

2017 Holiday Tax Update

December 20, 2017

As 2017 comes to a close with an overhaul in our tax system, this holiday season we thought we would give out a little extra “stocking-stuffer” and provide insight into how the newly enacted tax bill may affect the business aviation industry, and more specifically, you – our family, friends, and clients.

The House and the Senate have now voted and passed the new tax bill, which is expected to be signed into law by President Trump before year’s end. Named the “Tax Cuts and Jobs Act,” among its provisions are 100% expensing on the purchase of new **or used** aircraft for purchases between September 27, 2017 and January 21, 2023 (beginning to phase out in 2023), meaning that the purchase price of a new or used aircraft can be fully and immediately deducted against the business’s taxable income in the year of purchase.

Effective January 1, 2018, Section 1031 like-kind exchanges (“LKE”) for personal property, including aircraft, are eliminated. It is important to note that the current LKE rules remain in place into 2018 for exchanges of aircraft if the taxpayer has either purchased the replacement aircraft or disposed of the relinquished aircraft on or before December 31, 2017. If you are purchasing an aircraft starting in 2018, the bonus depreciation rules will lessen the impact of losing LKE treatment; however, while 100% expensing in year one is phased out after five years, the LKE repeal for personal property is permanent.

Changes to the fringe benefit rules would no longer permit a deduction of entertainment expenses to the extent included in employee’s income (e.g., imputed income created from personal flights of an executive using the Standard Industry Fare Level [“SIFL”]). Additionally, no deduction will be allowed for any expense incurred for providing any transportation to an employee of the taxpayer in connection with travel between the employee’s residence and place of employment, except as necessary for ensuring the safety of the employee. IRS security plans may again become necessary to deal with expenses from flights that are considered “commuting.” Currently, these are treated as personal flights, and income is imputed to the employee, but not considered entertainment, so there has been no limitation on deducting the expenses of such flight.

Thankfully, the bill clarifies that no federal excise tax for air transportation will be due on Part 91 Management Company arrangements.

And in a final bit of unmitigated good news, the excise tax on beer and wine has been reduced.

