only to the extent of nonbusiness Iowa income. An itemized deduction schedule (Schedule A) for the loss year must be included with the IA 1040X amended return when making an itemized deduction entry on this line.

**LINE 9a.** Your deduction for the excess of capital loss over capital gain is not allowed, and you are not permitted the capital gain deduction for the tax years that the exclusion/deduction applies.

If the loss year in Section A of this worksheet is 1994 or later, then any capital gain deduction must be added back to taxable income.

**LINE 9b.** If you have filed a federal net operating loss carryback/carryover for this same year, and due to capital loss or capital gain exclusions in the application year you were required to decrease your medical expense deduction, casualty and theft losses, and miscellaneous deductions, enter the total amount of those decreases on line 9b.

**LINE 11.** If you claimed the Iowa standard deduction in the carryback/carryover year and you made an entry on line 9a, you may recalculate your Iowa standard deduction and enter the appropriate increase, if any, on line 11.

**LINE 13-14.** If a net operating loss is greater than the adjusted taxable income in a carryback or carryover year, an IA 1040X amended return for the carryback year (IA 1040 for carryover year) must be included showing no taxable income. The remaining net operating loss on line 14 is to be carried forward to the next tax year.

**LINE 20b.** Enter the itemized deductions allowed on your original Iowa income tax return or the revised Iowa standard deduction due to line 16. The Iowa standard deduction must be refigured after application of the NOL carryback/carryover in any year in which the NOL is carried and fully absorbed.

**LINE 20c.** If you also filed a federal net operating loss carryback claim for this tax year and were allowed to increase your itemized deductions for medical expenses, casualty and theft losses, and miscellaneous deductions due to the NOL application, enter the increase in those deductions on line 20c.

**LINE 22.** Enter this amount directly on the "Taxable Income" line of your IA 1040X and attach this worksheet to the IA 1040X return. No entry is necessary on the IA 1040X return above the "Taxable Income" line in the corrected computation column, but you must continue your amended tax calculation after that line.

For additional information, see the Iowa Administrative Code, section 40.18.  
(While not comprehensive, it may be helpful.)