

Week6 discussions

[Finance](#)



Week 6 Discussions Affiliation Week 6 Discussions The Net Operating Loss (NOL) is an economic period whereby a given company's taxable income is less than the projected allowable taxable deduction that is postulated by the Internal Revenue Service (IRS). Arithmetically, this scenario happens when the company in question incurs more expenses than the subsequent revenues during a specified time. In such an event, therefore, the company can apply for a tax relief from the IRS. Noting an NOL is quite easy, there is a high possibility that a firm has an NOL if the deductions for a certain year are more than the documented income in that given year.

The Net Operating Loss occurs under various specific rules. First, the amount is carried back to two preceding tax years and applied against all the taxable incomes. Subsequently, this move gives rise to a tax rebate. Conversely, an individual or company can carry forward the amount to the next twenty years, applying it to all the possible taxable incomes. Noteworthy, the NOL becomes obsolete after the elapsing of the twenty years (Freitag, & Tax Management Inc., 2010).

Therefore, the timing of an NOL should be very strategic in a bid to attain the highest tax benefit. From intensive deliberations in the e-activity, I would highly recommend that one should apply the Net Operating Loss in the earliest period possible. Substantially, this move will make more financial sense due to the favorable time value of money as opposed to the future unpredictable value of money. In this regard, a taxpayer will undoubtedly reap the highest tax benefit from a comparative aspect.

In the event where a taxpayer will mix pleasure and business travel, a tax break will be evident. All the leisure expenses incurred during travel for work should be justified as business expenses. The biggest deduction error made

<https://assignbuster.com/week6-discussions/>

by taxpayers subjected to auditing is the lack of accurate and well-dated receipts and events. Such confusions make it almost impossible for a validation from the IRS. Additionally, a big deduction mistake can occur when a taxpayer mixes business with pleasure by the subsequent use of the business telephone for private uses. With intensive scrutiny, the IRS would not validate such deductions.

Conclusively, a taxpayer can keep right and itemized reports that would otherwise justify his or her activities as business related as opposed to pure leisure.

Works Cited

Freitag, C. N., & Tax Management Inc. (2010). Net operating losses: Concepts and computations. Arlington, VA: Tax Management Inc.