



## 2010 Tax Depreciation Update

### Section 179 Expensing returns to \$250,000

#### BONUS DEPRECIATION

Under current law, aircraft tax depreciation will be governed by Section 179 Expensing rules or the traditional MACRS depreciation method in 2010. During a speech in December, President Obama asked Congress to extend bonus depreciation rules for 2010. However, bonus depreciation has not been included in the recent economic stimulus legislations passed by Congress.

#### Section 179 Expensing – Increase to \$250,000 for 2010

Section 179 Expensing allows a small business to expense capital improvements in the year of acquisition, instead of depreciating the asset over its useful life. President Obama signed into law HR2847, Hiring Incentives to Restore Employment (HIRE) Bill on March 18, 2010.

After the enactment of HIRE, a taxpayer can expense \$250,000 of the cost of a business aircraft in 2010. The remaining basis will be depreciated over five tax years for Part 91 operators. The benefit is phased out when the cost of the aircraft and other capital improvements exceed \$800,000. This provision applies to new or used business aircraft. Taxpayer is also required to meet certain income requirements in order to take advantage of Section 179 Expensing. This provision is effective as of January 1, 2010.

#### MACRS Depreciation Method

The following table is the depreciation schedule for an aircraft that is operated under Part 91 of the Federal Aviation Regulations, for a calendar year taxpayer:

	Half Year Convention (closing before September 30)	Mid Quarter Convention (closing after September 30)
Year 1	20%	5%
Year 2	32%	38%
Year 3	19.2%	22.8%
Year 4	11.52%	13.7%
Year 5	11.52%	10.9%
Year 6	5.76%	9.6%



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Federal tax depreciation is governed by the Modified Accelerated Cost Recovery System (MACRS). Two conventions impact the actual depreciation schedule of an aircraft:

- Half year convention – all equipment purchased throughout a tax year is considered to be placed in service on July 1, and will receive one half year of depreciation deduction in the year of acquisition.
- Mid quarter convention – if a taxpayer purchases over forty percent (40%) of his equipment in the fourth quarter of the tax year, depreciation deduction is limited in the first tax year.

Aviation Tax Consultants (ATC) assists aircraft purchasers in acquiring aircraft in a tax efficient manner. Services include the elimination or reduction of sales and use tax at the time of purchase, maximizing income tax savings, controlling the cost of personal use of an aircraft, and complying with Federal Aviation Regulations. Cooperation with client's current tax and legal advisors is welcome and encouraged.

Disclosure Under IRS Circular 230: To ensure compliance with requirements recently imposed by the IRS, we inform you that any tax advice contained in this communication, including any attachments, was not intended or written to be used, and cannot be used, for the purpose of avoiding federal tax related penalties or promoting, marketing or recommending to another party any tax related matters addressed herein.

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March 18, 2010