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May 15, 2019

The Honorable Representative Julie Stokes
Louisiana House of Representatives
4203 Williams Blvd.
Suite 200
Kenner, LA 70065

Via E-mail

Re: H.B. 263

Dear Representative Stokes,

On behalf of the Council On State Taxation ("COST"), I am writing in support of language in H.B. 263 that would advance sound tax policy in Louisiana by restoring taxpayers' ability to use net operating losses in the order of generation so those losses do not expire prior to taxpayers' ability to use them.

About COST

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 550 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. A significant number of COST's members do business in Louisiana and purchase a significant amount of services used in the State.

NOLs From Earliest Periods Should be Used First

Louisiana provides a net operating loss ("NOL") deduction that allows a taxpayer to offset current year income by deducting losses incurred in prior years. The purpose of an NOL deduction is to allow taxpayers to balance profitable years with unprofitable years and to avoid penalizing taxpayers because their income (or the economy) is cyclical or because they incur substantial expenses from expanding or developing new lines of business. NOL deductions reflect the fact that economic profits are earned over a cycle that rarely corresponds with a taxable year.

Unlike most other states, Louisiana requires taxpayers that have NOL deduction carryovers to use losses generated most recently before utilizing losses generated in older tax years. This practice heightens the chance that certain net operating losses will never be utilized due to age and a limited carryover period, which undercuts the rationale for allowing a NOL carryover, is unfair to taxpayers, and reflects a poor tax policy choice.

For the reasons discussed above, COST supports language in H.B. 263 that would advance sound tax policy by allowing taxpayers to use net operating losses from earlier tax years first so those losses do not expire prior to taxpayers' ability to use them.

Sincerely,

Patrick J. Reynolds

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director