



INDEPENDENT FISCAL OFFICE

February 21, 2023

The Honorable Tracy Pennycuik
Pennsylvania Senate
16 East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Senator Pennycuik:

Thank you for the letter submitted to our office on January 9, 2023. That letter requests that the Independent Fiscal Office (IFO) project the impact of an increase in the share of taxable income that C corporations may offset through net operating loss (NOL) deductions in accordance with the two scenarios detailed below:

1. A one-time adjustment of the cap on NOL deductions from 40% to 44% of taxable income, applicable to tax year (TY) 2023 and later.
2. An adjustment of the cap on NOL deductions from 40% to 45% of taxable income for TY 2023, to 50% for TY 2024, to 55% for TY 2025 and to 60% for TY 2026 and thereafter.

The projected revenue loss associated with each scenario is detailed in the table on the next page. Overall, the impact is notably smaller than in prior IFO analyses of similar proposals due to corporate net income tax (CNIT) changes enacted under Act 53-2022. In part, those changes reduce the CNIT rate gradually from 8.99% for TY 2023, to 4.99% for TY 2031 and thereafter. The lower CNIT rate has the effect of reducing the value of the NOL stock (unused prior year NOLs that have been carried forward), as they are applied in future years to reduce income that will be taxed at a lower rate.

If you have any further questions regarding the analysis, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel".

Matthew J. Knittel
Director, Independent Fiscal Office

Impact of Proposed Changes to the Cap on Net Operating Loss Deductions

	22-23	23-24	24-25	25-26	26-27	27-28
Change in CNIT Collections						
Scenario 1	-\$11	-\$55	-\$45	-\$37	-\$31	-\$23
Scenario 2	-11	-66	-107	-138	-155	-127

Notes: In dollar millions.