



Pennsylvania's Net Operating Loss Reforms

The PA Chamber recently spearheaded Net Operating Loss tax reform as part of the FY 2024-25 state budget — a major win that will help businesses locate, invest, and hire in Pennsylvania. This victory will make Pennsylvania more competitive and marks an important first step toward improving the treatment of NOLs for all businesses in the commonwealth.

What Are NOLs?

NOL carryforward is a tax provision that lets businesses take losses they incurred during a taxable year and “carry them forward” into future tax years, where they can be deducted from future profits to reduce an employer’s overall tax liability.

This provision enables companies to continue reinvesting in their business and people. It is especially important for two types of employers in our state:

- **Start-up firms**, especially those in technology or biosciences, which often face significant losses in their early years.
- **Cyclical businesses** such as manufacturers in commodity markets like metals, chemicals, or paper, where profits and losses can vary widely.

Prior to the passage of this reform, Pennsylvania was tied for last place among all 50 states for its punitive treatment of NOLs. With only a 40 percent deduction allowance (half of the federal rate), Pennsylvania had effectively imposed a special tax on startups that is nonexistent in 48 other U.S. states.

Enhancing Pennsylvania's Tax Climate

Improving NOL deductions is the key to fostering a fairer tax system by reducing additional burdens on entrepreneurial risks and cyclical businesses. By aligning with the federal standards on NOLs, Pennsylvania will be able to:

- Promote future growth:** Encourage long-term investments and hiring.
Provide stability: Help businesses plan with confidence.
Attract employers and entrepreneurs: Make Pennsylvania a more competitive and appealing location for employers.

- ✓ PROMOTE FUTURE GROWTH
- ✓ PROVIDE STABILITY
- ✓ ATTRACT EMPLOYERS AND ENTREPRENEURS

Key Reform Enacted in 2024

Fortunately, Pennsylvania’s 2024-25 state budget begins to eliminate the Start-Up Tax by prospectively improving the tax treatment of NOLs.

Specifically, the state’s 40 percent deduction cap will be increased for NOLs generated in the 2025 tax year (and beyond) to 50 percent in 2026, then 60 percent in the year following, until it reaches parity with the federal rules (80 percent) in the year 2029.

Tax Year	Cap on NOLs Generated After 2024
2025	-
2026	50%
2027	60%
2028	70%
2029	80%

We continue to work with lawmakers on efforts to improve the treatment of existing NOLs for Pennsylvania businesses that invested in the Commonwealth despite a challenging tax climate.

