**THE BENEFITS OF AN ALASKAN NATIVE SETTLEMENT TRUST**

The Tax Cuts and Jobs Act of 2017 resulted in changes to the tax rules applying to Alaska Native Settlement Trusts (ANSTs), relieving some previous restrictions. As a refresher for those who need it, the purpose of a Settlement Trust is to “promote the health, education, and welfare of its beneficiaries and preserve the heritage and culture of Natives.” Here are several reasons why an Alaska Native Corporation (ANC) may want to consider starting an ANST.

1. ANCs may now deduct ANST contributions. If an ANC contributes cash to an ANST, the ANC will receive a deduction **equal to the amount of cash contributed to the ANST**. The ANST will generally recognize income in the amount of the contribution from the ANC. What could this mean for you? Contributions to a settlement trust will provide a permanent tax benefit to the ANC, and assets are put into the ANST to benefit shareholder beneficiaries.

Example:

* In Year 1, ANC Corp A with $50,000 of net taxable income before the contribution, contributes $50,000 in cash to the related ANST.
* The Settlement Trust ANST would recognize $50,000 in Year 1. The ANC will receive a deduction in Year 1 of $50,000.
1. ANCs may contribute non-cash property to the ANST and receive a deduction equal to the lesser of its tax basis or fair market value. ANSTs may elect to **defer the recognition of net taxable gain of non-cash property until such property is sold**. What could this mean for you? An ANST can receive appreciated property, and defer tax to future years. This will help get income-generating assets into the ANST to benefit the shareholder beneficiaries.

Example:

* In Year 1, ANC Corp A contributes land into the ANST. The ANC’s tax basis in the land is $50,000 and has a fair market value of $100,000.
* The ANC will receive a deduction of $50,000.
* The ANST may elect to defer gain on the contribution of land until it is sold.
* In Year 3, once the ANST sells the land the $50,000 of deferred gain will be taxed at 10 percent, and any appreciation will likely be taxed at zero percent as a long term-capital gain.
1. ANSTs may still make distributions to shareholder beneficiaries, which will generally be **non-taxable to the recipient**.

Remember, under the new tax law ANCs with taxable income will generally pay federal and state tax at a 28 percent rate. Settlement trusts are taxed at a 10 percent rate on ordinary income, and at zero percent for qualified dividends and long-term capital gains.

These are only the highlights, and with this new law comes new complexities and other administrative reporting requirements. Your local BDO Anchorage Tax Partner Chad Estes and Tax Senior Manager Zac Rankin can walk you through these requirements and the benefits of starting an ANST.



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