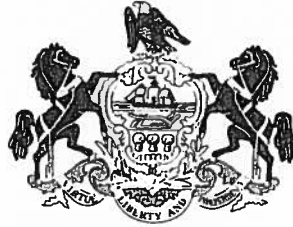


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Memorandum

To: All House Members
From: Representative Mike Reese 
Date: March 22, 2011
Subject: Phase Out of Pennsylvania's Net Operating Loss Deduction Cap

I intend to introduce legislation in the near future which will phase out the cap on Pennsylvania's net operating loss deduction for the Corporate Net Income Tax. Currently, Pennsylvania is one of two states to cap a business taxpayer's net operating loss deduction (the other is New Hampshire). The current cap is set at \$3 million or 20% of taxable income, whichever is greater.

I fully understand the fiscal challenges facing us in the upcoming budget. That is why I propose phasing the cap out over three years, which allows us to provide businesses the assurance that the cap will be eliminated while not having to deal with the fiscal impact in one budget. My legislation will phase the cap out over the next three years as follows:

Taxable Year 2011 =	\$5 Million or 20%
Taxable Year 2012 =	\$7 Million or 20%
Taxable Year 2013 =	\$10 Million or 20%
Taxable Year 2014 =	Uncapped (as well as future taxable years)

A cap on Pennsylvania's net operating loss deduction penalizes start-up companies and cyclical companies by significantly increasing their PA effective tax rate. Allowing for the deduction for net operating losses smoothes out their tax liability so that it is a tax on average profitability. Not allowing for uncapped net operating loss deductions puts Pennsylvania at a direct disadvantage in attracting or retaining jobs in these industries.

Please join me in supporting Pennsylvania's manufacturing and technology businesses and the jobs they create by uncapping PA's net operating loss deduction.

If you would like to co-sponsor this legislation, please contact Jordan Frei by e-mail at jfrei@pahousegop.com.