

**IRS REPORTING FOR THE BUSINESS AND PERSONAL USE OF COMPANY AIRCRAFT**

**With special emphasis on**  
*Flight Tax Systems®*  
**Aviation tax software**

An Original Webinar Prepared for CPAacademy.org

JANUARY 14, 2016

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Jed Wolcott, CPA, MBA  
President



Shayne Gutierrez  
Marketing Director

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**Today's Webinar Topics**

- Using Standard Industry Fare Level\* rates to calculate the employee fringe benefit for non-business use of company aircraft
- Calculating the entertainment cost disallowance to the company for entertainment flights
- SEC reporting rules
- Tracking and reporting flight use during the year

\* SIFL

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### Wolcott & Associates, P.A. - What We Do

- We are an aviation-dedicated firm of CPAs and accounting professionals
- Our clients are aircraft owners, operators, and accounting firms that have aircraft owner-clients
- We specialize in the preparation of aircraft income tax returns, state tax matters, IRS audits, structuring aircraft ownership, and related aviation tax and financial matters.
- *We identify, protect and preserve tax deductions for your aircraft and those of your clients!*

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### Flight Tax Systems®

- Flight Tax Systems® (“FTS”) is a proprietary aviation tax software for tracking and reporting the use of aircraft used in business
- FTS was developed by Wolcott & Associates (W&A), and W&A provides training and customer support
- FTS is internet-based, is fully annotated with links to IRS and state tax codes and regulations, and offers many high-end customer reports
- See more of FTS at [www.flighttaxsystems.com](http://www.flighttaxsystems.com)

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### Resource Materials

- Today’s webinar will be 75 minutes in length, and we will award 1.5 CPE and CLE credits. We will remain live until 3:30 pm ET to answer questions
- Copies of today’s materials are available at our website at [www.aviation-cpa.com](http://www.aviation-cpa.com).
- Look for the search option on the bottom bar on the Wolcott and Associates, P.A. homepage 50119
- This PowerPoint presentation – 50119
- You will find other Resource Material links throughout today’s presentation

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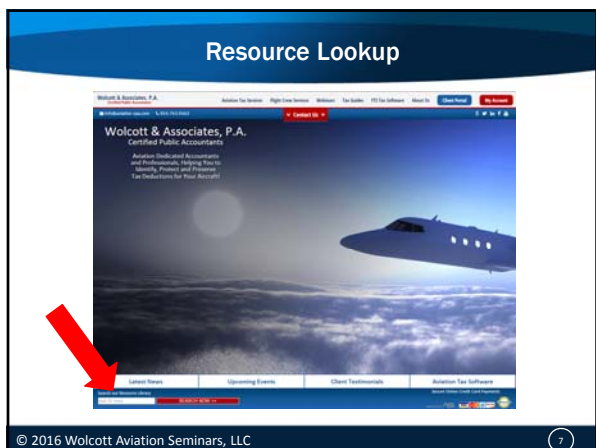
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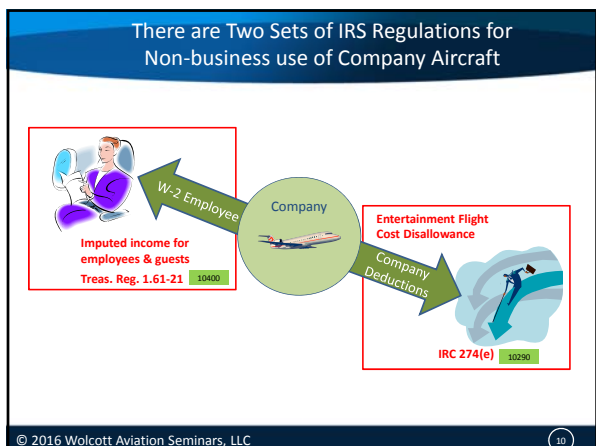
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- ### IRS has Specific Rules for Reporting Employee Use of Company Aircraft
- A personal flight on a company aircraft is considered a "Taxable Fringe Benefit"
  - Aircraft rules found at Reg. § 1.61-21 <sup>10400</sup>
  - Personal use rules are not limited to aircraft; includes automobiles, real estate and boats
  - See IRS Publication 15-B *Employer's Guide to Fringe Benefits* <sup>10411</sup>
  - Aviation Tax Guides at [www.aviation-cpa.com/guides](http://www.aviation-cpa.com/guides)

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- ### Employee Is Taxed For The Non-Business Transportation
- The employee is taxed for their non-business flights
  - Guests are taxed to the employee authorizing the travel, at that employee's SIFL rate
  - The employee does not have to be on the aircraft to be taxed for the flight
  - Children under age 2 years are never taxed
  - Failure to report non-business use can result in penalties and interest to the employee and/or the company, and even disallowance of all aircraft costs to the company

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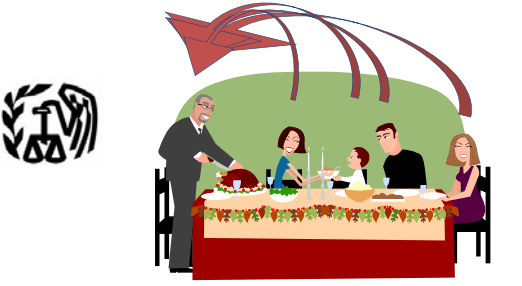
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### Employee Is Taxed For The Non-Business Transportation



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### How Does SIFL Work?

- Uses a DOT-published rate per mile to calculate the value of the flight to the employee
- The SIFL rate is designed to equal the cost of first-class airfare
- Calculated on *point-to-point* travel, in the same manner that airline flights are ticketed

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### Information Required For Calculating SIFL

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

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### Control and Non-Control Status

- **Control employee**
  - Owns 5% or more of company, or
  - Paid in the top 1% of the company
  - Most Officers or Directors, to a maximum of 50 employees
  - Includes retired former control employees
  - Flights for control employees are valued at a higher multiple than non-control employees

- **Non-control employee**
  - Everyone else
  - Lower SIFL multiple
    - Employee pays less tax
    - Published every 6 months
    - Often called the "hitchhiker" rate
  - Note: Non-control employees that are invited on a flight by control employees are charged to the control employee at control rates

**If an employee can authorize a personal-use flight, the employee is probably a control employee**

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### Aircraft Multiples

Maximum Certified Takeoff Weight of the Aircraft	Aircraft Multiple for a Control Employee	Aircraft Multiple for a Non-Control 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 2015	2 <sup>nd</sup> Half 2015
0 – 500 Miles	\$0.2490	\$0.2341
501 – 1,500 Miles	\$0.1898	\$0.1785
Over 1,500 Miles	\$0.1825	\$0.1716
Terminal Charge (per passenger)	\$45.52	\$42.79

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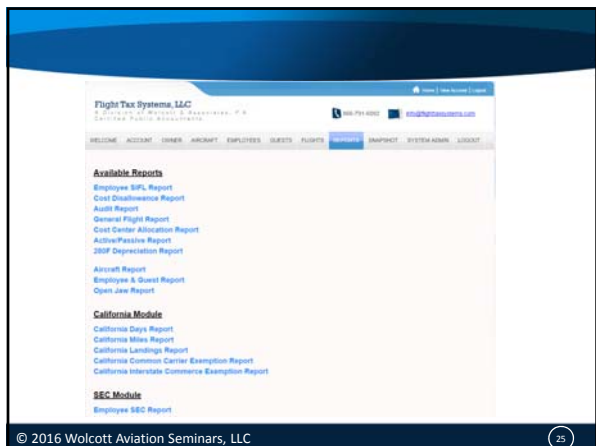
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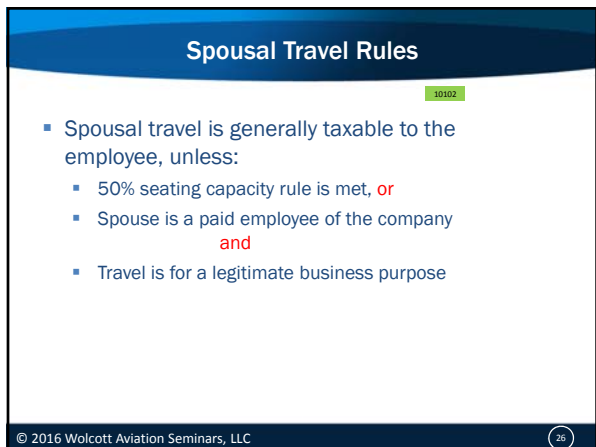
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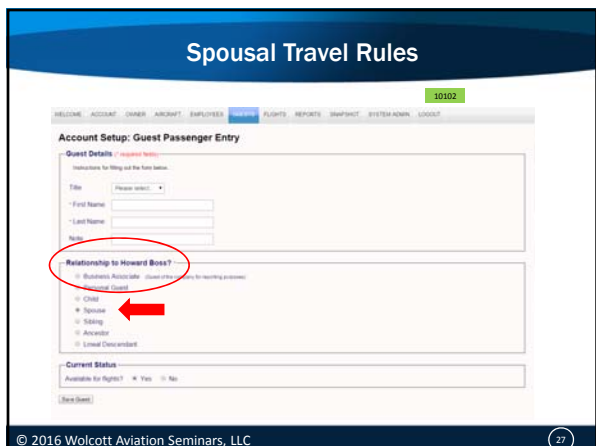
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### Foreign Travel in Excess of 7 Days

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- Foreign travel SIFL reduction rules apply if the following 2 conditions are met:
  - Business trip outside the United States lasts for more than 7 days
  - At least 25% of the individual's time on the trip is devoted to non-business activities
- If both conditions are met, SIFL may be reduced to the ratio of non-business days divided by total days
- Travel days and weekend days count as business days
- Does not apply to employees or guests traveling entirely for non-business purposes

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### Foreign Travel in Excess of 7 Days

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### “Bona Fide” Security Programs

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- Permits executive to fly on company plane for non-business flights at reduced SIFL rates
- Requires that a security study be performed. A separate study is required for family members if they travel alone. The study must conclude that a security risk to the executive exists
- The security plan must be part of a complete security program (24 hours)
- Provides “Safe Harbor;” use 200% multiple regardless of weight of aircraft
  - Can result in significant savings to the employee for use of large aircraft

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### "Bona Fide" Security Programs

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**Shareholder 1 Details**

Entity Type:

Name:

Email:

Phone:

**Flight Input Options**

Should you like the Flight Input Process to determine airports based on previous flights when possible?  
 Yes  No

Should you like the Flight Input Process to preset flight and leg numbers based on previous flights when possible?  
 Yes  No

**Cost Center Reporting Options**

Name to call Cost Centers on reports:

Should you like the ability to enter an hourly charge per aircraft for the allocation report?  
 Yes  No

**Personal Use Calculation Types**

SIFL - Cost Disbursement (SIFL)

Primary Purpose (SIFL)

**SIFL Options**

Calculate Year End as of October 31st (A)

Calculate Year End as of December 31st (B)

Short Fide Business Security Plan (C)

[Update Info](#)

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### Example of SIFL Calculation

Company aircraft takes a 1,750 statute mile trip on September 1, 2015, with 4 non-business passengers on a 300% MTOW aircraft

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### Manual SIFL Calculation

<b>1,750 Statute Miles</b>	
<b>300% aircraft</b>	
<b>4 Passengers, Sept 01, 2015</b>	
0-500 miles @0.2341	117.05
501-1500 miles @0.1785	178.50
1501 + @ 0.1716	42.90
Subtotal	338.45
Multiple by Aircraft Multiple	X 300%
	1,015.35
Terminal Charge @ 42.79	42.79
Subtotal	1,058.14
Multiple by # of Passengers	X 4
SIFL Charge to Employee	4,232.56

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### Imputed Income (SIFL) Is Not A Deductible Company Expense

- Imputed income is a non-cash fringe benefit
- Company reports SIFL on the employee's W-2
- If SIFL'd passenger does not receive a W-2, issue a 1099
- Employee reports SIFL income on 1040, pays personal income tax
- SIFL imputed income is not deductible to the company

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### Report Imputed Income To Social Security Administration & IRS

- SIFL imputed income may be reported monthly, quarterly, or annually
- Company reports on Form 941 and annual 940
- Earnings are subject to Social Security and Medicare
- Employee should consider withholding or making estimated tax payments

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### Sample Form W-2

The image shows a sample Form W-2 with two callout boxes. The first callout box points to box 1 (Wages, tips, other compensation) which contains the value \$20,406.00. The second callout box points to box 14 (Other) which contains the value SIFL \$20,406.00. The form also includes fields for control number, employer identification number, employee name and address, social security number, and various tax-related fields.

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### Sample Form 1099

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### Calculating the Entertainment Passenger Cost Disallowance

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### There are Two Sets of IRS Regulations for Non-business Use of Company Aircraft

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### Entertainment Cost Disallowance

- IRS requires that companies disallow the pro-rata aircraft costs, expenses, and depreciation from passengers traveling on company aircraft for *entertainment purposes*
- Final regulations were published August 01, 2012
- Rules are found at IRC § 274-10 (add green reference here #10300)
- Entertainment passengers are a sub-set of non-business passengers (i.e., not all non-business passengers are entertainment passengers)
- Failure to report the entertainment disallowance can lead to the IRS disallowing ALL aircraft costs and depreciation

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### Three Types of Company Flights

- Business Flights – Flights that are incidental to the companies’ business
  - No SIFL, fully deductible
- Non-Business Non-Entertainment Flights (NBNE) – Flights that are for business, but not the business of the company owning or operating the aircraft
  - SIFL, no cost disallowance
- Entertainment Flights – Flights that are for transportation to activities that provide entertainment to the passengers
  - SIFL and cost disallowance both apply

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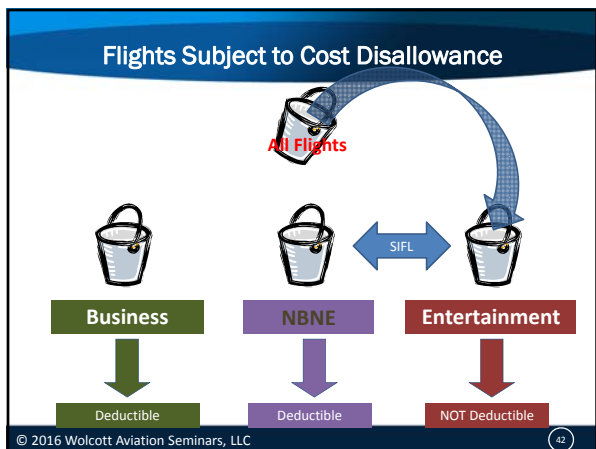
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### Types of Company Flights

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### What Is Entertainment?

- “Entertainment” means any activity which is generally considered to constitute entertainment, amusement or recreation: Treas. Reg. 1.274-2(b)(1) 10304
- “Entertainment use is an amusement or recreational activity, such as traveling to a sporting event or a vacation destination” Notice 2005-45 10307
- An activity not “directly related to” or “associated with” the active conduct of a trade or business
- Entertainment is often described as a frame of mind...passenger expects enjoyment after flight

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### Examples Of Non-Entertainment:

- Attending to business that is not the business of the company that owns the aircraft
- Caution about flights to seek “investments.” These could be treated as investing expenses, subject to reporting on Schedule A
- Attending a meeting of the Board of Directors of an unrelated company 60110
- Accompanying a spouse to a business event
- Charitable flights, such as Angel Flights
- Routine personal activities

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### Examples Of Non-Entertainment – Routine Personal Activities

- Commuting flights
- Flights with investment advisor, attorney, accountant
- Flight to take child to boarding school or college
- Flight to attend funeral
- Key is lack of entertainment, not “routine” nature of the activity

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### Specified Individual

- Entertainment reporting requires the presence of a Specified Individual; if no Specified Individual is on the flight, then no entertainment disallowance
- A Specified Individual is anyone in the company who is subject to section 16(a) of the Securities Exchange Act, or any individual who would be subject to it if the company were an issuer of equity securities subject to the Securities Act.
- Specified individuals generally include officers, directors, 10% owners, principal financial officers, vice presidents in charge of a principal business unit division or function

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### Specified Individual

The screenshot shows a web-based form for 'Employee Setup: Employee Passenger Entry'. Under the 'Employee Options' section, there are four radio buttons: 'Control Employee', 'Non-Control Employee', 'Former Control Employee', and 'Specified Individual'. A red arrow points to the 'Specified Individual' option. Below this are fields for 'Current Status' and 'Available for Flight?'. The footer contains '© 2016 Wolcott Aviation Seminars, LLC' and the number '48'.

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### Four Disallowance Calculation Methods

1. Occupied Seat Miles: Annual entertainment passenger seat miles divided by total passenger seat miles
2. Occupied Seat Hours: Annual entertainment passenger seat hours divided by total passenger seat hours
3. Flight-By-Flight Miles: Annual entertainment flight miles divided by total aircraft flight miles
4. Flight-By-Flight Hours: Annual entertainment flight hours divided by total aircraft flight hours

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### Formula For Calculating AJCA Disallowed Expenses IRS Notice 2005-45 Seat Miles

▪ Step 1:	$\frac{\text{Total Cost \& Expenses for Year}}{\text{\# Total Occupied Seat Miles}}$	} = \$ Cost Per Seat Mile
▪ Step 2:	$\text{Entertainment Passengers} \times \text{\$ Cost Per Seat Mile}$	} = Gross Cost Disallowance
▪ Step 3:	$\begin{aligned} &\text{Gross Cost Disallowance} \\ &\text{Less: Imputed Income} \\ &\text{Less: Cash Reimbursement} \end{aligned}$	} = Net Cash Disallowance

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### Formula For Calculating AJCA Disallowed Expenses IRS Notice 2005-45 Seat Hours

▪ Step 1:	$\frac{\text{Total Cost \& Expenses for Year}}{\text{\# Total Occupied Seat Hour}}$	} = \$ Cost Per Seat Hour
▪ Step 2:	$\text{Entertainment Passengers} \times \text{\$ Cost Per Seat Hour}$	} = Gross Cost Disallowance
▪ Step 3:	$\begin{aligned} &\text{Gross Cost Disallowance} \\ &\text{Less: Imputed Income} \\ &\text{Less: Cash Reimbursement} \end{aligned}$	} = Net Cash Disallowance

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### Formula For Calculating Disallowed Expenses Flight-By-Flight Hours Basis

▪ Step 1:	$\frac{\text{Cost \& Expenses For Year}}{\text{Total Annual Flight Hours}}$	} = Cost Per Hour
▪ Step 2:	$\text{Flight Hours} \times \text{Cost Per Hour}$	} = Total Cost of Flight
▪ Step 3:	$\frac{\text{Total Cost Of Flight}}{\text{Total Passengers For Flight}}$	} = Cost Per Passenger
▪ Step 4:	$\text{Cost Per Passenger} \times \text{\# Of Entertainment Passengers}$	} = Cost Disallowance For Flight; Total All For Annual Disallowance

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### Formula For Calculating Disallowed Expenses Flight-By-Flight Miles Basis

▪ Step 1:	$\frac{\text{Cost \& Expenses For Year}}{\text{Total Annual Flight Miles}}$	} = Cost Per Mile
▪ Step 2:	$\text{Flight Mile} \times \text{Cost Per Mile}$	} = Total Cost of Flight
▪ Step 3:	$\frac{\text{Total Cost Of Flight}}{\text{Total Passengers For Flight}}$	} = Cost Per Passenger
▪ Step 4:	$\text{Cost Per Passenger} \times \text{\# Of Entertainment Passengers}$	} = Cost Disallowance For Flight; Total All For Annual Disallowance

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### Disallowance Calculation Example

- 2,000 mile flight with 3 business passengers and 2 entertainment passengers; example using Occupied Seat Miles method

	Total Miles	Business	Entertainment
Flight miles	2,000	2,000	2,000
Passengers	X 5	X 3	X 2
Occupied Seat Miles	10,000	6,000	4,000
Use Percentage	100%	60%	40%

- The objective is to calculate an entertainment disallowance percentage. The taxpayer may use the lowest of the four (4) methods allowed for calculating the percentage

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### Deadhead Flight Rules

- When the deadhead flight is related to two or more flights, it may be determined two different ways:
  - The weighted average method calculates the passenger by OSM or OSH methods
  - Flight-by-flight method uses the percentage of each type of passengers on occupied flights before and after the deadhead
- The IRS gives examples of each method, and neither method accurately calculates the deadhead passengers
- Any realistic approach is probably acceptable providing it is applied in a consistent manner

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### Deadhead Flights – IRS Example Using Flight-By-Flight Method

- Three legged flight
  - Leg 1: 6 hours, A-B, 12 pax, 8 business, 4 entertainment
  - Leg 2: 4 hours, B-C, deadhead (requires “ghosted” passengers)
  - Leg 3: 2 hours, C-A, 12 pax, 6 business, 6 entertainment
  - Total 12 flight hours and 24 pax, 14 business, 10 entertainment

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### Deadhead Flights – Flight-by-Flight Method

Leg	Total	Business	Entertainment
1	12	8	4
2 (DH)	12	6	6
3	12	6	6
<b>Totals</b>	<b>36</b>	<b>20</b>	<b>16</b>
	100%	56%	45%

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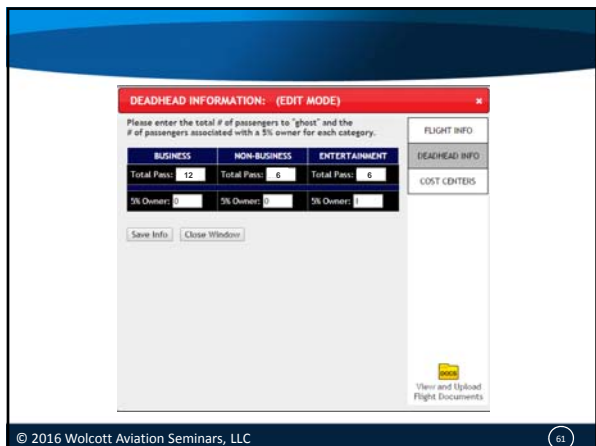
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### Multi-Leg Mixed Flights (Open-jaw)

- Flights with a combination of business and entertainment legs plus a return leg
- The return leg may be prorated according to the ratio of OSH, OSM, or F-by-F passengers on the other legs
- The entertainment cost of a multi-leg trip is the total cost of the flights minus the cost of the flights that would have been taken without the entertainment segment or segments (IRS definition)

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### Open-Jaw Flight – IRS Example

- Three legged flight, one specified individual on each leg
  - Leg 1: 2 hours business A-B
  - Leg 2: 3 hours entertainment B-C
  - Leg 3: 4 hours return C-A
  - Total 9 flight hours

**Without Open Jaw Allocation Calculation**

9 Total flight hours

-2 Business hours

7 Entertainment hours – 78% disallowed

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**SEC Reporting**

Reporting of Executive and Director Compensation and Related-Party Transactions is required in Non-financial Statement portion of:

- Registration statements
- Annual reports
- Proxy and information statements
- Other documents

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**SEC Reporting**

SEC Regulation S-K Item 402(a) requires clear, concise and understandable disclosure of all compensation awarded to, earned by, or paid to:

- A company's Principal Executive Officer (PEO), Principal Financial Officer (PFO), plus 3 most highly compensated executive officers who exert significant policy influence in the company
- Directors compensated for services provided as directors (see 402(g))
- Includes transactions between the company and a third party where the primary purpose of the transaction is to furnish compensation to a named executive officer
- Use of company aircraft as a form of compensation requires disclosure

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**Reporting of Executives' "Other Compensation"**

- SEC Regulation S-K Item 402(b) (17 CFR 229.402(b)) requires disclosure of non-cash compensation in Summary Compensation Table, Under Column (e), "Other Annual Compensation"
- Report the dollar value of other annual compensation not otherwise categorized as salary or bonus.
- Includes perquisites and other personal benefits, securities or property, unless the aggregate amount of such compensation is less than \$10,000.

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### Reporting of Executives' "Other Compensation"

- If the perquisite is \$10,000 (i.e., use of company aircraft for non-business flights) or greater it must be identified
- If it is valued at the greater of \$25,000 or ten percent of total compensation, its value must be disclosed, and identified by type and amount in a footnote or accompanying narrative discussion to column (e).
- Perquisites and other personal benefits shall be valued on the basis of "aggregate incremental cost" to the company and it's subsidiaries.

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### Aggregate Incremental Cost

- SEC Release dated September 23, 1983 – Focus of Item 402 is disclosure of the cost of management to registrants.
- The SEC does not provide a further definition of "incremental cost"
- Informal advice – cost to company of flights NOT value of flights (e.g. SIFL)
- Aggregate Incremental Cost = per flight direct operating costs (DOC's)?
- If the employee reimburses for the flight to keep the cost under \$10,000 there is generally no reporting required

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### Relationships and Related-Party Transactions

SEC Regulation S-K, Item 404(a) (17 CFR 229.404(a)) requires disclosure of any transactions involving over \$120,000 in which the company is a party where a direct or indirect material interest is held by:

- Any director or executive officer of the registrant;
- Any nominee for election as director;
- Any security holder of more than 5%; and
- Any member of the immediate family of any of the foregoing persons

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**SEC Reporting**

The following SEC information has been saved for this employee:

Employee Type	Start Date	End Date	Delete
PEO	01/01/2012	12/31/2012	Delete
PEO	01/01/2013	12/31/2013	Delete
PEO	01/01/2014	12/31/2014	Delete
PEO	01/01/2015	12/31/2015	Delete

Create new SEC record

PEO (?) PFD (?) HCE1 (?) HCE2 (?) HCE3 (?) HD1 (?) HD2 (?)

Start Date: -- Select -- / -- Select -- / -- Select --

End Date: -- Select -- / -- Select -- / -- Select --

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**Flight Tax Systems, LLC**

WELCOME ACCOUNT DINER AIRCRAFT EMPLOYEES GUESTS **REPORTS** REPORTS SWAPSHOT SYSTEM ADMIN LOGOUT

Aircraft: Turbine Airbus 1 Flight Date: 06/11/2015  
 Purpose: Dispatch Passengers: 2  
 Dispatch: KFKE Aircraft: KONA

Passenger	Purpose	Meal?	On Board?	Excl'd?	Reimbursed	Remove
1 Mr. Howard Smith	Entertainment	X	X	X	X	X
2 Mr. Adam Engle	Entertainment	X	X	X	X	X

Should this flight be on the SEC report?  Yes  No [\(List\)](#)

[Master Information 2 \(14\)](#)

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**Pulling It All Together for the Tax Return:**

- Reporting Employee SIFL
- Reporting Company Cost Disallowance
  - Costs and Expenses
  - Depreciation

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### Calculating the Entertainment Disallowance

- Step 1: Log flights, analyzing each passenger as onboard for business, NBNA, or entertainment purposes
- Step 2: Calculate entertainment cost limitation percentage for the year
- Step 3: Add direct operating costs and ownership costs. Multiply by the disallowance percentage, add back the SIFL imputed income. List the disallowance amount as a contra-expense on the tax return
- Step 4: If reporting MACRS depreciation, calculate adjustment to straight-line depreciation and report as a contra-expense on the tax return



### Types of Company Flights

Passenger	Purpose	Host?	On Board?	Exited?	Reimbursed	Add
Mr. Howard Boss	Business		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Add to Log
Mr. Adam Employee	Non-Business		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Mr. Alexander Employee	Entertainment		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Mr. George Employee	Business		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Mr. Vica Employee	Business		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Member of BOG	Business		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Business Associate	Business	No hosts entered yet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log
Mr. Junior Boss	Business	No hosts entered yet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Add to Log



### Cost Disallowance Report

Date	Aircraft	Flight #	Leg #	Report	Airfare	Flight Miles	Total Miles	New Cost	Total Cost	New Cost Miles	Total Cost Miles	New Cost Hours	Total Cost Hours	Flight to Flight Calculation	
05/01/2012	Boeing	00001	1	KF700	K236L	3.3	3,300.0	1	0.0	5,000.0	5,000.0	0.0	3.3	0	-
05/01/2012	Boeing	00002	1	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00003	2	K332P	K236L	1.0	360.0	2	0.0	1,020.0	1,020.0	0.0	3.2	0	-
05/01/2012	Boeing	00004	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00005	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00006	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00007	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00008	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00009	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00010	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00011	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00012	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00013	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00014	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00015	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00016	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00017	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00018	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00019	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00020	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00021	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00022	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00023	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00024	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00025	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00026	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00027	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00028	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00029	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00030	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00031	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00032	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00033	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00034	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00035	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00036	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00037	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00038	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00039	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00040	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00041	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00042	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00043	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00044	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00045	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00046	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00047	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00048	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00049	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00050	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00051	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00052	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00053	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00054	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00055	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00056	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00057	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00058	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00059	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00060	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00061	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00062	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00063	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00064	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00065	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00066	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00067	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00068	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00069	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00070	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00071	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00072	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00073	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00074	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00075	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00076	2	K236L	K332P	0.4	360.0	2	0.0	1,020.0	1,020.0	0.0	0.8	0	-
05/01/2012	Boeing	00077	2	K332P	K236L	0.4	360.0	2	0.0	1,020.0</					

### Calculating the Entertainment Disallowance

- Step 1: Log flights and analyze each passenger as onboard for business, NBNE, or entertainment purposes
- Step 2: Calculate entertainment cost limitation percentage for the year
- Step 3: Add direct operating costs and ownership costs. Multiply by the disallowance percentage, add back the SIFL imputed income. List the disallowance amount as a contra-expense on the tax return
- Step 4 If reporting MACRS depreciation, calculate adjustment to straight-line depreciation and report as a contra-expense on the tax return

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### Costs Subject To Disallowance

- Taxpayer must include all direct costs, ownership costs, and depreciation in determining the disallowance
- Direct costs include fuel, maintenance, take off and landing fees, inspections, crew meal and lodging, catering, and other costs associated with hourly flight operations
- Ownership costs include insurance, hangar (at home or away from home), crew salaries, payroll taxes, interest, subscriptions, and any other cost directly or indirectly associated with the aircraft
- Applies to all aircraft, whether owned, leased, or chartered

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### Calculating the Entertainment Disallowance

- Step 1: Log flights and analyze each passenger as onboard for business, NBNE, or entertainment purposes
- Step 2: Calculate entertainment cost limitation percentage for the year
- Step 3: Add direct operating costs and ownership costs. Multiply by the disallowance percentage, add back the SIFL imputed income. List the disallowance amount as a contra-expense on the tax return
- Step 4 If reporting MACRS depreciation, calculate adjustment to straight-line depreciation and report as a contra-expense on the tax return

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### Aircraft Tax Depreciation

- If business use is >50%, taxpayer may use MACRS depreciation
  - If drops below 50% in any year, recapture excess depreciation for all previous years
- If business use is <50%, use straight line
- If predominant use is:
  - Commercial-use 7 year MACRS or 12 years straight line
  - Company business-use 5 years MACRS or 7 years straight line

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### Use of Straight-Line Depreciation for Disallowed Depreciation

- “Solely for purposes of paragraph (d)(1) of this section, a taxpayer may elect to treat as its depreciation deduction the amount that would result from using the straight-line method of depreciation over the class life (as defined by section 168(i)(1)...”
- Means taxpayer has the option to substitute straight-line depreciation for the disallowed portion of depreciation
- Disallowed depreciation is added back to the basis of the aircraft

§1.274-10 (d)(3)(i) Special rules for aircraft used for entertainment 10302

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### Statement 2 - Property Owning Entity - Personal Schedule C, Part V Other Expenses

Aircraft Ground Costs .....	\$	12,958.
Airframe Maintenance .....		11,819.
Avionics & Subscriptions .....		16,520.
Bank Charges .....		34.
Communications .....		9,571.
Contract Crew Services .....		33.
Disallowance per IRC Reg § 1.274-10 Exp .....		-167,655.
Disallowance per IRC Reg § 1.274-10 Depr .....		-590,630.
Fuel .....		36,930.
Flight Support .....		7,348.
Miscellaneous .....		61,430.
Monthly Crew Salary .....		4,954.
Monthly Management Fees .....		123,075.
Monthly Management Fees .....		28,748.
Passenger Costs .....		3,759.
Training .....		973.
<b>Total</b>	<b>\$</b>	<b>-336,365.</b>

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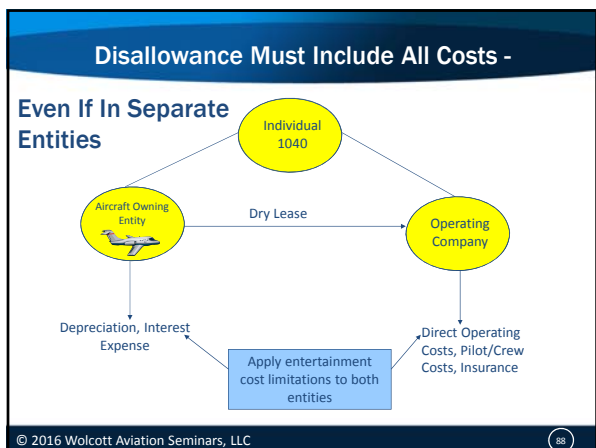
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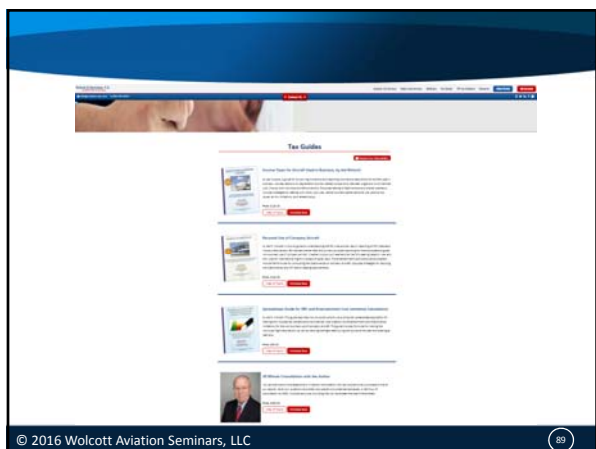
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### Thank You Very Much!

Jed R. Wolcott, MBA  
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Shayne Gutierrez  
Marketing Director  
[shayneg@aviation-cpa.com](mailto:shayneg@aviation-cpa.com)

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