



Using Tax Savings to Buy Your New Aircraft

Due to Favorable Depreciation and Interest Rates, Tax Savings Can Exceed Payment Cost for the First Five Years.

The Internal Revenue Code prescribes that depreciation for noncommercial aircraft is to be computed over a five year period on an accelerated basis. Although the Internal Revenue Code provides for an accelerated cost recovery method for aircraft, commercial financing is generally available with minimal down payments and 20 year amortization with low interest rates. Through this combination of favorable financing and very rapid tax depreciation recovery, it is often possible for an aircraft owner to have little, if any invested beyond tax savings for the first five years of ownership. An example is illustrated in the chart below.

Elite Certified – cost \$2,350,000, acquire 7/01/07, 6.65% interest, 10% down, 20 year amortization.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|------------------|------------------|------------------|------------------|-----------------|---------------|
| New Aircraft Costs | 2,350,000 | | | | | |
| Down payment | 235,000 | | | | | |
| Annual principal payments | 21,414 | 53,873 | 57,567 | 61,514 | 65,732 | 70,239 |
| Annual interest payments | 58,367 | 137,601 | 133,907 | 129,960 | 125,743 | 121,236 |
| Total cash payments | 314,781 | 191,474 | 191,474 | 191,474 | 191,474 | 191,474 |
| Income tax deductions | | | | | | |
| Depreciation | 470,000 | 752,000 | 451,200 | 270,720 | 270,720 | 135,360 |
| Interest payments above | 58,367 | 137,601 | 133,907 | 129,960 | 125,743 | 121,236 |
| Total income tax deductions | 528,367 | 889,601 | 585,107 | 400,680 | 396,463 | 256,596 |
| Income tax savings (Federal, State & Local) | 219,272 | 369,184 | 242,820 | 166,282 | 164,532 | 106,487 |
| Net after tax cash flow (increase) | 95,509 | (177,710) | (51,345) | 25,192 | 26,942 | 84,987 |
| Net after tax cash flow cumulative | 95,509 | (82,201) | (133,547) | (108,354) | (81,412) | 3,575 |
| Average monthly after tax cash flow - 60 months (INCREASE) | | | | | (1,428) | 61 |

The preceding chart outlines the tax results that an aircraft used 100% for business purposes. The decision on how to acquire an aircraft should be made with care including consideration of not just federal income tax consequences, but also FAA issues, liability issues, state and local tax issues, federal excise tax issues, and operation and financial considerations.

[Advocate Aircraft Taxation Company](#) is in the business of assisting aircraft owners and operators in acquiring, maintaining, and disposing of aircraft in a tax efficient manner. Services include the reduction of sales tax on acquisitions, the maximization of income tax savings, the minimization of exposure for federal excise taxes, and the minimization of imputed income for personal use of aircraft. The firm is comprised of Attorneys and Certified Public Accountants whose practice is limited to the taxation of aircraft.

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