



Colorado Legislative Council Staff Fiscal Note
STATE
FISCAL IMPACT

Drafting Number: LLS 10-0745
Prime Sponsor(s): Rep. Ferrandino
 Sen. Heath

Date: January 26, 2010
Bill Status: House Appropriations
Fiscal Analyst: Ron Kirk (303-866-4785)

TITLE: CONCERNING A TEMPORARY LIMIT ON THE STATE INCOME TAX DEDUCTION FOR A NET OPERATING LOSS.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue General Fund	up to \$8.2 million	up to \$16.5 million
State Expenditures		
FTE Position Change		
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: None.		

Summary of Legislation

Under current law, a corporation may reduce its Colorado taxable income by carrying forward its net operating loss (NOL). There is no limit on the amount of NOL that may be carried forward to reduce a corporation's taxable income. For tax years 2011, 2012, and 2013, this bill limits the amount of NOL that may be carried forward to \$250,000. A NOL may be carried forward one additional year for each year that a corporation is prohibited from carrying forward a portion of its NOL resulting from the \$250,000 cap. This bill does not affect NOLs of individuals, estates, and trusts.

Background

The Colorado NOL deduction for corporations is calculated in the same manner as the federal NOL deduction except that, in the case of a corporation apportioning income, it is that part of the federal NOL, as modified, that is from Colorado sources.

State Revenue

State income tax revenue to the General Fund will increase \$8.2 million in FY 2010-11 and \$16.5 million in FY 2011-12.

For tax years beginning on or after August 6, 1997, Colorado corporate NOLs may be carried forward for up to 20 years. They may not be carried back and used to reduce tax liability in earlier years. Three years of sample data from corporate income tax returns were used to evaluate the effect of limiting the NOL carry forward deduction to \$250,000. When capping the NOL carry forward to \$250,000, the increase in corporate gross taxes owed averaged \$16.5 million over the three-year period. A half-year revenue impact for this bill is estimated in the first year, thus, General Fund revenue is estimated to increase \$8.2 million in FY 2010-11 and \$16.5 million in FY 2011-12.

State Expenditures

Since the NOL carry forward deduction is currently programmed in the department's computer accounting system, this bill can be implemented within existing resources.

Departments Contacted

Revenue