

A brief synopsis of the tax benefits of aircraft ownership:

Aside from the practical advantages, private aircraft (or fractional) ownership offers considerable tax advantages in the form of large depreciation and expensing deductions for qualifying aircraft. The President recently signed into law the Small Business Jobs Act of 2010, which extends the “bonus depreciation” provisions under IRC § 168, which allow the taxpayer to deduct up to 50% of the cost basis of plane in year it is placed in service. This legislation also modifies the separate “expensing” provision under IRC § 179 that allows up to an additional \$50,000.00 deduction for qualifying purchases. What remains of the plane’s basis after one or both of these provisions are applied may then further be depreciated under the accelerated, five year, MACRS recovery period. Put together, the purchaser may be able to deduct the majority of the plane’s purchase price in the first two years of ownership, depending on his overall tax picture.

The following is an illustration of the tax advantages discussed above, based on a hypothetical purchase price of \$2M, this year, placed into immediate service:

Tax Savings – Aircraft Purchase

Purchase Price		\$ 2,000,000.00	Remaining Basis (Running Figures)
§ 179 Expensing Allowance	Expense allowance (assumes no other capital equipment purchases in that year)	\$ 50,000.00	\$ 1,950,000.00
Bonus Depreciation	50% Bonus Depreciation	\$ 975,000.00	\$ 975,000.00
Total Adjusted Basis			\$ 975,000.00

MACRS Depreciation Schedule			
2010	5.00%	\$48,750	\$ 926,250.00
2011	38.00%	\$370,500	\$ 555,750.00
2012	22.80%	\$222,300	\$ 333,450.00
2013	13.68%	\$133,380	\$ 200,070.00
2014	10.94%	\$106,665	\$ 93,405.00
2015	9.58%	\$93,405	\$ -

Total		\$975,000
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Tax Savings By Year

Year	Total Deductions	Taxes Saved @ 35% Effective Tax Rate
2010	\$ 1,073,750.00	\$ 375,812.50
2011	\$ 370,500.00	\$ 129,675.00
2012	\$ 222,300.00	\$ 77,805.00
2013	\$ 133,380.00	\$ 46,683.00
2014	\$ 106,665.00	\$ 37,332.75
2015	\$ 93,405.00	\$ 32,691.75
Totals	\$ 2,000,000.00	\$ 700,000.00

For illustration only

Some caveats / other considerations:

- The expensing allowance, under the new law, phases out dollar for dollar for aircraft over \$2M.
- Bonus depreciation is permitted only for new aircraft, whose "first use" is in the taxpayer's hands. Used or refurbished aircraft do not qualify. Fractional interests are considered "first used" by the taxpayer at the time of purchase.
- The purchaser must enter a written binding contract for his purchase and place a non-refundable deposit with the seller by the end of 2010. He would have to begin using the aircraft for business purposes by the end of 2011.
- Deductibility depends on your client using his aircraft predominantly for business purposes. Use of an aircraft for personal entertainment and non-entertainment use is the subject of additional tax planning.
- Depreciation deductions are "recaptured" when the aircraft is sold. This can be deferred for some time either by continued ownership or by exchanging the fractional interest for another at a later time. The real tax savings is the time value of the money not paid in taxes during this period.

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