



9224 W. Raintree Dr. • Columbus, IN 47201 • (800)342-9589 • Fax (812)341-9001

IMMEDIATE INCOME TAX SAVINGS AVAILABLE TO AIRCRAFT OWNERS THROUGH SECTION 179 EXPENSING

With the expiration of bonus depreciation for 2005 aircraft purchases, Section 179 expensing plays a larger role in maximizing the income tax benefits of a business aircraft.

Section 179 of the Internal Revenue Code offers small businesses the opportunity to write off capital improvements in the year of acquisition, instead of depreciating the asset over the standard five or seven year useful life. Congress has dramatically increased the amount of expensing available in the last couple of years. For the 2005 tax year, a taxpayer can expense up to \$105,000 of capital improvements in the year of acquisition. Any remaining tax basis will be depreciated using the generous double declining balance method allowed under the Modified Accelerated Cost Recovery System (MACRS) of the tax code. This expensing provision also applies to avionics upgrades and other improvements made to a current aircraft.

The following table illustrates the first year deductions available to a \$450,000 aircraft:

Purchase Price	\$450,000
Section 179 Expensing	\$ 75,000
MACRS Depreciation	\$ 75,000
Total Tax Deductions in 2005	\$150,000
Potential Income Tax Savings in 2005	\$ 60,000

The definition of "small business" for this code section is defined as a taxpayer that has less than \$420,000 in total capital improvements for the tax year. The amount of expensing is reduced dollar-to-dollar when equipment purchase exceeds \$420,000 and completely phased out when equipment purchase exceeds \$525,000.

One of the limitations of Section 179 expensing is that a taxpayer cannot create a tax loss by taking the Section 179 expensing deduction. In addition, the \$525,000 limit on equipment purchase is applied to all the businesses owned by a taxpayer. Therefore, careful consideration of your overall tax situation and the choice of entity are critical to utilizing the expensing provision. Understanding the sales and use tax laws of your home state, Federal Aviation Regulations requirements and other legal and operational requirements, will be essential to formulating an ownership structure that will maximize the tax savings available while operating your aircraft in full compliance of Federal Aviation Regulations.

Aviation Tax Consultants (ATC) assists aircraft purchasers in acquiring aircraft in a tax efficient manner. Our services include the elimination or reduction of sales tax at the time of purchase, maximizing income tax savings, controlling the cost of personal use of the aircraft, avoiding passive activity loss rules and complying with Federal Aviation Regulations. Cooperation with client's current tax and legal advisors is welcomed and encouraged.

Fred McCarter, Managing Member
fmccarter@aviationtaxconsultants.com

Daniel Cheung, CPA
Daniel@aviationtaxconsultants.com

www.aviationtaxconsultants.com