

Summary of Paper: [Net Operating Loss Carryforwards and Corporate Savings Policies](#)

What is this Study About?

The research explores the relationship between corporate cash holdings and tax net operating loss carryforwards (NOLs). It delves into how NOLs influence corporate savings decisions, challenging the traditional view that firms should distribute excess cash to shareholders to avoid the dual taxation impact on passive investment income. The study hypothesizes that NOLs, by reducing the corporate tax burden, alter this dynamic, encouraging firms to retain cash for investments on behalf of shareholders.

What are the major findings of the study?

The study finds that NOLs are significantly associated with increased corporate savings, with firms saving an additional 12–17 cents per dollar of tax-effected NOL benefit. It also reveals that investors place a higher value on the cash holdings of tax loss firms, suggesting that NOLs enhance the after-tax return on passive investments. This relationship holds even after accounting for potential confounding factors like investment demand, payout obligations, and precautionary motives.

Why is the study important?

These findings provide valuable insights into how taxation and corporate financial policies interact, specifically in the context of NOLs. By demonstrating that NOLs can lead to higher corporate savings and positively affect shareholder value, the study adds to the understanding of tax planning and corporate financial strategy. Furthermore, it offers evidence for policymakers about the effects of NOL policies on corporate behavior, which is crucial for considering future changes to tax laws.