

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.

The components of American's deferred tax assets and liabilities were (in millions):

	December 31,	
	2020	2019
Deferred tax assets:		
Operating loss carryforwards and other credits	\$ 3,944	\$ 2,115
Loyalty program liability	1,977	1,755
Leases	1,904	2,067
Pensions	1,397	1,219
Postretirement benefits other than pensions	203	145
Rent expense	96	126
Reorganization items	28	30
Alternative minimum tax (AMT) credit carryforwards	—	118
Other	796	569
Total deferred tax assets	10,345	8,144
Valuation allowance	(24)	(24)
Net deferred tax assets	10,321	8,120
Deferred tax liabilities:		
Accelerated depreciation and amortization	(4,992)	(5,153)
Leases	(1,809)	(1,968)
Other	(294)	(340)
Total deferred tax liabilities	(7,095)	(7,461)
Net deferred tax asset	\$ 3,226	\$ 659

At December 31, 2020, American had approximately \$16.5 billion of federal net operating losses (NOLs) available to reduce future federal taxable income, of which \$8.9 billion will expire beginning in 2023 if unused and \$7.6 billion can be carried forward indefinitely (NOL Carryforwards). American is a member of AAG's consolidated federal and certain state income tax returns. American also had approximately \$5.0 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2020, which will expire in taxable years 2020 through 2040 if unused.

American's ability to use its NOL Carryforwards depends on the amount of taxable income generated in future periods. American provides a valuation allowance for its deferred tax assets, which include the NOLs, when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized. American considers all available positive and negative evidence and makes certain assumptions in evaluating the realizability of its deferred tax assets. Many factors are considered that impact American's assessment of future profitability, including conditions which are beyond its control, such as the health of the economy, the availability and price volatility of aircraft fuel and travel demand. American presently has a \$24 million valuation allowance on certain net deferred tax assets related to state NOL Carryforwards. There can be no assurance that an additional valuation allowance on American's net deferred tax assets will not be required. Such valuation allowance could be material.

American's ability to deduct its NOL Carryforwards and to utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 where an "ownership change" has occurred. Substantially all of American's remaining federal NOL Carryforwards attributable to US Airways Group are subject to limitation under Section 382; however, American's ability to utilize such NOL Carryforwards is not anticipated to be effectively constrained as a result of such limitation. Similar limitations may apply for state income tax purposes. American's ability to utilize any new NOL Carryforwards arising after the ownership changes is not affected by the annual limitation rules imposed by Section 382 unless another ownership change occurs. Under the Section 382 limitation, cumulative stock ownership changes among material stockholders exceeding 50% during a rolling three-year period can potentially limit American's future use of NOLs and tax credits.

At December 31, 2019, American had an AMT credit carryforward of approximately \$226 million available for federal income tax purposes, which was fully refunded in 2020 as a result of the CARES Act.