Temporary Limitations for Net Operating Losses

TB-118 - Issued November 12, 2026
Tax: Corporation Business Tax

P.L. 2026, c.21 (N.J.S.A. 54:10A-4.3a), imposes temporary limitations on the use of net operation loss (NOL) deductions that may be taken by a taxpayer on a Corporation Business Tax return for select privilege periods. The temporary limitations apply to:

- Net operating loss (NOL) carryovers;
- Combined group net operating loss carryovers; and
- Prior net operating loss conversion carryovers (PNOLs).

A current year loss cannot be taken as an NOL deduction in the privilege period in which the loss is generated and is therefore not subject to the limitations listed below. When the current-year loss becomes an NOL carryover and is subsequently claimed as an NOL deduction in later privilege periods, the deduction is subject to the applicable limitations for that privilege period.

A taxpayer who intends to claim NOL(s) is required to have filed all required NJ and federal tax returns (or pro forma federal returns for certain non-US corporations not required to file a federal return) for the applicable periods recording all relevant yearly losses. The temporary extension does not change reporting/documentation requirements. Unsubstantiated claims of prior year losses will not be considered sufficient to claim NOL deductions.

The temporary limits are:

$1 Million Deduction Limitation. For privilege periods ending on or after July 31, 2026, but before July 31, 2030, the temporary limitations cap the use of net operation loss (NOL) deductions to $1 million. The limitation applies to corporate taxpayers other than public utilities. Short period returns must prorate the deduction limitation based on the number of months in the privilege period. The limitation applies to separate return taxpayers and combined groups filing a combined return because a combined group is a taxpayer for CBT purposes. Furthermore, in the context of combined reporting the limitation applies at the group level. This limitation is in addition to the 80% limitation for certain NOLs set forth in N.J.S.A. 54:10A-4(w).

If a taxpayer generates a loss in the privilege period ending July 31, 2026, the taxpayer does not apply the $1 million limitation to the loss just because the loss was generated in that period. The limitation becomes relevant when an NOL deduction attributable to that loss is claimed in a subsequent period.

75% Deduction Limitation. For privilege periods ending on or after July 31, 2030, but before July 31, 2032, a taxpayer may use the portion of an NOL deduction that remained unused because of the temporary $1 million limitation, but the amount of that deduction is limited to 75% of the taxpayer's allocated entire net income for the privilege period. This limitation is in addition to the 80% limitation for certain NOLs set forth in N.J.S.A. 54:10A-4(w). If a taxpayer was not subject to the $1 million limitation, this additional temporary 75% limitation does not apply, although the 80% limitation found in N.J.S.A. 54:10A-4(w) does. See *Carryover Extension Relief* below.

Applicability to Specific Entities

The changes implemented by P.L. 2026, c. 21 are generally applicable to the following:

Applicability to Most CBT Taxpayers – Except for public utilities, P.L. 2026, c. 21 does not establish entity-type exclusions from the temporary NOL limitations. The statutory amendment also does not

differentiate between C corporations, S corporations, or QSSS corporations. Thus, in general, the temporary limitations (and carryover extension) apply to all CBT filers, regardless of the filing method, except for public utilities.

S Corporations and QSSS Corporations- An S corporation (and any QSSS corporation) that files form CBT-100S, may sometimes have unused, unexpired NOLs that they can use, for example if the S corporation has a taxable gain. If a taxpayer that files form CBT-100S is using NOLs, they must attach a rider calculating the NOL limitation and usable NOL for the privilege period. An S corporation (QSSS) that files a CBT-100 or as part of a CBT-100U, can use the Form 500 provided as part of the applicable return as those forms have been updated to reflect the temporary limits.

Combined Groups – A combined group is treated as one taxpayer for CBT purposes and the law specifies that the limitations apply to the combined group's NOLs. The temporary limitations apply at the group level, not the member level. This holds true for all the NOLs of the combined group, because combined groups are required to pool their NOLs.

Unitary and Non-Unitary Partnerships – If corporate partners in a unitary partnership using the flow through method of accounting have income, losses, and attributes that flow-through proportionately based on partnership ownership percentage or agreement, then unitary partnership losses are part of a corporate partner's NOL. In contrast, if corporate partners are in a non-unitary partnership using separate accounting, then the non-unitary partnership losses claimed by a corporate partner on a CBT return are separate and apart from the NOL deduction. These losses can only be deducted against non-unitary partnership income reported on the corporate partner's CBT return. Losses from a non-unitary partnership reported on a corporate partner's CBT return are not subject to the temporary NOL limitations as they are not part of the corporate partner's NOL.

Public Utilities – While the temporary limitations on NOLs are broadly applicable to CBT filers, there is a carve-out that exempts public utilities from the temporary limits. Public utilities can continue to operate under the relevant ordinary 80% NOL deduction limitation rule for the tax period in question. Utilities that are regulated, in whole or in part, by the Federal Energy Regulatory Commission, the New Jersey Board of Public Utilities, or similar regulatory body of another state, with respect to rates charged to customers for electric or gas services and water and wastewater services are generally excluded from combined reporting pursuant to N.J.S.A. 54:10A-4.6.k.(2), and file separate returns. Form CBT-100 will reflect the exemption for the public utilities. **Note:** The 80% deduction limitation does not apply to PNOLs or NOLs generated in periods ending before July 31, 2023.

Public utilities that are included as a member of a combined group (see above) because they were not statutorily excluded from combined reporting, or because they requested inclusion, can apply for Section 8 relief if the group is disproportionately impacted as a result of the temporary limitations enacted by P.L. 2026, c. 21. The managerial member of the combined group may submit the relief request following the procedures set forth in N.J.A.C. 18:7-10.1. A breakdown of the income attributable to the public utility must be included with the request.

Disregarded Entities – The assets and attributes of a disregarded entity are attributed to its owner. The income and losses of a disregarded entity flow-through to the owner on the owner's return, and a corporate owner's NOLs include the losses of a disregarded entity it owns. Thus, the temporary NOL limitations apply at the corporate owner level.

Foreign Corporations with Treaty Protections – Foreign corporations that have a New Jersey reporting obligation are not exempt from the temporary NOL limitations (and carryover extension) merely because it is entitled to treaty protection for certain income.

Casino Licensees – There is no exemption for casino licensees. Thus, the temporary NOL limitations apply to casino licensees. See TB-117 for more information on casino licensees.

Technology Business Tax Certificate Transfer Program

P.L. 2026, c.21 does not restrict the application (to apply to the program), sale, or purchase of Corporation Business Tax benefit certificates (including ones that contain NOL carryovers) acquired pursuant to the New Jersey Emerging Technology and Biotechnology Financial Assistance Program at N.J.S.A. 34:1B-7.42a. Taxpayers may use the purchased NOL carryovers in the same manner and same limits as their own NOL carryovers. The carryover extension (see below) also applies to NOLs purchased as part of the program.

Carryover Extension Relief

Relief is broadly available to most impacted taxpayers (other than public utilities who already have targeted relief provisions) in the form of carryover extensions.

The carryover extension provided in P.L. 2026, c. 21 does not apply to used or expired NOLs, nor does it revive used or expired NOLs. However, if a taxpayer's unused, unexpired NOL (that would have expired on or after July 31, 2026, but before July 31, 2032) was reduced or disallowed due to the temporary limitations provided by the law change, the taxpayer may carry over the affected NOL for an additional six privilege periods beyond its original expiration period. Taxpayers should carefully inspect their books and records to ensure that unexpired and unused NOLs (PNOLs) are accounted for and properly utilized to the extent permitted by the statutes in force during the applicable tax period.

A taxpayer that is not affected by the temporary limitations does not receive an additional six-period extension merely because the law was in effect. The extension is tied to an NOL deduction that was reduced or disallowed under P.L. 2026, c. 21.

Return to Existing NOL Rules After the Temporary Period

For privilege periods ending on or after July 31, 2032, the temporary limitations enacted by P.L. 2026, c. 21, no longer apply. Taxpayers must then apply the ordinary New Jersey NOL rules applicable to the relevant tax period. Post-allocation NOLs that were generated in privilege periods beginning after July 31, 2023, are subject to an 80% deduction limitation. The law change does not impact tax periods prior or subsequent to the time periods set forth in the law.

Short Period Returns

Short period return filers must prorate the deduction limitation based on the number of months in the privilege period covered by that return. For a taxpayer with a privilege period of less than 12 months, the $1 million limitation is prorated based on the number of months covered by the privilege period. For example, a six-month privilege period would have a prorated $500,000 limitation.

If a member of a combined group joins or departs the combined group and files a separate return, the temporary limit for the months the member files a separate return before they join or after they depart is calculated based on the months the entity is a separate return filer. If a combined group splits into two or more combined groups or multiple combined groups merge, the limitation is calculated at the group level based on the months in the combined return for each combined return.

No proration of the temporary NOL limitation is required for a combined group where a member's short period federal return and federal accounting year is different than the group's group privilege period, as the group privilege period is a 12-month privilege period and the temporary NOL limitation is based on the group privilege period. The member and its income/loss must still be correctly reported for the months covered by the CBT-100U for the appropriate group privilege period.

Existing rules govern when a combined group or member is required to file a short-period return. A member that leaves a combined group generally does not cause the combined group to file a short-period return. See Notice for information on combined reporting and short-period rules for determining the income and activities to report on the applicable returns.

Accordingly, the proration of the P.L. 2026, c. 21 limitation follows the actual privilege period covered by the applicable return rather than automatically prorating the limitation because a member's federal accounting period differs from the combined group's New Jersey privilege period.

Penalty and Interest Relief

The new law provides penalty and interest relief to impacted taxpayers for the underpayment of an installment payment of estimated tax, provided that the installment payment is due and payable after December 31, 2025, but before January 1, 2027; **and** the underpayment of estimated tax is the result from the temporary NOL limitations. The penalty and interest relief is not an exemption from paying installment payments of estimated payments for any other reason.

Additional Information

Information regarding the existing NOL regime and combined-group NOL rules is available in TB-94(R) and TB-95(R), and the instructions for Form CBT-100.

To the extent that a notice or technical bulletin provides information about NOLs, such guidance should be considered together with the new statutory provision in P.L. 2026, c. 21.