**Example to Illustrate Net Operating Tax-loss Carryforwards,  Changes in Future Tax Rates, and the Valuation Allowance.**

Please assume the following:

        a) EFP Company has a ($100,000) pretax loss in 2000
        b) EFP Company had $75,000 of pretax income in 1999
        c) EFP Company began operations in 1999
        d) The corporate tax rate is 30%

These assumptions imply that EFP paid $22,500 in taxes (0.3*$75,000) in 1999.

1.      **Simple NOL application**  The entries related to taxes in fiscal 2000 using a BSE format and the "pretax loss," "tax benefit," and "net loss" lines of the income statement are shown below.

2.      **Future Tax Rate Change** Assume that before the close of fiscal 2000, Congress increases tax rates for fiscal years beginning in 2001 and beyond to 35%.  The BSE entry to adjust taxes for this event is

3.      **Valuation Allowance** Assume instead that at the end of fiscal 2000 EFP estimates it will generate only $20,000 of income before the NOL carryforward expires.  The BSE entry to adjust taxes for this event is