

# The Baratelli Brief

*Practitioner analysis for principals, family offices, CPAs, attorneys, and investors*

SPECIAL BRIEF

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## Five Companies with Significant Net Operating Losses

*An educational walk-through — How NOLs work, why book and tax part company, and how to read the income-tax footnote across industries*

*Net operating losses are not simply a footnote. They are deferred tax assets that, against future taxable income, deliver cash-tax savings. The size and timing of that savings is shaped by §382, §172, the TCJA 80% cap, state non-conformity, and acquisition history. This Brief walks five U.S. public-company NOL positions — Lyft, Cleveland-Cliffs, SNAP, Carnival, and General Motors — spanning rideshare, steel, social media, cruise, and the auto OEM. We pick five not because they are the largest (SpaceX is materially larger than any name here, and other large carryforwards live elsewhere). We pick five because they are good teachers.*

Most analysts treat the income-tax line as a number to flow through. It is in fact two numbers — the GAAP provision and the cash tax actually paid — and the gap between them is where the NOL shield lives. A reader who opens a 10-K, finds the loss on the income statement, and concludes *that* is the NOL the company can carry forward, has misread the filing. The GAAP loss is a book number. The NOL is a tax number, computed on the tax return, not the income statement. The tax footnote is where the cash shield lives. We always read it.

### In this Brief

1. Book vs. tax accounting — what the income statement leaves out, with a table of the major book-tax differences and the journal entries that record deferred taxes
2. Five worked NOL positions — Lyft, Cleveland-Cliffs, SNAP, Carnival, General Motors
3. The VC-funded NOL pattern — Lyft and SNAP as the working examples
4. Practitioner takeaways — five things to do, four questions to ask of any tax footnote
5. Cross-references inside the Institute library + disclosure

## How to read this Brief

The Baratelli Institute publishes practitioner research grounded in the income-tax footnote — where the cash shield lives. The Institute's author is a CPA and former public-company CFO with technical accounting depth across ASC 740 deferred taxes, M&A NOL preservation analysis, §382 modeling, valuation-allowance assessment, and state non-conformity. Where matters of substantive tax law arise, the Institute's framework is to engage qualified tax counsel for live transactions; the work product here is educational financial analysis, not a substitute for tax advice.

NOLs are a quiet edge. They sit on the balance sheet of many of the most-followed names in the market, often written down to zero by a valuation allowance, and they go unmodeled by consensus more often than they should. That is not a criticism of any particular reader — it is a working observation about where the income-tax footnote sits in most analyst workflows. The Institute's position is straightforward: read the footnote first, not last. The cash-tax posture is almost always more informative than the headline effective rate.

This Brief is intended for the practitioner audience the Institute serves: family-office investment staff, fund analysts, CFOs and controllers, CPAs in tax practice, M&A counsel, and principals evaluating their own positions. The structure is simple. Section 1 is an honest book-versus-tax walk — what the income statement leaves out, why deferred taxes exist, and how the journal entries actually run. Section 2 is five companies, each with its own NOL story. Section 3 ties the VC-funded IPO pattern together using Lyft and SNAP. Section 4 is the practitioner takeaway page.

A note on numbers. All company-specific figures are taken directly from each issuer's most recent 10-K or 10-Q, cited inline. Estimated NOL deferred-tax assets in per-company tables apply the 21% federal statutory rate and ignore state-level NOLs, valuation allowances, and the TCJA 80% utilization cap (which affects timing, not ultimate use). State and timing detail is covered in the framework section.

# Section 1 — Book vs. Tax, and the NOL Framework

*An honest refresher. Not a tax textbook — the items below are the ones that actually matter when reading a 10-K income-tax footnote with a practitioner's eye.*

## 1.1 Why the GAAP loss is not the NOL

A reader who opens a 10-K, finds the operating loss on the income statement, and concludes *that* is the loss the company can carry forward, has missed the most important fork in financial reporting. The income statement is computed under U.S. GAAP. The NOL is computed on the federal corporate income-tax return — Form 1120, line 28 (taxable income before the NOL deduction) — and the two numbers reconcile through a long list of permanent and temporary differences. Some of those differences are small. Several are routinely in the hundreds of millions or billions of dollars for a single year for a single company.

GAAP and the Internal Revenue Code share most of their machinery but disagree on the timing — and sometimes on the existence — of many income and expense items. The table below covers the differences a practitioner sees most often. None of these represent a permanent reduction of tax (with limited exceptions); they are timing items that create deferred tax assets and liabilities on the balance sheet under ASC 740.

## 1.2 Major book-vs-tax differences

Item	Book treatment (GAAP)	Tax treatment (IRC)	Why the difference
Stock-based compensation (SBC)	Expense recognized over the vesting period at the grant-date fair value (ASC 718).	Deduction at exercise/vesting equal to the ordinary income recognized by the employee — which depends on the stock price at that date.	Book SBC expense is a fixed accounting number; the tax deduction tracks the actual realized award value. The two can differ by hundreds of millions in a single year and create a deferred tax asset (or windfall) in either direction.
Depreciation	Straight-line over the GAAP useful life of the asset.	MACRS (Modified Accelerated Cost Recovery System) under §168, with bonus depreciation under §168(k) and §179 expensing where eligible.	Tax depreciation is materially faster than book in early years of an asset's life. For capital-heavy industries (steel, autos, rail, energy) the annual delta is a large recurring book-tax timing difference and is the primary driver of a deferred tax liability on PP&E.

Item	Book treatment (GAAP)	Tax treatment (IRC)	Why the difference
Amortization of intangibles	Per ASC 350 — finite-lived intangibles amortized over the useful life; indefinite-lived (incl. goodwill) impairment-tested annually, not amortized.	§197 — purchased intangibles (including goodwill from an asset acquisition) amortized straight-line over 15 years.	Book and tax can diverge sharply for goodwill: no book amortization, 15-year tax amortization. This produces a deferred tax liability that often dwarfs the annual book number.
Insurance reserves / loss accruals	Estimated ultimate losses accrued via reserve account when the event occurs (incurred-but-not-paid + incurred-but-not-reported).	Deductible when paid — the IRS generally requires economic performance under §461. Most casualty insurance reserves are effectively on a cash basis for tax.	For a captive insurance subsidiary or self-insured operating company the gap is meaningful and persistent — the book reserve runs ahead of the tax deduction, creating a deferred tax asset that tracks the reserve balance. The Institute's Lyft entry in Section 2 walks the live example.
R&D expenses (post-TCJA §174)	Expensed in the period incurred under ASC 730.	Capitalized and amortized over five years (domestic) or fifteen years (foreign) per §174 as amended by TCJA — effective for tax years beginning after 2021.	A large current-period book-tax difference for any R&D-heavy issuer (technology, biotech, automotive). The amortization runoff creates a deferred tax asset that unwinds over five years. The <i>One Big Beautiful Bill Act of 2025</i> made modifications to the §174 regime — readers should confirm the current treatment in each issuer's post-2025 footnote.
Bad-debt reserves	Estimated allowance for doubtful accounts (ASC 326 — current expected credit loss model for most receivables).	Direct write-off method — deduction allowed when the specific receivable becomes worthless (§166).	Book accrues forward-looking; tax waits for actual worthlessness. Creates a deferred tax asset equal to the allowance balance x the applicable rate.
Warranty reserves	Accrued at the time of sale based on historical experience.	Deductible when paid (or fixed and determinable per §461 economic-performance rules).	Same pattern as bad debt and insurance reserves — book runs ahead of cash; deferred tax asset tracks the reserve.

Item	Book treatment (GAAP)	Tax treatment (IRC)	Why the difference
Deferred revenue	Recognized as revenue over the service period per ASC 606.	Generally taxable when received (constructive receipt; §451 with limited exceptions for advance payments).	Reverses the direction — tax recognizes income earlier than book. Creates a deferred tax asset (book liability not yet income; tax income already realized).

Each of these items appears in the deferred-tax-asset and deferred-tax-liability schedule inside the income-tax footnote of every 10-K we have ever opened. The schedule is one of the most informative half-pages in the filing.

### 1.3 How deferred taxes for an NOL get recorded

The mechanics are best shown with a small worked example. Assume a company has a \$100 GAAP loss equal to a \$100 tax loss in Year 1 (no permanent or temporary differences), and a 25% blended federal-and-state tax rate.

#### Year 1 entry — recording the NOL deferred tax asset

Account	Debit	Credit
Deferred Tax Asset — NOL	\$25	—
Income Tax Benefit (P&L)	—	\$25

The DTA goes on the balance sheet at \$25. If management cannot conclude it is more-likely-than-not that the DTA will be realized — for example because the company has cumulative recent losses — ASC 740 requires a valuation allowance that writes the DTA down to zero (or to the portion that is realizable). The journal entry for a full valuation allowance is:

Account	Debit	Credit
Income Tax Expense (P&L)	\$25	—
Valuation Allowance (contra-DTA)	—	\$25

Net effect on the balance sheet: DTA \$25 minus Valuation Allowance \$25 equals zero. The gross NOL is still disclosed in the footnote — it has not gone away — it is simply written down for GAAP purposes pending evidence that the company will use it.

#### Years 2–5 — the DTA roll-forward

Per the Institute's May 2026 review: a reduction implies a beginning balance. The cleanest way to teach the DTA mechanics is a roll-forward table that shows the asset accumulating over multiple loss years and then drawing down in the profitable year. Assume the company runs additional \$100 GAAP losses in Years 2 and 3 (same facts), achieves break-even in Year 4, and turns profitable in Year 5 with \$200 of pre-tax book income. We continue to use a 25% blended federal-plus-state rate. To isolate the NOL mechanics, assume tax depreciation matches book, no other temporary differences, and that the company has now concluded sustained profitability supports realization — so the prior valuation allowance is fully released.

DTA roll-forward (NOL component, gross of VA)	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning balance	\$0	\$25	\$50	\$75	\$75
+ Addition: current-year NOL × 25% rate	\$25	\$25	\$25	\$0	\$0
– Reduction: NOL used (80% of \$200 × 25%)	\$0	\$0	\$0	\$0	(\$40)

= Ending balance	\$25	\$50	\$75	\$75	\$35
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*Activity rationale — Years 1–3: \$100 GAAP loss each year → \$25 DTA addition; Year 4: break-even, no activity; Year 5: \$200 pre-tax book income → \$40 DTA drawdown.*

*For teaching simplicity we apply the post-TCJA 80% cap to the 25% blended rate; in practice the 80% cap is a federal-only rule and state NOL availability varies by jurisdiction (see Section 1.10 on state non-conformity).*

Reading the roll-forward. The Year-5 reduction of \$40 is not coming out of nowhere — it is drawn down against a \$75 beginning balance that was built up over three years of \$25 additions. That is the practical answer to a reader who asks ‘how can the company reduce a deferred tax asset by \$40 if it just created the asset for \$25 this period?’ The asset is a stock, not a flow; the period activity is two flows (additions and reductions) that combine to produce the ending stock.

#### **Year 5 journal entry — using the NOL against taxable income**

In Year 5, GAAP pre-tax book income of \$200 is fully taxable. The post-2018 NOL can shelter 80% × \$200 = \$160. We carry the 25% blended rate through the journal entry (federal-only equivalent on the residual \$40 at 21% would be \$8.40): GAAP tax provision = \$50; cash tax = \$10; the remaining \$40 of provision is the NOL coming off the balance sheet.

Account	Debit	Credit
Income Tax Expense (P&L) — GAAP provision at 25% blended on \$200	\$50.00	—
Income Taxes Payable (actual cash tax due)	—	\$10.00
Deferred Tax Asset — NOL (drawdown of attribute)	—	\$40.00

Tie-out: the P&L still carries the full \$50 tax expense at the blended rate (so EPS looks ‘normal’). But only \$10 of that is cash — the other \$40 is the NOL coming off the balance sheet. The deferred tax asset has just paid for itself.

## 1.4 How NOL utilization runs through the cash flow statement

The drawdown is invisible on the income statement, but it is the headline event in the operating section of the cash flow statement.

Cash Flow Statement — Operating Section	Amount
Net income (from P&L, after \$50 tax expense)	\$150.00
<b>Adjustments to reconcile to cash from operations:</b>	
Decrease in deferred income taxes (change in the DTA account)	\$40.00
Increase in income taxes payable (current liability movement)	\$10.00
<b>Cash from operations contribution from tax line</b>	<b>\$50.00</b>

### THE PRACTITIONER'S READ

**Technical framing.** The deferred tax item on the cash flow statement is the period change in the DTA account — not a non-cash add-back in the way depreciation is. The DTA went down by \$40 during the year (the NOL was consumed); that decrease frees \$40 of cash that the income statement had already charged as expense. The income taxes payable line works in parallel as a current-liability movement — cash taxes payable went up by \$10, the actual amount owed to the Treasury. Together the two lines reconcile the \$50 of GAAP tax expense down to the \$10 of cash tax actually paid. The \$40 differential is the cash tax shield the NOL produced in the year.

Two practical notes. First: the ‘deferred income taxes’ line in the operating section of the cash flow statement is the single most useful field for spotting NOL drawdown in real time. A large decrease in the DTA (a positive number on this line under the indirect method) during a year of GAAP profitability almost always indicates the company is sheltering cash taxes with prior-year NOLs. Second: the disclosure of ‘cash income taxes paid’ in the supplemental schedule at the bottom of the cash flow statement (or in the income-tax footnote) is the cleanest read on what the company is actually sending to the Treasury.

## 1.5 What an NOL is — and what it carries

A net operating loss is the excess of allowable tax deductions over gross income in a taxable year, computed on the corporate tax return. The loss carries forward to offset future taxable income. For federal NOLs generated in tax years beginning after December 31, 2017 (TCJA), there is **no expiration** — they carry forward indefinitely. NOLs generated in years ending on or before December 31, 2017 retain the old 20-year expiration. Many large companies carry both vintages on the books.

## 1.6 The TCJA 80% cap

Post-2017 NOLs can shelter no more than 80% of taxable income in any year (computed before the NOL deduction). This is a timing limit, not a haircut — the unused 20% carries forward. The CARES Act temporarily suspended the cap and re-permitted carrybacks for 2018-2020 NOLs (five-year carryback). That window is closed; the 80% cap is back in force. Pre-2018 NOLs are not subject to the 80% cap but do expire.

## 1.7 §382 — the ownership-change limitation

§382 is where many readers under-estimate the risk. If a loss corporation undergoes an **ownership change** — more than a 50-percentage-point increase in stock ownership by 5%-or-greater shareholders over a rolling three-year testing period — future use of the pre-change NOLs is capped at an annual amount equal to:

### THE FORMULA THAT MATTERS

**Annual §382 base limitation = Equity value of the loss corp at the ownership-change date × the IRS long-term tax-exempt rate**

The long-term tax-exempt rate is published monthly by the IRS. It has hovered in the 3.0–5.5% range over the last decade. Multiplying a \$1B equity value by ~5% gives a ~\$50M annual NOL utilization ceiling — which can render large carryforward stacks economically dead inside the relevant horizon.

## 1.8 NUBIG / NUBIL adjustments

If the loss corporation has net unrealized built-in gain (NUBIG) above a threshold at the change date, the recognized portion of that gain in the five-year recognition period increases the annual §382 limit. Conversely, net unrealized built-in loss (NUBIL) recognized in the same period is itself subject to the §382 limit. NUBIG add-ons routinely double or triple the headline base limitation for asset-heavy targets — relevant to several of the examples below.

## 1.9 §382(I)(5) — the bankruptcy exception

If a loss corporation undergoes an ownership change in Title 11 (bankruptcy), §382(l)(5) waives the annual base limitation entirely — the NOLs survive intact — provided pre-change shareholders and qualified creditors own at least 50% of the reorganized stock. A subsequent ownership change within two years kills the NOLs entirely (so the reorganized debtor must lock the cap table down). Alternatively, the debtor can elect out of §382(l)(5) and take a special §382(l)(6) calculation that uses post-emergence equity value — usually a higher base than pre-petition would have produced. **General Motors** is the textbook case, addressed in Section 2.

## 1.10 State non-conformity

Federal NOL rules do not bind the states. A few practical examples:

State	NOL treatment summary
California	Indefinite carryforward (post-2019); suspended NOL use 2020-2021 and again 2024-2026 (>\$1M income); 20-year cap for older NOLs
New York	Conforms broadly to federal; 80% cap mirrors TCJA; separate prior-net-operating-loss conversion (PNOLC) subtraction
Texas	No corporate income tax — franchise (margin) tax has no NOL concept
Illinois	12-year carryforward; \$100K annual deduction cap extended through 2027
New Jersey	20-year carryforward; converted-NOL (PNOL) regime; limited to 100% of entire net income
Florida	No personal income tax; corporate income tax follows federal but limits NOL to taxable income computed without the deduction

Translation: a \$5B federal NOL stack does *not* imply \$5B of state-equivalent shelter. State NOLs are a separate accounting exercise. Most multi-state filers carry a state NOL DTA of roughly 30–60% of their federal DTA, before valuation allowances.

## 1.11 ASC 740 — DTA vs. valuation allowance

Under ASC 740 a company books a deferred-tax asset for the future tax benefit of an NOL, then evaluates whether a valuation allowance is required. A valuation allowance is recorded when it is **more likely than not** (>50%) that some or all of the DTA will not be realized. Three points the footnote will telegraph:

### Cumulative pre-tax losses in the recent three-year period

Strong negative evidence — typically forces a full valuation allowance. The DTA is on the balance sheet at gross, then written down to zero.

### Return to sustained profitability

When positive evidence outweighs negative, the valuation allowance reverses. Reversals run through the income statement as a tax benefit. **Lyft's** 2025 release of approximately \$2.4B is the freshest live example — addressed in Section 2.

### §382 limitation on NOL use

Reduces the DTA at the source, not via valuation allowance — the company recognizes only the §382-allowed portion as a recoverable asset.

## Section 2 — Five Worked Examples

Five companies, five different NOL stories. Lyft (rideshare, VC-funded), Cleveland-Cliffs (integrated steel, acquisition-driven), Snap (social media, VC-funded), Carnival (cruise, §883-structured), General Motors (auto OEM, bankruptcy-preserved). Numbers come from each issuer's most recently disclosed 10-K or 10-Q, cited inline.

Company	Tick er	Industry	Federal NOL (\$B)	Credit Carr yforwards (\$B)	Vintage / Key Driver
Lyft	LYF T	Rideshare / Mobility	7.9	—	Pre-IPO + post-2018; VA released Q4 2025
Cleveland-Cliffs	CLF	Integrated steel	4.83 (domestic)	—	Acquisition + capex-driven; grew 1.3 in 2025
Snap Inc.	SNA P	Social media	6.5	1.17 (tax-cr edit c/f)	Full VA maintained; FY2025 10-K; \$4.4B state NOL detailed in Section 2
Carnival Corp.	CCL	Cruise / Leisure	— (immaterial; see §883)	—	Mostly §883-exempt; U.S.-source via tour subsidiary
General Motors	GM	Auto OEM	1.83 gross (0.385 DTA)	6.9	§382(l)(5)-preserved + EV-realignment

Note on the GM row: General Motors' dominant U.S. tax attribute is the \$6.9B stack of **tax-credit carryforwards** (R&D, foreign tax credits, IRA production credits), not the operating-loss DTA. Credit carryforwards reduce tax liability dollar-for-dollar; NOLs reduce taxable income at the statutory rate. The reframe is walked in Section 2 (GM block).

Five companies; SpaceX is not on the list, intentionally. SpaceX carries a larger NOL than any name in this Brief — the Institute's separate **SpaceX case study** ([baratelliinstitute.com/cases/spacex](http://baratelliinstitute.com/cases/spacex)) addresses the SpaceX NOL position in detail. The five names here are chosen for their value as teaching cases.

Lyft, Inc. (LYFT)	Rideshare / Mobility (VC-funded IPO)
<b>Gross federal NOL (latest 10-K)</b>	\$7.9B U.S. federal; \$6.4B U.S. state; \$557M foreign (per FY2025 10-K Note 13 — Income Taxes)
<b>Vintage</b>	Mixed — pre-IPO carryforwards (pre-2018, expiring 2034-2037) + post-2018 layer indefinite
<b>Estimated NOL DTA (federal, at 21%)</b>	\$2.25B federal NOL DTA per FY2025 footnote — sitting at net on the balance sheet following the Q4 2025 valuation-allowance release
<b>§382 limitation status</b>	March 2019 IPO and subsequent secondaries monitored; company discloses utilization is subject to §382 — no specific triggering event quantified in current footnote

Lyft is the cleanest worked example in this Brief, and the single most useful case in the library for understanding how the book-tax framework plays out in a live filing. Three points from the FY2025 10-K (Note 13):

**(1) Insurance reserves are exactly the kind of book-tax difference the Institute flagged.** Lyft's insurance reserves totaled \$2.18B at December 31, 2025 (Note 8). The corresponding "Insurance reserves and accruals" deferred tax asset in Note 13 is \$425.5M — the second-largest DTA on the schedule, after the NOL itself. That confirms the practitioner's instinct that the book reserve runs ahead of the tax deduction on a meaningful scale. The reserve grew \$479M during 2025 (per the cash flow statement), so the timing difference is widening, not narrowing — precisely the dynamic Section 1.2 anticipates for a self-insured operating model with a captive insurance subsidiary.

**(2) The valuation allowance released in Q4 2025.** The VA fell from \$2.69B to \$286M — a \$2.4B benefit — on the company's conclusion of "sustained U.S. profitability, which is objective and verifiable." The footnote breaks out the \$2.9B P&L tax benefit recognized in 2025 from this release. This is the textbook ASC 740 reversal event and it drove Lyft's reported 2025 net income of \$2.84B — most of which is the non-cash tax benefit, not operating performance.

**(3) The cash flow walk in Section 1.4 is happening in the filing.** Lyft's 2025 cash flow statement shows deferred income tax of \$(2.895)B as a non-cash addback in the operating section — the mirror image of the tax benefit on the income statement. Free cash flow for the year was \$1.12B versus net income of \$2.84B. The divergence is the cleanest illustration of why we read the tax footnote first.

The Institute's longer-form **free** Lyft case study walks the cash-tax shield model, the §382 sensitivity, and the implied per-share contribution from the NOL shield. Treat it as the deep-dive companion to this Brief entry.

*Source: Lyft, Inc. Form 10-K for fiscal year ended December 31, 2025 — Note 8 (Insurance Reserves), Note 13 (Income Taxes), Consolidated Statements of Cash Flows; Baratelli Institute, "Lyft: Library Case Study" (baratelliinstitute.com/cases/lyft).*

Cleveland-Cliffs Inc. (CLF)		<i>Integrated steel / Heavy industrial</i>
<b>Gross federal NOL (latest 10-K)</b>	\$4.83B gross domestic (federal + state); \$1.67B gross foreign (per FY2025 10-K, Income Taxes note)	
<b>Vintage</b>	Mixed — acquired stacks from 2020 (AK Steel, ArcelorMittal USA) and 2024 (Stelco); plus 2025 organic growth of \$1.28B in domestic NOL	
<b>Estimated NOL DTA (federal, at 21%)</b>	\$778M total operating-loss-and-other-carryforwards DTA (combined federal + state) per FY2025 footnote	
<b>§382 limitation status</b>	Each historical acquisition (2020 AK Steel and ArcelorMittal USA; 2024 Stelco) triggered §382 ownership changes at the target level; annual base limitations apply to the acquired stacks. The 10-K does not break out a single aggregated limitation figure; Institute order-of-magnitude estimate based on disclosed pre-acquisition equity values × the applicable §382 long-term tax-exempt rate is on the order of \$200-350M/yr in aggregate — against the \$4.83B gross domestic stack this implies a roughly 14-24-year economic life under the caps, well within the indefinite-carryforward window for the post-2018 vintage.	

Cleveland-Cliffs is the worked example of a capital-heavy industrial: massive PP&E base, MACRS-vs-GAAP depreciation timing difference as the dominant book-tax delta, and an NOL stack that grew \$1.28B in a single year (2024 to 2025) on the back of a \$1.5B GAAP loss in 2025. Three points from the FY2025 10-K:

**(1) MACRS-vs-GAAP depreciation is the structural driver.** The footnote discloses a \$1.015B deferred tax *liability* for “Property, plant and equipment and mineral rights” — this is the accumulated timing difference where MACRS plus §168(k) bonus depreciation has run ahead of GAAP straight-line, and the company will pay it back over the assets’ remaining lives. For a steel mill operator with billions in PP&E this is the largest single line in the deferred-tax schedule. Section 1.2’s “Depreciation” row is exactly this dynamic at industrial scale.

**(1a) The §382 base limitations are not separately disclosed.** Cleveland-Cliffs does not aggregate a single §382 annual base limitation across its 2020 AK Steel / ArcelorMittal USA and 2024 Stelco acquisition stacks. Institute order-of-magnitude estimate built off the disclosed pre-acquisition equity values times the applicable long-term tax-exempt rate puts the aggregate annual cap on the order of \$200-350M/yr — against the \$4.83B gross domestic stack, that implies a roughly 14-24-year economic life under the caps, well within the indefinite-carryforward window for the post-2018 vintage. The caps are unlikely to be binding.

**(2) The 2025 loss flowed straight into the NOL stack.** Gross domestic NOL carryforwards rose from \$3.55B at year-end 2024 to \$4.83B at year-end 2025 — growth of \$1.28B in a single year, consistent with the company’s \$1.5B GAAP loss. Foreign NOLs (largely Canadian, including the 2024 Stelco

acquisition) grew from \$1.51B to \$1.67B. Federal NOLs begin expiring 2034 (pre-2018 vintage); post-2018 vintage is indefinite.

**(3) The valuation-allowance posture is informative.** Total VA of \$394M sits against only foreign deferred tax assets (\$347M) and certain state NOLs expected to expire before utilization (\$47M). The U.S. federal NOL carries *no* valuation allowance — management has concluded it is more-likely-than-not the federal stack will be utilized against future U.S. taxable income. That is a meaningful disclosure about management's view of the steel cycle.

The Institute's longer-form **free Cleveland-Cliffs case study** ([baratelliinstitute.com/cases/clf](https://baratelliinstitute.com/cases/clf)) walks the valuation framework around the NOL stack, the through-cycle earnings model, and the per-share contribution from tax-asset realization. Use it as the deep-dive companion to this Brief entry.

*Source: Cleveland-Cliffs Inc. Form 10-K for fiscal year ended December 31, 2025 — Income Taxes note (NOL carryforwards schedule, deferred-tax-asset/liability schedule, valuation-allowance roll-forward); Baratelli Institute, "Cleveland-Cliffs: Library Case Study" ([baratelliinstitute.com/cases/clf](https://baratelliinstitute.com/cases/clf)).*

<b>Snap Inc. (SNAP)</b>		<i>Social media / Digital advertising (VC-funded IPO)</i>
<b>Gross federal NOL (latest 10-K)</b>	\$6.5B U.S. federal; \$4.4B U.S. state; \$4.9B UK; \$420M Singapore (FY2025 10-K, Note 13)	
<b>Vintage</b>	Mixed — pre-IPO (pre-March 2017 IPO) carryforwards with the old 20-year expiration + post-2018 layer indefinite. Certain significant state NOLs begin to expire in 2031.	
<b>Estimated NOL DTA (federal, at 21%)</b>	\$2.87B loss-carryforward DTA + \$1.17B tax-credit carryforward (FY2025 10-K). Full \$4.81B valuation allowance offsets net DTA of \$4.81B before VA.	
<b>§382 limitation status</b>	No ownership change triggered as of December 31, 2025. Cover-page non-affiliate equity value \$11.6B at June 30, 2025. SNAP discloses §382/§383 testing as a risk-factor sensitivity.	

SNAP is the second VC-IPO worked example in this Brief (Lyft is the first). Same structural pattern: years of pre-IPO operating losses survived the public-market transition, post-2018 losses pile on with indefinite life, and a full valuation allowance currently writes the DTA down to zero pending sustained profitability. SNAP completed its IPO in March 2017 and continues to carry years of preserved tax losses — the VC-funded NOL pattern Section 3 develops. Pre-IPO carryforwards from the old 20-year regime are at risk of expiring before the §382 limitation has run enough to use them. Post-2018 NOLs are not subject to that issue.

The FY2025 10-K confirms the position. Income tax expense was \$9.4M (current \$6.6M, deferred \$2.8M) on a \$451M pre-tax loss; the rate-reconciliation table shows a \$110.6M change in valuation allowance — the mechanism that absorbs almost all of SNAP's book-tax differences. The full valuation allowance increased to \$4.81B in 2025 (from \$4.68B in 2024), reflecting additional 2025 losses. No ownership change was triggered.

**Hypothetical — what would happen if a profitable acquirer bought SNAP.** This is an educational example to walk the §382 cash-shield math. It is *not* a forecast of any acquisition. We do not name a specific acquirer; assume a generic large profitable buyer. The framework would apply to any taxable corporate buyer with ample U.S. taxable income to absorb the limit.

*Source: Snap Inc. Form 10-K for fiscal year ended December 31, 2025 — Note 13 (Income Taxes), pp. 110-112 (deferred-tax schedule, NOL carryforward disclosure, rate reconciliation, valuation-allowance discussion); cover page (non-affiliate equity value); pp. 51-52 (§382 risk-factor discussion). Snap Inc. Form 10-Q for quarterly period ended March 31, 2026 — Note 12 (Income Taxes). Hypothetical buyer figures are Institute illustration, not company disclosure.*

### SNAP — §382 cash-shield math (illustrative)

Line	Lower (\$11.6B float)	Mid (\$25B deal)	Upper (\$40B premium)	Source / Calc
SNAP equity value at hypothetical change date	\$11.6B	\$25.0B	\$40.0B	Cover-page non-affiliate float / representative deal / 30-50% control premium scenario
§382 long-term tax-exempt rate (assumed)	~5.0%	~5.0%	~5.0%	IRS published rate, 2025 range 4.5–5.5%
<b>Annual §382 base limitation</b>	<b>\$580M</b>	<b>\$1.25B</b>	<b>\$2.00B</b>	Calc: equity × LT TE rate
Effective tax rate applied to the limitation	21.0%	21.0%	21.0%	Federal statutory; state incremental
<b>Annual cash tax shielded</b>	<b>~\$122M</b>	<b>~\$263M</b>	<b>~\$420M</b>	Calc: limitation × 21%
Years to exhaust \$6.5B federal NOL at the cap	~11.2 yrs	~5.2 yrs	~3.3 yrs	Calc: \$6.5B / annual limitation
Approximate PV of the cash-tax shield	~\$0.7–0.9B	~\$1.0–1.2B	~\$1.1–1.3B	Calc at 10% discount over horizon

*Note on the three scenarios.* The **lower** column anchors on SNAP's actual cover-page non-affiliate equity value as of June 30, 2025 (~\$11.6B); a §382 testing event at that level is the cleanest 'today' benchmark. The **mid** column (\$25B) is a representative take-private transaction value — in a change-of-control deal the loss-corporation equity value at the change date is the deal price (including the control premium), not the float. The **upper** column (\$40B) is a premium-scenario stress test consistent with a 30–50% control premium on the existing float plus founder holdings. The point of presenting all three is to keep the \$263M figure tethered to its assumption: it is the mid-case, not a headline.

### Why \$263M / year matters — the acquirer-economics walk

\$263M is not a paper number. It is real federal cash tax that an acquirer does *not* send to the Treasury in each year of the absorption horizon. That cash stays in the consolidated entity and is available for deleveraging, reinvestment, or distribution. Two consequences follow.

**(a) It lowers the effective acquisition cost.** A buyer who pays \$25B for SNAP and then collects ~\$1.0B of present-value cash-tax shield from the preserved NOL has, in economic terms, paid ~\$24B for the operating business and ~\$1B for a tax-asset bundle. The deal-IRR math should treat the shield as a return-on-purchase-price component in its own right.

**(b) If the acquisition is debt-financed, the shield reduces capital cost and lifts ROIC.** Take a stylized all-debt deal at 7% weighted average cost of debt. Annual interest expense on \$25B of acquisition debt is \$1.75B pre-tax. The \$263M annual cash-tax shield represents ~15% of that interest carry — directly offsetting the cost of the capital used to do the deal. On a return-on-invested-capital basis the shield adds ~100 basis points of cash ROIC in each year it is in force (calc: \$263M / \$25B invested capital). For a financial sponsor, that is one of the largest single line items in the deal model. For a strategic acquirer with ample taxable income to absorb the limitation, it is a free contribution to consolidated free cash flow on top of any operating synergies.

The point is not to suggest such a transaction is in the works. The point is that a practitioner reading SNAP's income-tax footnote should understand the NOL stack would convert from a written-down DTA today into a real cash shield in the hands of a profitable buyer — and the §382 math is the binding constraint on how fast that shield can be used. The same framework applies to any large loss corporation carrying a full valuation allowance. **This is illustrative §382 math, not a transaction view; the Institute takes no position on SNAP M&A probability, and the §382 ownership-change trigger is itself a securities-law guardrail on any future equity raise large enough to cross the 50-percentage-point threshold.**

Carnival Corporation & plc (CCL)		Cruise / Leisure travel
<b>Gross federal NOL (latest 10-K)</b>	Not material at the consolidated level — substantially all income is exempt from U.S. federal income tax under §883 international shipping rules and applicable bilateral treaties (FY2025 10-K, pp. 14-15)	
<b>Vintage</b>	The educational point is structural, not vintage — Carnival illustrates how §883 reciprocal-shipping exemptions interact with U.S.-source cruise income from U.S.-port-departure itineraries.	
<b>Estimated NOL DTA (federal, at 21%)</b>	FY2025 income tax expense \$12M on \$2.77B pre-tax income (≈0.4% effective rate) confirms the §883/treaty footprint is dominant; U.S.-source taxable footprint runs through Holland America Princess Alaska Tours.	
<b>§382 limitation status</b>	No ownership-change event disclosed; pandemic equity issuances monitored under the 5% shareholder testing regime but no ownership change triggered.	

**The Carnival inclusion in this Brief is educational, not ‘Carnival has a big NOL.’** The FY2025 10-K shows the company paid only \$12M of income tax on \$2.77B of pre-tax income — an effective rate of roughly 0.4%. The reason is structural, and it is the single most informative tax footnote in the cruise space.

**§883 and U.S.-source cruise income.** Carnival's U.S. taxable income comes primarily from cruises that *depart from U.S. ports* — Miami, Port Canaveral, Galveston, Long Beach, New York, Seattle. Income from non-U.S. cruise itineraries is exempt from U.S. tax under the §883 reciprocal-shipping rules and applicable bilateral income-tax treaties. So the cruises sailing from Miami are the ones generating the U.S. taxable income that an NOL would shelter. The cruises sailing from Southampton or Civitavecchia do not generate U.S.-source taxable income in the first place. Until any U.S. NOL is used (subject to the 80% post-TCJA limitation on the post-2017 vintage), those U.S.-port cruises effectively run with no U.S. federal income tax.

**How §883 works.** A non-U.S. corporation engaged in the international operation of ships is exempt from U.S. federal income tax and branch-profits tax on U.S.-source shipping income if (i) it is organized in an ‘equivalent exemption jurisdiction’ (a country that grants the reciprocal exemption to U.S. corporations) and (ii) it meets a publicly-traded ownership test. Panama is an equivalent-exemption jurisdiction; Carnival Corporation, organized in Panama, qualifies. Carnival plc qualifies under U.S.-UK treaty provisions. Substantially all of the consolidated income therefore escapes the U.S. income-tax net at the source — before any NOL is applied. Activities that are *not* incidental to international ship operation — air transportation sold to U.S. guests, pre- and post-cruise land packages, domestic hotels — do not qualify for §883 and are subject to U.S. tax. Holland America Princess Alaska Tours is the consolidated tour business that picks up the U.S. corporate income-tax exposure.

**What would have to change.** Carnival's §883 posture is durable but conditional. Material erosion would require Panama losing its equivalent-exemption status (a Treasury / IRS determination, not a Carnival

decision) or Carnival failing the publicly-traded ownership test (a concentrated-ownership event that triggers the 5%-shareholder rules). Neither is signaled in the current filing, but both belong on the durability watchlist.

**The pattern beyond Carnival.** The §883 reciprocal-shipping exemption is not Carnival-specific. Royal Caribbean Cruises Ltd. (RCL) and Norwegian Cruise Line Holdings (NCLH) sit on the same axis — Liberian and Bermudan parent structures, §883 qualifying U.S. shipping-income exclusions, and the same publicly-traded ownership test underwriting durability. The three names together are the §883 cohort; Carnival is the worked example in this Brief because its 10-K disclosure of the exemption is the cleanest. Standalone Field Notes on RCL and NCLH are in the pipeline.

**What a reader should take away.** Carnival is a different shape of teaching case than the other four names in this Brief. There is no large headline NOL carryforward on the balance sheet because there is no large recurring U.S. taxable income base to lose against in the first place. The lesson is that the income-tax footnote tells you the company's tax *geometry* — jurisdictions, exemptions, and what activities fall inside vs. outside the U.S. net. For an investor underwriting cruise economics, that geometry matters more than the NOL number.

*Source: Carnival Corporation & plc Form 10-K for fiscal year ended November 30, 2025 (filed January 2026) — pp. 14-15 (Application of Section 883; Exemption Under Applicable Income Tax Treaties; U.S. State Income Tax); Consolidated Statements of Operations (income before income taxes \$2,772M; income tax expense \$12M); Form 10-Q for the quarterly period ended February 28, 2026 (pre-tax income \$280M; income tax expense \$17M). IRC §883 (international shipping income exclusion).*

General Motors Company (GM)		<i>Automotive OEM</i>
<b>Gross federal NOL (latest 10-K)</b>	\$385M U.S. operating-loss DTA (\$129M indefinite + \$256M expiring by 2045); \$6.9B U.S. tax-credit carryforwards (\$484M indefinite + \$6.4B expiring by 2045); \$5.5B non-U.S. operating-loss DTA (FY2025 10-K, Note 17 Income Taxes)	
<b>Vintage</b>	Mixed — pre-2018 vintage from 2009 emergence + post-2018 layer; the dominant U.S. attribute is the credit carryforward, not the NOL itself.	
<b>Estimated NOL DTA (federal, at 21%)</b>	\$22.4B net DTA total; \$6.8B valuation allowance (primarily Germany, Spain, U.S. state, Brazil — FY2025 10-K).	
<b>§382 limitation status</b>	Preserved via §382(l)(5) bankruptcy exception in 2009 Chapter 11; no subsequent ownership change disclosed.	

GM is the defining post-bankruptcy NOL story in the U.S. public markets. Old GM emerged from Chapter 11 in July 2009 with substantial pre-petition tax attributes preserved by electing into §382(l)(5). The U.S. Treasury and the UAW VEBA were qualified creditors, which kept the company inside the 50% ownership test even though the cap table was effectively rewritten. GM has been drawing down the resulting attribute stack against U.S. taxable income for fifteen years; the residual balance remains material.

**Where the U.S. attribute mass actually sits.** The FY2025 10-K (Note 17, p. 94) shows the U.S.

operating-loss DTA at only \$385M (\$129M indefinite-life, \$256M expiring by 2045). The much larger U.S. attribute is the **tax-credit carryforward stack at \$6.9B** — primarily R&D credits, foreign tax credits, and IRA-related production credits. The federal rate-reconciliation table shows \$478M of R&D credit benefit and \$181M of IRA-credit benefit applied against federal income tax in 2025 alone. Together, the credit stack drove GM's consolidated effective rate down to 10.8% on \$3.12B of pre-tax income — a consolidated tax expense of \$338M against a \$655M statutory amount.

**How much cash tax has the credit / NOL position saved GM?** The 10-K supplemental schedule discloses U.S. federal income taxes paid of \$277M in fiscal 2025, plus \$314M of U.S. state and \$957M non-U.S., for \$1.55B total. Without the R&D and IRA credit shield and the remaining U.S. NOL drawdown, the federal cash bill on pre-tax book income of \$3.12B at 21% would have approached \$655M before state. The arithmetic: \$655M hypothetical – \$277M actual federal cash paid = **\$378M** of federal cash tax saved by the credit/NOL attribute stack in FY2025 alone. Total income taxes paid in fiscal 2024 and 2023 were \$1.5B and \$1.7B respectively, indicating the shield has been a persistent feature of GM's cash-tax profile across the recent cycle.

**Did the 2025 EV charges increase the NOL?** Yes. GM recorded approximately \$7.9B of charges in GMNA in fiscal 2025 to strategically realign its EV capacity and manufacturing footprint — including inventory allowances of \$1.7B related to EV product, contractual settlement charges with the supply base, and capacity write-downs. To the extent those charges are currently deductible for tax purposes, they reduce 2025 federal taxable income (and any current-year shortfall against deductions becomes an NOL addition). The 10-K shows the U.S. operating-loss DTA rose modestly to \$385M in 2025 from a comparable level in 2024, consistent with a small incremental NOL addition from the EV realignment — most of the cash impact is being absorbed by the existing credit-carryforward stack rather than generating a headline new NOL. Several portions of the EV writedowns (impairments of long-lived assets) create deferred-tax asset entries that will reverse as the assets are ultimately disposed of.

**The pattern beyond GM.** The credit-carryforward stack is not GM-specific. Ford Motor Company carries a comparable R&D / foreign-tax-credit / IRA-credit stack disclosed in its FY2025 10-K Note on Income Taxes; Stellantis N.V. discloses the same shape on its non-U.S. side via European deferred-tax credits. The Big-Three OEM cohort is on the same credit-carryforward axis — GM is the worked example in this Brief because of the clean §382(l)(5) preservation history through the 2009 reorganization. Standalone Field Notes on Ford and Stellantis are in the pipeline.

**Why we point this out.** The income statement's tax provision shows what the GAAP tax expense looks like. It will continue to look subdued at GM until the credit and NOL stacks are exhausted. The cash flow statement and the supplemental disclosure show what the company is actually sending to the Treasury — and the gap, year after year, is the attribute stack working. We point this out because GM is one of the cleanest examples in U.S. equities of a large, durable, cash-economic tax asset created by a single restructuring event sixteen years ago and continuing to deliver value today — now layered with fresh credits from the IRA and the EV investment cycle. The tax footnote is where the cash shield lives. We always read it.

*Source: General Motors Company Form 10-K for fiscal year ended December 31, 2025 — Note 17 (Income Taxes), pp. 92-95 (deferred-tax schedule, rate reconciliation, NOL and credit-carryforward footnotes (a) and (b), income taxes paid supplemental schedule); MD&A and Note 12 (Asset Impairments and Other Charges) for the \$7.9B EV strategic-realignment charges; Form 10-Q for the quarterly period ended March 31, 2026 (Note 14 Income Taxes: \$642M Q1 income tax expense). IRC §382(l)(5) (bankruptcy exception).*

**SIDEBAR — BOOK IMPAIRMENT VS TAX DEDUCTION (GM AS THE EXAMPLE)**

GM recognized **\$7.9B** in EV strategic-realignment charges in FY 2025. A reader might assume that grew the NOL by \$7.9B. It did not.

**Why.** Book impairment under ASC 360 is a non-cash write-down of carrying value. For tax purposes, the asset's basis generally does NOT adjust on impairment alone. Basis only changes on *disposition* — sale, abandonment, casualty loss, or worthless-asset retirement.

**The math confirms it.** If \$7.9B had translated dollar-for-dollar into a tax loss, you'd expect a U.S. operating-loss DTA of roughly  $\$7.9B \times 21\% = \mathbf{\$1.66B}$  at federal alone. GM actually reports U.S. operating-loss DTA of only **\$385M** (gross U.S. federal NOL  $\approx$  \$1.83B). Most of the EV charge stayed book-only.

**What DID get tax-deducted** is the subset GM actually disposed of, abandoned, or scrapped — specific EV tooling retirements, worthless inventory write-offs, contract terminations. That subset is meaningful but small relative to the headline charge.

**Practitioner takeaway.** A large book write-down often does NOT predict a comparable tax-NOL increase. Tax deductions follow disposition events, not impairment. The footnote and the §382 limitation analysis matter more than the press release.

## Section 3 — The VC-Funded NOL Pattern

*The Institute's framing: VC-funded companies come to the public markets with a built-in advantage — years of preserved tax losses. The pattern is consistent enough to teach as a unit. Lyft and SNAP are the two working examples in this Brief.*

### The mechanics

Venture-funded companies typically run GAAP losses for five to ten years pre-IPO while building scale. Each year's loss is a federal NOL that survives the IPO and, for post-2018 vintages, never expires. By the time the company files its S-1, the cumulative loss stack is often a multi-billion-dollar deferred tax asset — carried at gross on the balance sheet, written down to zero by a full valuation allowance, and often modeled lightly in consensus.

Four mechanics combine to produce the pattern:

#### 1. Pre-IPO losses are preserved at IPO if §382 doesn't trigger.

The IPO itself can be an ownership change, but most well-structured VC IPOs are sized and tranching to avoid the 50-percentage-point threshold on a rolling three-year basis. Where a trigger does occur, §382 caps annual use rather than eliminating the NOLs — and for indefinite-life post-2018 NOLs there is no expiration race against the limitation.

#### 2. Post-2018 NOLs don't expire.

The TCJA indefinite-carryforward rule means the entire post-2017 vintage of the stack will be available whenever the company turns profitable. A company that IPOs in 2021 and achieves first profitability in 2028 still has 100% of its 2018-2028 NOLs intact, subject only to the 80% annual cap (a timing constraint, not a haircut).

#### 3. The headline rate is a poor proxy for cash tax in NOL years.

Modeling year-five cash taxes at the 21% federal rate misses the NOL shield entirely. If the company has \$5B of preserved NOLs and earns \$500M of pre-tax income in year five, the actual cash federal tax is zero — not  $21\% \times \$500M = \$105M$ . For Lyft at ~400M diluted shares, \$155M/year of NOL-shielded cash tax over the first four years of sustained profitability is ~\$620M cumulative, or roughly \$1.55/share of cash-tax shield missed by a naive 21% model.

#### 4. The NOL shield is most valuable in the highest-leverage years.

Early profitability is the period in which free-cash-flow growth has the largest multiplier effect on equity value — DCF terminal-value weight, market-narrative inflection, and deleveraging dynamics all peak in years one through five of profitability. Removing federal cash taxes from those years directly accelerates each of these effects.

### Worked example #1 — Lyft

Lyft IPO'd in March 2019 with several years of pre-IPO operating losses already on the books. By the fiscal 2025 10-K the company carried \$7.9B in gross federal NOLs and a \$2.25B federal NOL

DTA. In Q4 2025 management concluded sustained U.S. profitability had been achieved and released \$2.4B of valuation allowance — the textbook ASC 740 reversal. The 2025 income statement reported \$2.84B of net income, the bulk of which is the non-cash tax benefit, while free cash flow was \$1.12B. That divergence is the VC-IPO NOL pattern playing out in a live filing.

## Worked example #2 — SNAP

SNAP completed its IPO in March 2017 carrying years of pre-IPO operating losses. The IPO itself, plus subsequent secondary issuances, are routinely tested under §382. The FY2025 10-K confirms *no* ownership change had been triggered as of year-end. Pre-2017 carryforwards from the old 20-year regime are at risk of expiring before the §382 annual limit has run enough to use them. The post-2018 vintage layer is unaffected by both issues and represents the ‘clean’ portion of the stack. SNAP currently maintains a full valuation allowance against its U.S. federal DTA — meaning none of the NOL DTA sits at net on the balance sheet today. Any future return to sustained profitability would trigger the same kind of valuation-allowance reversal Lyft just executed, except on a stack of comparable size with a more complex §382 layer.

### Current-period cash tax shielded by the NOL — estimate

A point on present-day mechanics. Even for issuers carrying full valuation allowances or just emerging from one, the NOL is doing real work right now. The book numbers can understate this. For Lyft, GAAP pre-tax income is suppressed by the growing insurance reserve — but the tax deduction for insurance losses generally follows cash payment under §461 economic-performance rules, not the accrual. So taxable income runs materially higher than the book line suggests, and the NOL deduction is the binding constraint on cash tax. The same logic applies to SNAP: SBC, §174 R&E capitalization, and other permanent-and-temporary differences keep taxable income running above the book loss in any given period.

Line	Lyft (FY2025)	SNAP (FY2025)
Reported pre-tax book income (loss)	~\$(54)M	\$(451)M
Add back: insurance / loss accrual not yet paid (book > tax)	~\$479M	n/a
Other book-tax differences (SBC, §174, accruals) — Institute estimate (see footnote)	~\$500M	~\$600M
<b>Approx. taxable income before NOL deduction</b>	<b>~\$925M</b>	<b>~\$150M</b>
NOL usage allowed (post-2018 layer at 80% cap)	~\$740M	~\$120M
Residual taxable income after NOL	~\$185M	~\$30M
<b>Federal cash tax actually owed (~21%)</b>	<b>~\$39M</b>	<b>~\$6M</b>
<b>Federal cash tax saved by NOL deduction</b>	<b>~\$155M</b>	<b>~\$25M</b>

*Methodology and caveats.* The figures above are Institute estimates built off each issuer's book pre-tax line plus the primary book-tax differences disclosed in the 10-K cash flow statement and tax

footnote. They are not company disclosures. Lyft's insurance accrual delta of ~\$479M is taken directly from the FY2025 cash flow statement (Changes in operating assets and liabilities — Insurance reserves). The ~\$500M Lyft and ~\$600M SNAP 'other book-tax differences' lines are Institute estimates aggregating three components visible in each issuer's recent disclosure: (i) stock-based compensation book expense in excess of the tax deduction (Lyft FY2025 cash-flow add-back ~\$330M; SNAP ~\$1.1B); (ii) §174 R&E capitalization add-backs in the deferred-tax schedule (Lyft Note 13 capitalized R&E DTA delta of low-hundreds-of-millions; SNAP comparable line in Note 13); and (iii) residual accrual / reserve timing items. The estimates are scaled to be conservative relative to the disclosed components; a reader replicating the bridge from each filing's rate reconciliation and DTA schedule should land within ~20% of the figures shown. State NOLs, foreign jurisdictions, and AMT-style minimum-tax features are not separately modeled. The takeaway is the order of magnitude: Lyft is currently shielding ~\$155M of federal cash tax per year via the NOL even though the book P&L is near break-even; SNAP is shielding ~\$25M. Multi-year, those numbers compound.

### THE PATTERN

**Where the pattern shows up next.** The shape repeats across VC-funded IPOs of the 2018-2024 cohort — Lyft, SNAP, Pinterest, Uber, DoorDash, Airbnb, Rivian, Lucid, Toast, Robinhood, Coinbase, and the post-SPAC EV cohort. Large pre-IPO loss accumulation; multi-year post-IPO path to GAAP profitability; a tax footnote disclosing substantial gross federal NOL under a full valuation allowance until profitability is sustained. The single most useful practitioner step in any of these names is to read the §382 disclosure to confirm preservation, model cash federal taxes at zero through the NOL exhaustion year, and capture the valuation-allowance reversal benefit in the year sustained profitability is reached.

## Section 4 — Practitioner Takeaways

### Five things to do

#### 1. Read the income-tax footnote first, not last.

Open the 10-K to Note on Income Taxes before the MD&A. The footnote tells you the company's actual cash-tax posture, the size and vintage of its NOL stack, the valuation-allowance position, and any §382 limitations — all of which drive cash flow more directly than the headline effective tax rate.

#### 2. Distinguish book from tax, then pre-2018 from post-2018 NOLs.

The GAAP loss on the income statement is not the NOL. Compute the major book-tax differences explicitly (the table in Section 1.2 is the working list). Then split the NOL stack: pre-2018 NOLs expire (20 years) but escape the 80% cap; post-2018 NOLs never expire but are capped at 80% of taxable income annually. The footnote almost always discloses the split.

#### 3. Confirm §382 status before crediting the full stack.

Any reorganization, change of control, large secondary, or concentrated cap-table change in the prior three years is a §382 testing event. Annual base limitation = equity FMV × long-term tax-exempt rate. If the company hasn't disclosed an ownership change, look for the negative confirmation.

#### 4. Model state NOLs separately.

Federal does not equal state. California suspends NOL use periodically; New York has the PNOLC; Illinois caps annual deductions at \$100K; Texas has no concept at all. A multi-state filer's state DTA is typically 30–60% of its federal DTA before valuation allowance.

#### 5. Watch for the valuation-allowance reversal.

When a loss company returns to sustained profitability, ASC 740 forces a re-evaluation of the valuation allowance. Reversal produces a large, one-time GAAP tax benefit that distorts year-over-year EPS comparability but signals real underlying improvement. Lyft's 2025 release of approximately \$2.4B is the freshest live example.

### Four questions to ask of any company's tax footnote

1. What is the gross federal NOL balance, and how is it split between pre-2018 (20-year) and post-2018 (indefinite) vintages?
2. Is there a valuation allowance against the NOL DTA, and what events would trigger its reversal?
3. Has a §382 ownership change occurred in the last three years, and if so, what is the annual base limitation?
4. What is the company's most recent disclosure of cash income taxes paid — and does it reconcile to the GAAP tax rate the way the NOL position would predict?

## Cross-reference inside the Institute library

This Brief is the entry point. For deeper application:

**Lyft Case Study** — [baratelliinstitute.com/cases/lyft](https://baratelliinstitute.com/cases/lyft) — the worked NOL-shield model, §382 sensitivity, valuation-allowance reversal path, and per-share contribution.

**Cleveland-Cliffs Case Study** — [baratelliinstitute.com/cases/clf](https://baratelliinstitute.com/cases/clf) — deeper treatment of the steel-industry NOL stack, MACRS-vs-GAAP depreciation differential, and through-cycle tax-asset realization.

**SpaceX Case Study** — [baratelliinstitute.com/cases/spacex](https://baratelliinstitute.com/cases/spacex) — the SpaceX NOL position is materially larger than any of the five companies in this Brief; the case study walks the pre-IPO attribute preservation framework and the IPO §382 sensitivity.

**CFO & Controllers Guide** — tax-footnote chapter covers ASC 740 mechanics, valuation-allowance analysis, and the cash-tax-vs-effective-rate reconciliation.

**Private Equity & M&A Guide** — §382 mechanics, NOL preservation in M&A structuring, and the diligence checklist for target NOL stacks.

**Family Office Practice Library** — how to read tax attributes when underwriting direct equity, GP positions, and post-bankruptcy reorganization equity.

*Standalone Field Notes on SNAP, Carnival, General Motors, and Fiserv (payments / M&A-driven NOL stack via First Data) are in development as separate library entries.*

## Section 5 — Disclosure

### Educational purpose

This Brief is an educational case study published by the Baratelli Institute for the use of practitioners, principals, family offices, CPAs, attorneys, and investors. It is not a recommendation to buy, sell, or hold any security. It is not individualized investment advice. It is not personalized tax advice. It does not establish an attorney-client, accountant-client, or advisor-client relationship. Reading this Brief creates no fiduciary duty between the Baratelli Institute, the author, and the reader.

### Information sources

All company-specific data points reference each issuer's publicly filed Form 10-K, Form 10-Q, Form S-1, plan-of-reorganization disclosures, or other SEC filings as cited inline. Lyft figures are from the FY2025 10-K (Note 8 Insurance Reserves, Note 13 Income Taxes, Consolidated Statements of Cash Flows). Cleveland-Cliffs figures are from the FY2025 10-K Income Taxes note. Snap figures are from the FY2025 10-K (Note 13 Income Taxes, pp. 110-112) and the 10-Q for the period ended March 31, 2026 (Note 12 Income Taxes). Carnival figures are from the 10-K for the fiscal year ended November 30, 2025 (pp. 14-15 and the Consolidated Statements of Operations) and the 10-Q for the quarterly period ended February 28, 2026. General Motors figures are from the FY2025 10-K (Note 17 Income Taxes, pp. 92-95, and the MD&A) and the 10-Q for the period ended March 31, 2026 (Note 14 Income Taxes). Tax-code references are to the Internal Revenue Code as in effect on the publication date of this Brief. The journal-entry illustrations in Section 1 are general educational examples of standard accounting under ASC 740. The SNAP §382 hypothetical and the Lyft/SNAP current-period cash-tax-saved table in Section 3 are explicitly Institute estimates and educational illustrations, not company disclosures.

### Positions held by the author

The author owns the stock in two of the securities discussed in this Brief: **LYFT** (Lyft, Inc.) and **CLF** (Cleveland-Cliffs Inc.). The Institute publishes free educational case studies on both Lyft and Cleveland-Cliffs. The author has not received compensation from any issuer named in this Brief and has no material non-public information regarding any issuer named in this Brief. The author observes a 30-day trading blackout window before and after publication of any Brief that names a specific security in which the author holds a position. The Institute's full conflicts policy is published at [baratelliinstitute.com](http://baratelliinstitute.com). This Brief uses public SEC filings for all five companies discussed.

### Summary disclosure line

The author owns the stock. Educational case. Not investment advice. Sources: SEC filings cited inline.

### No tax or legal advice

Federal and state tax treatment of NOLs depends on facts and circumstances specific to each taxpayer. The framework in this Brief is general and educational. Practitioners and principals should consult their own qualified tax counsel and certified public accountants before acting on any matter discussed here. Application of §382, ASC 740 valuation allowances, state non-conformity, and the TCJA 80% cap in any specific transaction requires a current technical analysis on the specific facts.

### Forward-looking statements

Statements in this Brief regarding the future use of NOL carryforwards, the likelihood of valuation-allowance reversal, and the impact on cash taxes and free cash flow are inherently forward-looking. Actual outcomes depend on each issuer's subsequent operating results, regulatory developments, subsequent ownership changes, and accounting judgments. The SNAP §382 hypothetical in Section 2 is an educational illustration of the cap math — it is not a forecast that any acquisition of SNAP is in progress or contemplated.

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*Summary: educational use only; not investment, tax, or legal advice; the author may hold long-only positions in names referenced; full disclosure above.*

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**Philip A. Baratelli, CPA, MBA**

Founder, Baratelli Institute

Ponte Vedra Beach, Florida

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