Native corporations turn losses into profits

by Pamela Cravez
for the Tundra Times

Language in the 1986 tax law makes it even easier for Native corporations to turn their net operating losses — NOLs — into cash.

The new law clarifies what many people dealing with Native corporations already believed — that they are exempt from the constraints that bind other unprofitable companies from consolidating their tax returns with profitable firms.

"Now, with the 1986 language, it has become so obvious that this type of transaction is possible that major national companies are up in Alaska vying to take advantage of it," according to John Stenehjem of Peat Marwick Mitchell & Co.

'Now, with the 1986 language, it has become so obvious that this type of transaction is possible that major national companies are up in Alaska vying to take advantage of it.'

—John Stenehjem

The consolidation of tax returns comes about in a complicated manner, but the result allows the profitable company to offset its taxable income with the NOLs and tax credits of an unprofitable corporation.

For its part, the Native corporation is paid a part of the tax savings. With the new clarification of the tax law, the Native corporation portion of the savings has been going up, says David Wolf, Anchorage attorney.

The highest profile transaction is that between Bering Straits Native Corp. and Del E. Webb.

The Nome-based corporation turned $42 million worth of net operating losses into an estimated $7 million to $10 million in cash earlier this year.

Bering Straits did this by buying stock in Sun City West Development Inc. Sun West is an Arizona company "whose only substantial asset is a limited partnership interest" in Del E. Webb, according to Bill Acton, vice president for public affairs for Del Webb.

Del Webb is a major national firm that is listed on the New York Stock Exchange.

For $1.24 million, Bering Straits received about 1 percent of the equity in Sun West and 85 percent of the voting stock.

Since more than 80 percent of the voting stock in Sun West is owned by Bering Straits, the Native corporation can consolidate its tax return with Sun West. Bering Straits' NOLs will then offset the profits of the Del Webb company.

A portion of Del Webb's tax

(Continued on Page Three)

Panel to examine state's taxes

(Continued from Page One)

Abood and Richard Eliason, as well as Reps. Ben Grussendorf, Terry Martin and John Sund. Serving as ex-officio members are Bart K. Garber of Fairbanks, Gordon Harrison of the Office of Management and Budget, Dick Monkmon of the Department of Revenue, David D. Rasley of Fairbanks and Nelson.

The committee has had two meetings, and Nelson said members have decided to take a hard look at all taxes in Alaska.

The task won't be easy, he said, because of the pressure to do something about the fact that the projected shortfall in the state's fiscal 1987 budget of $1.8 billion is $500 million.

Not surprisingly, Nelson said now is "most definitey not the time" to raise oil industry taxes. He pointed out that for the first nine months of 1986, Standard Oil reported a net loss of $376 million nationally, compared with earnings of more than $1 billion for the same period last year.

Exploration and development of new oil fields would be the first to suffer if taxes were increased, he said.

At the same time, Nelson said he also believes that a personal income tax is not the answer, either.

Nelson said he thinks the state can weather fiscal 1987, but he added that the real crunch will come in fiscal 1988. In the meantime, he said, a number of programs can be cut to save money without having to reduce necessary health or senior citizen programs.

The next meeting of the committee has not yet been set. Its report to the Legislature is due in early 1988.