

ALABAMA DEPARTMENT OF REVENUE
Computation of Net Operating Loss
Fiduciary Return (Form 41)

Loss year ending _____, _____

Name of Estate or Trust as shown on Form 41	Federal I.D. Number
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PART I – Excess Of Nonbusiness Deductions Over Nonbusiness Income

NONBUSINESS DEDUCTIONS (Parts I and III, Form 41)					
1 Interest paid	1				
2 Taxes paid	2				
3a Loss on sale of nonbusiness assets (Enter as positive amount)	3a				
3b Other nonbusiness deductions (list) _____	3b				
4 TOTAL NONBUSINESS DEDUCTIONS. Add Lines 1, 2, 3a, and 3b	4				
NONBUSINESS INCOME REPORTED IN PART I, FORM 41					
5 Dividends	5				
6 Interest	6				
7 Federal income tax refunds	7				
8 Trust and/or Estate income	8				
9 Gain on sale of nonbusiness assets	9				
10 Other nonbusiness income reported in Part I, Form 41 (list) _____	10				
11 TOTAL NONBUSINESS INCOME. Add lines 5 through 10	11				
12 EXCESS NONBUSINESS DEDUCTIONS OVER NONBUSINESS INCOME. If line 4 exceeds line 11, subtract line 11 from line 4 and enter here and on line 15 below. If line 11 exceeds line 4, enter -0- here and on line 15 below	12				

PART II – Computation Of Net Operating Loss

13 Enter the Net Income To Fiduciary as shown on line 3, Form 41	13				
Less Modifications – (Enter all amounts on lines 14 and 15 as positive amounts)					
14 Net Operating Loss claimed in the loss year return (if any)	14				
15 Enter the Excess Nonbusiness Deductions Over Nonbusiness Income from line 12, Part I above	15				
16 TOTAL MODIFICATIONS. Add lines 14 and 15	16				
17 NET OPERATING LOSS ALLOWABLE. Combine the amounts on lines 13 and 16. If the result is a negative figure, enter here. If zero or a positive figure – STOP– DO NOT FILE THIS FORM. You do not have an allowable net operating loss	17				

PART III – Election To Forfeit Carryback Provision (Caution – Do Not Complete Part III If You Are Carrying Loss Back)

If the amount on line 17, Part II above is a negative figure, you may elect to carry this loss forward or it must be carried back 3 years (2 years after December 31, 1997) and any unused portion may then be carried forward to succeeding years (see instructions). See Part III instructions for election to forfeit carryback provision.

I hereby elect to forfeit the carryback provision and instead elect to carryforward any allowable net operating loss for this taxable year.

Your Signature	Date	Spouse's Signature (if joint return, BOTH must sign)
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Instructions For Completing Form NOL-F85

General Instructions

The Alabama Legislature passed Act 98-502 which amended the net operating loss deduction for tax years beginning after December 31, 1997. Rule 810-3-15-.27 was promulgated to administer the new NOL law set forth in Section 40-18-15.2.

A net operating loss is an amount that business deductions (after modifications) exceed business income. The most common reason for an NOL is a loss in operating a business or from the sale of business assets. However, casualty and theft losses can also create an NOL. Alabama law limits the kinds of deductions and the amounts that can be used to figure an NOL.

The Alabama NOL provision is similar to the Federal NOL in many ways. Federal guidelines will be followed, whenever possible, in administering the Alabama NOL.

Form NOL-F85 should be completed to determine if you have an NOL, and if so, the amount that can be carried back or carried forward. If you follow the specific instructions below, you should be able to complete Form NOL-F85 quickly and accurately.

Before Part I or Part II can be completed you must first complete lines 1 through 5 of Form 41 to arrive at the net income. If any amount in the loss year return results in a negative figure, it should be shown as a negative figure on the return instead of zero.

EXAMPLE:

Total income	(\$ 2,000.00)
Less: Total Deductions	9,500.00
Net income	(\$11,500.00)

Heading. Enter the name and federal employers identification number (FEIN) as shown on the loss year return.

In the upper right corner, enter the date that the loss year ends. A calendar year taxpayer should enter 12-31-____ and a fiscal year taxpayer should enter the date the fiscal tax year ends.

Part I

Excess Nonbusiness Deductions Over Nonbusiness Income

Line 1. Enter the interest paid and claimed as a deduction on the loss year return.

Line 2. Enter the total taxes paid and claimed as a deduction on line 2, Part III of the loss year return.

Line 3a. Enter the total of all losses resulting from the sale of property and other assets not used in a trade or business.

Line 3b. Enter the total of all nonbusiness related expenses claimed as a deduction on lines 3 and/or 4 of Part III. For the purpose of determining an NOL the following are considered business related expenses and should not be included on line 3B:

- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Safety deposit box.
- Clerical help.
- Office rent and expenses for office in home.
- Casualty losses by fire, storm, etc.

Note: Tax preparation fees do not qualify as a business expense for the purpose of determining an NOL. (If business related, accounting fees should be claimed in Schedule C.)

Lines 5-10. The income items shown on lines 5-9 are considered nonbusiness income for the purpose of determining an NOL. If you reported income from any of these sources in Part I of Form 41, the taxable amount reported should be entered on the appropriate line. Other nonbusiness income such as prizes,

awards, director's fees, and lump-sum distributions reported in the loss year return should be entered on line 10.

Part II

Computation of Net Operating Loss

Line 13. Enter the taxable income shown on line 3 of Form 41.

Line 14. Any net operating loss carryover or carryback from another year cannot be used in figuring an NOL deduction for another year. If you claimed an NOL deduction for another year in the loss year return, the amount claimed should be entered on this line. This amount should be entered as a positive figure even though it is shown as a negative figure in the loss year return.

Line 15. The amount shown on line 12, Part I should be entered on this line.

Line 17. Combine the amounts on lines 13 and 16. If the result is a positive figure, you **DO NOT** have a net operating loss and should not file Form NOL-F85.

EXAMPLE 1

Net income from Form 41	(\$5,000.00)
Total modifications	7,000.00
NET OPERATING LOSS00

In Example 1 above, there is no net operating loss since the total modifications (\$7,000.00) are more than the taxable income (-\$5,000.00).

EXAMPLE 2

Net income from Form 41	(\$15,000.00)
Total modifications	7,000.00
NET OPERATING LOSS	(\$ 8,000.00)

In Example 2 above, there is a net operating loss of \$8,000.00. In order to carry the loss back or forward you must also complete **Form NOL-F85A** making the modifications as required. See the instructions for Form NOL-F85A for further information for carrying the loss back or forward.

Part III

Election to Forfeit

Net Operating Loss Carryback Provision

You may elect to forego the carryback of a net operating deduction and instead carry the loss forward to the first available year following the loss year. This election, once made, is irrevocable.

For loss years beginning before January 1, 1998, such an election must be made on or before the due date (with extensions) for filing the income tax return for the tax year. The election, once made, is irrevocable.

For loss years beginning after December 31, 1997, the election to forego the carryback period can be made in one of two ways. The election can be made on or before the due date (with extensions) for filing the income tax return for the loss year. If no election is made by the due date of the loss year return, then the filing of the next year's return by the due date, including extensions and claiming the loss on the return shall be considered the taxpayer's election to forego the carryback period. The election, once made, is irrevocable.

If you elect to carry the loss back, **DO NOT SIGN** the statement in Part III, but do attach Form NOL-F85 to the loss year return. If you find that you have a net operating loss deduction after you file your return, then the loss must be carried back. In this case, Form NOL-F85 should be attached to **Form 40X**, Amended Alabama Return for the earliest year available.