Tax Losses
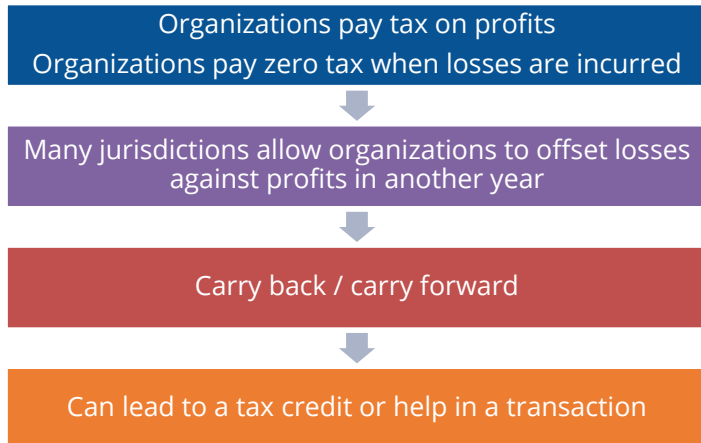
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Losses Offset Against Other Profits

| Organizations pay tax on profits
Organizations pay zero tax when losses are incurred |

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| Many jurisdictions allow organizations to offset losses against profits in another year |

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| Carry back / carry forward |

⬇

| Can lead to a tax credit or help in a transaction |

| Losses | Profits |

Loss Utilization – Carry Back

	Year -2	Year -1	Year 0
Profit (loss) before tax	100.0	100.0	(150.0)
Tax (expense) credit	(30.0)	(30.0)	45.0
Net income (loss)	70.0	70.0	(105.0)
Cash taxes	(30.0)	(30.0)	45.0

| Offset current losses against historical profits | Retained earnings up Cash up (No deferred tax asset) | Take tax credit in year of loss – get cash immediately |

Loss Utilization – Carry Forward
Offset Current Losses Against Future Profits

	Year 0
Profit (loss) before tax	(100.0)
Tax (expense) credit @ 30%	30.0
↳ Deferred tax (expense)	
Net income (loss)	(70.0)
Deferred tax asset	30.0

Asset = Liability + Equity
DTA up   RE up

Year 0 Losses: Create tax credit on income statement, matched by deferred tax asset (DTA) on the BS

Loss Utilization – Carry Forward

	Year 0	Year 1 (exc. losses)
Profit (loss) before tax	(100.0)	300.0
Tax (expense) credit @ 30%	30.0	(90.0)
↳ Deferred tax (expense)		
Net income (loss)	(70.0)	210.0
Deferred tax asset	30.0	30.0

Year 0 Losses: Create tax credit on income statement, matched by deferred tax asset (DTA) on the BS

Year 1: When produce profits, use Year 0 losses to reduce Year 1 tax paid
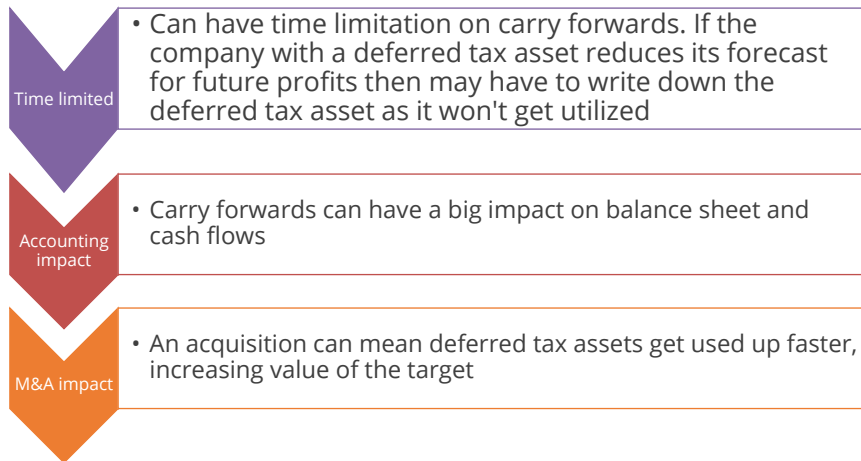
Loss Utilization – Carry Forward

	Year 0	Year 1 (exc. losses)	Year 1 (inc. losses)	
Profit (loss) before tax	(100.0)	300.0	300.0	
Tax (expense) credit @ 30%	30.0	(90.0)	(60.0)	Total tax expense
↳ Deferred tax (expense)			(30.0)	
Net income (loss)	(70.0)	210.0	210.0	
Deferred tax asset	30.0	30.0	0.0	

Year 0 Losses: Create tax credit on income statement, matched by deferred tax asset (DTA) on the BS	Year 1: When produce profits, use Year 0 losses to reduce Year 1 tax	Year 1: Cash flow, less tax paid. Balance sheet DTA reduces. Net income same

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Loss Utilization – Carry Forward

Asset	=	Liability + Equity
DTA down		RE down (deferred tax expense)

Asset	=	Liability + Equity
Cash up (less tax paid)		RE up (less current year tax expense)

Loss Utilization – Carry Forward

Time limited
- Can have time limitation on carry forwards. If the company with a deferred tax asset reduces its forecast for future profits then may have to write down the deferred tax asset as it won't get utilized

Accounting impact
- Carry forwards can have a big impact on balance sheet and cash flows

M&A impact
- An acquisition can mean deferred tax assets get used up faster, increasing value of the target

Loss Utilization – Restrictions

Offset restrictions
Usually can't offset losses of one business against those of another

Movement restrictions
Usually can't move losses to other countries

Losses = losses?
Not all losses lead to a tax credit