Tax Losses

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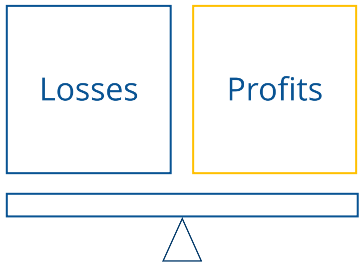
Losses Offset Against Other Profits

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

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

Carry back / carry forward

Can lead to a tax credit or help in a transaction



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: Create tax credit on income statement, matched by deferred tax asset (DTA) on the BS	Year 1: In future when produce profits, reduce retained earnings and reduce DTA	Year 2, 3, 4… Gradually run down DTA as utilized
Asset = Liability + Equity DTA up RE up	Asset = Liability + Equity DTA down RE down	Only effect is on balance sheet and cash flow, not on income statement

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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

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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

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