

GAO

Report to the Chairman, Committee on
Ways and Means, Subcommittee on
Oversight, House of Representatives

September 1993

CORPORATE TAXES

Many Benefits and Few Costs to Reporting Net Operating Loss Carryover



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The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on corporate net operating losses (NOLs). A corporation incurs NOL when allowable deductions exceed gross income for a tax year. Within limits, tax law allows taxpayers to carry over (i.e., save) their NOLs to offset profits reported in other tax years. Specifically, the carryover amount can be used as a net operating loss deduction (NOLD) to reduce or fully offset tax liability. Within limits, tax law also allows taxpayers to carry back NOL amounts to claim refunds of taxes paid in prior years. Corporations are not required to report their NOL carryovers to the Internal Revenue Service (IRS).

As requested, our report (1) estimates the amount of corporate NOL carryovers from past years, (2) evaluates IRS taxpayer instructions on how to use NOL carryovers, (3) analyzes an IRS proposal to modify corporate tax returns to include the reporting of NOL carryover amounts, and (4) analyzes IRS' enforcement efforts on NOL and NOLD reporting by corporations. We also provide statistical data on such subjects as NOL carryover by industry and the highest deduction item contributing to NOL.

Results in Brief

No one knows the exact amount of NOL carryover that corporations have accumulated to offset future tax liability. Knowing NOL carryover amounts is important for evaluating the effects of proposed tax policy changes and assisting IRS' tax enforcement efforts. Our work suggested that the NOL carryover amount is not only large and growing but could be larger than existing data allowed us to identify.

Our estimate of NOL carryovers applies to over two-thirds of all corporations. The estimated carryover of \$160 billion in 1985 increased to \$246 billion in 1989—or 54 percent in current dollars. Over this time, total receipts (i.e., the amount of gross receipts and other forms of positive income before deductions) for the corporations covered by our estimate grew from \$0.95 trillion to \$1.25 trillion (32 percent). Among specific industries with NOL carryovers, those with the highest ratios of NOL

carryover to receipts were mining (90.5 percent); finance, insurance, and real estate (34.9 percent); and agriculture, forestry, and fishing (27.7 percent).

We found that IRS instructions on the amounts that corporations should report on the NOLD line were incomplete and confusing. For example, the instructions did not explain that (1) NOLD should only be reported if the taxpayer had positive taxable income and NOL carryovers from prior years and (2) the amount of NOLD reported cannot exceed positive taxable income. We found that three of every four of the nation's corporations that claimed NOLD in 1989 did just the opposite—they reported NOLD even when they had no taxable income or reported more NOLD than taxable income. We found that these corporations reported more NOLD than necessary because they had mistakenly reported their NOL carryover amounts as NOLD. Accordingly, we used these misreported amounts to estimate corporate NOL carryover.

More specifically, the \$246-billion carryover estimate for 1989 consisted of two types of reporting errors made by about 570,000 of 761,000 corporations (75 percent) that claimed NOLDS. First, about 341,000 corporations with NOLs mistakenly reported \$180 billion in carryover as NOLDS. Because they had no taxable income in 1989, they should not have reported any NOLD amount. Second, the remaining 229,000 corporations reported an estimated \$66 billion more NOLD than they needed to offset taxable income.

Neither of these mistakes in NOLD reporting improperly reduced their 1989 taxable income. Regardless of the mistakes, NOLD claims can have major tax impacts. For 1989, corporations reduced their tax liability by claiming \$39 billion in NOLDS. Specifically, many foreign and domestic corporations paid no U.S. income taxes for 1989, in part, because of NOLD claims. Of the estimated 1.27 million U.S.-controlled corporations that paid no income tax, 24 percent claimed NOLDS that reduced their \$6.5 billion taxable income to zero. Of the estimated 32,135 foreign-controlled corporations that paid no income tax, 18 percent claimed NOLDS that reduced their \$347.3 million taxable income to zero.

The \$246-billion estimate is conservative primarily because it does not include any potential carryovers among nearly one-third of all corporations. Many of these corporations could have additional NOL carryover. However, because these corporations correctly applied the NOLD rules, our estimation methodology could not account for any NOL

carryover they had. They either reported NOLD equal to taxable income or did not report any NOLD because they had no taxable income.

IRS' Research Division recommended that corporate tax returns be modified to report NOL carryover. We believe that the benefits of doing this outweigh the costs. Knowing the NOL carryover amount would (1) improve revenue estimates of proposed tax law changes, (2) improve voluntary compliance in reporting NOLDS, and (3) allow IRS to do limited compliance checks. IRS estimates that the added costs and burdens of reporting NOL carryover would be minimal. Moreover, as discussed above, an estimated 570,000 corporations already reported their NOL carryovers on 1989 tax returns even though it was not required.

Although such erroneous reporting of NOL carryover as NOLD had no tax effect, corporations can improperly report their NOLs and NOLDS to lower their tax liabilities. By auditing a random sample of the 1.2 million small corporations that claimed NOLs in 1987, IRS estimated that 24 percent actually had taxable income instead of NOLs and owed \$2 billion in additional taxes. IRS random audits also found that another estimated 54,000 corporations improperly claimed NOLDS, including some that had no NOL carryover to deduct.

Outside of these special random audits, IRS had little chance of detecting either type of noncompliance because (1) corporations reporting NOLs were much less likely to be audited according to IRS Examination officials and (2) IRS did not systematically track accumulated NOL carryovers to detect when a corporation improperly claimed NOLD.

Background

Section 172 of the Internal Revenue Code authorizes taxpayers to carry over NOLs and then use them as NOLDS to reduce or fully offset taxable income. In general, taxpayers can use NOL from 1 tax year to claim tax refunds in the 3 tax years before the NOL year and then carry over and deduct any remaining NOL for up to 15 years after the NOL year. After the 15 years, any remaining NOL from the original tax year expires. When a future tax year generates new NOLs, a new 15-year carryover period begins.

By authorizing NOLs and NOLDS, section 172 allows corporations with fluctuating profits and losses over several years to even out their taxes by offsetting loss years against profitable years. Since any accounting period is somewhat arbitrary, the provision helps to ensure that economic income is properly measured over a long period. In this way, the provision permits

companies with more variation over time in their income to be treated the same as companies with less variation in their income.¹

Congress first enacted NOLD in 1919 as a temporary measure to help ease business recovery following World War I. NOLD was limited to the immediate preceding and succeeding year. In the 1950s, the carryback and carryover periods were changed to 3 and 5 years, respectively. In the 1970s, the carryover was extended to 7 years, and NOL usage rules were made more flexible. Most recently, the 1981 Economic Recovery Tax Act more than doubled the carryover period to 15 years.²

Studies of corporate NOLs and NOLDS are few. The most systematic study occurs through IRS' Taxpayer Compliance Measurement Program (TCMP), which is designed to measure taxpayer compliance by auditing a statistical sample of returns. TCMP audits of corporations cover only small corporations.³ IRS does not have systematic data to measure larger corporations' compliance in reporting NOLs and NOLDS.

TCMP audits for 1980 and 1987 showed about a fivefold increase in NOL and NOLD reporting.⁴ For example, NOLD claims grew from about \$17 billion to \$86 billion in current dollars. IRS' TCMP results did not explain the reasons for such increases.

In 1992, IRS used TCMP data to study facets of small corporate tax compliance, including changes to NOLs and NOLDS between tax years 1980 and 1987.⁵ IRS' study also presented an estimate of NOL carryover among small corporations in both 1980 and 1987.

Within the executive branch, the Department of the Treasury's Office of Tax Analysis prepares the official revenue estimates from proposed changes in tax laws and the estimate of receipts under current law. Within Congress, the Joint Committee on Taxation (JCT) prepares the official

¹Barr, Lewis T., "Net Operating Losses—Sections 381, 382, and 269," in Tax Management, Tax Management, Inc., 1988.

²House, Senate, and conference reports provided no reason for this latest increase in the carryover period.

³IRS defines small corporations as those reporting assets of less than \$10 million or those not submitting balance sheets. Large corporations report assets of \$10 million or more.

⁴For many reasons, these TCMP audits also showed that the overall compliance level of small corporations dropped from 81 percent in 1980 to 61 percent in 1987.

⁵"Trends in the Compliance of Small Corporations," The IRS Research Bulletin, Publication 1500, December 1992.

revenue estimates from proposed tax law changes, and the Congressional Budget Office prepares the estimate of receipts under current law. Officials from these organizations said they attempt to account for NOL carryovers in their estimates.

Objectives, Scope, and Methodology

As requested, our objectives were to (1) estimate corporate NOL carryover, (2) evaluate IRS instructions on how to use NOL carryover, (3) analyze an IRS proposal to include the reporting of NOL carryover on corporate tax returns, and (4) analyze IRS' enforcement efforts for NOL and NOLD reporting by corporations. We also were asked to provide various statistical data on corporate NOL carryover and NOLD reporting by industry group.

We had to estimate the NOL carryover amount because IRS did not have such data. To estimate NOL carryover among large and small corporations covered by our review, we relied on the methodology that IRS applied to small corporations. Using weighted TCMP data, IRS assumed that many small corporations had incorrectly reported their NOL carryover as NOLD for 1987 and that their reported NOLD represented their NOL carryovers. After validating IRS' assumptions for all sizes of corporations, as described below, we estimated NOL carryover for tax year 1989. To make our estimates representative of the corporations that filed income tax returns using Forms 1120 and 1120-A, we used weighted data from IRS' Statistics of Income (SOI) Division on NOL and NOLD reported by corporations that filed these returns.⁶

To confirm IRS' assumption that NOL carryover was reported as NOLD, we (1) discussed IRS' 1987 TCMP results on small corporations with a responsible IRS Examination official, (2) interviewed members of the American Institute of Certified Public Accountants (AICPA), and (3) reviewed all 76 tax returns selected for the 1987 TCMP that had reported NOLD amounts reduced to zero by the TCMP examiner and that were available for our analysis.⁷ For large corporations, we also analyzed SOI data and surveyed IRS managers overseeing audits of six large corporations that overreported NOLD for 1989.

To evaluate IRS' instructions on NOLD, we reviewed the instructions and publications on NOL, NOLD, and NOL carryovers. We discussed these

⁶Appendix I describes the reasons for excluding the specialized types of Forms 1120 from this review, such as Forms 1120-S, 1120-PC, and 1120-L, among others.

⁷Appendix I describes our selection of these 76 TCMP returns.

documents with IRS Tax Forms and Publications and IRS Examination officials and with AICPA members.

We obtained information on the cost and burdens of reporting NOL carryovers in discussions with IRS staff in the Tax Forms and Publications Division and AICPA members. We obtained information on the benefits of this reporting by reviewing TCMP returns and SOI data and interviewing IRS, JCT, and Treasury officials.

To analyze IRS' enforcement efforts on NOL and NOLD reporting, we met with IRS officials responsible for IRS' audits of corporate returns as well as those responsible for the 1987 TCMP audits of small corporations. Further, we analyzed IRS' 1987 TCMP audit results and reviewed the 76 TCMP audits described earlier.

We also used SOI data to develop various statistics. These statistics focused on NOL carryover and NOLD reporting among corporations as well as on corporate total receipts by type of industry and by domestic versus foreign ownership.⁸ We used the most recent tax year for which SOI had corporate return data available, which was 1989. We compared the 1989 statistics with those for 1987—the first year after major changes were made to tax laws.

Our estimates of NOL carryover and NOLD reporting are in current dollars. Appendix I further explains our objectives, scope, and methodology. We did our review between October 1992 and June 1993 in accordance with generally accepted government auditing standards.

Estimates of NOL Carryover

Using IRS Research's methodology and SOI data, we estimated that corporations, both small and large, accumulated at least \$245.7 billion in NOL carryover by 1989. Like IRS, we found that most corporations had erroneously reported their NOL carryover as NOLD instead of reporting the NOLD needed to offset taxable income.

IRS' Methodology for Estimating NOL Carryover

By analyzing TCMP audits of small corporation returns for 1987, IRS Research estimated that 72 percent—523,945 of 731,103 small corporations reporting NOLD—overreported their NOLD.⁹ They reported more NOLD than

⁸Total receipts includes gross business receipts and other forms of positive income (e.g., interest) as computed by SOI.

⁹Overreporting NOLD had no effect on corporations' 1987 tax liability.

needed to offset taxable income even though the NOLD amount should not exceed taxable income after special deductions.¹⁰ These small corporations either reported (1) NOLD when they had no taxable income but rather had NOL or (2) NOLD in an amount that exceeded their taxable income.

IRS Research assumed that the 523,945 corporations incorrectly reported their NOL carryover instead of the NOLD needed to offset taxable income. Another estimated 1,035,412 small corporations could have NOL carryovers, but IRS assumed they did not because they reported higher amounts of taxable income than NOLD. Using those two assumptions, IRS' methodology covered about 1.6 million small corporations for 1987. IRS' estimated NOL carryover totaled at least \$73.4 billion for 1987.

IRS' estimate is understated because it does not include new NOLs created in 1987 by small corporations. Nor does the estimate account for another 705,170 small corporations that may have had NOL carryover in 1987. IRS' methodology could not account for their NOL carryover because they did not overreport their NOLs.

Our Estimate of NOL Carryover

We validated IRS' estimation methodology and assumptions not only for small corporations but also for all corporations that filed Forms 1120 and 1120-A for 1989. For example, the IRS managers we surveyed confirmed that the six large corporations they audited had reported their NOL carryovers as their NOLD. In reviewing 76 TCMP returns in which IRS examiners reduced reported NOLD amounts to zero, we identified 62 small corporations that appeared to report NOL carryover as NOLD. For the remaining 14 returns, the case files lacked enough information for us to determine if the reported NOLD amounts represented the corporations' entire NOL carryover.

Our analysis of SOI data for 1985 through 1989 also showed that all sizes of corporations reported their NOL carryovers as NOLs. For 1989, we estimated that 75 percent of corporations reporting NOLD (570,083 of 760,719) overreported their NOLs by reporting NOL carryovers. Of the 570,083 corporations, we estimated that 559,493 were small corporations and 10,590 were large. The other 25 percent (190,636) did not report more NOLD than needed to offset taxable income.

¹⁰Special deductions include (1) dividends received from certain foreign corporations or domestic corporations and (2) dividends received and paid on certain public utility preferred stock.

Although another estimated 918,569 corporations could have NOL carryovers, we assumed they did not, following IRS' methodology. These corporations had taxable incomes for 1989 but either did not claim NOLD or claimed less NOLD than their taxable incomes. By adding them to the 570,083 corporations, our 1989 NOL carryover estimate covers about 1.5 million corporations (about two-thirds of the corporations that SOI estimated to have filed returns for 1989).

We estimated NOL carryover by applying IRS' assumption to the SOI data. For 1989, our estimates of corporate NOL carryover totaled \$245.7 billion. Of the 570,083 corporations that generated this estimated \$245.7 billion, \$180 billion arose because 340,830 corporations reported NOLDS when they had NOLS. The remaining \$65.7 billion came from 229,253 corporations that reported NOLD in excess of taxable income. (Table II.1 provides details on the estimates for 1989 as well as 1987.)

IRS' methodology relies on NOLDS being overreported. As a result, our estimate of 1989 NOL carryovers could not account for NOL carryovers among an estimated 709,798 corporations. These corporations did not overreport their NOLDS because they (1) reported NOLDS equal to their taxable incomes or (2) did not report any NOLDS when they had reported NOLS or zero taxable income; such corporations could have NOL carryovers. Further, following IRS' methodology, our estimate did not account for NOLS reported for 1989.

However, our estimate would be reduced to the extent that corporations used some NOL carryover shortly after filing their tax returns for 1989. For example, they could use the carryover amounts to claim refunds for taxes paid in prior years or to offset IRS audit results. Also, an unknown portion of the estimated NOL carryover may never be used because the (1) 15-year carryover periods expired or (2) corporations ceased doing business.

By analyzing SOI data, we estimated that corporations accumulated NOL carryover of \$159.9 billion in 1985 and \$202.2 billion in 1987. Thus, our \$245.7-billion estimate for 1989 represents a 54-percent increase over 1985. For comparative purposes, total receipts for the corporations covered by our estimates grew from \$0.95 trillion to \$1.25 trillion (32 percent) over the same time.

Because corporations can save NOL carryover for up to 15 years, they accumulated carryover equal to nearly one-fifth of their 1989 total receipts

of \$1.25 trillion.¹¹ This ratio varied widely among industries that had NOL carryover—from 8.3 percent to 90.5 percent. Three industries with the lowest ratios were wholesale and retail trade (8.3 percent), construction (15 percent), and manufacturing (15.8 percent). The three specific industries with the highest ratios were mining (90.5 percent); finance, insurance, and real estate (34.9 percent); and agriculture, forestry, and fishing (27.7 percent).

A comparison of that ratio (estimated NOL carryover/total receipts) for foreign versus U.S.-controlled corporations in 1989 showed little difference.¹² We estimated that foreign-controlled corporations had \$51.4 billion in NOL carryover—or 19 percent of their \$270 billion in total receipts. Similarly, we estimated that U.S.-controlled corporations had \$194.3 billion in NOL carryover—or 19.8 percent of their \$983 billion in total receipts.

The ability of corporations to carry over their NOLs for up to 15 years helps explain why more than one in four that filed 1989 returns had a NOL carryover. We estimated that 570,083 of the 2.2 million corporations filing 1989 returns—or 25.9 percent—had NOL carryover. The specific industry with the lowest ratio was construction (23.6 percent). The industry with the highest ratio was mining (37.6 percent).

NOLD claims partially explain why many foreign and domestic corporations paid no U.S. income taxes for 1989. Of the estimated 1.27 million U.S.-controlled corporations that paid no income tax, 305,626 (24 percent) claimed NOLs that reduced their \$6.5 billion taxable income to zero. Of the estimated 32,135 foreign-controlled corporations that paid no income tax, 5,717 (18 percent) claimed NOLs that reduced their \$347.3 million taxable income to zero.

Although Treasury officials noted that they already attempt to estimate the effect of NOL carryovers and related NOLD claims on corporate receipts under current law, they said many variables would affect estimates of the specific tax impacts in future years. As a result, we did not attempt to estimate such impacts. Even so, they acknowledged that future NOLD claims could offset billions in tax revenues, depending on such variables as the rate at which corporations use their NOL carryover in NOLD claims.

¹¹For reasons discussed earlier, it is highly unlikely that corporations would use all of their NOL carryovers to offset this portion of their total receipts.

¹²For 1989, "foreign-controlled" corporation is a U.S. corporation in which 50 percent or more of it is foreign owned.

For example, corporations lowered their 1989 tax liability by claiming an estimated \$39.2 billion in NOLDS—about 16 percent of the estimated \$246 billion carryover among corporations covered by our review.

All types of corporations were included in our 1989 estimate of NOL carryover, but finance, insurance, real estate, and manufacturing corporations accounted for about half of the estimated carryover. Appendix II provides more statistics on NOL carryover and NOLD claims.

NOLD Reporting Instructions Are Not Clear

As discussed earlier, in the 1987 TCMP, IRS found that a large percentage of small corporations incorrectly reported their NOL carryover from previous years as NOLD. After analyzing the 1987 TCMP data, IRS' Research staff concluded that many corporations were confused over how much NOLD to report. We agree. Our work substantiates such confusion because of unclear IRS instructions on NOLD reporting.

For example, the instructions did not explain that (1) NOLD should be reported only if the taxpayer had positive taxable income and NOL carryovers from prior years and (2) the NOLD claimed in the current tax year should be limited to the taxable income remaining after special deductions. Instead, the instructions defined NOLD only as "the total of the NOL carryovers and carrybacks that can be deducted in the tax year."

According to AICPA members, this definition has two confusing elements. First, NOL cannot be carried back in the current tax year (i.e., the year that the instructions cover). Second, the phrase "that can be deducted in the tax year" may be interpreted as the amount that the corporation has available to deduct if it had the income. In addition to erroneous reporting due to the confusion, some AICPA members reported a client's NOL carryover as NOLD to track this carryover and inform IRS of it.

To address the many NOLD reporting errors found in the 1987 TCMP, IRS' Research Division submitted a suggestion to IRS' Tax Forms and Publications Division to clarify NOLD reporting instructions. In response to Research's suggestion, Tax Forms and Publications staff planned to clarify the 1993 NOLD instructions for Forms 1120 and 1120-A and Publication 536 (Net Operating Losses).

Costs and Benefits of Reporting NOL Carryover on Corporate Tax Returns

IRS' Research Division also suggested that all corporate taxpayers compute and report their NOL carryover on a standardized form to be filed with the tax return. IRS already provides a worksheet that corporations may use to compute NOL carryovers but does not collect the completed worksheets. Although corporations that claim NOLD are required to attach a statement showing their NOL carryover computations, this statement is not standardized.

Because many corporations have software programs to compute NOL, NOL carryover, and NOLD, IRS' Tax Forms and Publications Division staff believed that a standardized form would have limited value. In lieu of developing a standardized NOL carryover form, IRS decided to add space on Schedule K, Form 1120, as well as to other types of 1120 tax returns to report the amount of NOL carryover. As of August 1993, a draft of this proposed change for tax year 1993 returns had been developed.

According to Tax Forms and Publications staff, the cost to add a line on corporate tax returns to report NOL carryover is minimal. IRS has estimated that adding a line would increase corporate burden by 14 minutes for recordkeeping and 1 minute for preparing the form. Treating those as new tasks, those estimates do not recognize that corporations already should compute and track their NOL carryovers to claim NOLDS. To the extent they do, corporations already have absorbed the additional 14 minutes for recordkeeping. Regardless, we believe that any additional burden is small. For the entire Form 1120, IRS estimated that all recordkeeping and preparation took 139 hours for tax year 1992.

IRS also would incur additional costs to transcribe the reported NOL carryover data. In addition, if IRS chooses to use the NOL data in enforcement programs, it would incur some costs to set up computer programs to store and manipulate the data.

Knowing each corporation's NOL carryover would have multiple benefits. Having the data would improve (1) revenue estimates on proposed changes to corporate tax law, (2) voluntary compliance among corporations, and (3) IRS' checks for NOLD compliance.

Department of the Treasury and JCT staff rely on large computer models of the federal income tax system and the economy to estimate the revenue yield from proposed tax law changes. For example, one data element in the Treasury corporate tax model is the estimated NOL carryover available to offset future taxable income. Officials from both organizations

supported getting more accurate data on NOL carryover. They believed they could improve their revenue estimates if corporations were required to report NOL carryover amounts.

Corporate voluntary compliance in reporting NOLD would likely improve. If IRS instructions clearly stated the NOLD rules and corporations annually reported their NOL carryover amounts, NOLD reporting errors would be less likely. Also, IRS examiners would have less difficulty in verifying compliance with the NOLD rules according to IRS officials. NOLD reporting errors also increase SOI's workload. Specifically, to provide accurate NOLD data, SOI must invest resources to correct misreported NOLDS.

If corporations were required to report their NOL carryovers, IRS could use the data to do computerized compliance checks. IRS could create a computer program to track whether corporations have enough NOL carryover to support NOLDS they claim.

IRS Generally Does Fewer Checks on NOL and NOLD Reporting Compliance

In addition to unintentional errors, corporations may not comply with NOL and NOLD rules in two ways. First, they could report NOL when they actually had taxable income. Second, they could improperly claim NOLD when they had no NOL carryover.

The scope of our work did not allow us to comprehensively check how often these two types of noncompliance occurred across all corporations that IRS audited. However, during our review of TCMP statistical results and audit case files on small corporations, we found evidence of both types of noncompliance. Even so, IRS generally gives little scrutiny to corporate returns reporting NOL or to corporate NOL carryover amounts.

IRS Audits of NOL Returns Can Have a Tax Impact

IRS did not have available data on how often it audits corporate returns that reported NOL compared with those that reported a profit. IRS Examination officials said they generally audit a much smaller percentage of corporate returns that report NOL. IRS selects corporate returns to audit under various criteria and methods. In general, IRS attempts to audit returns that have high revenue. As a result, IRS would be less likely to audit NOL returns, unless IRS believes its examiners would find enough noncompliance to overcome NOL and generate tax revenue for the tax year being audited.

IRS may audit NOL returns under special audit programs. For example, using various criteria, IRS annually selects the largest, most complex corporations for its Coordinated Examination Program (CEP). Under CEP, teams of revenue agents and specialists audit corporations—most of which have assets over \$250 million. These team audits cover several tax years and take several years to complete. In April 1992, we reported that IRS audited 77 percent of these CEP corporations in fiscal year 1991.¹³ IRS generally did not audit CEP returns that had little or no revenue potential, such as those reporting NOLs. IRS officials said CEP may later audit an NOL return when the corporation files a return with taxable income.

Further, IRS randomly selects returns—including those reporting NOLs—to be audited in TCMP. For small corporations, the most recent TCMPs have covered tax years 1980 and 1987; the 1987 TCMP covered about 19,000 small corporations. For 1987, an estimated 54 percent of the small corporations (1.2 million of 2.3 million) reported NOLs—an increase from the 43 percent that reported NOLs for 1980. Because IRS' TCMP audits included small corporations that reported NOLs, we were able to analyze the results of those audits.

Our review of TCMP data for 1987 showed that auditing small corporations that reported NOLs can have a tax impact. IRS estimated that audits of 507,000 of the 1.2 million small corporations reporting NOLs for 1987—as well as the returns of individuals associated with the corporations (e.g., officers)—would have generated tax revenues.

If IRS had done these audits, IRS estimated that it would have erased the NOLs reported by about 300,000 small corporations and generated \$2 billion in additional taxes—about 29 percent of all additional taxes from the TCMP audits of small corporations. The increase in taxes per return would have averaged an estimated \$6,739. By erasing \$5 billion in reported NOLs and boosting taxable income by \$8 billion, these audits would have kept the NOL carryover from being improperly inflated.

The TCMP audits also addressed improper NOLD claims. Of the estimated 731,103 small corporations claiming NOLD, IRS estimated that audits would have reduced NOLD to zero for about 54,000. IRS' estimates did not include how many of these 54,000 small corporations claimed NOLDS without having any NOL carryover.

¹³Tax Administration: IRS' Efforts to Improve Corporate Compliance (GAO/GGD-92-81BR, Apr. 17, 1992).

Some Corporations Claimed NOLD Without Having NOL Carryover

We reviewed TCMP audit results for tax year 1987 in which the examiner disallowed the small corporation's entire NOLD. Of the 76 TCMP audits that met this criterion and that were available for our review (see app. I), we found 4 audits in which the TCMP examiner denied NOLD because the small corporation had already used up its NOL carryover. In these cases, the NOLD claims ranged from about \$2200 to about \$5300.

In two of the four audits, the audit workpapers did not disclose whether the small corporations had simply erred or had intended to improperly claim NOLD. These two audits involved an architectural and engineering corporation and a corporation for which the industry was not recorded. However, in the two other audits, the workpapers showed that IRS assessed a negligence penalty against the small corporation due, in part, to disregard of NOLD rules. These audits involved a service corporation and an electrical service corporation.

Among these 76 TCMP audits, we identified another 15 small corporations that may have improperly claimed NOLD. For five corporations, the TCMP examiners denied the NOLD because the corporation did not provide enough evidence to support the claim. For 10 other corporations, the TCMP audit files did not explain why the examiner denied NOLD. Because of the lack of information, we could not determine how many, if any, of these 15 small corporations claimed NOLD when they had no NOL carryover.

Conclusions

Hundreds of thousands of corporations, both large and small, have been incorrectly reporting NOLD. We believe that these corporations have mistakenly reported their entire NOL carryover as their NOLD instead of reporting the amount needed or available to offset taxable income. We believe that unclear instructions on NOLD reporting have contributed to taxpayer confusion over how much NOLD to report. IRS officials agreed and plan to clarify the NOLD reporting instructions for the 1993 tax year.

Regardless of the motives or frequency of improper NOLD claims, IRS does not automatically track the NOL carryover accumulated by corporations. Doing this tracking from year to year would help IRS identify corporations that claim NOLDS but have no NOL carryover. However, IRS cannot easily do this tracking because corporations are not required to annually report their NOL carryover.

According to IRS officials, reporting NOL carryover would create only minimal burdens for corporations. Corporations already must compute

NOL carryovers to claim NOLD. Also, we believe that IRS costs to collect and store the carryover data would be minimal.

On the other hand, requiring corporations to annually report their NOL carryovers would clarify how many billions of NOLD carryover dollars corporations have available to offset taxable income for up to 15 tax years in the future. Knowing the carryover amount could lead to (1) more reliable revenue estimates for proposed tax legislation, (2) increased voluntary compliance among corporations, and (3) new IRS compliance checks of NOLD claims.

Recommendations

We recommend that the Commissioner of Internal Revenue

- revise IRS' instructions on reporting NOLD to clarify amounts that can be deducted and to clearly define NOL carryover, and
- require corporations to annually report their NOL carryovers and use the reported amounts to track corporate NOLD claims.

Agency Comments

We discussed our recommendations with responsible officials at IRS and Treasury and have incorporated their comments where appropriate. The officials agreed with our recommendations.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time, we will provide copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties. We will also make copies available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions about this report, please call me at (202) 512-5407.

Sincerely yours,

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
Administration Issues

Contents

Letter		1
Appendix I Objectives, Scope, and Methodology		20
Appendix II Statistics on NOL Carryover and Related Data		23
Appendix III Major Contributors to This Report		50
Tables		
	Table II.1: Estimated Net Operating Loss Carryover of Corporations by Industry, Tax Years 1987 and 1989	23
	Table II.2: Estimated Net Operating Loss Carryover of Corporations by Industry Compared to Total Receipts, Tax Year 1989	26
	Table II.3: Estimated Net Operating Loss Carryover of U.S.- and Foreign-Controlled Corporations Compared to Total Receipts, Tax Year 1989	27
	Table II.4: Corporation Receipts by Industry, Tax Years 1987 and 1989	28
	Table II.5: Corporation Cost of Operations by Industry, Tax Years 1987 and 1989	31
	Table II.6: Corporation Deductions by Industry, Tax Years 1987 and 1989	34
	Table II.7: Corporate Taxable Income Before NOLD and Special Deductions by Industry, Tax Years 1987 and 1989	39
	Table II.8: Corporation Net Operating Loss Deductions by Industry, Tax Years 1987 and 1989	42
	Table II.9: Corporation Net Operating Loss Deductions, Ranked by Industry, Tax Year 1989	44
	Table II.10: Corporation Net Operating Loss Deduction Return Statistics, Tax Years 1987 and 1989	47

Abbreviations

AICPA	American Institute of Certified Public Accountants
CEP	Coordinated Examination Program
IRS	Internal Revenue Service
JCT	Joint Committee on Taxation
NOL	net operating loss
NOLD	net operating loss deduction
SOI	Statistics of Income
TCMP	Taxpayer Compliance Measurement Program

Objectives, Scope, and Methodology

Our objectives were to address the following questions:

- How large is the corporate NOL carryover from past years?
- How adequate are the instructions to corporations for reporting NOLD?
- Would knowing the NOL carryover (1) improve revenue estimates, (2) increase voluntary compliance, and (3) enable IRS to check NOLD compliance?
- How does IRS attempt to enforce corporate compliance in NOL and NOLD reporting?

In addition, we were asked to provide statistical data on corporations' total receipts, ownership (domestic versus foreign), cost of sales and operations, tax deductions, taxable income before NOLD and special deductions, income subject to tax, and total tax before and after tax credits. As requested, we also developed various statistics on NOL carryover and NOLD claims for corporations that reported profits or losses in each type of industry.

To estimate NOL carryovers that corporations accumulated as of 1989, we expanded on a methodology used by IRS' Research Division. Research developed this methodology by analyzing IRS' 1987 TCMP audits of small corporations and used it to estimate the amount of NOL carryover that small corporations accumulated as of 1987.

The methodology assumed that many small corporations overreported their NOLs for 1987 because they had incorrectly reported NOL carryover as NOLD. IRS found two conditions under which corporations overreported NOLs. First, corporations reported NOLD when they should not have reported any because they had NOLs. Second, corporations reported NOLD that exceeded their positive taxable income. To estimate NOL carryover, the Research Division assumed that both groups of corporations had incorrectly reported their entire NOL carryover as NOLD. Also, Research assumed that small corporations had no NOL carryover if they reported positive taxable income and either (1) a lower NOLD amount or (2) no NOLD amount.

To estimate NOL carryover among small and large corporations, we applied IRS' methodology to all corporations that filed Forms 1120 and 1120-A. In tax years 1985 through 1989, 99 percent of all corporations (excluding Subchapter S) filed one of these two tax forms according to SOI's estimates. The remainder filed more specialized types of Form 1120, such as 1120-L or 1120-PC. We excluded Subchapter S corporations because

they cannot claim NOLDS to reduce taxable income. We identified these corporations by using IRS' SOI samples for tax years 1985 through 1989.

Research did not develop a methodology for estimating the NOL carryover of those small corporations that (1) claimed NOLD equal to taxable income or (2) claimed no NOLD when they reported NOL. As a result, both IRS' and our estimates of NOL carryover may be understated because such corporations would have an unknown amount of NOL carryover. Also, neither estimate includes new NOLs that were accumulated in the related tax years (i.e., tax years 1987 for IRS and 1989 for us).

Both IRS' and our estimates may be overstated to the extent that an unknown portion of the NOL carryover may have been claimed as NOL carrybacks or as a result of IRS audit adjustments. In the future, some of the NOL carryover may not be used because the 15-year carryover period expired or corporations ceased doing business.

To confirm Research's methodology and assumptions on small corporations reporting NOL carryover as NOLD, we interviewed AICPA officials and an IRS Examination official who helped monitor the 1987 TCMP audits. We also reviewed returns and related workpapers for TCMP audits of 76 small corporations in which TCMP examiners reduced the reported NOLD amounts to zero. We had requested all 135 TCMP returns from small corporations that met this criterion. However, we could not use 59 returns because (1) IRS was unable to provide audit files for 32 returns and (2) the files for 27 returns lacked enough information to enable us to confirm that the NOLD was disallowed.

We also confirmed IRS' assumption for large corporations. In addition to our AICPA interviews, we did this by reviewing SOI data and by sending a questionnaire to IRS CEP case managers with audit oversight responsibility for the six large corporations that overreported NOLD in 1989. Three corporations reported NOLD unnecessarily because they reported NOL, and three corporations reported NOLD that exceeded their reported taxable income.

To evaluate IRS instructions on how corporations should use NOL carryover, we reviewed IRS' instructions and publications governing NOLs, NOLDS, and NOL carryovers. We also discussed these materials with officials from the IRS Tax Forms and Publications and Examination divisions and AICPA officials.

We obtained information on the cost of having corporations report NOL carryovers through discussions with officials from IRS' Tax Forms and Publications Division. We asked for an estimate of the costs for obtaining NOL carryover data by either (1) adding a line to corporate tax returns or (2) using a standardized form.

To develop information on the benefits of requiring corporations to report their NOL carryover, we interviewed officials from IRS' Tax Forms and Publications and SOI divisions, the Department of the Treasury, and JCT. In the Treasury interview, we asked about the pros and cons of requiring corporate taxpayers to report their NOL carryover amounts.

To analyze IRS' enforcement for NOL and NOLD reporting, we met with IRS officials responsible for audits of corporate tax returns as well as those involved in tax year 1987 TCMP audits of small corporations. Further, we analyzed aggregated results on the TCMP audits and reviewed the 76 TCMP audit files described earlier.

To develop other statistical information, such as corporate receipts, ownership (domestic versus foreign), cost of sales and operations, deductions, and NOLD claims for corporations in each type of industry, we relied on samples of corporation income tax returns for tax years 1987 and 1989 that SOI selected and weighted. To be consistent, we limited our statistical analyses to corporations filing Forms 1120 or 1120-A.

Because the data are based on a sample, they are subject to sampling error. Sampling error may vary widely from one estimate to another. Estimates appearing in appendix II tables are descriptive only. Differences between groups or years presented in the tables have not been analyzed for statistical significance.

Statistics on NOL Carryover and Related Data

Estimated NOL Carryover by Industry Type (1987 and 1989)

Our analysis of 1989 tax data in IRS' SOI database indicated that corporations (excluding Subchapter S corporations) accumulated an estimated \$245.7 billion in NOL carryover. Compared to 1987 SOI data, this amount represents about a 22-percent increase in NOL carryover. (For detailed information on NOL carryover by industry type for years 1987 and 1989, see table II.1.)

Table II.1: Estimated Net Operating Loss Carryover of Corporations by Industry, Tax Years 1987 and 1989

Dollars in millions

Industry division/major industry name	Net operating loss carryover for returns claiming a net operating loss deduction					
	1987			1989		
	With negative income	In excess of taxable income	Total	With negative income	In excess of taxable income	Total
Agriculture, forestry, and fishing	\$2,170	\$1,543	\$3,713	\$2,069	\$1,696	\$3,765
Agriculture, forestry, and fishing	2,170	1,543	3,713	2,069	1,696	3,765
Mining	\$13,882	\$4,210	\$18,092	\$14,329	\$6,473	\$20,802
Metal mining	1,075	187	1,262	906	708	1,614
Coal mining	670	823	1,493	649	396	1,045
Oil and gas extraction	11,938	2,973	14,911	12,524	5,299	17,823
Nonmetallic minerals, except fuels	199	227	426	250	70 ^a	320
Construction	\$4,544	\$2,455	\$6,999	\$5,208	\$3,971	\$9,179
General building contractors	2,269	1,317	3,586	2,936	1,211	4,147
Heavy construction contractors	882	462	1,344	1,093	1,959	3,052
Special trade contractors	1,393	676	2,069	1,179	801	1,980
Manufacturing	\$34,237	\$18,611	\$52,848	\$39,469	\$17,362	\$56,831
Food and kindred products	1,784	426	2,210	2,530	389	2,919
Tobacco manufactures	0	0	0	^b	0	6 ^a
Textile mill products	1,938	192	2,130	595	175	770
Apparel and other textile products	627	510	1,137	1,264	608	1,872
Lumber and wood products	752	423	1,175	512	291	803
Furniture and fixtures	339	82	421	427	181	608
Paper and allied products	319	550	869	282	429	711
Printing and publishing	1,969	535	2,504	3,306	640	3,946
Chemical and allied products	2,851	1,362	4,213	2,979	1,039	4,018
Petroleum and coal products	1,897	1,643	3,540	1,696	1,053	2,749
Rubber and misc. plastics products	368	852	1,220	501	747	1,248
Leather and leather products	153 ^a	20 ^a	173	382 ^a	^b	383
Stone, clay, and glass products	502	370	872	1,451	449	1,990
Primary metal industries	1,326	4,239	5,565	1,238	3,077	4,315

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Net operating loss carryover for returns claiming a net operating loss deduction

Industry division/major industry name	1987			1989		
	With negative income	In excess of taxable income	Total	With negative income	In excess of taxable income	Total
Fabricated metal products	2,602	1,595	4,197	3,186	1,523	4,709
Machinery, except electrical	4,712	1,921	6,633	3,903	2,749	6,652
Electrical and electronic equipment	5,399	1,418	6,817	8,044	1,977	10,021
Motor vehicles and equipment	1,551	33 ^a	1,584	2,144	174	2,318
Transportation equipment, except motor vehicles	1,216	1,194	2,410	474	501	975
Instruments and related products	1,290	499	1,789	1,759	608	2,367
Misc. manufacturing and not allocable	2,642	747	3,389	2,790	751	3,514
Transportation and public utilities	\$14,573	\$6,014	\$20,587	\$21,465	\$3,819	\$25,284
Transportation	8,215	2,236	10,451	10,553	2,320	12,873
Communication	3,317	708	4,025	7,054	358	7,412
Electric, gas, and sanitary services	3,041	3,070	6,111	3,858	1,141	4,999
Wholesale and retail trade	\$19,349	\$8,759	\$28,108	\$22,548	\$9,410	\$31,958
Groceries and related products	338	317	655	531	368	899
Machinery, equipment, and supplies	2,075	775	2,850	2,509	750	3,259
Miscellaneous wholesale trade	9,197	3,782	12,979	9,804	4,490	14,294
Building materials, garden supplies, and mobile home dealers	646	175	821	636	388	1,024
General merchandise stores	864	232	1,096	731	210	941
Food stores	339	176	515	866	274	1,140
Auto dealers and service stations	995	759	1,754	1,207	300	1,507
Apparel and accessory stores	627	177	804	890	229	1,119
Furniture and home furnishing stores	116	191	307	526	143	669
Eating and drinking places	2,368	836	3,204	2,189	1,224	3,413
Misc. retail stores	1,675	826	2,501	2,595	1,027	3,622
Not allocable	109	513 ^a	622	64 ^a	^b	71 ^a
Finance, insurance, and real estate	\$33,204	\$14,352	\$47,556	\$49,934	\$15,515	\$65,449
Banking	3,329	1,313	4,642	5,432	1,715	7,147
Credit agencies other than banks	10,797	6,712	17,509	18,919	4,969	23,888
Security, commodity brokers, and services	998	233	1,231	1,094	418	1,512
Insurance	1,739	132	1,871	112	140	252
Insurance agents, brokers, and services	787	930	1,717	813	223	1,036
Real estate	11,204	3,718	14,922	15,650	5,445	21,095

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Net operating loss carryover for returns claiming a net operating loss deduction					
	1987			1989		
	With negative income	In excess of taxable income	Total	With negative income	In excess of taxable income	Total
Holding and other investment companies except bank holding companies	4,350	1,314	5,664	7,914	2,605	10,519
Services	\$16,919	\$5,625	\$22,544	\$24,899	\$7,335	\$32,234
Hotels and other lodging places	1,196	277	1,473	1,695	549	2,244
Personal services	311	118	429	445	370	815
Business services	9,634	2,392	12,026	11,250	3,808	15,058
Auto repair and misc. repair services	571	599	1,170	932	325	1,257
Amusement and recreation services	1,531	736	2,267	3,380	859	4,239
Other services	3,676	1,503	5,179	7,197	1,424	8,621
Not allocable	\$1,689	\$43	\$1,732	\$51^a	\$106^a	\$157
Total	\$140,567	\$61,612	\$202,179	\$179,972	\$65,687	\$245,659

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

^aIn accordance with SOI criteria, these estimates are based on fewer than 10 returns and should be considered statistically unreliable.

^bIn accordance with SOI criteria, these estimates are based on two or fewer returns and have been deleted to avoid disclosure of information about specific corporations.

Source: IRS.

NOL Carryover by Industry Compared to Total Receipts

To provide a better perspective on our NOL carryover estimate, we compared the portions accumulated by each of the nine industry divisions to each division's total receipts for 1989. Table II.2 shows the results of this analysis.

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.2: Estimated Net Operating Loss Carryover of Corporations by Industry Compared to Total Receipts, Tax Year 1989

Dollars in millions

Industry division	All corporations		Corporations with net operating loss carryover			
	Number of returns	Total receipts	Number of returns	Total receipts	NOL carryover	Percentage of NOL carryover to total receipts
Agriculture, forestry, and fishing	70,592	\$59,876.1	17,514	\$13,597.8	\$3,764.6	27.7%
Mining	25,891	91,208.0	9,732	22,986.5	20,802.9	90.5
Construction	253,506	373,115.5	59,841	61,173.9	9,178.2	15.0
Manufacturing	197,339	3,254,905.1	50,696	360,669.6	56,834.2	15.8
Transportation and public utilities	94,178	852,874.3	27,036	97,223.6	25,284.0	26.0
Wholesale and retail trade	631,656	2,454,138.2	154,089	386,878.8	31,957.7	8.3
Finance, insurance, and real estate	356,489	1,201,467.9	97,735	187,608.8	65,448.4	34.9
Services	556,574	557,998.5	152,181	122,175.8	32,234.0	26.4
Not allocable	12,225	1,975.4	1,259	366.5	157.2	42.9
Total	2,198,450	\$8,847,559.0	570,083	\$1,252,681.3	\$245,661.2	19.6

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

Source: IRS.

**Estimated NOL
Carryover of U.S.- and
Foreign-Controlled
Corporations
Compared to Total
Receipts**

We compared the NOL carryover accumulated by both U.S.- and foreign-controlled corporations to each group's total receipts for 1989. Table II.3 shows the results of this analysis.

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.3: Estimated Net Operating Loss Carryover of U.S.- and Foreign-Controlled Corporations Compared to Total Receipts, Tax Year 1989

Dollars in billions

Corporation group	Estimated NOL carryover	Total receipts	Percentage of NOL carryover to total receipts
U.S.-controlled	\$194.3	\$982.9	19.8%
Foreign-controlled	51.4	269.7	19.0
Total	\$245.7	\$1,252.6	19.6

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

Source: IRS.

Receipts for Corporations With Net Incomes and Net Losses

Between 1987 and 1989, total receipts increased from \$6.2 trillion to \$6.9 trillion (11 percent) for corporations reporting net incomes.¹ Seven industry divisions increased their receipts; the services division and the not-allocable division did not. The mining and manufacturing divisions experienced the largest increases in total receipts (61 and 20 percent, respectively).

Within the mining division, oil and gas extraction corporations had the largest increase. Within the manufacturing division, motor vehicles and equipment corporations had the largest increase.

For corporations reporting NOLs, total receipts increased from \$1.87 trillion to \$1.91 trillion (2 percent). The two divisions experiencing the largest increase in receipts were wholesale and retail trade (28 percent) and transportation and public utilities (21 percent). Within wholesale and retail trade, general merchandise stores were responsible for the largest increase. Within transportation and public utilities, transportation corporations were responsible for the largest increase.

Despite the overall increase in total receipts among corporations reporting NOLs, seven industries in the mining and manufacturing divisions and eight industries in the other divisions had decreases in receipts. (For detailed information on total receipts by industry type for corporations with net incomes and net losses for years 1987 and 1989, see table II.4.)

¹Total receipts include gross business receipts and all other forms of positive income, such as interest and dividends as computed by SOI.

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.4: Corporation Receipts by Industry, Tax Years 1987 and 1989

Dollars in millions

Industry division/major industry name	Total receipts for returns with net income			Total receipts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Agriculture, forestry, and fishing	\$41,345.1	\$44,864.1	8.5%	\$14,274.4	\$15,012.0	5.2%
Agriculture, forestry, and fishing	41,345.1	44,864.1	8.5	14,274.4	15,012.0	5.2
Mining	\$42,642.1	\$68,644.9	61.0	\$46,203.5	\$22,563.0	-51.2
Metal mining	3,865.3	6,001.0	55.3	5,170.5	1,991.7	-61.5
Coal mining	11,914.0	11,199.1	-6.0	4,871.7	8,950.0	83.7
Oil and gas extraction	18,017.2	44,453.0	146.7	35,091.8	10,091.2	-71.2
Nonmetallic minerals, except fuels	8,845.6	6,991.8	-21.0	1,069.5	1,530.1	43.1
Construction	\$265,669.6	\$268,001.6	0.9	\$90,818.7	\$105,029.1	15.6
General building contractors	121,357.7	114,808.7	-5.4	47,075.9	48,765.7	3.6
Heavy construction contractors	39,700.8	46,314.9	16.7	12,821.5	16,660.4	29.9
Special trade contractors	104,611.1	106,878.0	2.2	30,921.3	39,603.0	28.1
Manufacturing	\$2,294,504.4	\$2,744,364.8	19.6	\$666,590.7	\$510,146.1	-23.5
Food and kindred products	261,548.6	280,606.5	7.3	53,576.2	56,290.0	5.1
Tobacco manufactures	51,403.9	59,924.4	16.6	^a	15,370.3 ^b	412.3
Textile mill products	36,391.3	29,751.1	-18.2	8,194.6	10,789.9	31.7
Apparel and other textile products	35,792.5	35,641.5	-0.4	11,859.1	12,134.3	2.3
Lumber and wood products	63,831.9	56,436.4	-11.6	10,402.5	11,776.1	13.2
Furniture and fixtures	24,338.0	24,360.8	0.1	7,455.2	9,103.7	22.1
Paper and allied products	88,931.8	99,562.6	12.0	5,083.4	15,742.6	209.7
Printing and publishing	99,079.9	106,303.2	7.3	23,973.6	32,006.5	33.5
Chemical and allied products	270,674.8	318,428.1	17.6	28,253.1	34,396.9	21.7
Petroleum and coal products	311,146.8	418,767.5	34.6	82,426.7	35,452.4	-57.0
Rubber and misc. plastics products	51,908.4	44,667.4	-13.9	7,847.0	17,632.8	124.7
Leather and leather products	11,671.2	13,699.9	17.4	1,310.7	1,648.0	25.7
Stone, clay, and glass products	47,639.7	40,472.1	-15.0	11,491.7	22,586.8	96.5
Primary metal industries	82,168.5	122,873.9	49.5	30,273.2	18,318.0	-39.5
Fabricated metal products	118,045.0	113,425.5	-3.9	29,838.0	29,766.0	-0.2
Machinery, except electrical	183,902.0	220,085.4	19.7	46,369.9	59,764.2	28.9
Electrical and electronic equipment	205,961.1	233,632.5	13.4	46,264.6	59,124.2	27.8
Motor vehicles and equipment	138,862.3	276,751.7	99.3	218,536.0	26,057.8	-88.1
Transportation equipment, except motor vehicles	119,557.9	136,778.3	14.4	14,639.7	14,810.3	1.2
Instruments and related products	55,136.3	69,963.5	26.9	10,291.8	12,598.6	22.4
Misc. manufacturing and not allocable	36,512.5	42,232.5	15.7	15,503.3	14,776.7	-4.7

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Total receipts for returns with net income			Total receipts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Transportation and public utilities	\$608,041.2	\$683,323.9	12.4	\$140,573.2	\$169,445.3	20.5
Transportation	205,709.2	213,630.4	3.9	60,277.8	85,520.3	41.9
Communication	176,588.9	221,926.6	25.7	22,894.8	25,471.2	11.3
Electric, gas, and sanitary services	225,743.1	247,766.9	9.8	57,400.6	58,453.8	1.8
Wholesale and retail trade	\$1,769,753.8	\$1,798,626.5	1.6	\$511,832.6	\$655,237.0	28.0
Groceries and related products	141,992.8	155,318.4	9.4	24,077.9	33,897.8	40.8
Machinery, equipment, and supplies	92,835.3	85,405.4	-8.0	21,167.1	25,151.6	18.8
Miscellaneous wholesale trade	643,627.6	680,539.8	5.7	212,913.0	244,917.3	15.0
Building materials, garden supplies, and mobile home dealers	51,288.9	46,118.8	-10.1	12,563.7	19,816.9	57.7
General merchandise stores	211,168.2	221,062.0	4.7	14,272.3	32,791.0	129.8
Food stores	183,931.3	192,528.7	4.7	56,714.1	86,390.6	52.3
Auto dealers and service stations	170,871.2	139,691.1	-18.2	72,189.3	88,309.1	22.3
Apparel and accessory stores	44,834.6	55,068.3	22.8	15,812.8	14,919.6	-5.6
Furniture and home furnishing stores	31,795.4	30,469.4	-4.2	6,609.8	12,725.7	92.5
Eating and drinking places	64,918.0	60,936.2	-6.1	24,992.8	35,394.6	41.6
Misc. retail stores	127,906.3	129,492.8	1.2	49,274.5	60,198.4	22.2
Not allocable	4,584.2	1,995.6	-56.5	1,245.3	724.4	-41.8
Finance, insurance, and real estate	\$784,645.9	\$890,741.8	13.5	\$227,938.2	\$241,320.3	5.9
Banking	297,332.0	387,397.8	30.3	54,489.5	62,031.7	13.8
Credit agencies other than banks	169,824.1	169,436.0	-0.2	37,566.6	66,519.1	77.1
Security, commodity brokers, and services	30,718.8	52,753.0	71.7	27,697.7	18,110.9	-34.6
Insurance	125,715.7	173,704.9	38.2	32,943.3	29,320.5	-11.0
Insurance agents, brokers, and services	22,229.7	18,561.3	-16.5	5,593.4	5,176.3	-7.5
Real estate	51,385.0	49,424.9	-3.8	33,477.9	39,510.3	18.0
Holding and other investment companies except bank holding companies	87,440.6	39,463.9	-54.9	36,169.8	20,651.5	-42.9
Services	\$382,090.8	\$366,464.3	-4.1	\$170,945.7	\$191,097.0	11.8
Hotels and other lodging places	18,580.7	16,226.3	-12.7	8,043.0	13,750.7	71.0
Personal services	15,505.3	17,698.0	14.1	4,708.5	5,273.9	12.0
Business services	131,350.7	148,832.6	13.3	59,083.1	74,756.6	26.5
Auto repair and misc. repair services	30,283.2	37,133.8	22.6	11,965.4	15,597.5	30.4
Amusement and recreation services	35,205.8	46,022.0	30.7	20,405.6	21,337.6	4.6
Other services	151,165.1	100,551.6	-33.5	66,740.1	60,380.7	-9.5

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Total receipts for returns with net income			Total receipts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Not allocable	\$2,794.7	\$1,178.9	-57.8	\$1,309.7	\$784.0	-40.1
Total	\$6,191,487.6	\$6,866,210.8	10.9	\$1,870,486.7	\$1,910,633.8	2.1

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

^aIn accordance with SOI criteria, these estimates are based on two or fewer returns and were deleted to avoid disclosure of information about specific corporations.

^bIn accordance with SOI criteria, these estimates are based on fewer than 10 returns and should be considered statistically unreliable.

Source: IRS.

Cost of Sales and Operations for Corporations With Net Incomes and Net Losses

Cost of sales and operations, the largest identifiable deduction, rose from \$3.5 trillion in 1987 to \$3.9 trillion (11 percent) in 1989 for corporations reporting net incomes. For corporations reporting NOLs, cost of sales and operations decreased from \$1.18 trillion to \$1.15 trillion (3 percent). (For detailed information on 1987 and 1989 cost of operations by industry type for corporations with net incomes and net losses, see table II.5.)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.5: Corporation Cost of Operations by Industry, Tax Years 1987 and 1989

Dollars in millions

Industry division/major industry name	Cost of operations for returns with net income			Cost of operations for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Agriculture, forestry, and fishing	\$26,119.3	\$28,787.5	10.2%	\$9,342.7	\$10,666.8	14.2%
Agriculture, forestry, and fishing	26,119.3	28,787.5	10.2	9,342.7	10,666.8	14.2
Mining	\$21,687.5	\$36,903.1	70.2	\$31,066.1	\$13,752.2	-55.7
Metal mining	1,734.2	3,106.6	79.1	3,525.4	1,034.2	-70.7
Coal mining	7,531.2	7,297.5	-3.1	3,424.0	6,839.8	99.8
Oil and gas extraction	7,827.3	22,650.2	189.4	23,435.4	4,858.1	-79.3
Nonmetallic minerals, except fuels	4,594.8	3,848.8	-16.2	681.3	1,020.1	49.7
Construction	\$196,957.4	\$202,645.0	2.9	\$72,997.8	\$80,688.8	10.5
General building contractors	95,993.6	93,140.9	-3.0	39,633.0	38,519.7	-2.8
Heavy construction contractors	28,566.9	35,391.9	23.9	10,512.1	12,943.1	23.1
Special trade contractors	72,396.9	74,112.2	2.4	22,852.7	29,226.0	27.9
Manufacturing	\$1,418,062.5	\$1,714,831.7	20.9	\$491,561.4	\$349,621.7	-28.9
Food and kindred products	171,977.3	183,447.8	6.7	39,033.3	40,659.7	4.2
Tobacco manufactures	24,944.0	27,970.0	12.1	^a	5,218.7 ^b	278.2
Textile mill products	26,562.0	21,854.1	-17.7	6,135.3	8,130.7	32.5
Apparel and other textile products	24,778.8	24,039.4	-3.0	8,701.4	8,729.1	0.3
Lumber and wood products	44,295.5	39,551.2	-10.7	7,317.4	8,500.1	16.2
Furniture and fixtures	16,322.0	16,259.7	-0.4	5,217.3	6,538.6	25.3
Paper and allied products	55,900.1	62,028.4	11.0	3,971.1	10,991.1	176.8
Printing and publishing	43,999.5	46,351.0	5.3	14,060.5	15,815.9	12.5
Chemical and allied products	147,686.3	178,279.1	20.7	18,007.4	20,380.1	13.2
Petroleum and coal products	206,992.9	289,360.6	39.8	61,322.7	29,750.0	-51.5
Rubber and misc. plastics products	33,582.6	29,083.2	-13.4	5,850.3	12,798.0	118.8
Leather and leather products	7,592.9	8,895.9	17.2	1,068.5	1,288.2	20.6
Stone, clay, and glass products	29,188.4	24,581.2	-15.8	7,726.6	15,073.6	95.1
Primary metal industries	60,495.9	89,602.6	48.1	23,873.6	14,377.3	-39.8
Fabricated metal products	76,796.9	76,131.4	-0.9	21,981.2	22,103.7	0.6
Machinery, except electrical	97,596.4	121,746.7	24.7	30,589.6	36,741.5	20.1
Electrical and electronic equipment	121,805.4	133,754.4	9.8	32,291.9	41,796.2	29.4
Motor vehicles and equipment	91,705.2	183,709.1	100.3	175,426.0	21,201.6	-87.9
Transportation equipment, except motor vehicles	83,872.6	95,423.9	13.8	11,411.6	11,900.9	4.3
Instruments and related products	29,875.5	37,556.6	25.7	6,127.4	7,985.4	30.3
Misc. manufacturing and not allocable	22,092.3	25,205.4	14.1	10,068.4	9,641.3	-4.2

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Cost of operations for returns with net income			Cost of operations for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Transportation and public utilities	\$250,901.0	\$293,653.8	17.0	\$70,202.2	\$80,448.2	14.6
Transportation	81,681.1	81,280.3	-0.5	28,471.6	40,195.1	41.2
Communication	61,653.1	95,911.9	55.6	4,561.8	5,901.2	29.4
Electric, gas, and sanitary services	107,566.8	116,461.6	8.3	37,168.8	34,351.9	-7.6
Wholesale and retail trade	\$1,317,450.3	\$1,338,113.0	1.6	\$389,345.6	\$491,904.3	26.3
Groceries and related products	121,272.8	132,968.6	9.6	20,536.5	29,044.5	41.4
Machinery, equipment, and supplies	68,189.2	62,701.7	-8.0	15,188.3	18,134.0	19.4
Miscellaneous wholesale trade	522,884.9	559,376.8	7.0	176,058.6	197,487.5	12.2
Building materials, garden supplies, and mobile home dealers	35,869.5	31,882.4	-11.1	8,847.5	13,907.3	57.2
General merchandise stores	129,796.6	133,413.8	2.8	7,372.9	19,662.3	166.7
Food stores	139,199.8	145,274.3	4.4	41,779.5	64,767.2	55.0
Auto dealers and service stations	140,752.5	113,273.0	-19.5	60,407.4	74,256.4	22.9
Apparel and accessory stores	25,971.3	31,813.2	22.5	9,415.6	8,939.8	-5.1
Furniture and home furnishing stores	19,354.8	18,350.3	-5.2	4,230.2	7,996.1	89.0
Eating and drinking places	26,327.5	23,554.5	-10.5	11,720.4	16,950.9	44.6
Misc. retail stores	84,295.1	83,911.6	-0.5	32,840.6	40,237.7	22.5
Not allocable	3,536.3	1,592.8	-55.0	948.1	520.6	-45.1
Finance, insurance, and real estate	\$166,653.5	\$167,236.7	0.3	\$59,574.5	\$48,098.8	-19.3
Banking	607.1	484.2	-20.2	160.4	135.5	-15.5
Credit agencies other than banks	46,785.8	35,805.6	-23.5	2,031.3	3,088.6	52.1
Security, commodity brokers, and services	6,035.2	4,314.2	-28.5	3,989.7	1,012.1	-74.6
Insurance	62,283.1	91,868.2	47.5	25,174.2	20,487.1	-18.6
Insurance agents, brokers, and services	3,113.6	2,181.4	-29.9	1,021.6	562.9	-44.9
Real estate	15,997.0	13,541.2	-15.4	10,234.4	12,179.7	19.0
Holding and other investment companies except bank holding companies	31,831.7	19,041.9	-40.2	16,962.9	10,632.9	-37.3
Services	\$127,768.8	\$139,690.7	9.3	\$53,207.9	\$72,901.1	37.0
Hotels and other lodging places	9,398.4	7,010.4	-25.4	2,854.4	6,661.9	133.4
Personal services	5,826.1	6,642.8	14.0	1,575.0	2,111.7	34.1
Business services	59,485.5	64,123.3	7.8	23,495.3	33,954.2	44.5
Auto repair and misc. repair services	14,152.5	15,862.0	12.1	4,874.3	6,668.9	36.8
Amusement and recreation services	11,465.6	15,443.8	34.7	8,601.0	6,401.1	-25.6
Other services	27,440.7	30,608.4	11.5	11,807.9	17,103.3	44.8

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Cost of operations for returns with net income			Cost of operations for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Not allocable	\$1,773.0	\$812.6	-54.2	\$786.5	\$571.3	-27.4
Total	\$3,527,373.3	\$3,922,674.1	11.2	\$1,178,084.7	\$1,148,653.2	-2.5

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

^aIn accordance with SOI criteria, these estimates are based on two or fewer returns and were deleted to avoid disclosure of information about specific corporations.

^bIn accordance with SOI criteria, these estimates are based on fewer than 10 returns and should be considered statistically unreliable.

Source: IRS.

Deductions for Corporations With Net Incomes and Net Losses

Total deductions claimed by corporations with net incomes rose from \$2.3 trillion in 1987 to \$2.6 trillion (12 percent) in 1989. For corporations reporting net losses, deductions rose from \$788 billion to \$878 billion (11 percent) during this same period.

Interest expense, the largest identifiable deduction item in 1989 aside from cost of sales and operations (see table II.5), rose \$139.1 billion (36 percent) to \$528.6 billion for corporations reporting net incomes. The finance, insurance, and real estate industry division accounted for \$87.9 billion of this increase (63 percent). For corporations reporting NOLs, interest expense rose \$59.9 billion (42 percent) to \$201.9 billion in 1989. The finance, insurance, and real estate industry division accounted for \$35.8 billion (60 percent) of the increase. (For detailed information on deduction items for corporations by industry type with net incomes and net losses, see table II.6.)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.6: Corporation Deductions by Industry, Tax Years 1987 and 1989

Dollars in thousands

Industrial division/deduction	Deduction amounts for returns with net income			Deduction amounts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Total for all industries	\$2,284,464,095	\$2,550,558,372	11.6%	\$788,007,263	\$878,025,848	11.4%
Compensation of officers	120,415,616	100,586,450	-16.5	43,952,086	40,648,296	-7.5
Salaries and wages	457,430,007	497,952,260	8.9	150,240,692	170,300,877	13.4
Repairs	68,114,808	68,596,191	0.7	12,788,868	13,218,003	3.4
Bad debts	31,571,586	37,737,123	19.5	19,550,791	25,283,174	29.3
Rents	95,418,878	98,424,577	3.2	36,824,220	42,735,020	16.1
Taxes	145,124,278	158,723,772	9.4	39,629,733	40,512,555	2.2
Interest	389,491,117	528,637,125	35.7	141,989,905	201,929,899	42.2
Contributions	4,801,573	4,707,847	-2.0	66,261	80,222	21.1
Depreciation	220,437,859	236,840,313	7.4	71,494,698	66,854,888	-6.5
Depletion	5,998,971	7,478,629	24.7	2,228,840	1,466,669	-34.2
Advertising	75,970,965	82,121,238	8.1	19,512,296	25,804,060	32.2
Pension, profit sharing, etc., plans	33,713,234	31,112,036	-7.7	7,864,621	6,401,141	-18.6
Employee benefit programs	60,033,871	80,621,867	34.3	18,172,544	18,989,852	4.5
Other deductions	575,941,332	617,018,944	7.1	223,691,708	223,801,192	0.0
Finance, insurance, and real estate	\$522,063,761	\$650,634,002	24.6	\$190,365,323	\$219,900,259	15.5
Compensation of officers	19,836,003	20,643,175	4.1	6,859,510	5,691,289	-17.0
Salaries and wages	64,102,707	76,759,049	19.7	25,733,519	22,430,649	-12.8
Repairs	3,495,586	4,042,994	15.7	1,477,916	1,573,264	6.5
Bad debts	17,345,181	20,854,664	20.2	12,778,961	15,134,692	18.4
Rents	11,370,272	13,208,122	16.2	5,432,841	5,334,670	-1.8
Taxes	14,657,741	15,964,365	8.9	4,890,140	5,097,755	4.2
Interest	244,954,083	332,889,793	35.9	72,582,198	108,362,033	49.3
Contributions	641,299	691,111	7.8	4,676	3,590	-23.2
Depreciation	18,385,040	22,282,266	21.2	8,525,286	7,305,525	-14.3
Depletion	102,473	87,730	-14.4	44,147	53,013	20.1
Advertising	5,562,571	6,348,055	14.1	1,794,411	1,656,943	-7.7
Pension, profit sharing, etc., plans	3,284,089	3,475,723	5.8	765,468	599,866	-21.6
Employee benefit programs	5,777,332	7,915,737	37.0	1,964,728	2,073,757	5.5
Other deductions	112,549,384	125,471,218	11.5	47,511,522	44,583,213	-6.2
Agriculture, forestry, and fishing	\$12,118,153	\$13,145,670	8.5	\$6,073,187	\$5,677,374	-6.5
Compensation of officers	960,527	1,116,345	16.2	265,388	328,925	23.9
Salaries and wages	1,935,427	2,346,352	21.2	856,806	765,882	-10.6

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in thousands

Industrial division/deduction	Deduction amounts for returns with net Income			Deduction amounts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Repairs	619,208	591,953	-4.4	256,934	235,714	-8.3
Bad debts	47,157	38,598	-18.2	23,253	57,563	147.6
Rents	793,336	865,941	9.2	337,751	431,012	27.6
Taxes	844,714	893,667	5.8	310,436	331,302	6.7
Interest	1,013,148	1,098,324	8.4	600,478	750,927	25.1
Contributions	25,515	25,934	1.6	40	104	160.0
Depreciation	1,545,320	1,522,725	-1.5	811,642	802,820	-1.1
Depletion	58,894	31,257	-46.9	261	3,778	1347.5
Advertising	118,500	165,243	39.4	57,964	40,901	-29.4
Pension, profit sharing, etc., plans	104,629	94,233	-9.9	13,480	21,259	57.7
Employee benefit programs	158,365	217,929	37.6	82,285	55,252	-32.9
Other deductions	3,893,413	4,137,169	6.3	2,456,469	1,851,935	-24.6
Mining	\$16,116,762	\$24,703,464	53.3	\$19,343,902	\$12,917,802	-33.2
Compensation of officers	567,794	733,333	29.2	490,023	328,751	-32.9
Salaries and wages	1,918,322	3,145,558	64.0	2,357,068	1,250,056	-47.0
Repairs	578,378	470,344	-18.7	274,652	229,871	-16.3
Bad debts	134,840	100,362	-25.6	321,126	1,523,276	374.4
Rents	552,213	759,460	37.5	718,791	317,422	-55.8
Taxes	1,378,245	2,087,388	51.5	1,157,125	739,325	-36.1
Interest	1,824,633	4,380,343	140.1	3,345,149	1,830,673	-45.3
Contributions	29,200	44,454	52.2	134	21	-84.3
Depreciation	2,484,113	3,425,607	37.9	2,870,017	1,499,244	-47.8
Depletion	1,216,090	1,880,509	54.6	720,299	770,659	7.0
Advertising	72,008	67,918	-5.7	65,065	22,522	-65.4
Pension, profit sharing, etc., plans	157,964	239,873	51.9	135,751	66,517	-51.0
Employee benefit programs	388,215	507,464	30.7	435,376	169,409	-61.1
Other deductions	4,814,747	6,860,851	42.5	6,453,326	4,170,056	-35.4
Construction	\$58,355,543	\$55,757,241	-4.5	\$22,104,519	\$29,659,590	34.2
Compensation of officers	9,840,594	9,619,855	-2.2	3,173,460	3,724,680	17.4
Salaries and wages	10,531,240	10,814,127	2.7	4,223,089	4,969,209	17.7
Repairs	1,215,177	1,064,721	-12.4	419,030	565,138	34.9
Bad debts	538,996	661,582	22.7	429,081	449,480	4.8
Rents	1,985,945	2,275,877	14.6	870,280	1,121,618	28.9
Taxes	5,439,743	5,261,070	-3.3	1,777,527	2,162,812	21.7
Interest	3,744,479	3,077,055	-17.8	1,666,892	2,914,704	74.9

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in thousands

Industrial division/deduction	Deduction amounts for returns with net Income			Deduction amounts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Contributions	121,845	142,524	17.0	1,519	10,317	579.2
Depreciation	4,645,040	4,772,292	2.7	1,874,256	2,193,794	17.0
Depletion	59,919	36,688	-38.8	13,484	25,350	88.0
Advertising	718,025	693,128	-3.5	266,785	339,007	27.1
Pension, profit sharing, etc., plans	1,206,881	1,066,707	-11.6	207,120	339,409	63.9
Employee benefit programs	1,395,679	1,607,069	15.1	392,467	618,976	57.7
Other deductions	16,911,980	14,664,546	-13.3	6,789,529	10,225,096	50.6
Manufacturing	\$729,115,383	\$853,808,032	17.1	\$199,053,460	\$191,470,933	-3.8
Compensation of officers	19,248,401	20,345,315	5.7	5,788,228	6,497,744	12.3
Salaries and wages	141,753,975	157,233,181	10.9	31,457,143	37,998,773	20.8
Repairs	23,470,219	27,252,719	16.1	4,211,097	3,133,122	-25.6
Bad debts	4,670,287	6,280,351	34.5	2,279,350	2,778,062	21.9
Rents	23,634,260	25,224,911	6.7	6,597,650	6,475,455	-1.9
Taxes	56,820,179	67,121,129	18.1	14,180,771	10,727,483	-24.4
Interest	70,925,945	107,858,717	52.1	27,804,747	35,538,258	27.8
Contributions	2,487,317	2,299,112	-7.6	43,146	43,313	0.4
Depreciation	89,733,030	99,031,954	10.4	27,268,026	18,146,887	-33.4
Depletion	3,860,240	4,927,028	27.6	1,186,148	464,078	60.9
Advertising	40,251,727	44,159,200	9.7	6,611,117	9,215,395	39.4
Pension, profit sharing, etc., plans	13,051,555	14,344,701	9.9	2,864,592	2,120,225	-26.0
Employee benefit programs	30,617,156	43,071,057	40.7	9,477,752	7,430,946	21.6
Other deductions	208,591,092	234,658,657	12.5	59,283,693	50,901,192	-14.1
Transportation and public utilities	\$307,791,210	\$334,620,764	8.7	\$80,703,216	\$101,247,447	25.5
Compensation of officers	3,891,354	4,208,599	8.2	1,493,264	1,913,682	28.2
Salaries and wages	45,984,045	57,096,549	24.2	13,891,033	18,977,783	36.6
Repairs	29,472,652	25,702,053	-12.8	2,661,290	3,225,604	21.2
Bad debts	3,082,595	3,509,274	13.8	812,693	1,030,230	26.8
Rents	15,914,262	15,681,276	-1.5	4,929,086	6,854,489	39.1
Taxes	29,286,342	30,679,296	4.8	4,560,836	6,430,219	41.0
Interest	33,927,767	38,166,902	12.5	12,303,749	17,257,682	40.3
Contributions	566,867	569,786	0.5	1,884	247	-86.9
Depreciation	62,449,215	65,183,549	4.4	12,369,596	14,966,722	21.0
Depletion	530,320	461,332	-13.0	190,736	123,160	-35.4
Advertising	3,886,674	3,497,723	-10.0	1,070,998	1,235,340	15.3
Pension, profit sharing, etc., plans	4,756,732	4,807,597	1.1	677,236	861,815	27.3

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in thousands

Industrial division/deduction	Deduction amounts for returns with net Income			Deduction amounts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Employee benefit programs	9,617,353	12,999,908	35.2	1,580,502	2,575,255	62.9
Other deductions	64,425,032	72,056,920	11.8	24,160,313	25,795,219	6.8
Wholesale and retail trade	\$404,223,518	\$412,509,216	2.0	\$138,661,891	\$183,173,155	32.1
Compensation of officers	24,272,347	24,043,599	-0.9	7,762,577	9,231,442	18.9
Salaries and wages	129,275,384	133,220,475	3.1	37,515,260	50,116,544	33.6
Repairs	6,391,240	6,731,167	5.3	1,990,321	2,713,446	36.3
Bad debts	3,945,272	4,259,640	8.0	1,641,912	2,241,275	36.5
Rents	27,817,264	29,269,550	5.2	10,073,048	13,232,225	31.4
Taxes	24,874,460	25,404,912	2.1	7,208,735	9,252,938	28.4
Interest	22,884,891	29,963,911	30.9	16,492,667	23,574,227	42.9
Contributions	633,590	702,787	10.9	9,658	10,393	7.6
Depreciation	24,903,042	24,566,567	-1.4	8,478,001	10,487,114	23.7
Depletion	158,052	51,180	-67.6	58,615	23,162	-60.5
Advertising	20,951,058	21,419,239	2.2	7,103,320	10,045,373	41.4
Pension, profit sharing, etc., plans	5,510,255	4,366,341	-20.8	846,089	980,575	15.9
Employee benefit programs	7,987,265	9,429,804	18.1	2,130,595	3,482,942	63.5
Other deductions	104,619,398	99,080,044	-5.3	37,351,093	47,781,499	27.9
Services	\$233,812,987	\$205,071,262	-12.3	\$130,977,752	\$133,681,455	2.1
Compensation of officers	41,628,067	19,857,054	-52.3	18,061,960	12,887,685	-28.6
Salaries and wages	61,729,087	57,285,132	-7.2	34,088,904	33,750,013	-1.0
Repairs	2,849,376	2,730,833	-4.2	1,490,131	1,538,372	3.2
Bad debts	1,805,494	2,030,054	12.4	1,241,751	2,067,336	66.5
Rents	13,308,439	11,123,141	16.4	7,820,191	8,954,497	14.5
Taxes	11,782,976	11,285,546	-4.2	5,514,670	5,762,992	4.5
Interest	10,173,451	11,191,193	10.0	7,155,831	11,677,099	63.2
Contributions	295,507	231,407	-21.7	5,202	12,219	134.9
Depreciation	16,225,299	16,031,944	-1.2	9,236,790	11,407,010	23.5
Depletion	12,582	2,905	-76.9	14,523	3,404	-76.6
Advertising	4,402,058	5,761,458	30.9	2,530,964	3,247,412	28.3
Pension, profit sharing, etc., plans	5,625,055	2,716,861	-51.7	2,353,521	1,411,420	-40.0
Employee benefit programs	4,086,052	4,864,859	19.1	2,105,520	2,582,656	22.7
Other deductions	59,889,544	59,958,875	0.1	39,357,794	38,379,340	-2.5
Not allocable	\$866,778	\$308,721	-64.4	\$724,013	\$297,833	-58.9
Compensation of officers	170,529	19,175	-88.8	57,676	44,098	-23.5
Salaries and wages	199,820	51,837	-74.1	117,870	41,968	-64.4

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in thousands

Industrial division/deduction	Deduction amounts for returns with net income			Deduction amounts for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Repairs	22,972	9,407	-59.1	7,497	3,472	-53.7
Bad debts	1,764	2,598	47.3	22,664	1,260	-94.4
Rents	42,887	16,299	-62.0	44,582	13,632	-69.4
Taxes	39,878	26,399	-33.8	29,493	7,729	-73.8
Interest	42,720	10,887	-74.5	38,194	24,296	-36.4
Contributions	433	732	69.1	2	18	800.0
Depreciation	67,760	23,409	-65.5	61,084	45,772	-25.1
Depletion	401	0	-100.0	627	65	-89.6
Advertising	8,344	9,274	11.1	11,672	1,167	-90.0
Pension, profit sharing, etc., plans	16,074	0	-100.0	1,364	55	-96.0
Employee benefit programs	6,454	8,040	24.6	3,319	659	-80.1
Other deductions	246,742	130,664	-47.0	327,969	113,642	-65.3

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

Source: IRS.

Taxable Income Before NOLD and Special Deductions for Corporations With Net Incomes and Net Losses

Between 1987 and 1989, taxable income before NOLD and special deductions increased about 7 percent to \$404.3 billion for corporations reporting net incomes. Likewise, it increased about 24 percent to \$130.5 billion for corporations reporting net losses. (For detailed information for corporations by industry type with net incomes and net losses, see table II.7.)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.7: Corporate Taxable Income Before NOLD and Special Deductions by Industry, Tax Years 1987 and 1989

Dollars in millions

Industry division/major industry name	Taxable income before NOLD and special deductions for returns with net income			Taxable income before NOLD and special deductions for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Agriculture, forestry, and fishing	\$2,925.8	\$2,917.5	-0.3%	\$1,201.4	\$1,387.6	15.5%
Agriculture, forestry, and fishing	2,925.8	2,917.5	-0.3	1,201.4	1,387.6	15.5
Mining	\$4,897.9	\$7,226.1	47.5	\$5,180.4	\$4,320.0	-16.6
Metal mining	822.2	773.4	-5.9	350.4	382.0	9.0
Coal mining	643.5	768.4	19.4	312.6	472.3	51.1
Oil and gas extraction	2,486.9	5,042.4	102.8	4,387.9	3,291.7	-25.0
Nonmetallic minerals, except fuels	945.3	641.9	-32.1	129.5	174.0	34.4
Construction	\$10,276.3	\$9,513.4	-7.4	\$4,949.2	\$5,483.8	10.8
General building contractors	4,395.9	3,609.6	-17.9	2,620.2	2,433.1	-7.1
Heavy construction contractors	1,940.9	1,993.1	2.7	693.2	739.3	6.7
Special trade contractors	3,939.5	3,910.7	-0.7	1,635.8	2,311.4	41.3
Manufacturing	\$161,510.3	\$200,822.4	24.3	\$24,329.6	\$31,645.2	30.1
Food and kindred products	14,238.8	17,934.4	26.0	1,729.6	2,029.0	17.3
Tobacco manufactures	4,357.0	7,967.1	82.9	^a	1,440.7 ^b	1,778.4
Textile mill products	1,965.3	1,488.2	-24.3	471.9	707.2	49.9
Apparel and other textile products	1,641.7	2,203.5	34.2	766.6	940.5	22.7
Lumber and wood products	4,088.0	3,400.1	-16.8	568.4	492.5	-13.4
Furniture and fixtures	1,681.8	1,352.3	-19.6	350.7	539.9	53.9
Paper and allied products	6,026.6	8,440.7	40.1	212.4	767.3	261.3
Printing and publishing	8,754.4	9,652.7	10.3	1,412.4	2,133.8	51.1
Chemical and allied products	28,943.5	33,538.9	15.9	1,485.3	3,004.1	102.3
Petroleum and coal products	22,133.5	30,024.7	35.7	2,079.8	714.7	-65.6
Rubber and misc. plastics products	3,389.8	2,626.9	-22.5	459.8	777.6	69.1
Leather and leather products	490.4	582.3	18.7	88.6	149.1	68.3
Stone, clay, and glass products	3,792.1	3,059.5	-19.3	540.8	1,211.2	124.0
Primary metal industries	3,866.0	7,808.5	102.0	826.5	1,216.8	47.2
Fabricated metal products	7,745.4	6,662.5	-14.0	1,783.6	1,704.2	-4.5
Machinery, except electrical	14,979.6	19,363.2	29.3	2,964.6	3,856.8	30.1
Electrical and electronic equipment	11,777.6	17,125.0	45.4	3,425.3	4,906.7	43.2
Motor vehicles and equipment	7,018.6	11,635.7	65.8	1,991.8	1,513.4	-24.0
Transportation equipment, except motor vehicles	7,672.8	7,656.8	-0.2	779.1	929.3	19.3
Instruments and related products	4,275.8	4,960.6	16.0	967.4	1,294.7	33.8
Misc. manufacturing and not allocable	2,671.6	3,338.8	25.0	1,348.3	1,315.7	-2.4

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Taxable income before NOLD and special deductions for returns with net income			Taxable income before NOLD and special deductions for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Transportation and public utilities	\$48,317.0	\$54,058.5	11.9	\$10,807.3	\$14,765.3	36.6
Transportation	10,471.9	10,905.2	4.1	4,016.6	5,084.7	26.6
Communication	17,041.1	20,387.7	19.6	3,195.4	4,839.6	51.5
Electric, gas, and sanitary services	20,804.0	22,765.6	9.4	3,595.3	4,841.0	34.6
Wholesale and retail trade	\$47,625.1	\$47,670.1	0.1	\$16,714.3	\$20,701.9	23.9
Groceries and related products	1,828.0	2,009.0	9.9	457.2	569.1	24.5
Machinery, equipment, and supplies	2,934.5	2,719.0	-7.3	1,261.1	1,335.7	5.9
Miscellaneous wholesale trade	16,726.8	16,191.7	-3.2	6,956.1	7,425.7	6.8
Building materials, garden supplies, and mobile home dealers	1,686.9	1,722.7	2.1	651.8	729.2	11.9
General merchandise stores	7,922.2	7,987.4	0.8	435.9	1,767.0	305.4
Food stores	3,511.7	3,502.3	-0.3	958.6	1,486.7	55.1
Auto dealers and service stations	2,337.7	1,926.4	-17.6	1,101.6	1,456.3	32.2
Apparel and accessory stores	2,228.6	2,813.6	26.2	854.5	1,008.2	18.0
Furniture and home furnishing stores	1,391.8	1,311.6	-5.8	391.7	585.8	49.6
Eating and drinking places	2,476.2	2,735.5	10.5	1,368.0	1,713.3	25.2
Misc. retail stores	4,487.8	4,713.6	5.0	2,218.5	2,591.3	16.8
Not allocable	92.9	37.3	-59.8	59.3	33.6	-43.3
Finance, insurance, and real estate	\$83,450.5	\$60,156.1	-27.9	\$28,536.3	\$36,133.5	26.6
Banking	18,677.8	24,838.2	33.0	5,486.9	7,478.7	36.3
Credit agencies other than banks	11,135.6	10,472.5	-6.0	9,548.5	13,629.0	42.7
Security, commodity brokers, and services	2,527.0	2,602.5	3.0	1,428.4	1,854.5	29.8
Insurance	8,800.2	8,355.1	-5.1	2,389.7	970.1	-59.4
Insurance agents, brokers, and services	2,131.9	1,535.8	-28.0	480.4	484.7	0.9
Real estate	6,214.9	6,480.4	4.3	6,317.4	8,670.4	37.2
Holding and other investment companies except bank holding companies	33,963.1	5,871.6	-82.7	2,885.0	3,046.1	5.6
Services	\$20,309.6	\$21,832.7	7.5	\$13,625.2	\$15,963.1	17.2
Hotels and other lodging places	1,219.0	1,186.5	-2.7	730.2	1,384.3	89.6
Personal services	851.5	1,214.9	42.7	342.3	341.2	-0.3
Business services	7,041.9	7,976.1	13.3	5,864.4	6,463.7	10.2
Auto repair and misc. repair services	1,254.8	1,381.6	10.1	770.6	898.6	16.6
Amusement and recreation services	2,208.8	5,233.3	136.9	1,936.2	2,314.2	19.5
Other services	7,733.6	4,840.3	-37.4	3,981.5	4,561.1	14.6

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Taxable income before NOLD and special deductions for returns with net income			Taxable income before NOLD and special deductions for returns with net loss		
	1987	1989	Percentage change	1987	1989	Percentage change
Not allocable	\$153.5	\$57.5	-62.5	\$239.0	\$85.1	-64.4
Total	\$379,466.0	\$404,254.3	6.5	\$105,582.7	\$130,485.5	23.6

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

^aIn accordance with SOI criteria, these estimates are based on two or fewer returns and were deleted to avoid disclosure of information about specific corporations.

^bIn accordance with SOI criteria, these estimates are based on fewer than 10 returns and should be considered statistically unreliable.

Source: IRS.

NOLDS Used by Corporations With Net Incomes

From 1987 through 1989, corporations lowered their income tax liability by claiming about \$130 billion in NOLDS, potentially reducing tax revenues by up to \$44.2 billion based on a 34 percent tax rate.²

NOLD claims decreased from \$43.5 billion in 1987 to \$39.2 billion in 1989. Despite this overall decrease, four of the nine industry divisions had increased NOLD claims: mining, manufacturing, transportation and public utilities, and wholesale and retail trade. Of these, the mining division experienced the largest increase (51 percent). However, of the four major industries within mining, only the oil and gas extraction industry experienced an increase (127 percent). The other three major industries—metal mining, coal, and nonmetallic minerals except fuels—experienced decreases in the use of NOLDS. (For detailed information on the use of NOLDS, see table II.8.)

²This total reflects NOLDS correctly limited to taxable income after special deductions for tax years 1987 through 1989. NOLD amounts reported incorrectly were adjusted by SOI.

**Appendix II
Statistics on NOL Carryover and Related
Data**

**Table II.8: Corporation Net Operating
Loss Deductions by Industry, Tax
Years 1987 and 1989**

Dollars in millions

Industry division/major industry name	Net operating loss deductions		Percentage change
	1987	1989	
Agriculture, forestry, and fishing	\$1,116.0	\$735.5	-34.1%
Agriculture, forestry, and fishing	1,116.0	735.5	-34.1
Mining	\$1,677.6	\$2,536.7	51.2
Metal mining	308.9	123.1	-60.1
Coal mining	325.6	230.2	-29.3
Oil and gas extraction	938.8	2,128.2	126.7
Nonmetallic minerals, except fuels	104.3	55.2	-47.1
Construction	\$2,412.4	\$1,770.7	-26.6
General building contractors	1,369.8	796.4	-41.9
Heavy construction contractors	335.5	254.3	-24.2
Special trade contractors	707.1	720.0	1.8
Manufacturing	\$11,564.4	\$12,069.5	4.4
Food and kindred products	805.1	566.1	-29.7
Tobacco manufactures	0.9	2.5	177.8
Textile mill products	212.8	146.6	-31.1
Apparel and other textile products	215.0	175.3	-18.5
Lumber and wood products	714.7	197.4	-72.4
Furniture and fixtures	51.6	104.8	103.1
Paper and allied products	293.6	315.5	7.5
Printing and publishing	432.9	507.5	17.2
Chemical and allied products	869.7	822.3	-5.5
Petroleum and coal products	309.6	1,731.8	459.4
Rubber and misc. plastics products	259.6	217.8	-16.1
Leather and leather products	65.5	199.1	204.0
Stone, clay, and glass products	398.4	245.5	-38.4
Primary metal industries	1,590.6	2,589.3	62.8
Fabricated metal products	878.2	676.5	-23.0
Machinery, except electrical	971.8	1,081.5	11.3
Electrical and electronic equipment	1,099.9	920.0	-16.4
Motor vehicles and equipment	790.0	392.2	-50.4
Transportation equipment, except motor vehicles	981.9	425.7	-56.6
Instruments and related products	160.3	316.6	97.5
Misc. manufacturing and not allocable	462.3	435.5	-5.8
Transportation and public utilities	\$3,955.7	\$4,504.4	13.9

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Net operating loss deductions		
	1987	1989	Percentage change
Transportation	2,100.7	1,847.4	-12.1
Communication	543.7	828.5	52.4
Electric, gas, and sanitary services	1,311.3	1,828.5	39.4
Wholesale and retail trade	\$5,018.2	\$5,180.0	3.2
Groceries and related products	131.9	171.5	30.0
Machinery, equipment, and supplies	394.5	375.3	-4.9
Miscellaneous wholesale trade	2,114.7	2,098.1	-0.8
Building materials, garden supplies, and mobile home dealers	262.7	452.3	72.2
General merchandise stores	278.2	125.6	-54.9
Food stores	308.8	237.5	-23.1
Auto dealers and service stations	380.6	350.7	-7.9
Apparel and accessory stores	109.3	181.9	66.4
Furniture and home furnishing stores	136.7	125.5	-8.2
Eating and drinking places	349.2	431.1	23.5
Misc. retail stores	528.7	628.2	18.8
Not allocable	22.9	2.3	-90.0
Finance, insurance, and real estate	\$13,869.4	\$8,771.4	-36.8
Banking	2,595.7	1,941.8	-25.2
Credit agencies other than banks	2,994.6	1,773.5	-40.8
Security, commodity brokers, and services	131.2	363.7	177.2
Insurance	5,214.9	1,749.0	-66.5
Insurance agents, brokers, and services	246.0	131.7	-46.5
Real estate	1,912.3	2,153.6	12.6
Holding and other investment companies, except bank holding companies	774.7	658.1	-15.1
Services	\$3,852.4	\$3,599.6	-6.6
Hotels and other lodging places	255.9	221.6	-13.4
Personal services	102.7	202.5	97.2
Business services	1,361.2	1,544.0	13.4
Auto repair and misc. repair services	349.9	322.9	-7.7
Amusement and recreation services	466.3	289.8	-37.9
Other services	1,316.4	1,018.8	-22.6
Not allocable	\$67.7	\$19.0	-71.9
Total	\$43,533.8	\$39,186.8	-10.0

(Table notes on next page)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

Source: IRS.

**1989 NOLD Claims
Ranked by Industry**

In 1989, manufacturing corporations were the largest users of NOLDS. Specifically, manufacturing corporations used \$12.1 billion (31 percent) of the \$39.2 billion in NOLDS. Within manufacturing, primary metal industries claimed \$2.6 billion, while petroleum and coal industries and machinery industries (except electrical) accounted for \$1.7 billion and \$1.1 billion of the total, respectively. (For information on industry groups ranked according to use of NOLDS in 1989, see table II.9.)

Table II.9: Corporation Net Operating Loss Deductions, Ranked by Industry, Tax Year 1989

Dollars in millions

Industry division/major industry name	Net operating loss deduction amount
Manufacturing	\$12,069
Primary metal industries	2,589
Petroleum and coal products	1,732
Machinery, except electrical	1,081
Electrical and electronic equipment	920
Chemical and allied products	822
Fabricated metal products	677
Food and kindred products	566
Printing and publishing	508
Misc. manufacturing and not allocable	435
Transportation equipment, except motor vehicles	426
Motor vehicles and equipment	392
Instruments and related products	317
Paper and allied products	316
Stone, clay, and glass products	245
Rubber and misc. plastics products	218
Leather and leather products	199
Lumber and wood products	197
Apparel and other textile products	175
Textile mill products	147
Furniture and fixtures	105
Tobacco manufactures	2

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Net operating loss deduction amount
Finance, insurance, and real estate	\$8,773
Real estate	2,154
Banking	1,942
Credit agencies other than banks	1,774
Insurance	\$1,749
Holding and other investment companies, except bank holding companies	658
Security, commodity brokers, and services	364
Insurance agents, brokers, and services	132
Wholesale and retail trade	\$5,179
Miscellaneous wholesale trade	2,098
Miscellaneous retail stores	628
Building materials, garden supplies, and mobile home dealers	452
Eating and drinking places	431
Machinery, equipment, and supplies	375
Auto dealers and service stations	351
Food stores	237
Apparel and accessory stores	182
Groceries and related products	172
General merchandise stores	126
Furniture and home furnishing stores	125
Not allocable	2
Transportation and public utilities	\$4,503
Transportation	1,847
Electric, gas, and sanitary services	1,828
Communication	828
Services	\$3,601
Business services	1,544
Other services	1,019
Auto repair and misc. repair services	323
Amusement and recreation services	290
Hotels and other lodging places	222
Personal services	203
Mining	\$2,536
Oil and gas extraction	2,128
Coal mining	230
Metal mining	123

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/major industry name	Net operating loss deduction amount
Nonmetallic minerals, except fuels	55
Construction	\$1,770
General building contractors	796
Special trade contractors	720
Heavy construction contractors	254
Agriculture, forestry, and fishing	\$736
Agriculture, forestry, and fishing	736
Not allocable	\$19
Total	\$39,186

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

Source: IRS.

NOLD Return Statistics

In 1989, 419,394 corporations claimed \$39.2 billion in NOLD, reducing taxable income before special deductions from \$154 billion to \$114.8 billion (25-percent decrease). Of these 419,394 corporations, 283,562 paid no tax, while 135,832 paid tax.

Of the 283,562 corporations, 265,538 claimed NOLD equal to their taxable income before NOLD and special deductions and, therefore, incurred no tax liability. The remaining 18,024 corporations incurred no tax liability as a result of combined NOLD and special deductions and/or tax credits.

The remaining 135,832 corporations used NOLD of \$31.8 billion and paid taxes totaling \$27.5 billion. For these corporations, income subject to tax totaled \$109.3 billion. Total tax before credits equaled \$38.8 billion. (For detailed information by industry division on the extent to which corporations using NOLD paid taxes, see table II.10.)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Table II.10: Corporation Net Operating Loss Deduction Return Statistics, Tax Years 1987 and 1989

Dollars in millions

Industry division/return statistics	Paid tax			Did not pay tax		
	1987	1989	Percentage change	1987	1989	Percentage change
Agriculture, forestry, and fishing						
Number of returns with NOLD	4,159	4,299	3.4%	13,880	11,584	-16.5%
Amount of NOLD claimed	\$499.8	\$350.1	-30.0	\$616.2	\$385.4	-37.5
Income subject to tax	\$213.9	\$265.3	24.0	\$21.8	\$13.1	-39.9
Total tax before credits	\$69.6	\$85.0	22.1	\$3.3	\$2.0	-39.4
Total tax after credits	\$49.4	\$73.9	49.6	\$0.0	\$0.0	0.0
Mining						
Number of returns with NOLD	994	1,938	95.0	4,268	4,601	7.8
Amount of NOLD claimed	\$1,314.4	\$2,364.0	79.9	\$363.2	\$172.8	-52.4
Income subject to tax	\$329.5	\$1,379.3	318.6	\$3.7	\$3.4	-8.1
Total tax before credits	\$354.9	\$622.8	75.5	\$0.6	\$0.5	-16.7
Total tax after credits	\$265.4	\$443.0	66.9	\$0.0	\$0.0	0.0
Construction						
Number of returns with NOLD	20,277	18,674	-7.9	34,913	35,275	1.0
Amount of NOLD claimed	\$1,201.6	\$886.6	-26.2	\$1,210.7	\$884.2	-27.0
Income subject to tax	\$1,014.7	\$826.3	-18.6	\$41.7	\$13.8	-66.9
Total tax before credits	\$363.3	\$249.6	-31.3	\$7.4	\$2.4	-67.6
Total tax after credits	\$314.8	\$216.7	-31.2	\$0.0	\$0.0	0.0
Manufacturing						
Number of returns with NOLD	17,003	13,694	-19.5	27,944	27,611	-1.2
Amount of NOLD claimed	\$9,742.0	\$11,066.4	13.6	\$1,822.4	\$1,003.0	-45.0
Income subject to tax	\$39,082.4	\$64,345.9	64.6	\$114.6	\$39.9	-65.2
Total tax before credits	\$16,929.1	\$22,700.0	34.1	\$33.0	\$9.9	-70.0
Total tax after credits	\$10,623.8	\$14,107.0	32.8	\$0.0	\$0.0	0.0
Transportation & public utilities						
Number of returns with NOLD	4,426	6,830	54.3	15,433	12,203	-20.9
Amount of NOLD claimed	\$3,403.1	\$4,168.3	22.5	\$552.6	\$336.0	-39.2
Income subject to tax	\$5,417.5	\$13,466.1	148.6	\$28.7	\$13.8	-51.9
Total tax before credits	\$3,178.9	\$4,885.6	53.7	\$5.0	\$2.2	-56.0
Total tax after credits	\$2,399.1	\$4,421.8	84.3	\$0.0	\$0.0	0.0
Wholesale & retail trade						
Number of returns with NOLD	34,002	34,552	1.6	86,098	75,742	-12.0
Amount of NOLD claimed	\$2,939.8	\$3,391.8	15.4	\$2,078.5	\$1,788.3	-14.0
Income subject to tax	\$5,378.0	\$10,234.0	90.3	\$64.4	\$31.2	-51.6

(continued)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Dollars in millions

Industry division/return statistics	Paid tax			Did not pay tax		
	1987	1989	Percentage change	1987	1989	Percentage change
Total tax before credits	\$2,310.8	\$3,526.5	52.6	\$10.8	\$5.7	-47.2
Total tax after credits	\$1,918.1	\$3,103.2	61.8	\$0.0	\$0.0	0.0
Finance, Insurance, & real estate						
Number of returns with NOLD	19,752	21,763	10.2	44,557	41,686	-6.4
Amount of NOLD claimed	\$10,334.5	\$7,398.0	-28.4	\$3,534.9	\$1,373.3	-61.2
Income subject to tax	\$10,394.4	\$12,006.6	15.5	\$26.6	\$15.1	-43.2
Total tax before credits	\$5,317.5	\$4,424.8	-16.8	\$4.8	\$2.7	-43.7
Total tax after credits	\$3,490.5	\$3,281.1	-6.0	\$0.0	\$0.0	0.0
Services						
Number of returns with NOLD	45,066	33,967	-24.6	90,945	73,994	-18.6
Amount of NOLD claimed	\$2,132.5	\$2,154.9	1.1	\$1,720.0	\$1,444.7	-16.0
Income subject to tax	\$2,705.3	\$6,764.8	150.1	\$130.3	\$29.4	-77.4
Total tax before credits	\$1,053.9	\$2,334.1	121.5	\$21.0	\$5.5	-73.8
Total tax after credits	\$781.9	\$1,881.4	140.6	\$0.0	\$0.0	0.0
Not allocable						
Number of returns with NOLD	534 ^a	115 ^a	-78.5	1,000	866 ^a	-13.4
Amount of NOLD claimed	\$43.0 ^a	\$11.3 ^a	-73.7	\$24.7	\$7.8 ^a	-68.4
Income subject to tax	\$16.2 ^a	\$0.4 ^a	-97.5	\$0.0	\$0.0	0.0
Total tax before credits	\$5.3 ^a	\$0.3 ^a	-94.3	\$0.0	\$0.0	0.0
Total tax after credits	\$5.0 ^a	\$0.3 ^a	-94.0	\$0.0	\$0.0	0.0
Total - all industries						
Number of returns with NOLD	146,213	135,832	-7.1	319,038	283,562 ^b	-11.1
Amount of NOLD claimed	\$31,610.7	\$31,791.4 ^c	0.6	\$11,923.2	\$7,395.5 ^c	-38.0
Income subject to tax	\$64,551.9	\$109,288.7	69.3	\$431.8	\$159.7	-63.0
Total tax before credits	\$29,583.3	\$38,828.7	31.3	\$85.9	\$30.9	-64.0
Total tax after credits	\$19,848.0	\$27,528.4	38.7	\$0.0	\$0.0	0.0

(Table notes on next page)

**Appendix II
Statistics on NOL Carryover and Related
Data**

Note: Figures were obtained from weighted estimates based on samples. The weights were provided by IRS, and the estimates are subject to sampling error. Sampling error may vary widely from one estimate to another. Data limitations are discussed in SOI publication, 1989 Corporation Income Tax Returns.

^aIn accordance with SOI criteria, these estimates are based on fewer than 10 returns and should be considered statistically unreliable.

^bThese returns consist of (1) 265,538 corporations that claimed NOLD equal to their taxable income before NOLD and special deductions and, therefore, incurred no tax liability; and (2) 18,024 corporations that incurred no tax liability through a combination of NOLD, special deductions, and/or tax credits.

^cThe amount of NOLD claimed by corporations that paid tax and corporations that did not pay tax equaled \$39.2 billion.

Source: IRS.

Major Contributors to This Report

General Government Division, Washington, D.C.

Alan M. Stapleton, Assistant Director, Tax Policy and
Administration Issues
Tom Short, Assignment Manager
Patricia McGuire, Computer Specialist

Philadelphia Regional Office

Alan Bennett, Regional Management Representative
John D. Heere, Evaluator-in-Charge
Nancy D. Wagner, Senior Evaluator
Donald R. White, Evaluator
Thomas N. Bloom, Technical Advisor

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