



# 2021 Schedule M1LOSS Instructions

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## Purpose of this schedule

Under the Internal Revenue Code as amended through December 31, 2018, noncorporate individuals must limit the amount of losses they can claim each year. Taxpayers may not deduct an excess business loss in the current year. However, the excess business loss is treated as a net operating loss carryover to later years. Use Schedule M1LOSS, to determine your excess business loss.

## Who must complete Schedule M1LOSS?

Complete Schedule M1LOSS if your net losses from all trades or businesses are more than \$262,000 (\$524,000 if married filing jointly).

## What is an excess business loss?

An excess business loss is the amount by which the total deductions from your trades or businesses are more than your total gross income or gains from your trades or businesses, plus the threshold amount. The threshold amount for 2021 is \$262,000 (\$524,000 if married filing jointly).

## What is a trade or business?

An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you're involved in the activity with continuity and regularity. The facts and circumstances of each case determine if an activity is a trade or business. The regularity of activities and transactions and the production of income are important elements. You don't need to actually make a profit to be in a trade or business as long as you have a profit motive. However, you do need to make ongoing efforts to further the interests of your business.

**Note:** If you own an interest in a partnership or S corporation, the trade or business determination is made at that entity's level.

## Farming losses

Taxpayers with losses from a farming business must apply the excess business loss limitation before carrying any net operating loss back 2 years. If you incurred both farming and nonfarming business losses that are more than the threshold amount, you must allocate the threshold amount first to the farming losses to the extent you have a net operating loss.

## Transition rules

If you had losses or deductions that were limited in prior years, those losses or deductions are included in determining the amount of your excess business losses in 2021.

## Line Instructions

### Part 1 – Total Income/Loss Items

Use Part 1 to report all the income and losses reflected on your tax return.

#### Line 1

Enter any wages, salaries, and tips reported on line 1 of Form 1040 or 1040-SR.

#### Line 2

Enter any business income or loss reported on line 3 of Schedule 1 or 1040-SR.

#### Line 3

Enter any capital gains or losses reported on line 7 of Form 1040 or 1040-SR.

#### Line 4

Enter any other gains or losses reported on line 4 of Schedule 1.

#### Line 5

Enter any supplemental income or loss reported on a Schedule E, such as income from rental real estate losses, royalties, partnerships, S corporations, estates, trusts, REMICS, etc. This is reported on line 5 Schedule 1.

#### Line 6

Enter any farm income or loss reported on line 6 of Schedule 1 or 1040-SR.

#### Line 7

Enter any unemployment compensation reported on line 7 of Schedule 1.

#### Line 8

Enter any other trade or business income, gain, or loss not reported on lines 1 through 7 that you reported on your federal tax return.

#### Line 9

If you completed Schedule M1NC and entered an amount on lines 4, 10 through 12, or 15 through 25 for trade or business income, include the adjustment on line 9. If you had multiple adjustments on Schedule M1NC, combine the amounts and enter the net adjustment.

#### Line 10

Combine the amounts from lines 1 through 9. The result can be a positive or negative amount.

**Part 2 – Adjustment for amounts not attributable to a trade or business**

Use Part 2 to report the income, gain, loss, or deduction from your return that is not from a trade or business.

**Line 11 and 12**

On line 11, enter the amount from line 3 of Schedules KFNC, KPINC, and KSNC. On line 12, enter the combined amount of income or gain you reported on lines 1 through 9 above that is not from a trade or business. Do not include amounts on line 12 that are also reported on line 11.

**Lines 14 and 15**

On line 14, enter the amount from line 4 of Schedules KFNC, KPINC, and KSNC. On line 15, enter the combined amount of losses or deductions reported on lines 1 through 9 above that is not from a trade or business. Do not include amounts on line 15 that are also reported on line 14. Although losses and deductions usually are entered as negative figures on other forms or worksheets, enter the amounts as a positive number on lines 14 and 15.

**Part 3 – Limitation on losses**

Use Part 3 to apply the threshold limitation, figure your Minnesota excess business loss, and find your Schedule M1NC adjustment, if any, for excess business losses.

**Line 18**

Add lines 10 and 18. If the result is negative, enter as a negative.

**Line 21**

Add lines 19 and 20 to determine if you have a Minnesota excess business loss. If the amount on line 21 is negative, you have a Minnesota excess business loss. Use this amount to determine your Minnesota net operating loss carryover.

**Line 22 and 23**

If you had an excess business loss on line 8(o) of Schedule 1, enter the amount on line 22. Subtract your Minnesota excess business loss from your federal excess business loss. Enter the result on line 14 of Schedule M1NC.