Industry official sees no need for tax increase

by A.J. McClanahan
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The drop in oil prices may have put Alaska in a tough economic situation, but a key member of a new legislative tax policy committee does not think the state will need to either raise taxes on the oil industry or institute a personal income tax.

"There is sufficient money available to meet the fiscal '87 budget without an increase in industry taxes or a personal income tax," George Nelson, head of Standard Alaska Inc., said in a recent interview.

He pointed out that Steve Cowper, governor-elect, will have some hard choices to make in the next year about where and what to cut from state programs. "But it can be done," Nelson said.

The tax policy committee was created in the last legislative session. Committee members are charged with developing a comprehensive approach to existing state taxes, tax credits, licenses and user fees.

They also are charged with making recommendations concerning a long-term, broad-based and stable tax policy to minimize taxes and foster economic growth.

Members include the chairman, Sen. Frank Ferguson, and Sens. Mitch

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George Nelson, Standard Alaska chief photo by Pat Prosser

New tax law aids Native corporations

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benefits are scheduled to go to Bering Straits.

"If you add state and federal tax, it's more than 50 percent (of the savings)," says Acton.

Stenehjem explained a 50 percent split, saying that theoretically a corporation with $1 million in earnings would look for a corporation with $1 million in losses.

At the current corporate tax rate of 46 percent, the profitable firm would gain $460,000 in savings. A 50/50 split would provide the Native corporation with $230,000 or 23 cents on every NOL dollar.

The Del Webb deal took place before the new tax law. Now, the percentage given to Native corporations has gone as high as 80 percent of the tax savings for the larger transactions, Wolf said.

Stenehjem added that most deals are in the 60/40 split area.

The new tax law smooths along the transfer of NOLs in two ways. First, it clarifies an exemption that had been written in the 1984 tax law for Native corporations. And it makes more clear and open the ways in which an unprofitable Native corporation and a profitable firm can become affiliated.

The 1984 tax law closed a loophole that companies had been taking advantage of to consolidate tax returns. The law required that unprofitable companies must not only own 80 percent of the voting stock but also own 80 percent of the equity in any subsidiary firm formed with a profitable corporation.

The prohibitive cost of owning the equity in these corporations stopped the transfer of NOLs.

Sen. Ted Stevens, R-Alaska, however, obtained an exemption for Native corporations to the requirement of owning 80 percent equity in the 1984 law. Few companies took advantage of the exception since the IRS refused to issue a ruling on whether the consolidations would be accepted.

The new language makes it much more clear.

Disney, Federated Stores, Marriott, Nike, Hilton and others are getting involved in the NOL deals, according to those working at arranging the transfers.

A pooling arrangement may be necessary, because anything less than $1 million to $1.5 million in NOLs is not worth it to a buyer.

Not only is it more clear that these transactions are possible, but the kind of transactions that will probably be accepted by the IRS have been broadened by the new tax act, according to Wolf.

The Del Webb transaction involved a Native corporation buying into an operating company. Now, the agreements between Native corporations and profitable firms do not necessarily have to involve operating companies, says Wolf.

A profitable company may assign income to a subsidiary, Wolf said. It's not only the blessing of the tax law, but also the lowering of the corporate tax rate after the 1986 returns that is encouraging the rapid transfer of NOLs.

A decline from the current 46 percent tax rate to a 34 percent rate makes it more profitable.

Because of the effort to cut a deal before the tax law changes, there is a lot of competition for the NOLs. This time constraint can lower the quality of the transaction, says one player.

Also, Wolf cautions there are risks, concerning whether the IRS will allow the kind of transaction decided upon by the two corporations and whether the NOLs can withstand an IRS audit.

A pooling arrangement may be necessary, Stenehjem said, because anything less than $1 million to $1.5 million in NOLs is not worth it to a buyer. And he pointed out that the larger deals are in the $10 million range.