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WEALTH MATTERS

Dream of Owning a Plane? This Tax Break Can Help Dream of Owning a Plane? This Tax Break Can Help

By Paul Sullivan

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Growing up in central Connecticut in the 1980s, Joshua Siegel loved everything about flying. He couldn’t afford flying lessons, let alone his own plane, but he kept dreaming.

By his 20s, he had achieved some financial success and was able to take advantage of a new tax deduction meant to spur private plane sales in the aftermath of the Sept. 11 terrorist attacks.

Using the tax break, he deducted the entire cost of a new Cessna more quickly than he could have otherwise — five years versus 20 years or more. The plane was restricted to business use, but it fulfilled a childhood dream for virtually no money.

“My cost to fly, between 2001 and 2005, was free,” he said. After that, he sold the plane, and had to pay tax on the sale.

The deduction — known as bonus depreciation — was enhanced in Republican lawmakers’ sweeping tax overhaul, which was meant to strengthen manufacturing by offering a tax break to any business that invested in equipment or machinery. But because it also allowed the full cost of a plane to be deducted in the first year of ownership, it has bolstered sales of new and used planes.

Shipments of general aviation aircraft rose nearly 5 percent in 2018 from the year before, according to data from the General Aviation Manufacturers Association, an industry trade group.

Mr. Siegel, now the chief executive of StoneCastle Partners, which invests in community banks, said he used the tax deduction to buy a used plane last year and was planning to use it again when he takes delivery of a 2019 Cirrus SR20, which cost $600,000. Better still, the tax break is structured so that most of his plane costs, like fuel and maintenance, will be deductible, too.

The tax deduction's benefits are twofold.

First, it allows a business to deduct the cost of the machinery, dollar for dollar, in one year. Typically, business equipment is amortized over a multiyear schedule, which is calculated based on how long the equipment might last, a formula known as useful life.

Second, the updated version extends the deduction to used equipment. In theory, some people might trade up to something newer, while others might buy something used that they would not have bought otherwise.

Adding used aircraft to the deduction has been a boon to sales, said Lewis Liebert, chief executive of Performance Flight, an aircraft training, management and chartering company.

"Buying used without bonus depreciation was a big reach for some people," he said.

It has also helped the aircraft market. "The inventory of used aircraft was too high, and it created a disparity in value" that hurt sales of new planes, he said.

It may seem tantalizing to use this tax deduction as a way to get a free plane, but it's not that simple.

On the face of it, anyone can deduct 100 percent of a plane's purchase price and maintenance expenses if the plane is used for nonrecreational purposes or leased to a flight school. After the first year, to keep the deduction, the owner has to ensure that the plane is used at least 50 percent of the time for business.

Mr. Siegel said he put his used plane, a 2011 Cirrus, into a rental program through Performance Flight at Westchester County Airport in White Plains, and he intends to do the same with his new plane. This arrangement, called a lease-back program, fulfills the Internal Revenue Service requirement on business use.

Thomas Rossomondo, a certified public accountant who works with FlyWealthServe, a consulting firm that specializes in aviation, said qualifying for bonus depreciation was more nuanced than it seemed.

To be able to deduct the full cost, for example, the owner could use the plane 50 percent of the time for business, 25 percent for flight training and 25 percent for personal but non-entertainment use. An example of the last one, he said, would be transporting relatives somewhere; a violation would be taking the same relatives to Disney World.

“There are gray areas,” Mr. Rossomondo said. But he said that FlyWealthServe’s clients wanted to be compliant because of the auditing risks associated with such a large deduction. “They don’t want to create red flags, over and above taking depreciation for a plane,” he said.

If the I.R.S. finds an owner is not in compliance, the penalties are severe. The owner could lose the deduction and be required to depreciate the plane over a longer period, which could be five to seven years depending on the type of aircraft, said Jerald D. August, tax partner and head of the international tax and wealth planning practice group at Fox Rothschild. That substantially increases the cost paid for the plane.

“You need to be a stickler for record-keeping,” Mr. August said.

Additionally, not all states allow the same level of bonus depreciation that the federal government does. In Connecticut, someone buying a plane would not get a break the first year, but can depreciate the plane’s cost over four years, said Michael D’Addio, tax lawyer and principal at Marcum in New Haven.

At the end of the plane’s life, though, the owner could get hit with something called depreciation recapture, a term used for belatedly paying taxes that were deferred, Mr. Rossomondo said. Of course many plane owners might simply buy another plane and start the depreciation cycle all over again.

“Eventually, you’re going to sell your last aircraft and you’re going to have to recognize the gain,” he said.