

INCOME TAX PROPOSAL #1B
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Net Operating Losses

Summary of Proposal for Consideration

This proposal would incrementally increase the carry-forward period on net operating losses for all businesses to twenty (20) years. Currently, Arkansas tax law states that net operating losses may be carried forward for a maximum of five (5) years under Arkansas Code § 26-51-427, with the exception that the net operating loss carry-forward period for steel manufacturers under Arkansas Code § 15-4-2404 is a maximum of ten (10) years.

Under this proposal, the net operating loss carry-forward period under Arkansas Code § 26-51-427 would be incrementally increased from five (5) years to twenty (20) years as follows:

- For the tax year beginning January 1, 2019, the net operating loss carry-forward period would be increased to eight (8) years;
- For the tax year beginning January 1, 2020, the net operating loss carry-forward period would be increased to eleven (11) years;
- For the tax year beginning January 1, 2021, the net operating loss carry-forward period would be increased to fourteen (14) years;
- For the tax year beginning January 1, 2022, the net operating loss carry-forward period would be increased to seventeen (17) years; and
- For tax years beginning on or after January 1, 2023, the net operating loss carry-forward period would be increased to twenty (20) years.

The net operating loss-carry forward period for steel manufacturers under Arkansas Code § 15-4-2404 would also be incrementally increased from ten (10) years to twenty (20) years as follows:

- For the tax year beginning January 1, 2020, the net operating loss carry-forward period would be increased to eleven (11) years;
- For the tax year beginning January 1, 2021, the net operating loss carry-forward period would be increased to fourteen (14) years;
- For the tax year beginning January 1, 2022, the net operating loss carry-forward period would be increased to seventeen (17) years; and
- For tax years beginning on or after January 1, 2023, the net operating loss carry-forward period would be increased to twenty (20) years.

Fiscal Analysis

The Department of Finance and Administration (DFA) projects that increasing the net operating loss carry-forward period under this proposal would result in a loss of approximately

one hundred fifty-nine million four hundred eighty-four thousand dollars (\$159,484,000) in fiscal year 2044 and every year thereafter. According to DFA, the breakdown of revenue loss from corporate income tax and individual income tax when implementing the proposal, starting in tax year 2025 is as follows:

Tax Year	Fiscal Year	Carry Forward Year	Estimated Revenue Loss – Corporate Income Tax	Estimated Revenue Loss – Individual Income Tax	Total Estimated Revenue Loss
2025	2026	6	\$12,879,618	\$3,954,796	\$16,834,414
2026	2027	7	\$25,081,360	\$7,701,445	\$32,782,805
2027	2028	8	\$36,605,229	\$11,239,946	\$47,845,175
2028	2029	8	\$36,605,229	\$11,239,946	\$47,845,175
2029	2030	9	\$47,451,222	\$14,570,301	\$62,021,523
2030	2031	10	\$57,619,341	\$17,692,508	\$75,311,849
2031	2032	11	\$67,109,586	\$20,606,568	\$87,716,154
2032	2033	11	\$67,109,586	\$20,606,568	\$87,716,154
2033	2034	12	\$75,921,956	\$23,312,481	\$99,234,437
2034	2035	13	\$84,056,451	\$25,810,247	\$109,866,698
2035	2036	14	\$91,513,072	\$28,099,866	\$119,612,938
2036	2037	14	\$91,513,072	\$28,099,866	\$119,612,938
2037	2038	15	\$98,291,818	\$30,181,338	\$128,473,156
2038	2039	16	\$104,392,689	\$32,054,662	\$136,447,351
2039	2040	17	\$109,815,686	\$33,719,839	\$143,535,525
2040	2041	17	\$109,815,686	\$33,719,839	\$143,535,525
2041	2042	18	\$114,560,808	\$35,176,869	\$149,737,677
2042	2043	19	\$118,628,056	\$36,425,752	\$155,053,808
2043	2044	20	\$122,017,429	\$37,466,488	\$159,483,917

Potential Legal Issues

None.