

# GM takes \$39-billion charge as outlook dims

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**General Motors Corp.** will record one of the largest bookkeeping losses in history in 2007 as it wipes a \$39-billion (U.S.) tax asset off its balance sheet.

The accounting charge is only \$14-billion less than the \$53-billion writeoff that AOL Time Warner Inc. announced in early 2002 to mark the steep decline in AOL's value after the technology bust of 2001-02. The GM writedown outstrips even the massive accounting charges taken by Nortel Networks Corp. that led to a \$25.7-billion loss in 2001.

GM's move, announced after markets closed, has no impact on cash or the company's financial position. But the charge can be seen as a backhanded admission that in the short term, at least, the turnaround plan is not going to result in significant profits, said one analyst with expertise in accounting rules.

When a company generates a loss in a particular year, in most cases it generates a tax shield. That is usually recorded as a "deferred tax asset," and can be drawn upon in future years as the company turns profitable again.

However, "if you don't generate income, then you can't use that tax receivable," said **Anthony Scilipoti**, executive vice-president of **Veritas Investment Research Corp.** By writing down the tax asset to zero, "it means things are bad ... you're not going to generate earnings " to make use of previous years' tax losses.

GM cited several factors in its decision to act now. Residential Capital LLC, a mortgage lending unit that is tied to GMAC Financial Services, has suffered heavy losses after the U.S. real estate and mortgage markets were rocked by falling prices and defaults this year. The company also said faces "more challenging near-term automotive market conditions in the U.S. and Germany."

Chief financial officer Fritz Henderson said in a statement: "GM continues to believe that its new product introductions, combined with the new GM-UAW labour agreement, once fully implemented, will significantly improve GM's competitive position in the U.S. and better position the company to utilize tax benefits in the U.S. and Canada in the future."

U.S. accounting rules force companies to re-evaluate their deferred tax assets based on whether it's "more likely than not" that they'll be able to use them.

"I don't know why they're doing it now in [the third quarter] - usually this would be the auditor hammering them" at the end of the fourth quarter, **Mr. Scilipoti** said.

GM lost about \$12.4-billion in 2005 and 2006, mostly because of nearly \$10-billion in pretax restructuring charges, according to data compiled by Standard & Poor's/Capital IQ.

GM (GM)

Close: \$36.16, up 16¢

## **Big writedowns**

\$54-billion (U.S.)

AOL Time Warner Inc. took a charge in 2002 to reflect a steep decline in the value of AOL's purchase of Time Warner.

\$54-billion (U.S.)

JDS Uniphase Corp. took a writedown for goodwill in 2001.

\$12.5-billion

In 2001, Nortel Networks Corp. took a writeoff.