

What Is The Excess Business Loss Limitation, and How Does It Work?

When your business spends more than it earns, the gap is a **business loss**. Normally a loss can lower the tax you owe on other income, like a salary or investment gains. EBLL puts a ceiling on how much loss you can use in a single year. The part above the ceiling is not gone. It gets saved for later as a **Net Operating Loss (NOL)** that can lower your taxes in future years.

1

You Have a Loss

Your business deductions are bigger than your business income. That gap is your loss.

2

Measure It vs. the Cap

Compare the loss to your yearly limit for your filing status (the caps are shown below).

3

Split the Loss

The part under the cap lowers taxes now. The part over the cap becomes an NOL for later.

Six Words Worth Knowing

Passive Activity: A business you do not actively help run day to day.

Net Operating Loss (NOL): A loss you could not use this year, carried forward to lower taxes in a future year.

Deduction: A business expense you subtract from income, such as payroll, software, or rent.

Basis: Your stake in the business. It rises with money you add and profits earned, and falls with money you take out and losses. Basis caps how much loss you can deduct.

Net-Operating Income: What a business earns after its operating costs are subtracted from its income, in other words, its operating profit.

Noncorporate Taxpayer: Any filer that is not a C-Corporation, such as a business owner who reports profits on a personal tax return.

EBLL Is the Last Gate, Not the First

EBLL matters most for high earners and business owners who want to use a large business loss to offset other income, like wages or investment gains. It applies to: **LLC Members, S-Corp Shareholders, Sole Proprietors, Partners, Certain Trusts & Estates**

How Much Loss You Can Use (2026)

\$256,000

Single Filers

&

\$512,000

Married Filing Jointly

EBLL Is the Last Gate, Not the First

Your loss has to pass through three other rules before EBLL even applies. Think of them as four gates in a row.

1

Basis Limit

You cannot deduct more than you have invested.

Gate 1



2

At-Risk Rules

You cannot deduct more than you could personally lose.

Gate 2



3

Passive Activity

Losses from businesses you do not run face their own limits.

Gate 3



4

EBLL

Whatever loss is left is measured against the yearly cap.

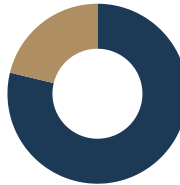
Gate 4



Two Real-World Situations

Brianna - Single Filer	Digital Consulting
Business income	\$600,000
Business costs	\$1,000,000
Business loss	\$400,000
2026 cap (single)	\$256,000
\$144,000 NOL  \$256,000 Used this year	



Kim & Kevin - MFJ	Event Planning
Business income	\$350,000
Business costs	\$1,000,000
Business loss	\$650,000
2026 cap (MFJ)	\$512,000
\$138,000 NOL  \$512,000 Used this year	

 Lowers Your Taxes This Year

 Becomes an NOL, Carried Into Future Years

What Happens to the NOL Next?

The examples above stop at year one. Here is where Brianna's \$144,000 NOL goes from there. One rule to remember: in any future year, an NOL can erase only up to 80% of that year's taxable income.

Loss Year NOL Is Created

Brianna's loss leaves a \$144,000 NOL to carry forward.

NOL balance: \$144,000

A Future Profit Year She Uses Part of It

Taxable income is \$100,000. The 80% rule lets the NOL cover \$80,000, so she is taxed on just \$20,000.

NOL balance: \$64,000

The Next Year She Uses the Rest

Another \$100,000 year. She applies the last \$64,000 and is taxed on \$36,000.

NOL balance: \$0

Illustrative figures. The 80% rule is why a large NOL can take several years to use up.

Four Things to Keep in Mind

A loss year can still owe tax.

Other income like wages is taxable even when the business loses money.

All your businesses count together.

The cap nets all your business income and losses as one.

The NOL never expires.

It carries forward with no deadline, so an unused loss is never lost.

Married couples share one cap.

Filing jointly means one \$512,000 limit for 2026, not \$512,000 each.

How Asset Strategy Helps (Turning a Restriction Into a Strategy)

EBLL exposure modeling

Timing for income, expenses & depreciation

Entity structure review to protect losses

Forecasting NOL benefits in future years

Coordination with your CPA for compliance

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If you have any questions, schedule a 15-Minute Discovery Call!

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