

Cessna Pilots Association



May 2012 • Volume 29, Number 5

CESSNA PILOTS

ASSOCIATION



Jeff DeFreest's
1952 170B

www.cessna.org

CPAaviation.com

Cessna Pilots Association is pleased to announce that we have arranged for a new column addressing tax, accounting and risk management topics related to general aviation. Most of our members have already purchased a Cessna, and have successfully dealt with many of the issues related to the purchase and operation of their Cessna. The Federal Tax laws are ever changing, and the States are looking for revenues from Sales and Use Taxes. IRS audits are becoming more frequent, and aircraft owners are being targeted.

We believe that our membership will find useful information that will keep us informed of basic issues that are universal to all pilots and aircraft owners.

James Allen Baloun is a certified public accountant, private pilot, and is the owner of a Cessna 210 based at The Landings airport in Huntley, Illinois. He founded his CPA practice in 1978.

Mr. Baloun is a member of the National Business Aviation Association; the Experimental Aircraft Association and Helicopter Association International. Jim obtained his private license in 1967 at the age of 18, and has been exposed to all facets of General Aviation, and his firm has hundreds of pilots in its client base.

During 2005, Mr. Baloun founded a CPA Firm which exclusively deals with aviation, and his Firm employs a staff of specialists that understand the issues facing general aviation.

The firm serves many pilots, Part 91 operators, as well as flight schools and FBO's.

Pilots at every level have special needs, especially those that use their aircraft for business travel. Business owners face special challenges.

Private pilots (and sport pilots) who do not use their aircraft for business are not exempt

from State taxes on the purchase of their aircraft, and they must pay attention to FAA rules which apply to expense reimbursements. Many of us perform charitable flights and wish to deduct expenses for our good works. So even those who fly for personal transportation, pleasure or adventure can benefit from this new column.

We all understand that "hangar talk" is full of stories about our flying experiences. Some stories are based on real life experiences. Many chronicle of outrageous risks taken - while escaping death or punishment. Some pilots brag about these acts, and were lucky in not being caught.

Tax strategies that have worked in the past, or have simply avoided detection abound. Some "tax tales" are told in our hangars, but others are taking place in the offices of our Advisors.

Accountants and attorneys who are "trusted advisors" may not train in aviation issues. Many do not appreciate aviation and do all they can to discourage operations. Others try to apply automobile tax rules to aircraft. Others copy the style of their Mentors.

Tax tales and hangar talk are both more fiction than fact, and it is dangerous to model your behavior on the heroic exploits of pilots. Some of the acts depicted "should not be attempted at home".

CPAaviation.com's mission statement suggests that it is dedicated to maintaining competency in understanding both the IRS and FAA regulations as the basis for helping its clients navigate the enforcement of conflicting regulations, and changes in the rules. The Firm's participation in NBAA and HAI expose the staff to the problems of a comparatively large and sophisticated group of aircraft users and pilots, as well as a comparatively small group of tax specialists who have also focused on the upper end of GA. You do not need to use Jet-A to get the attention of CPAaviation.com.

ENTITY SELECTION



By Jim Baloun

Selecting the correct ownership structure is the first step to success and harmony in the relationship between the aircraft, its owner(s) and the regulators at the IRS and FAA.

Although most readers of the CPA Magazine are already aircraft owners, I think it is appropriate to go back to basics and start at the beginning of our relationship with our aircraft. It may be too late for a “go around” for some of us, but many of us will purchase an aircraft in the future, so the first article of the series will address certain aspects of the aircraft acquisition process.

Before making an offer to purchase an aircraft, you should have already chosen and selected the appropriate ownership structure. There are several choices, and the “trick” is to pick the one that fits your present and future needs, and what is appropriate to your financial situation.

For some reason, our families, advisors, attorneys and accountants immediately think of risk whenever the discussion is associated with aviation.

Although our pilot skills have something to do with the actual level of “risk”, there are some things that are outside the pilot’s control that are worth considering. There are techniques to protect ourselves and our families from both categories.

Many individual’s names are found in the FAA Register Aircraft database. If your aircraft is your single largest asset, you may not wish to change being personally liable for any damage your aircraft might cause to the rest of the world. We must all recognize that the pilot in command will ultimately be attacked by the attorneys considering you as being responsible for the operation of the aircraft. What many of us overlook is the fact that your aircraft can be held responsible for causing damage to “others” even in your absence. Aircraft not securely tied down

frequently “rotate” for a brief period only to land on another aircraft or personal property, and sometimes individuals get caught in the same wind gust.

If you are the sole owner of the aircraft, you will be held responsible for the actions of your prized possession even if you are miles away. You can mitigate that type of risk by purchasing adequate insurance. Although you can self-insure and save the premiums, such claims can wipe you out.

The FAA register is seeing more Limited Liability Companies (LLC’s) as they are becoming more popular with the legal community. LLC’s are the attorney’s favorite form of entity because the laws of most states allow creativity, relaxed ownership and tax rules in comparison to corporations, and they frequently generate more fees for the legal and accounting communities.

Corporations also appear in the Register, but their numbers are losing ground to LLC’s. The rules related to taxation of corporations are well known, but changes in ownership are cumbersome and most single purpose asset ownership corporations die when the aircraft is sold. Those who have used an S-Corporation status in their business life have tried to employ the same technique for obtaining tax breaks, only to find that the IRS has placed new obstacles in their paths that prevent them from taking advantage of losses from passive activities, and the IRS evokes “at risk” and basis restrictions that lay as hidden traps for most of us that have an S-Corporation.

I strongly discourage the use of S-Corporations as stand alone aircraft ownership entities, and will explore the many reasons in a future article. If you have an S-Corporation, you should immediately consult with your tax advisor and inquire how “at risk” and basis limitations from a passive activity will be viewed by the IRS. This topic

has created the single largest revenue source from IRS audits.

You might already know the 4 alternatives for tax reporting have different advantages and disadvantages, and your tax advisor should be consulted to help you understand how a Limited Liability Company can elect to be treated as a disregarded entity, (in which case it will be a sole proprietorship), or become a part of your business. LLC's can also elect to be taxed on Forms 1120 or 1120-S, and although most of us will not find the corporate structure to be beneficial, you should "explore" those alternatives before dismissing them as legitimate possibilities.

You may have heard "hangar talk" about how other people have gotten away with using an S-Corporation in the past and be tempted to "follow the leader", so it would be good to get that idea out of the way before making your decision.

The answer to the tax strategy question requires that you possess "situational awareness". Your overall business and personal tax projections have a huge effect on selecting the right structure. One person's strategy will differ from that of his friends because he or she has an all-together different tax bracket.

This is a good time to address budgeting. The commitment to invest in an aircraft requires careful "pre-flight" preparation. Although tax deductions will reduce the overall cost of operating your aircraft, you need to be sure that the tax benefits you are counting on will be available in the structure you select. Many of us find out too late that the big depreciation write-offs promised by Cessna, Cirrus and a few other manufacturers are not obtainable by the average general aviation pilot, and are directed at large corporations with taxable incomes greater than the cost of the aircraft they are

planning to purchase.

In conclusion, it should be apparent that most of us need to consult our tax accountants before making a choice of ownership options. Your attorney may be familiar with the latest techniques for asset protection, but must also know the reality of aviation operations. Failure to "choose wisely" may result in surprises and costly mistakes that are difficult to undo without triggering double jeopardy for state Use Tax.

*CPAAviation.com is an affiliate of
BALOUN & COMPANY
Certified Public Accountants since 1978
Consultants to Small Businesses and the
Entrepreneurs who own them
Jim can be contacted at:*

*855 North Sterling Avenue
Palatine, IL 60067
Phone: 847-991-1111
Fax: 847-991-4553*

No hassle, no stress, no wasting my time.
I've got a team of professionals to manage
my aircraft's maintenance.

They're experts at dealing with my shop—
they make sure I'm informed and in control.

And the best part? They don't cost me money.
They save me money. That's why...

I'm SAVVY

http://commons.wikimedia.org/wiki/File:C:210_NS891E_001.jpg

GET SAVVY at WWW.SAVVYMX.COM

Savvy Aircraft Maintenance Management, Inc.
4801 Braeburn Drive · Las Vegas NV 89130
(702) 655-1359

Mike Busch, Founder and CEO
2008 National Aviation Maintenance
Technician of the Year