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(Below is an article originally published on Cirrus Pilot Magazine in 2008. It has been updated for 2016 legislative changes.)

A Cirrus aircraft is a sizable investment. If you can write off your aircraft by using the Cirrus in your business, you will be able to significantly reduce the cost of your flying. Below are some of the common questions that you may consider to determine whether you can ask Uncle Sam to subsidize your flying.

1. Should I write off my Cirrus?
  - \* If you can support and justify the use of your Cirrus in your business, yes, deducting expenses and depreciating the Cirrus can help you reduce your cost of flying. It may help you justify buying the plane in the first place!
2. Should I be conservative and not depreciate my Cirrus?
  - \* Depreciation deductions are “allowed” or “allowable.” Even if you elect not to deduct any depreciation, your tax basis in the aircraft can still be reduced by the amount of depreciation allowable. When you sell the Cirrus, you may realize a gain even though you did not take advantage of the depreciation deductions.
3. What is depreciation?
  - \* Depreciation is the recovery of the cost of a business asset over the useful life of the asset. Federal tax law allows a very generous five year useful life for aircraft that is used in non-commercial operation. In order to depreciate the aircraft, you must own the aircraft and the aircraft must be used in a trade or business or an income-producing activity.
4. What is Section 179 Expensing?
  - \* The tax law allows small businesses to expense up to \$500,000 in capital improvements expenses. There are various requirements that you need to meet in order to qualify for Section 179 expensing.
5. What is Bonus Depreciation?
  - \* Bonus depreciation is an incentive for business owners to accelerate its depreciation deduction when a new business aircraft is purchased. 50% of the purchase price of a new aircraft can be depreciated in the year of acquisition, and can be utilized in conjunction with Section 179 Expensing.
6. What is depreciation recapture?
  - \* When you sell your Cirrus that has been depreciated, you will incur a depreciation recapture. The recapture is the gain that you will realize when the sale price exceeds the net tax basis of the aircraft. Your loan balance is not relevant to this gain calculation. You may be upside down on your aircraft loan, but you can still have a taxable gain on the sale of the plane. The gain recapture is taxed at ordinary income tax rate, not as capital gains.



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7. What is a like kind exchange?

- \* A like kind exchange allows you to defer the gain on the sale of your current aircraft if you buy and trade-up to another aircraft. This is very helpful for taxpayers that have been depreciating their current aircraft.
- \* If you trade in your current plane to Cirrus for a new one, this transaction qualifies as a like kind exchange
- \* If you sell your aircraft in the market and then purchase a new plane, you will need to engage an intermediary company to handle the exchange paper work.

8. Do I need an aircraft business so that I can write off my Cirrus?

- \* Generally, no. The approach should be to incorporate your aircraft into your existing business. If you are a consultant, you want to use the plane to visit clients, attend trade shows or seminars that help you become more efficient and profitable. It is very difficult to start a new business, especially an “aircraft business” that is profitable.

9. How do I support the business use of my Cirrus?

- \* The flight log is the single most important supporting document to support the business use of your Cirrus. In the event of an IRS audit, a detailed, well-documented flight log can be the difference between a no-change audit or having deductions questioned and disallowed.
- \* Your pilot logbook usually does not provide sufficient details for your trips. A tax log should be kept to provide detailed documentation of the business purpose of each flight.

10. Can I begin writing off my Cirrus in 2008 that I purchased in prior years?

- \* Yes, you may place your Cirrus into service and begin writing off expenses and depreciating the aircraft. If your circumstance has changed and you can now justify utilizing your aircraft for business, you can begin to depreciate and write off your plane expenses.

11. Should I form a Delaware company to own my aircraft?

- \* The age-old myth is to use an out-of-state entity to avoid paying sales or use tax on the purchase of an aircraft. No, you can not legally avoid paying sales or use tax by using a Delaware, Nevada or Montana entity. The state that you domicile your aircraft has the legal authority to assess sales or use tax on your aircraft. In this era of revenue deficits, many states have dramatically stepped up their enforcement efforts to assess sales or use tax on aircraft purchases. Their tactics range from obtaining aircraft registration information directly from the FAA, auditing aircraft manufacturer’s or dealer’s sale records, to requiring airports / FBO’s to submit listings of tail numbers of aircraft that are hangared at their airport.



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12. What is sales tax or use tax?

- \* The terms sales tax and use tax are sometimes used interchangeably. Sales tax is assessed when an aircraft is purchased in a state, unless certain exemption applies. For example, Minnesota sales tax does not apply to your Cirrus purchase, even though the sale and delivery takes place in Duluth because most of you are not a resident of Minnesota. However, when you bring your Cirrus back to California, a “use tax” may apply as you are using the plane in California. Sales and use tax rates are typically identical.

13. How can I avoid paying sales or use tax?

- \* Depending on your home state, different exemptions may apply that can exempt you from sales / use tax assessment. Some common exemptions:
  - i. Interstate commerce exemption
  - ii. Casual sale exemption – when the purchase is between two private parties, not involving manufacturer, broker, etc.
  - iii. Rental and leasing exemption – when the plane is used in a rental business
- \* For some states, there are no exemptions available. You buy a plane, you pay the tax.

About the author:

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