

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0045
(916) 319-2045
FAX (916) 319-2145

Assembly
California Legislature

DISTRICT OFFICE
360 WEST AVENUE 26, SUITE 121
LOS ANGELES, CA 90031
(323) 225-4545
FAX (323) 225-4500

WEB

<http://democrats.assembly.ca.gov/members/a45/>

KEVIN DE LEÓN
CHAIR, ASSEMBLY APPROPRIATIONS
FORTY-FIFTH DISTRICT

AB 1936 (De León) Repeal Net Operating Loss Carrybacks

PURPOSE:

Repeal corporate tax reductions that fail to generate any economic activity, interject substantial volatility into our budget process, and rob our schools and health programs of vital resources.

Generate upwards of \$250 million annually in more revenue for the state's General Fund by repealing the corporate tax break that allows for the "carryback" of Net Operating Losses (NOLs).

BACKGROUND:

Under AB 1452 (Budget Committee) (Ch. 763, Statutes of 2008), for the first time in California's history, corporate taxpayers will be allowed to "carryback" their net operating losses (NOLs) and offset their income for the two prior tax years.

Starting on January 1, 2011, this new state tax break will be phased-in over time, with a limit of 50% of the NOL for the 2011 tax year, increasing to 75% of the NOL for the 2012 tax year, and then allowing for 100% of the NOL to carryback in subsequent tax years.

Allowing corporations to write-off their losses against profits made in *previous* tax years will result in the hemorrhaging of desperately-needed tax revenue, exacerbate the ongoing budget crisis, and further destabilize our tax system. Limiting corporate tax write-downs to future years ("carry forward") will avoid further volatility in the budget process and the loss of vital state resources for no economic purpose.

According to the Franchise Tax Board (FTB), repealing the carryback of NOLs would result in an estimated \$25 million in additional tax revenue for Fiscal Year (FY) 2010-11, \$250 million in FY 2011-12, and \$145 million in FY 2012-13.

PROPOSAL:

Repeal existing Revenue and Taxation Code provisions that permit NOL carrybacks.

SUPPORT: AFSCME, California Immigrant Policy Center (CIPC), California Tax Reform Association (CTRA), JERICHO, National Association of Social Workers (NASW)-California Chapter, Service Employees International Union (SEIU) California State Council;

OPPOSITION: California Chamber of Commerce (CalChamber), California Hospital Association (CHA), California Manufacturers & Technology Association (CMTA), Cal-Tax;
