

Week 3 – DQ 2

How are the tax benefits of net operating losses (NOL) disclosed on financial statements? Which is more beneficial to an organization, an NOL carryforward or an NOL carryback? Explain why. What experience do you have with NOL in your organization or an organization that you are familiar with? When would a company decide to forego a NOL carryback?

Response # 1 Tax benefits of net operating losses are disclosed on financial statements by loss carryback or loss carryforward. Through use of a loss carryback, a company may carry the net operating loss back two years and receive refunds for income taxes paid in those years. The company must first apply the loss to the earlier year first and then to the second year. It may carry forward any loss remaining after the two-year carryback up to 20 years. A company may forego the loss carryback and use only the loss carryforward option, offsetting future taxable income for up to 20 years. Either could be beneficial, it would depend on how much taxes the company paid in the last 2 years. If no taxes were paid or very little, the company may benefit from just using the carryforward option.

Response #2 Net operating losses (NOL) benefits are in two methods: loss carryback and loss carryforward as displayed on financial statements. Loss carryback allows companies to carry the net operating loss back by two years. Companies could then receive a tax refund for those past years. A loss carryback is reported as a general tax benefit, but it is often reported as a benefit due to loss carryback on the financial statements. Loss carryforward offsets future taxable income for up to 20 years and they are reported as benefit due to loss carryforward on the income statement. Both the carryback and the carryforward are beneficial to an organization; however, I believe the loss carryback is more beneficial because it is better for a company to receive compensation for the operating loss and use the tax refund to help the organization in making a profit. Companies may decide to forego a loss carryback if there is no financial benefit to do so. For example, if the organization did not make enough taxable income to earn a refund. Also, if their company is projected to make huge profits in the next 10 years, it would be beneficial to get a tax break with a loss carryforward.

Response #3 The tax benefits of net operating losses are disclosed on the financial statements as benefits from a NOL carryforward or an NOL carryback. The one that I feel is more beneficial to a company or organization would be the carryback. This would be

beneficial because “a company may carry the net operating loss back two years and receive refunds for income taxes paid in those years” (Kieso, Weygandt, & Warfield, 2007, p. 978). I do not have any form of experience when it comes to either NOL carry back or NOL carry forward. As discussed in the first discussion questions, the company I work for utilizes an accounting firm so I do not know how they configure our information at the end of the year. A company would decide to forego a NOL carry back if the company is in good standing and does not require to pay income taxes that year.

Reference

Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2007). Intermediate accounting, (12th ed.). Hoboken, NJ: John Wiley & Sons.

Response #4 A net operating loss occurs when the tax-deductible expenses exceed taxable revenues due to circumstances out of the company's control. The company has an option to receive tax benefits; loss carryback and loss carryforward. The use of the tax benefits are to offset the losses of one year into profit into other years. The loss carryback allows companies to carry the NOL back two years and receive tax refunds for the income earned during those years. The company then has 20 years to carry the losses. The loss carryback allows companies to up to 20 years to carry forward the losses that occurred in the present year. The loss carryback seems to be the most beneficial because if the company was profitable in the previous years it will receive a tax refund as well as have the remaining 20 years to offset losses. The only time I could see a company forgoing a loss carryback is if it did not make a profitable revenue in previous years. This will generally occur in new businesses.