Income Tax - Carryforward of Nonrefundable Credits

How are nonrefundable income tax credits carried forward to future tax years when the total credits claimed exceeds the income tax liability?

If the computed nonrefundable credits exceed the tax liability, the taxpayer can only claim those credits up to the amount of the tax. Other credits must be carried over if possible. On Form 104, the taxpayer will enter the nonrefundable credits they are claiming in the current year. All other credits will not be included on Form 104 and will instead be listed at the bottom of Form 104CR in the "Credits to be carried over" section.

Taxpayers will generally first claim credits that cannot be carried over (such as credit for tax paid to another state, long term care insurance credit, and agricultural value-added credit) in the year claimed. Other credits that can be carried forward are generally claimed last with the credits with the longer carry forward period being claimed after those with a shorter carry forward period. There is no required order for the nonrefundable credits to be claimed so it is important for the taxpayer to clearly indicate which credits are being carried forward on the 104CR form.