

March 4, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3769 (Lislegard) / S.F. 3774 (Rest)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
		(000's)		
General Fund	\$0	(\$14,800)	\$0	\$0

Effective retroactively for tax year 2023 only.

EXPLANATION OF THE BILL

Current Law: A taxpayer may use net operating losses from the previous 15 tax years to reduce their taxable income in the current tax year. Prior to the 2023 legislative session, a corporation was limited to a net operating loss (NOL) deduction of up to 80% of their current year taxable net income. In 2023, the maximum size of the NOL deduction was reduced to 70% of a taxpayer's taxable net income beginning with tax year 2023.

Proposed Law: The bill would delay the effective date for the reduced limit to tax year 2024. The 80% NOL deduction limit would apply for tax year 2023, with the deduction limit reduced to 70% beginning in tax year 2024.

REVENUE ANALYSIS DETAIL

- The estimate is based on data from corporate franchise tax returns which claimed the NOL deduction. The database includes returns whose final due date were in 2021. Returns in the dataset include tax years 2019 and 2020.
- Two estimates were prepared, with the effective date beginning in either tax year 2023, or tax year 2024, with the revenue impacts estimated relative to 2022 law. The final revenue impact is the difference between the two estimates.
- The estimates were grown for future tax years by the average growth rate of the effective amount of a NOL deduction limited to 70% of taxable net income, over the period 2014-2021 in the corporate dataset.
- All of the tax year 2023 revenue impact is allocated to fiscal year 2025. Any tax returns using the 70% NOL rate for tax year 2023 received in fiscal year 2024 are assumed to be owed refunds in fiscal year 2025.

Number of Taxpayers: About 4,850 taxpayers would be affected in tax year 2023. The average decrease in tax would be \$3,050.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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