SENATE BILL 105:
2021 Appropriations Act, Sec. 42.6:
Separate State Net Operating Loss Calculation for Individual Income Tax Purposes

2021-2022 General Assembly

Committee:		**Date:**	January 26, 2022
Introduced by:		**Prepared by:**	Finance Team
Analysis of:	Sec. 42.6 of S.L. 2021-180		

OVERVIEW:* *Section 42.6 of S.L. 2021-180 creates a separate North Carolina net operating loss (NOL) calculation to more closely align to the calculation of North Carolina taxable income by adjusting for differences between federal and State law and business activities taking place in multiple states.

This section is effective for taxable years beginning on or after January 1, 2022.

CURRENT LAW: North Carolina has a corporate NOL calculation that is separate from the federal calculation, but it does not have a separate NOL calculation for individual income tax. The federal loss amount is the taxpayer's State loss amount. This calculation benefits some taxpayers but hurts others.

BILL ANALYSIS: Section 42.6 of S.L. 2021-180 creates a separate North Carolina net operating loss (NOL) calculation. A separate State NOL calculation more closely aligns to the calculation of North Carolina taxable income by adjusting for differences between federal and State law and business activities taking place in multiple states.

Subsection (a) requires a taxpayer to add-back the amount allowed as a NOL under the Code and to deduct the State NOL amount. Subsection (b) provides the new rules for calculating the State NOL deduction amount. It provides that any remaining losses from years prior to January 1, 2022, may be carried forward, but the old loss amounts will not be calculated using the new rules. This transition rule is consistent with how the State treated prior year losses when it modified the corporate NOL calculation in 2015.

EFFECTIVE DATE: This section is effective for taxable years beginning on or after January 1, 2022.

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