

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1788

Bill Subtitle: TO PHASE IN AN EXTENSION OF THE NET OPERATING LOSS CARRY-FORWARD PERIOD FOR CALCULATING ARKANSAS INCOME TAX; AND TO MAKE TECHNICAL CHANGES.

Basic Change :

Sponsor: Representative Dotson

HB1788 would extend a net operating loss (NOL) from the current 5-year carry forward to a 10-year carryforward as follows:

- Six (6) years for tax years beginning on or after Jan 1, 2017;
- Seven (7) years for tax years beginning on or after Jan 1, 2018;
- Eight (8) years for tax years beginning on or after Jan 1, 2019;
- Nine (9) years for tax years beginning on or after Jan 1, 2020; and
- Ten (10) years for tax years beginning on or after Jan 1, 2021 and after.

This act is effective for losses established on or after January 1, 2017.

Revenue Impact :

FY2024 and FY2025 - \$16.7M Reduction to General Revenue

FY2026 and FY2027 - \$31.5M Reduction to General Revenue

FY2028 and FY2029 - \$44.4M Reduction to General Revenue

FY2030 and FY2031 - \$55.5M Reduction to General Revenue

FY2032 and after - \$64.8M Reduction to General Revenue

Taxpayer Impact :

Taxpayers claiming a net operating loss (NOL) beginning with tax year 2017 will be allowed to carryforward the loss for six (6) instead of five (5) years; for 2018 the carryforward is seven (7) years; for 2019 the carryforward is eight (8) years; for 2020 the carryforward is nine (9) years; and for 2021 and after the carryforward is ten (10) years. Taxpayers would be required to maintain records to substantiate the net operating loss deduction.

Resources Required :

Booklet changes, changes in forms, changes in computer programs and changes in return processing procedures.

Time Required :

Adequate time is provided to implement this bill.

Procedural Changes :

Forms and instructions, employee training and processing procedures need to be modified. Taxpayers, tax preparers and software companies will need to be informed.

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Other Comments :

None.

Legal Analysis :

HB1788 proposes to phase in an extension to the time period in which a net operating loss may be carried forward against income in following years. Arkansas law currently provides for a period of five (5) years to carry forward net operating losses. Federal law provides that a net operating loss may be carried forward twenty (20) years. At this time, thirty (30) states and the District of Columbia conform to the federal standard. Six states provide fifteen (15) years. Illinois provides twelve (12) years; Kansas, Michigan, New Hampshire, and Vermont provide ten years; and Montana provides seven. Under the bill, the extension would apply to net operating losses occurring on and after January 1, 2017. Net operating losses occurring before January 1, 2017 remain subject to the current five-year carryforward limit.