

WELCOME



**Standard Industry  
Fare Level (SIFL)  
Rules  
Calculations  
Reporting**

NOVEMBER 19, 2013

Sue Folkring, CPA, MBA  
Commercial Pilot, AS/MEL, Instrument Airplane

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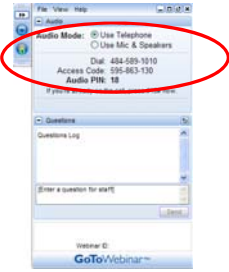
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Today's Webinar:

- Webinar will be approximately 60 minutes in length
- Course materials have been emailed to you but in case you do not have them:
  - [www.aviation-cpa.com](http://www.aviation-cpa.com)
  - Resource Library ID = 50112**
- Call our office if you need assistance  
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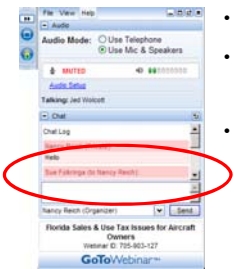
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- If your question has not been answered by the end of the webinar, please don't disconnect when the webinar ends
- We may ask you to contact us after the webinar if your issue is too complex to answer using the 'chat' feature

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- Polls will be provided during the program to confirm attendance. Complete **all** polls for attendance credit.



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Reminders:

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Upcoming Webinar Events

- November 21, 2013 Entertainment Cost Disallowance Reporting
- December 12, 2013 Florida Sales Tax Issues for Aircraft Owners and Operators
- December 17, 2013 Business Use – Individual-Owned Aircraft

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Now Offering 30 Day Free Trial

**Flight Tax Systems, LLC**  
*Tax Software for Business Aircraft*

Following the webinar we invite you to join us for a 15 minute webinar on our aviation tax software called Flight Tax Systems. Flight Tax Systems software will track and calculate the tax reporting requirements explained during this webinar.

**Attendance is entirely optional.**

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### Today's Presenters:



**Jed R. Wolcott, CPA, MBA**

**&**



**Sue E. Folkring, CPA, MBA**

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### This Webinar Applies To:

- An aircraft used by a trade or business where there is:
  - Non-business and/or
  - Personal use of the aircraft

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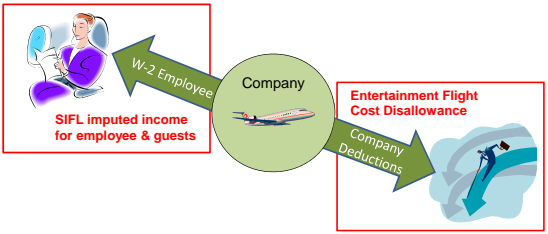
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### IRS Regulations for Non-business Use



The diagram illustrates the IRS regulations for non-business use of an aircraft. It shows a central 'Company' circle. An arrow labeled 'W-2 Employee' points from the Company to a box containing an employee icon and the text 'SIFL imputed income for employee & guests'. Another arrow labeled 'Company Deductions' points from the Company to a box containing an airplane icon and the text 'Entertainment Flight Cost Disallowance'.

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## IRS Regulations Governing Personal Use



- Reg. § 1.61-21 Taxation of Fringe Benefits
- Considered a “Taxable Fringe Benefit”
- Not limited to aircraft; includes automobiles, real estate and boats
- Special valuation regulations exist for aircraft
- IRS Publication 15-B *Employer’s Guide to Fringe Benefits*
- NBAA Personal Use Handbook – [www.nbaa.org](http://www.nbaa.org)
- W&A Personal Use Tax Guide - [www.aviation-cpa.com/products/reports.cfm](http://www.aviation-cpa.com/products/reports.cfm)

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## What Happens If We Ignore The Regulations?



- IRS can impute taxable income to the employee
  - 3 year look-back
  - Apply interest and penalties
- IRS can tax the company
  - Limit or deny aircraft deductions
  - Reduce depreciation expense
  - 3 year look-back

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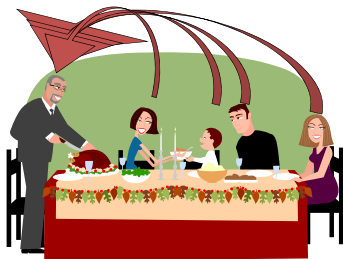
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## Employee Is Taxed For The Non-Business Transportation



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**Employee** Is Taxed For The Non-Business Transportation



- Non-employees, family members, or guests are taxed, but not to the passenger
- Such additional passengers are taxed to the employee authorizing the travel
- The employee does not have to be on the aircraft to be taxed for the flight
- Children under age 2 years are never taxed

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**Statutory Method Using SIFL Rates  
Rules and Regulations**



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Information Required For Use Of SIFL



- Airport-to-airport (or point-to-point) distance in statute miles
- Maximum Certified Takeoff Weight (MTOW) of the aircraft
- Control status of the employee
- Sufficient data to separate and analyze multiple legs and passenger mix
- Current SIFL rates and terminal charges

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### Airport-To-Airport or Point-To-Point Distances



- Distance must be in statute miles
  - Crew may prefer to report in nautical miles
  - One nautical mile = 1.15 statute miles
  - Distance calculator at [www.landings.com](http://www.landings.com)
  - Commercial software is available to calculate SIFL valuations

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### Control vs. Non-Control Status



- Control employee:
  - Owns 5% or more of company, or
  - Paid in the top 1% of the company
  - Most Officers or Directors
  - Retired former control employees
  - Flights for control employees are valued at a higher aircraft multiple than non-control employees
  - General rule:  
If an employee can authorize a personal-use flight, the employee is probably a control employee

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### Control vs. Non-Control Status (cont.)



- Non-control employee:
  - Everyone else
  - Lower valuation multiple used, therefore a non-control employee pays less tax



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“Flight” Means Each Time The Employee Boards And Deplanes



- Round trip includes at least two “flights”
- Intermediate stops are irrelevant in determining the employee’s flight distances – calculate point-to-point
- Deadhead flights are ignored
- “Flights” are determined on a passenger-by-passenger basis

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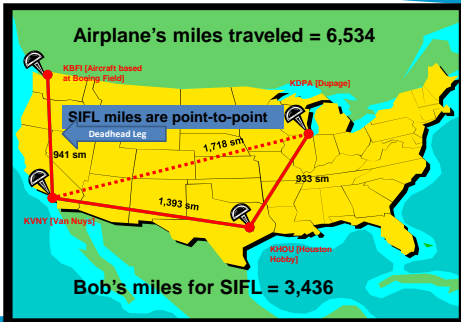
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Bob’s Trip to/from LA



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SIFL Calculation Caution:



- Overlooking Bob’s point-to-point routing and calculating his SIFL leg-by-leg results in Bob paying unnecessary taxes!
  - Taxable income from SIFL point-to-point routing = \$ 2,058
  - Taxable income from SIFL leg-by-leg routing = \$2,676
  - **Results in additional taxable income of \$618 to Bob**

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### Aircraft Multiples

Maximum Certified Takeoff Weight of the Aircraft	Aircraft Multiple for a <b>Control</b> Employee	Aircraft Multiple for a <b>Non-Control</b> Employee
6,000 lbs or less	62.5%	15.6%
6,001 – 10,000 lbs	125%	23.4%
10,001 – 25,000 lbs	300%	31.3%
25,000 lbs or more	400%	31.3%

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### Standard Industry Fare Level (SIFL) Rates

Mileage Range	1 <sup>st</sup> Half 2013	2 <sup>nd</sup> Half 2013
0 – 500 Miles	\$0.2655	\$0.2654
501 – 1,500 Miles	\$0.2024	\$0.2024
Over 1,500 Miles	\$0.1946	\$0.1946
Terminal Charge	\$48.54	\$48.53

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### 50% Seating Capacity Rule 10405

- If employees traveling on company business fill 50% of the passenger seats:
  - Then no SIFL income is imputed for non-business travel by an employee
  - No SIFL income is imputed for non-business travel by the control-employee's spouse or dependent children
  - SIFL for guests of the control employee is computed at non-control employee rates

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### 50% Seating Capacity Rule (cont.)



- Applies to:
  - Employees
  - Control-employee's spouse and dependent children
  - Control-employee guests
  - Partners of a partnership that provides the aircraft
- Does *not* apply to:
  - Independent contractors of the employer

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### Spousal Travel Rules 30102



- Spousal travel is generally taxable to the employee, unless:
  - 50% seating capacity rule is met, **or**
  - Spouse is a paid employee of the company **and**
  - Travel is for a bona-fide business purpose

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### Spousal Travel Rules (cont'd)



- Certain specific spousal functions are allowable for business purposes. Examples:
  - Foreign language interpretation
  - Chaperone for minor-aged business passengers

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## SIFL Formula & Example



- Example flight: Employee and guest take a 400 mile non-business trip in a 400% aircraft:
  1. Step 1 is calculate the SIFL mileage
  2. Step 2 is multiply the SIFL mileage charge by the aircraft multiple (in this case X 4 for a 400% aircraft)
  3. Step 3 adds the terminal charge
  4. Step 4 multiplies the SIFL amount & terminal charge by the number of passengers

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## SIFL Formula & Example



	Formula	Calculation
Step 1	Statute Miles	
Mileage	X	X
	Rate	
Step 2	=	
Aircraft Multiple	X	X
	Aircraft Multiple	
Step 3	Sub-Total	
Add Terminal Charge	+	+
	Terminal Charge	
Step 4	Sub-Total	
Multiply by # of Pax	X	X
	# of Passengers	
	SIFL	

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## SIFL Formula & Example



	Formula	Calculation
Step 1	Statute Miles	400
Mileage	X	X
	Rate	\$0.2655
Step 2	=	\$106.20
Aircraft Multiple	X	X
	Aircraft Multiple	400%
Step 3	Sub-Total	\$424.80
Add Terminal Charge	+	+
	Terminal Charge	\$48.54
Step 4	Sub-Total	\$473.34
Multiply by # of Pax	X	X
	# of Passengers	2
	SIFL	\$946.68

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Foreign Travel in Excess of 7 Days 10303 

- Foreign travel SIFL reduction rules apply if the following two conditions are met:
  1. Trip outside the United States lasts for more than seven days
  2. At least 25% of the individual's time on the trip is devoted to non-business activities.
    1. Measured on a day-by-day basis
- If both conditions are met, SIFL may be reduced to the ratio of non-business days divided by total days

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Foreign Travel in Excess of 7 Days 10303 

- Any business activity taking place counts as one business day
- Travel days in and out of U.S. are business days
- Weekends are counted as business days
- Rule does not apply to employees or guests traveling entirely for non-business purposes

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Foreign Travel in Excess of 7 Days 10303 

Example

- 8 day trip in September 2013 from NY to London
- Employee on business plus spouse traveling for non-business
- Departs on Monday, returns the following Monday
- Employee conducts business Thursday and Friday
  - 3,500 statute miles each way
  - 400% aircraft
  - 2 days are non-business (25%)

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## Spreadsheet & Software Tracking for Multiple Flights

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**Flight Leg Information**

Flight Date: 06/28/2013 (pick date)

This flight was the 2nd of flight of the day.

Flight Number: 101576 Leg Number: 2

Departure: Alton-Canton Regional Airport

Airport: \_\_\_\_\_

Flight Hours: \_\_\_\_\_

Category: -- Select -- # Passengers: \_\_\_\_\_

Flight Leg Purpose: \_\_\_\_\_

California Module

Classification: -- Select --

Was this flight an intermediate stop within California that exceeded 9 hours?  Yes  No

Cost Center Reporting

Cost Center: \_\_\_\_\_

Save

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Flight The Systems, LLC

Account Setup: Owner Details

Company Name: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Phone: \_\_\_\_\_

Flight Leg Options

Cost Center Reporting Options

Personal Use Calculation Types

GPS Options

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IRS Announcement 85-113 

- Sec 5(a) special accounting period
  - Allows employer to treat the value of benefits provided during November and December<sup>1</sup> as paid during the next calendar year.
    - For first year – Report January 1 to October 31
      - November and December are picked up in the following year
    - For second and subsequent years – Report November 1 to October 31
      - Includes November and December from the prior year

<sup>1</sup>Or shorter period

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Imputed Income Is Not A Deductible Company Expense 

- Imputed income is a non-cash fringe benefit
- Employee reports on 1040, pays personal income tax
- Imputed income (i.e. SIFL) not deductible to the company

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Report Imputed Earnings To Social Security Administration & IRS 

- Earnings may be reported monthly, quarterly, or annually
- Report on quarterly Form 941 and annual 940
- Earnings subject to Social Security and Medicare taxes
- Employee should consider withholding or making estimated tax payments
- Report on employee's W-2 or 1099

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## Flight Tax Systems Enterprise Version Features



Jed R. Wolcott  
Certified Public  
Accountant

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## FLIGHT TAX SYSTEMS - Versions

**Standard Version**

For All Aircraft to  
12,500 MTOW

**Fractional Version**

For Fractional Aircraft

**Enterprise Version**

Feature Packed For All  
Aircraft

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## FTS – Enterprise Version

- Full-featured aviation software for complying with IRS, state tax, and other reporting requirements:
  - SIFL (Standard Industry Fare Level) reporting
  - Cost disallowance reporting
  - Tracks company use vs. leasing & P135
  - FET and fuel tax credit reporting for Timeshare, Schwab and charter flights
  - Depreciation analysis tests MACRS eligibility
  - Multiple owner/one aircraft
  - Multiple aircraft/one owner
  - Fully-owned aircraft and fractional aircraft. Mix as required
  - SEC proxy disclosure reporting
  - No aircraft weight restriction; handles reporting for BBJ-size aircraft
  - State tax reporting
  - Cost center reporting

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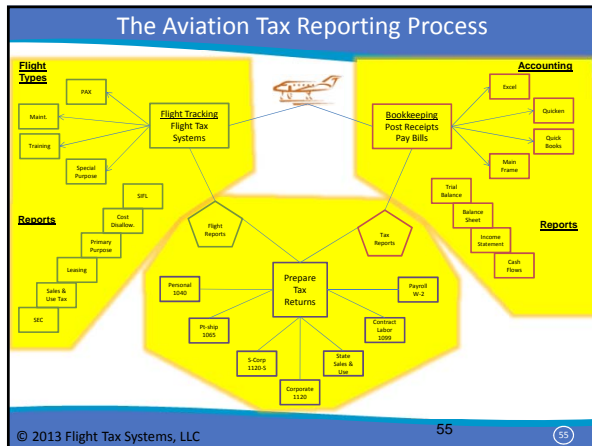
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### FTS – Enterprise Version

- Fully compliant with IRS, state and other reporting requirements
- Prepares tax reports that are ready for you or your accountant to use to prepare the aircraft company or individual tax returns
- Fully annotated with links to the IRS and state tax code, regulations, and publications
- Logins offer 4 levels of password security
  - Pilot (flight input only)
  - Operations (input flights & passengers)
  - Administrator (all access)
  - Reports-only (view and print reports only)
- Remote access reporting sends periodic emails to named individuals

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### FTS – Enterprise Version

- Aggregates multiple aircraft for entertainment cost disallowance reporting
- No date restrictions; input last year's flights as well as this year's flights
- Depreciation analysis tests MACRS eligibility for leasing to +5% owners
- Internet-based software, meaning you can enter flight information anywhere you have Internet access
- Aviation accountants keep the software current and relevant
- Updates and new features are added automatically

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## Federal Excise Tax (FET) Reporting



- Includes all Domestic and International FET rules, including:
  - 225 mile
  - Hawaii and Alaska rates
  - Rural airport
  - 6,000# MTOW exclusions
- Bills FET by assigned aircraft rate for Schwab or Timesharing Flights
- Bills FET by pricing assigned to a specific flight (charter operators)
- Aggregates FET collections by IRS deposit period
- Calculates IRS fuel tax credits
- Quarterly Form 720: Prepares tax and credit amounts by FET tax return line numbers

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## State Tax Modules



- Reports for calculating sales and use taxes
- Reports for limiting ad valorem taxes
- States included in Enterprise Version:
  - Florida
  - California
  - Texas
  - Louisiana
  - Georgia
  - Mississippi

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## Cost Center and SEC Reporting



- Department/Cost Center Reporting:
  - Designate individual flight legs to specific departments or cost centers
  - Allows the ability to enter an hourly charge per aircraft
  - Allows companies to bill aircraft use to divisions, departments, or cost centers
  - User-defines terms, such as department, cost center, profit center, project, development, etc.
- SEC reporting: Names and tracks all seven principal and highly compensated executives according to SEC reporting rules
  - Tracks dates of applicability for each reportable executive
  - Assigns incremental hourly cost amount to each aircraft in the company's fleet
  - Prints individual and combined reports for each reportable executive
  - Wolcott & Associates, P.A. can provide a compilation report explaining the methods for computing the incremental cost and executive compensation listed in the SEC reports and proxy statement (additional cost)

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## Cost, Billing and Support



- Annual subscription: \$ 3,995
- Subscription provides 12 months of program access
- Subscription buys unlimited use; no date controls
- Custom programming and reports available
- Aviation CPAs from our parent company provide 2 hours of free support. We take you through setup and flight recording. Additional support available
- Call 866-791-6092 or visit our website, [www.flighttaxsystems.com](http://www.flighttaxsystems.com) to sign up!

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Thank you very much!

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