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ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS SB1084

Extending the Net Operating Loss Carryforward to 20 years

Background

Currently, under the Arizona corporate income tax statutes, a corporation may offset its income tax liability by carrying forward its net operating losses (NOL) for up to five years. A net operating loss arises when the deductions and expenses are greater than the taxable income, amounting to a negative taxable income.

Contrary to Arizona's treatment of corporate income taxpayers, Federal law authorizes corporations to carry-forward their NOL up to 20 years. In addition, Arizona's treatment of the NOL carry-forward for individual income taxpayers is consistent with the Federal code of 20 years.

Of the 45 states that have a corporate income tax, only four other states, excluding Arizona, have a five-year carryforward. Those states include Arkansas, Nebraska, New Mexico, and Rhode Island. On the other hand, 26 states conform to the Federal law and provide for a 20-year carryforward. Eight states allow a 15-year carryforward, and the remaining six states provide a carryforward between seven and twelve years.

Basis for ATRA's Support

Measuring profitability of corporations on a multi-year basis has been an established tax policy for many years. The federal treatment of corporate NOL carry-forwards, and that of 26 other states, provides corporations the most favorable treatment for measuring profitability. Stretching the losses over a period of time is particularly helpful to start-up businesses that may not realize a profit in the initial years of business and increasing Arizona's NOL carryforward is one way to encourage economic development in this state.

Arizona's regional competitors have much greater NOL carryforwards. For instance, California and Colorado both allow 20-year carryforwards, Utah provides a 15-year carryforward, and Nevada does not have a corporate income tax. Conforming Arizona's NOL carryforward to federal law would assist in attracting new businesses to our state, as well as benefit existing Arizona corporations that are looking to expand.

ATRA urges lawmakers to vote yes on SB1084!