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.

New aircraft purchased in 2008 generally qualify for 50% bonus depreciation. The balance of the cost is generally recovered over a five year period or an accelerated basis. In addition, for acquisitions during 2008, a small business, (defined as a taxpayer that invests less than $1,050,000 in capital improvements in a tax year), can write off up to $250,000, before calculating depreciation on the balance. 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.

Gulfstream G550 - cost $53,400,000, acquire 07/01/08, 6.0% interest, 10% down, 20 year amortization.

	2008	2009	2010	2011	2012
New Aircraft Costs	**53,400,000**				
Down payment	5,340,000				
Annual principal payments	631,954	1,322,083	1,403,626	1,490,199	1,582,111
Annual interest payments	1,433,947	2,809,718	2,728,175	2,641,603	2,549,690
Total cash payments	7,405,901	4,131,801	4,131,801	4,131,801	4,131,801
Income tax deductions					
Depreciation	32,040,000	8,544,000	5,126,400	3,075,840	3,075,840
Depreciation %	60.00%	16.00%	9.60%	5.76%	5.76%
Interest payments above	1,433,947	2,809,718	2,728,175	2,641,603	2,549,690
Total income tax deductions	33,473,947	11,353,718	7,854,575	5,717,443	5,625,530
Income tax savings (Federal, State = 41.5%)	13,891,688	4,711,793	3,259,649	2,372,739	2,334,595
Net after tax cash flow (increase)	(6,485,787)	(579,992)	872,153	1,759,063	1,797,206
Net after tax cash flow cumulative	(6,485,787)	(7,065,779)	(6,193,627)	(4,434,564)	(2,637,358)
Average monthly after tax cash flow - 60 months (INCREASE)					**(46,269)**

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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