Advocate Consulting

Tax-Legal-Compliance "Aviation TLC"

Tax Reform 2018:
A New Era in Business Aviation

NBAA Regional Forum
Palm Beach, January 24, 2018

Important Disclaimer:

This presentation and supplementary information represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

Any advice was not intended, presented or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the applicable tax law provisions.

5 Things You Should Know About Tax Reform

- Equipment Expensing for Purchases made after September 27, 2017
- Elimination of 1031 Exchanges for Equipment
- Adjustments to Deductibility of Flights under Section 274 and loss of UEBE
- Clarification of No Excise Tax for Part 91 flights under Management Agreements
- Tax Rate Changes for C-Corporations and Income Deductions for Pass-Through Entities

#1: Expensing for Purchases

- Retroactive to September 28, 2107
- Code Section 168(k)
- Applies to both New and Pre-Owned
- Phase down begins in 2023
- Requires at least 25% qualified business use (QBU) and 51% total business use

a significant structuring concern for many GA owners

- Increases the stakes of possible passive treatment or hobby loss disallowance on audit

Advocate Consulting

#2: Elimination of 1031 Exchanges

- **Safe harbor for partially completed 2017 exchanges**
- **Frees clients from timing restrictions of exchange periods**
- **Impact of elimination can be softened for most purchasers through expensing**
- **Allows diversity of ownership between relinquished and replacement aircraft**

Advocate Consulting

#3: Adjustment to Deductibility of Flights Pursuant to Section 274

- **Travel connected to business entertainment no longer deductible (Super Bowl, hunting trips)**
- **Commuting trips between home and work are not deductible for some taxpayers outside of a safety plan.**
  - **Area for competent planning**
  - **Lack of clarity of commuting flight definition and impact**
  - **Unclear guidance on safety plan, but definition in SIFL regulations is very narrow**

Advocate Consulting

#4: Clarification of Excise Tax Application

- TCJA clarifies that FET does not apply to Part 91 operations under management agreements
- Likely to decrease audits of Charter Operators, and the retroactive application of tax to these arrangements

Advocate Consulting

#5: Corporate Tax Rate Changes

- THIS is the big change to practice moving forward
- Corporate rate drop to 21%, possible pass-through income deduction of up to 20%, dependent upon a large variety of factors
- Creates large incentives for high net worth business owners to incorporate business operations, especially in certain practice areas and certain states (ie. CA)
- C corporations are disfavored in passive activity and hobby loss “grouping” arrangements
- Pass-through changes mean that Taxpayers need personalized advice- what works for one will not work for another.

Advocate Consulting

#5: Corporate Tax Rate Changes (cnt)

- Pass-through income deduction varies between structure types because of wage deductions and limitations. S-corps, partnerships, and schedule Cs all have differing consequences.
- Are they a professional services company? Do they pay wages? Is the business divisible? Where does the aircraft go? Are there state and local tax consequences?
- Aircraft owner may have a different tax rate than the operator/s
- Want deductions in high bracket- income in low bracket
- Creates challenges to co-owner arrangements
- No Unreimbursed Employee Business Expenses
- No hobby loss deductions. Must recognize income but cannot take deductions to the extent of income.

Advocate Consulting

Advocate Consulting Legal Group, PLLC

A Florida law firm which provides Aviation TLC, limiting its practice to serve aircraft owners and operators.

Contact:
Suzanne Meiners-Levy
Scott Battle
scottb@advocatetax.com

(888) 325-1942
For More Information visit
www.advocatetax.com