

# My small business had a net operating loss. Can I deduct that?

**Every Sunday, The Star asks local financial experts to respond to readers' questions on consumer and investor issues. If you have a question, please e-mail it to [dwright.adams@indystar.com](mailto:dwright.adams@indystar.com) or mail it to: Personal Finance, The Star, P.O. Box 145, Indianapolis, IN 46206-0145.**

Hardly anyone goes into business to lose money. However, changes in the law last year allow owners or partners of eligible small businesses, rental properties and farms to deduct net operating losses (or NOLs) for up to five years, when expenses and-or deductions exceed gross income. Such a refund could be a boon for cash-strapped businesses. Members of the Financial Planning Association of Greater Indiana may be able to advise you. Visit their Web site at [www.fpagrindiana.org](http://www.fpagrindiana.org).

## Paul Coan

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Net operating losses (also known as NOLs) arise when your allowed deductions exceed your gross income for that tax year.



An NOL can be generated from business activity losses as a sole proprietor or partner in a partnership, or from rental investments and farming.

The American Recovery and Reinvestment Act allows an individual from an eligible small business to elect to offset this loss against income earned for up to five prior years, rather than only two years.

It was a major upgrade to an already exceptional tax benefit.

The Worker, Homeownership & Business Assistance Act of 2009, extends to 2009 the NOL carry-back of provisions of the ARRA. The expanded NOL carryback provision of ARRA is now available to virtually any business that experiences NOLs in 2008 or 2009. The result: Businesses that were once excluded from claiming the tax relief may now be able to file for a refund of taxes paid in previous years.

Such substantial reductions in income can produce millions in refunds of taxes already paid in those previous years. Even modest refunds will be welcomed by cash-strapped businesses.

If a business anticipates a net operating loss for 2009, now is the time to talk to a tax professional about how to take advantage of

## Bill Wendling

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Individuals enter into a business for various reasons with profit potential often being a primary motive.



While no one likes to lose money in a business, the losses a business generates can be used to ease your tax burden.

Specifically, net operating losses from small businesses can be used to offset income earned from other sources and may even be used to offset profits from the same business in prior or future years.

As always, it is important that you or your tax preparer stay up to date on the deductibility of tax losses because the laws can be complicated and often change quickly.

For example, the economic-stimulus package passed in February 2009 allowed small businesses filing their 2008 tax return to carry back net operating losses for up to five years (the typical period was two years).

While this law was set to expire last year, eligible individuals have until Oct. 15, 2010, to take advantage of this change. There are also provisions that allow such losses to be carried forward for up to 20 years.

Hobbyists beware. Some small-business owners might run into a problem though if they are treating their hobby as a small business.

If you want to deduct losses from a hobby that has been turned into a business, it is important that your business is profit-driven and that you are not deducting losses

## Juli Erhart-Graves

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Business expenses are generally deductible, although there may be limits on how much of the loss you can deduct.



The answer to your question relies on your specific situation and the answers to many other questions.

For example: Is your business being operated to make a profit? What accounting method are you using? How much do you have "at risk"? How much of your business expenses are both ordinary and necessary? Were any of your expenses capital expenses?

The Internal Revenue Service issues publications to guide taxpayers in researching tax issues and preparing their returns. These can be useful to help you gain knowledge about the tax implications of running a small business.

As a small-business owner, two "must reads" are Publication 334, Tax Guide for Small Business and Publication 535, Business Expenses.

There are many intricacies in the tax laws for businesses, and mistakes can be costly.

Therefore, I encourage business owners to hire a professional tax preparer.

★ Erhart-Graves is a certified financial planner.

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