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Aircraft Tax Software

# User Guide

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## Software Basics

**T**he software requires a basic understanding of certain key tax and SEC principles in order to get the best results and outputs from the aircraft tax software. The most significant issues involve (a) the rules under Internal Revenue Code Section 274, which disallow aircraft travel expenses associated with entertainment and commuting travel, (b) the rules under Section 280G, which disallow the use of bonus depreciation and accelerated depreciation methods (or require the recapture of some of such benefits) unless certain minimum levels of qualified business use occur in each relevant tax year and (c) the rules under Section 61 and the accompanying regulations requiring the imputation of income to executives and employees for personal use of aircraft owned and/or operated by an employer.

**F**or purposes of the taxation of fringe benefits under Section 61 of the Internal Revenue Code, as a general rule, if an employee (or other service provider) takes a flight on an employer-provided piloted aircraft and that employee's flight is primarily personal (non-business), the taxable value of the flight is equal to the amount that an individual would have to pay in an arm's-length transaction to charter the same or a comparable piloted aircraft for that period for the same or a comparable flight. Section 1.61-21(g) of the Income Tax Regulations provides an alternative (usually more favorable) rule for valuing noncommercial (or personal non-business) flights on employer-provided or employer-owned aircraft. Section 1.61-21(g)(5) provides an aircraft valuation formula to determine the value of such flights. The value of a flight can be determined under the base aircraft valuation formula (also known as the Standard Industry Fare Level formula or SIFL) by multiplying the SIFL cents-per-mile rates applicable for the period during which the flight was taken by the appropriate aircraft multiple provided in section 1.61-21(g)(7) and miles (statute not nautical) traveled and then adding the applicable terminal charge. The SIFL cents-per-mile rates in the formula and the terminal charge are calculated by the Department of Transportation (DOT) and are published semi-annually.

The SIFL amount is determined on a per-flight, per-person basis and generally reported by an employer to the responsible employee on IRS Form W-2 each taxable year.

The software (desktop, mobile App and web-based) is updated during the year to reflect the updated SIFL cents-per-mile rates and terminal charge rates that are periodically published.

Regulation Section 1.61-21(g) contains special rules when an employee combines, in one trip, personal and business flights on an employer-provided aircraft. Different calculations apply if the primary purpose of the trip is business or personal. See Regulation § 1.61-21(g). The regulations provide if an employee combines, in one trip, personal and business flights on an employer-provided aircraft and the employee's trip is primarily for the employer's business (see § 1.162-2(b)(2)), the employee must include in income the excess of the value of all the flights that comprise the trip over the value of the flights that would have been taken had there been no personal flights but only business flights. By contrast, if an employee combines, in one trip, personal and business flights on an employer-provided aircraft and the employee's trip is primarily personal (see § 1.162-2(b)(2)), the amount includible in the employee's income is the value of the personal flights that would have been taken had there been no business flights but only personal flights. The AircraftTaxSolutions.com website and app contain a calculator to compute the SIFL income amount for these trips. At the present time, the difference between this SIFL amount and the amount appearing for those separate flights on the SIFL list shown can be entered manually at the bottom of the SIFL per flight, per person list on the website or in the App.

## How to calculate SIFL Amounts.

SIFL amounts for personal flights will be automatically calculated based on the data entered on the Flights and Passengers Entry page. It is important that all of the entries in the Passenger section of this page be correctly evaluated and selected/entered in order to get the most accurate calculations. Information regarding various definitions can be accessed from the help button (see in image below) the Flights and Passengers Entry page.

**PASSENGER ENTRY SCREEN.** The image above shows the passenger entry portion of the screen under the Enter Flight and Passengers input page, with the help button identified.

## Qualified Business Use

In order to claim bonus depreciation and use accelerated depreciation methods (and not have to recapture portion of these amounts in future periods) for an aircraft, the "qualified business use" percentage for the aircraft determined under Internal Revenue Code ("IRC") Section 280F must be at least 50% (determined under either the flight by flight method (using either hours or miles) or the occupied seat method (using either hours or miles)). The "qualified business use" percentage must also be in excess of 25% determined by excluding certain flights for control persons. In most instances, if the 25% test is met, then the 50% test will be met as well. For more information, see <https://www.aircrafttaxsolutions.com/Section280FBasics.html>

## Entertainment and Commuting Flights

In the case of personal entertainment (for specified individuals as defined in IRC Section 274) and commuting flights, you must determine the costs allocable to these flights. These costs generally may not be deducted under IRC Section 274, except to the extent of income recognized by the employee (often the SIFL imputed income amount). For more information, see <https://www.aircrafttaxsolutions.com/Section274Basics.html>

## Entering Flight Data

Before entering data for a flight, you should gather all pertinent information for the flight, including the flight hours, miles (statute miles not nautical miles), departure and arrival airports, passengers, primary purpose for which each passenger traveled (business, personal, entertainment, commuting), the flight date, whether this was a repositioning flight, maintenance or training flight, the relationships (if any) between any passengers and whether any passenger was under the age of 2. You should also determine whether (a) the passengers were 5% owners or specified individuals or treated as such under the applicable IRS regulations and/or (b) whether any passenger was a named executive officer (if the aircraft owner was an SEC reporting company).

## Enter Flight and Passengers

Enter the flight information and passenger information below and click submit to save.

### Flight Information

Flight Miles	Flight Hours	BlockHours
<input type="text" value="Enter Flight Miles"/>	<input type="text" value="Enter Flight Hours"/>	<input type="text" value="Enter Block Hours"/>
Departure Airport	Arrival Airport	
<input type="text" value="Enter Departure Airport"/>	<input type="text" value="Enter Arrival Airport"/>	
<input type="checkbox"/> Maintenance/Training Flight?	<input type="text" value="Select if Repositioning Flight"/>	
Flight Notes (Optional)		
<input type="text" value="Enter Flight Notes"/>		
Saved aircraft	Enter Flight Date	
<input type="text" value="Select Saved Aircraft"/>	<input type="text" value="mm/dd/yyyy"/>	
<input type="text" value="Entertainment segment for Multi-segment trip with Business and Entertainment Segments"/>		

**FLIGHT ENTRY SCREEN.** The image above shows the flight entry portion of the screen under the Enter Flight and Passengers input page.

To enter a flight, you should fill in the Flight miles, Flight hours, Block Hours, Departure Airport, Arrival Airport, Selected Aircraft and the Flight Date are all required information. If a maintenance or training flight, select that. If a repositioning flight, select the type (prior to flight, after a flight, etc. . . .). If you fail to enter one of the required fields, the software will generate an error and prevent the entry. You must have at least one saved aircraft in order to enter a flight; if you have not entered an aircraft yet, please do so before entering the flight.

After entering the flight information, enter passenger information, if any. There will be none to fill in however, in many situations, including repositioning or deadhead flights, maintenance flights and flight training flights.

## Passenger Information

1. Passenger Name	Business, Investment or Personal Flight	Name of Responsible Employee (if any)	
<input type="text" value="Enter Passenger Name"/>	<input type="text" value="Select"/>	<input type="text" value="Enter Responsible Employee Name"/>	
<input type="checkbox"/> Control Person?	<input type="checkbox"/> Specified Individual?	<input type="checkbox"/> 5% Owner?	<input type="checkbox"/> Employee, Spouse or Dependent?
<input type="checkbox"/> Entertainment?	<input type="checkbox"/> Commuting?	<input type="checkbox"/> Passenger Age Under 2?	<input type="checkbox"/> Named Executive Officer?
2. Passenger Name	Business, Investment or Personal Flight	Name of Responsible Employee (if any)	
<input type="text" value="Enter Passenger Name"/>	<input type="text" value="Select"/>	<input type="text" value="Enter Responsible Employee Name"/>	
<input type="checkbox"/> Control Person?	<input type="checkbox"/> Specified Individual?	<input type="checkbox"/> 5% Owner?	<input type="checkbox"/> Employee, Spouse or Dependent?
<input type="checkbox"/> Entertainment?	<input type="checkbox"/> Commuting?	<input type="checkbox"/> Passenger Age Under 2?	<input type="checkbox"/> Named Executive Officer?
3. Passenger Name	Business, Investment or Personal Flight	Name of Responsible Employee (if any)	
<input type="text" value="Enter Passenger Name"/>	<input type="text" value="Select"/>	<input type="text" value="Enter Responsible Employee Name"/>	
<input type="checkbox"/> Control Person?	<input type="checkbox"/> Specified Individual?	<input type="checkbox"/> 5% Owner?	<input type="checkbox"/> Employee, Spouse or Dependent?
<input type="checkbox"/> Entertainment?	<input type="checkbox"/> Commuting?	<input type="checkbox"/> Passenger Age Under 2?	<input type="checkbox"/> Named Executive Officer?

**ENTERING PASSENGER DATA** The above image shows the passenger entry section of the Enter Flight and Passenger information page of the aircraft tax software.

**Passenger Information:** If a passenger is traveling primarily for business purposes, you generally only need to enter the passenger name and designate the flight as a business flight for such individual. If a passenger is traveling primarily for personal purposes, then each of the data points must be considered and completed or selected as appropriate. Whether a flight is primarily for business or personal purposes is generally based on the primary purpose of the trip and all other relevant facts and circumstances.<sup>1</sup> Additional information about particular passenger options may be accessed by tapping on the label associated with the option.



**SEC REPORTING** Aside from tax tracking, SEC reporting entities also need to track incremental and added costs associated with flights by certain executive officers.

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<sup>1</sup> [Treas. Reg. § 1.162-2\(b\)\(1\); CCA 202117012 \(4/30/2021\)](#) (sole proprietor can use “primary purpose” test in regulations to determine the deductibility of flight expenses for use of aircraft).



**In the case of SEC Reporting Entities,** any personal use of non-commercial travel for certain executive officers generally must be calculated and reported in accordance with SEC disclosure requirements, which require the disclosure of perquisites and personal benefits on the basis of the “Aggregate Incremental Cost” to the public reporting company. The aggregate incremental cost for a personal flight conducted on a business aircraft owned by the company equates to the variable costs (also known as direct operating costs in the aviation industry) of the flight. These costs include expenses such as fuel, oil, landing fees, travel expenses for crew, hangar and facility fees when the aircraft is away from its home base, maintenance required based on the hourly operation of the aircraft, catering, insurance required for a particular flight, and overtime expenses for crewmembers, but exclude fixed costs incurred for the overall ownership and staffing of the aircraft and not for the operation of a particular flight. These incremental costs should be determined and entered for each flight.

## Enter Aircraft Details

Before you can enter flight details, you must enter and save one or more aircraft on which travel occurs.

### Add, Delete or Edit Saved Aircraft

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Saved aircraft

Select Saved Aircraft (if any) to Edit or Delete

Aircraft Type

Enter Aircraft Name (for example, Gulfstream 650, Global 6000, etc...)

Maximum Seating Capacity

Maximum Seating Capacity

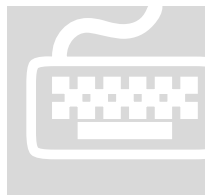
Maximum Certified Takeoff Weight

Maximum Certified Takeoff Weight

Ownership Structure

Select

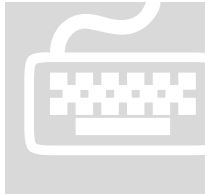
[Add Aircraft](#) [Update Aircraft](#) [Delete Aircraft](#)



To enter and save Aircraft, select **Enter Aircraft** from the menu, enter the type of aircraft, maximum certified takeoff weight, maximum number of passengers, ownership structure and click **Save**. You can also delete previously saved Aircraft in the event the Aircraft is disposed of or retired. The details for saved Aircraft can also be modified if the originally entered information needs to be updated.

## Reviewing Calculations.

You can review prior year and current year to date calculations at any time.



To review calculations, just select **Display Calculations** from the menu. By default, this will display current year calculations. To view prior years, just select the prior year from the drop down menu.

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**Important Disclaimer.** This material has been prepared for informational purposes only and to assist with the use of the software, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors regarding the tax, legal and accounting aspects of aircraft ownership and use.

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