

Keeping track

Governmental agencies demand that aircraft owners maintain voluminous, detailed records. Specialized software can help.

by Jeff Wieand

If you're new to aircraft ownership, brace yourself for the voluminous recordkeeping that regulators require. The rules are complex and stringent—lack of a single piece of paper can ground an airplane—but there's one bit of good news: software has been available for some time to help you or your flight department stay on top of maintenance inspections and flight planning.

High-tech help has been slower in coming to other regulatory regimes. Publicly held companies in the U.S., for example, must comply with reporting requirements of the Securities and Exchange Commission. Use of corporate aircraft for non-business flights by its top executives is a form of compensation that requires disclosure in proxy statements and financial reports. Though the SEC imposes few aircraft-specific recordkeeping requirements, its auditors may ask to see backup for the numbers in company filings regarding use of its aircraft.

The 50 states have their own required records. Most states tax aircraft sales and many levy personal property taxes on airplanes. Opportunities abound for reducing or avoiding such taxes (see my column in *BJT*'s October/November issue), but they typically require timely documentation of the aircraft's "use" in the state by tracking days, hours, miles, landings or takeoffs.

The biggest recordkeeping headache, however, comes courtesy of the Internal Revenue Service, which requires taxpayers to main-

tain extensive documentation to support positions taken on tax returns. The IRS wants to see receipts, canceled checks, invoices and the like showing the amount, date, place and essential character of travel expenses. It prefers records created at or about the time you incur the expense and frowns on attempts to reconstruct the past—when, for example, the agency decides to audit a flight department.

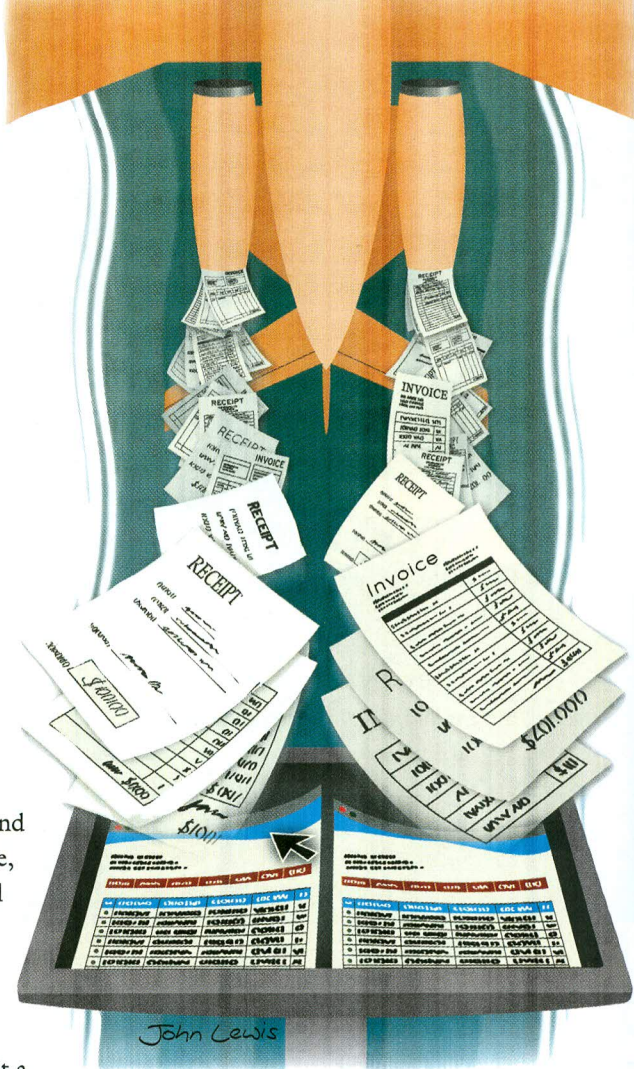
The IRS has published sample expense logs and forms to help you keep records of business travel expenses like the cost of a hotel stay. The information needed for business jet expenses, however, rises to a whole different level of complexity.

Non-business use of the aircraft by an owner or company executive generally results in taxable income to the executive unless he pays for the flight, and many companies use the Standard Industry Fare Level (SIFL) rules to calculate the income. The IRS has also published guidelines for calculating the impact of use of the aircraft for "entertainment, recreation or amusement," which necessitates recordkeeping for all flights and has the potential to disallow deductions (including allocable portions of tax depreciation and interest expense) to the extent of such use.

You might think the taxman would be satisfied with a record of each leg of each trip and its purpose, but if so, you'd be wrong. Business air-

craft owners must also keep records of the identity of every passenger, their relationship to the company, why they're on board and how much (if anything) they paid for the flight. And that's only the beginning. The IRS lets you calculate the entertainment disallowance four ways: occupied seat miles, occupied seat hours, flight-by-flight miles and flight-by-flight hours. You can then pick the method resulting in the smallest disallowance (and thus the smallest tax).

The rules are so complicated that several companies have produced computer programs to help aircraft owners track the information and figure the tax consequences. "We initially created software as an internal tool, to help our staff prepare tax returns and deal with audits," says Fort Lauderdale, Florida-based aviation CPA Jed Wolcott. "Eventually it occurred to us that the clients themselves needed the software more than we did." After three years in development and another year of testing, Wolcott's Flight Tax Systems software is available to subscribers.



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How does it help? For both SIFL and entertainment-disallowances purposes, you need to track statute miles and hours for each flight leg. The software includes a database of 35,000 airports: just plug in the departure and destination airports and the program calculates the miles for you. Add the passengers for each leg in each category (business, entertainment and other) and the software will do the calculations under all four permitted IRS disallowance methods. Best of all, at the end of the year, it will total everything and tell you which of the four methods yields the smallest tax.

The software will also generate results on a host of other tax issues, such as satisfying the annual 50 percent business-use requirement for MACRS depreciation and separating active and passive losses on the aircraft. Further, Flight Tax Systems does aviation tax calculations for key states like Texas and California and aggregate incremental cost calculations for SEC reporting. You can assign flight costs to projects or departments, and you can generate all federal, state, SEC and user flight reports from a single screen.

Of course, the results provided by the software are only as good as the data you record. But as long as you plug in the required information, the program can follow complicated and obscure IRS rules for you so you don't mess up the results. And because the system is Internet-based, you can enter data wherever you can log on to the Net. The system can also upload trip data from scheduling software and Excel spreadsheets.

Software like this is obviously valuable for the accountants preparing the tax returns. If you're audited, it can make it easy for you to provide the IRS with descriptions of the purposes of your trips and other relevant information.

No one is expecting aviation-related tax reporting to become simpler, so software that makes it easier has to be the way of the future. **BJT**

For information on Flight Tax Systems, the program described in the accompanying article, visit flighttaxsystems.com. Other software products that offer help with aviation taxes includes AircraftLogs, which is available via aircraftlogs.com, and BART (Business Aviation Recordkeeping and Tracking), which is available via seagil.com.