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## SUBSTANTIATE THE BUSINESS USE OF YOUR AIRCRAFT

Your tax advisors created a well thought out business plan, the aircraft was utilized for its intended purpose, and your business grows as a direct result of your business aircraft. However, during an income tax audit by the Internal Revenue Service, tax deductions related to the aircraft are disallowed. What happened?

Do a quick search of tax court cases and you will notice that many taxpayers had their aircraft deductions denied because of one simple reason – lack of adequate records and documentation for the expenses. Internal Revenue Code Section 274(d) provides that a deduction is not allowed under Code Section 162 or Code Section 212 for traveling expenses, entertainment, gifts, or listed property unless the taxpayer substantiates each element of an expenditure or use of property by "adequate records" or by "sufficient evidence corroborating the taxpayer's own statement." Listed property is defined as property used for transportation and aircraft is classified as listed property.

An adequate record that substantiates the business or investment use of listed property generally must be written on paper or recorded on a computer. A diary, expense report, trip sheet, or similar record must be prepared or maintained 'at or near the time' of the expenditure or use. For example, a log maintained on a weekly basis, which accounts for use during the week, shall be considered a record made at or near the time of such use.

In order to constitute "an adequate record" to substantiate the business use of a listed property, the record must contain sufficient information as to each element of every business or investment use. A typical pilot log book generally does not include sufficient information to support the business or investment use of each flight. A supplemental log should be kept that details the business purpose and the expenses related to each flight.

Aircraft ownership offers the attentive taxpayer tremendous income tax benefits. However, a lack of proper documentation of aircraft expenses can result in the loss of these valuable tax deductions.

*Aviation Tax Consultants (ATC) assists aircraft purchasers in acquiring aircraft in a tax efficient manner. Our services include the elimination or reduction of sales and use 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 welcome and encouraged.*

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