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## **UPDATE: Expensing, Depreciation & Tax Highlights affecting you in 2019**

As you know, The Tax Cut & Jobs ACT (TCJA) of 2018 has formally made an impact to all Americans across the country. It has also impacted and changed the landscape of the Aviation Industry considerably. Below we will discuss major topics and considerations to think about that will directly influence the operation and business impact of your current aircraft ownership.

### **1. 100% BONUS DEPRECIATION**

The TCJA recent changes to Bonus Depreciation are extremely impactful. Not only does bonus depreciation increase from 50% to 100%, the changes are retroactive to September 27<sup>th</sup>, 2017. With these new changes come careful considerations to be made on structuring depreciation and how it affects you and your situation. Through 2022, companies will be able to deduct 100% of the cost of qualified properties.

### **2. SECTION 179 EXPENSING**

Section 179 expensing went from \$500,000 to \$1,020,000 and is available on new and used aircraft with the new phase-out increased to \$2.5 Million. Section 179 phases out dollar for dollar at that \$2.5 Million amount. Section 179 is a good option for companies who may not need 100% bonus depreciation. It is important to know the difference between the depreciation schedules that can be taken from both Bonus Depreciation and Section 179.

### **3. ENTERTAINMENT USE OF A BUSINESS AIRCRAFT**

Historically, the general rule of IRC § 274 disallowed all entertainment expenses unless directly related or associated with the active conduct of the business. Flying clients to a sporting events has normally been considered a deductible business use of an aircraft.

Effective January 1<sup>st</sup>, 2018, TCJA disallows all entertainment expenditures, regardless of whether they are directly related to a business goal or connected to the taxpayer's business activities, which includes entertainment use of a business aircraft. Taxpayers can continue to utilize the aircraft for business entertainment, but these expenditures are no longer tax deductible. It is important to strategically plan in advance for these related flights.

### **4. ELIMINATION OF 1031 LIKE-KIND EXCHANGE**

Most people in the aircraft industry know that 1031 Like-Kind Exchanges have been eliminated. This is not a big deal to companies who buy and sell their aircraft in the same tax year. However, if the sale happens outside the year of acquisition, the taxpayer will feel the effect of "Recapturing Depreciation". Beginning in 2018, a sale of a depreciated business aircraft will result in gain recognition immediately, taxed at your ordinary income tax rate.

### **5. TRANSACTION TIMING & PLANNING OPPORTUNITIES**

With the amount of depreciation available from a business aircraft, it is paramount that taxpayers and their tax advisors consider the various compliance requirements in order to benefit from the sizable tax benefits. Numerous Internal Revenue Code provisions can impact and limit the utilization of bonus depreciation – basis limitation for pass-through entity, passive activity rules (Section 469), listed property (Section 280), entertainment use (Section 274), hobby loss (Section 162), etc.

Each aircraft-owner's tax situation is unique. It's important to strategically plan and understand how an aircraft can continue to help you achieve your tax and business goals. **Please feel free to contact us at ATC at 812-342-9589. We will help support and answer any questions or concerns you may have.**

To find out more, please visit our website, [www.aviationtaxconsultants.com](http://www.aviationtaxconsultants.com), email us, or call us at **812-342-9589**

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