



Tax Reduction Letter

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Reg. Section 1.172-6

Illustration of net operating loss carrybacks and carryovers.

The application of § 1.172-4 may be illustrated by the following example:

(a) Facts. The books of the taxpayer, whose return is made on the basis of the calendar year, reveal the following facts:

Taxable year	Taxable income	Net operating loss
1954	\$15,000	
1955	30,000	
1956		(\$75,000)
1957	20,000	
1958		(150,000)
1959	30,000	
1960	35,000	
1961	75,000	
1962	17,000	
1963	53,000	

The taxable income thus shown is computed without any net operating loss deduction. The assumption is also made that none of the other modifications prescribed in § 1.172-5 apply. There are no net operating losses for 1950, 1951, 1952, 1953, 1964, 1965, or 1966.

(b) Loss sustained in 1956. The portions of the \$ 75,000 net operating loss for 1956 which shall be used as carrybacks to 1954 and 1955 and as carryovers to 1957, 1958, 1959, 1960, and 1961 are computed as follows:

(1) Carryback to 1954. The carryback to this year is \$ 75,000, that is, the amount of the net operating loss.

(2) Carryback to 1955. The carryback to this year is \$ 60,000, computed as follows:

Net operating loss	\$75,000
Less:	

Taxable income for 1954 (computed without the deduction of The carryback from 1956)	15,000
Carryback	60,000

(3) Carryover to 1957. The carryover to this year is \$ 30,000, computed as follows:

*2*Net operating loss	\$75,000
Less:	
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000

	45,000

Carryover	30,000

(4) Carryover to 1958. The carryover to this year is \$ 10,000, computed as follows:

*2*Net operating loss	\$75,000
Less:	
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958)	20,000

	65,000

Carryover	10,000

(5) Carryover to 1959. The carryover to this year is \$ 10,000, computed as follows:

*2*Net operating loss	\$75,000
Less:	
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000

Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000	
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958)	20,000	
Taxable income for 1958 (a year in which a net operating loss was sustained).	0	
		65,000

Carryover		10,000

(6) Carryover to 1960. The carryover to this year is \$ 0, computed as follows:

*2*Net operating loss	\$75,000	
Less:		
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000	
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000	
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958)	20,000	
Taxable income for 1958 (a year in which a net operating loss was sustained).	0	
Taxable income for 1959 (computed without the deduction of the carryover from 1956 or the carryover from 1958)	30,000	

		95,000

Carryover		0

(7) Carryover to 1961. The carryover to this year is \$ 0, computed as follows:

*2*Net operating loss	\$75,000
Less:	
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	\$15,000
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958)	20,000

Taxable income for 1958 (a year in which a net operating loss was sustained).	0
Taxable income for 1959 (computed without the deduction of the carryover from 1956 or the carryover from 1958)	30,000
Taxable income for 1960 (computed without the deduction of the carryover from 1956 or the carryover from 1958)	35,000

	130,000

Carryover	0

(c) Loss sustained in 1958. The portions of the \$ 150,000 net operating loss for 1958 which shall be used as carrybacks to 1955, 1956, and 1957 and as carryovers to 1959, 1960, 1961, 1962, and 1963 are computed as follows:

(1) Carryback to 1955. The carryback to this year is \$ 150,000, that is, the amount of the net operating loss.

(2) Carryback to 1956. The carryback to this year is \$ 150,000, computed as follows:

Net operating loss	\$150,000
Less:	
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)	0
Carryback	150,000

(3) Carryback to 1957. The carryback to this year is \$ 150,000, computed as follows:

*2*Net operating loss	\$150,000
Less:	
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)	0
Taxable income for 1956 (a year in which a net operating loss was sustained).	0

	0

Carryback 150,000

(4) Carryover to 1959. The carryover to this year is \$ 150,000, computed as follows:

*2*Net operating loss	\$150,000	
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)	0	
Taxable income for 1956 (a year in which a net operating loss was sustained).	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0	
	-----	0
Carryover		----- 150,000

(5) Carryover to 1960. The carryover to this year is \$ 130,000, computed as follows:

*2*Net operating loss	\$150,000	
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)	0	
Taxable income for 1956 (a year in which a net operating loss was sustained).	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0	
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account)	\$20,000	

	-----	20,000

Carryover		130,000

(6) Carryover to 1961. The carryover to this year is \$ 95,000, computed as follows:

*2*Net operating loss	\$150,000	
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)		0
Taxable income for 1956 (a year in which a net operating loss was sustained).		0
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)		0
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account)		\$20,000
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account)		35,000
	-----	55,000

Carryover		95,000

(7) Carryover to 1962. The carryover to this year is \$ 20,000, computed as follows:

*2*Net operating loss	\$150,000
Less:	
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken	

into account)	0	
Taxable income for 1956 (a year in which a net operating loss was sustained).	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account)	0	
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account)	\$20,000	
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account)	35,000	
Taxable income for 1961 (the \$75,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1961 not being taken into account)	75,000	

		130,000

/ n Carryover		20,000

(8) Carryover to 1963. The carryover to this year is \$ 3,000, computed as follows:

*2*Net operating loss	\$150,000
Less:	
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account)	0
Taxable income for 1956 (a year in which a net operating loss was sustained).	0
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account).	0
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000	

from 1956, the carryover from 1958 to 1959 not being taken into account)	\$20,000
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account)	35,000
Taxable income for 1961 (the \$75,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1961 not being taken into account)	75,000
Taxable income for 1962 (computed without the deduction of the carryover from 1958)	17,000

	147,000

Carryover	3,000

(d) Determination of net operating loss deduction for each year. The carryovers and carrybacks computed under paragraphs (b) and (c) of this section are used as a basis for the computation of the net operating loss deduction in the following manner:

Taxable year	Carryover		Carryback		Net operating loss deduction
	From 1956	From 1958	From 1956	From 1958	
1954	\$0	\$0	\$75,000	\$0	\$75,000
1955	0	0	60,000	150,000	210,000
1957	30,000	0	0	150,000	180,000
1959	10,000	150,000	0	0	160,000
1960	0	130,000	0	0	130,000
1961	0	95,000	0	0	95,000
1962	0	20,000	0	0	20,000
1963	0	3,000	0	0	3,000