



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.

Adam A700 - cost \$2,250,000, acquire 07/01/07, 6.5% interest, 10% down, 20 year amortization.

	2007	2008	2009	2010	2011	2012
New Aircraft Costs	2,250,000					
Down payment	225,000					
Annual principal payments	20,870	52,450	55,963	59,711	63,710	67,976
Annual interest payments	54,619	128,724	125,211	121,464	117,465	113,198
Total cash payments	300,489	181,174	181,174	181,174	181,174	181,174
Income tax deductions						
Depreciation	450,000	720,000	432,000	259,200	259,200	129,600
Interest payments above	54,619	128,724	125,211	121,464	117,465	113,198
Total income tax deductions	504,619	848,724	557,211	380,664	376,665	242,798
Income tax savings (Federal, State & Local)	209,417	352,221	231,243	157,975	156,316	100,761
Net after tax cash flow (increase)	91,072	(171,046)	(50,068)	23,199	24,858	80,413
Net after tax cash flow cumulative	91,072	(79,974)	(130,042)	(106,843)	(81,985)	(1,572)

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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