

DEDICATED TO HELPING BUSINESS ACHIEVE ITS HIGHEST GOALS.



Personal Use of Aircraft 101 & Calculating SIFL

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What is SIFL?

- **Stuff I'll Finish Later**
- **Southern Indoor Football League**
- **SIFL & OLLY**

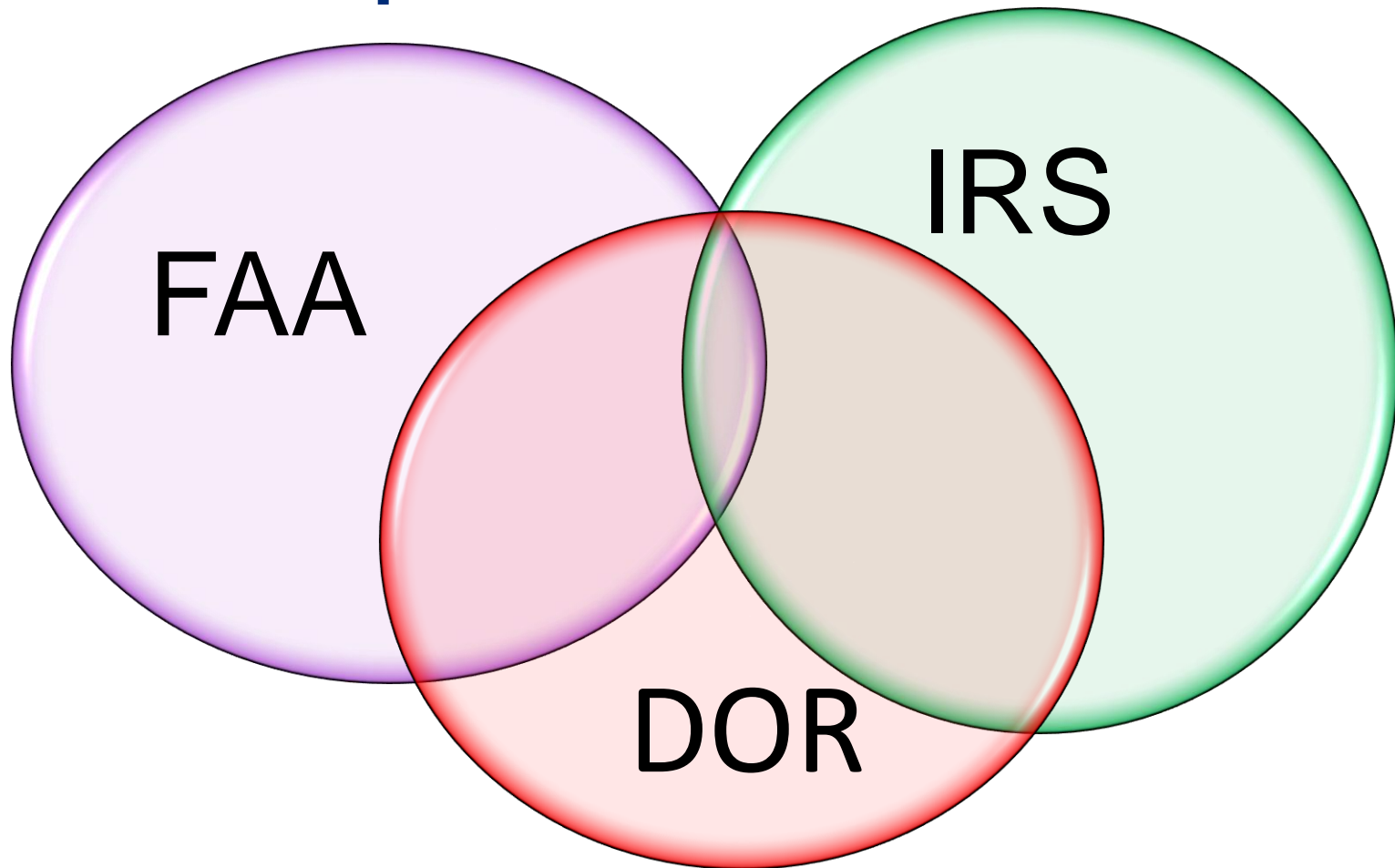
So..... SIFL is easy, right?

MILEAGE RANGE	AMOUNT PER MILE
0-500 miles	\$ 0.2654
501-1,500 miles	\$ 0.2024
over 1,500 miles	\$ 0.1946
Terminal Charge	\$ 48.53

FL30 Perspective

- The FAA limits the ability of an employee to reimburse the company for non-business use of the company aircraft
- The unreimbursed cost of an employee's non-business use of the company aircraft must be included as income for federal income tax purposes
- SIFL (Standard Industry Fare Level) is a formula accepted by the IRS as a method of valuing the flight(s)
- The IRS disallows certain deductions based on the non-business entertainment use that is not: a) imputed as income under SIFL or the charter approach, or b) reimbursed by the employee
- Many of the variables used in the formula are often collected by schedulers and dispatchers

FL30 Perspective



FAA Considerations

FAA Limits to Reimbursement for Non-Business Flights

- FAR 91.501(b)(5)
 - See FAA v. IRS Slide
 - May or may not be 7.5% Federal Excise Tax
- Time Sharing Agreements
 - Limited costs → Twice the cost of fuel plus incidentals as permitted by FAR 91.501(d)
 - 7.5% Federal Excise Tax
- Nichols Interpretation (Schwab Re-Interpretation)
 - Full cost reimbursement for pro rata cost of owning, operating and maintaining the aircraft may be allowed for flights by certain approved executives for “routine personal travel”
 - 7.5% Federal Excise Tax
- Other FAR 91.501 Options

IRS Considerations

What Is Non-Business Use?

- Non-Business use
 - Flight is not for the business of the company
 - Can include flights that are business for the pax (i.e. charitable board meeting), but not for the company's business
 - Vacation, entertainment, recreation
 - Not a dry lease
- On any aircraft the employer provides
 - Chartered aircraft, fractional aircraft share, wholly-owned aircraft
- Employee includes:
 - Employees, partners, directors, independent contractors, certain former employees
 - Guest of employee (even if employee is not on board/recipient of flight)

What is “Entertainment Use”?

- Definition of entertainment
 - Activity generally considered to constitute entertainment, amusement or recreation
- Examples of entertainment activities
 - Country clubs, golf and athletic clubs, sporting events, hunting, fishing, vacation, sailing, sightseeing, parties
- Examples of non-entertainment activities
 - Commuting to/from work or between homes, attend director meetings (unrelated company), medical doctor visit, funeral

Three Buckets of Flights With No Reimbursement

Two Buckets Generate All of the Reporting

Business and Business Entertainment



- No SIFL
- Deductible

Entertainment



- Report SIFL
- Disallowed

Personal Non-Entertainment



- Report SIFL
- Deductible

Who Does This Affect?

Employee

- The value of unreimbursed non-business flights must be included as taxable income to the **employee** as a fringe benefit

Company (assuming the company owns the aircraft for tax purposes)

- The IRS limits the **company's** deductions (expenses) for the cost of non-business flights not imputed as income or reimbursed
- The IRS limits the **company's** deductions (depreciation) for the aggregate unreimbursed cost of non-business flights not imputed as income or reimbursed

Non-Business Flights as a Fringe Benefit

- Since the IRS views non-business flights on the company aircraft as a taxable fringe benefit, employee pays payroll tax and income tax on the value of the flight
 - W-2
 - 1099
- One of two methods may be used to determine the value:
 - Fair Market Value (the charter rate)
 - Standard Industry Fare Level (SIFL)

Valuation - SIFL

- SIFL:
 - Designed to equate first class airfare
 - Calculated per person
 - Based on statute miles flown
 - 1 nautical mile = 1.15 statute miles
 - Employee status is a factor
 - Control employee vs. non-control employee
 - Aircraft weight is a factor
- SIFL amount is *imputed* to employee, NOT amount paid to company by traveler

Valuation - Fair Market Valuation

- Fair Market Value:
 - Charter rate used for the flight – one rate no matter how many people are on board the aircraft
 - Don't fudge the numbers
 - Keep a record of the charter quote
 - Obtain a charter quote from a 3rd party charter operator local to where the flight originates
 - Usually (not always) more expensive for the employee

Focus on Non-Business Guests



- Guests will require additional SIFL imputation
- Guests receive same multiplier as employee

Non-Business Entertainment Use Deductions Disallowed For the Company

General Rule: The costs of operating non-business entertainment flights on behalf of “specified individuals” are not deductible to the extent the employee does not reimburse the company or take imputed income

- “Specified Individual” is defined by SEC regs
 - Officer
 - Director, or
 - 10% or more owner
 - See NBAA Personal Use Handbook, page 21
- Different than “Control Employee”
 - Control Employee – 5% or more ownership

Calculating SIFL

Non-Business Use of Employer-Provided Aircraft



Member Resource

NBAA Releases New Resource on Reimbursement for Certain Personal Flights

August 29, 2011

Last year, NBAA asked the Federal Aviation Administration (FAA) to reconsider a long-standing legal interpretation, known as the "Schwab Interpretation," regarding reimbursement for certain personal flights, and in December 2010, the FAA issued a modified interpretation that has the effect of allowing some companies up to full-cost reimbursement for such trips. NBAA's Tax Committee has created a new resource explaining the requirements and issues that should be considered before reimbursement can be made, and providing frequently asked questions on the topic.

- [Download NBAA Member Resource: "FAA Legal Interpretation Permits Reimbursements for Certain Personal Flights" \(PDF, 940 KB\)](#)
- [View NBAA's Request for FAA Interpretation \(copy of original letter dated March 2010\)](#)
- [View FAA Interpretation \(copy of original letter dated December 2010\)](#)

Other Resources

Occasionally a company airplane might be made available to employees for reasons not directly related to the business of the company. Businesses must be familiar with applicable rules, such as FAA, IRS and SEC regulations when conducting these flights.

Related Links

[NBAA Personal Use of Business Aircraft Handbook](#)

Explains the restrictions on payments for personal use, income tax requirements, deduction disallowances and SEC reporting

[NBAA Personal Use \(SIFL\) Calculator](#)

Uses Standard Industry Fare Level (SIFL) rates to calculate the value of a flight deemed taxable

[American Jobs Creation Act of 2004](#)

Information on IRS Notice 2005-45 and proposed regulations under IRC Section 274 that limit allowable deductions for personal entertainment flights

[NBAA On-Demand Education](#)

View video of presentations on IRS, SEC, and FAA perspectives on personal use from the NBAA Tax, Regulatory, and Risk Management Conference

Management Guide

Compensation & Benchmark Survey

Personnel Considerations

Policies & Utilization

Aircraft Operating & Ownership Options

Aircraft Registration & Transactions

Tax Issues

Federal Taxes

State Taxes

International Taxes

Depreciation

Non-Business Use of Employer-Provided Aircraft

Insurance & Risk Management

Safety Management Systems (SMS)

Standard Industry Fare Level (SIFL)

- SIFL Formula

$$\text{SIFL} = [(\text{Mile } \$) \times (\text{Aircraft Multiplier}) + \text{Terminal Charge}] \times \# \text{ Pax}$$

[For multi-leg trips]

$$(\text{mileage 1} \times \$) + (\text{mileage 2} \times \$) + (\text{mileage 3} \times \$)$$

Calculating SIFL

Current SIFL Rates

- SIFL rates for the six-month period from July 1, 2013, to December 31, 2013, are:

MILEAGE RANGE	AMOUNT PER MILE
0–500 miles	\$0.2654
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Calculating SIFL

Aircraft Multiples Chart

MCTOW	Ctrl Employee	Non-Ctrl Employee
6,000 lbs or less	62.5	15.6
6,001 – 10,000 lbs	125	23.4
10,001 – 25,000 lbs	300	31.3
25,001 lbs or more	400	31.3

Sample Calculation

- HPN→VNY
- 2,149 nautical miles
- 1 control employee
- Aircraft multiple: 400%

PERSONAL USE CALCULATOR

This Personal Use Calculator only applies to flights completed during the relevant time period noted below. Use and retain data from the [Report of Personal Travel on Company Aircraft](#) form to fill out this Web page. For information on how to apply IRS rules to this calculator, see the NBAA [Personal Use of Employer Provided Aircraft Handbook](#).

Rates Apply Only to the Time Period: **July 1 – December 31, 2013**

Enter your name:

Enter your destination:

From: HPN
To: VNY

Date: Nov 12

Aircraft: N12345

Nautical Miles: 2,149

Statute Miles: 2,471.35

0-500 Miles (0.2654): \$ 132.7

501-1500 Miles (0.2024): \$ 202.4

1500+ Miles (0.1946): \$ 189.02

Subtotal: \$ 524.12

Aircraft Multiple ([chart](#)): 400

Subtotal: \$ 2,096.48

Terminal Charge: \$ 48.53

Subtotal: \$ 2,145.01

Passengers: 1

Total: \$ 2,145.01

[Submit Leg 1](#) [Submit Leg 1 & Finish](#)

Airport Distances

From: Domestic

To: Domestic

Use the 3 or 4 letter codes for domestic or international airports.

[Calculate Distance](#)

Enter your destination:

From: HPN
To: VNY

Date: Nov 12

Aircraft: N12345

Nautical Miles: 2,149

Statute Miles: 2,471.35

0-500 Miles (0.2654): \$ 132.7

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[Submit Leg 1](#) [Submit Leg 1 & Finish](#)

Calculating SIFL

- “Flight” means each time the employee boards and deplanes
 - A round trip includes at least two flights.
 - If no employee is on board, no benefit received. (No charge for repositioning flights)
- Landings for fuel, weather, or emergencies are “intermediate stops”
 - “Ignore” these intermediate stops when calculating the employee’s flight distances

Calculating SIFL

Control vs. Non-control Employee

- Control employee – see NBAA PUHB, page 11
 - Most officers
 - Paid in the top 1% of the company
 - Owns 5% or more of company
 - Directors
 - Retired former control employees (see IRS regulations)
- Non-control employee
 - Everyone else
- Flights for control employees are valued at a higher valuation multiple than non-control employees

Other SIFL Considerations

- Mixing business with pleasure
 - One destination; two purposes for the employee
- What was the primary purpose of the passenger?
 - How much time was spent on business? On personal?
 - Who was on the trip (employee alone or with spouse, kids)?
 - Not up to S&D to decide purpose of the trip
 - Can help inform employees how these flights could be viewed
 - Provide trip form where employee characterizes purpose of the trip and is on the hook via their signature

Other SIFL Considerations

- **Mixed use flights – primarily business**
 - Multiple destinations; some for business, some for pleasure
 - If trip primarily for employer's business – include in income value of total trip less business flights
- **Mixed use flights – primarily personal**
 - Multiple destinations; some for business, some for pleasure
 - If trip primarily personal – include in income value of personal flights that would have been taken if no business

Mixed Use- Primarily Business

- TEB→JAX→FXE→TEB
- Primary purpose is business meeting in JAX
 - TEB-JAX: 832
 - JAX-FXE: 311
 - FXE-TEB: 1070
 - Total: 2213 statute miles
- TEB→JAX→TEB
 - 1665 statute miles
- Detour Miles for FXE Stop
 - $2213 - 1665 = 548$ statute miles
- Only SIFL Non-Business Pax for the 548 miles

Mixed Use- Primarily Personal

- TEB→ORL→JAX→TEB
- Primary purpose is personal stop in ORL
- TEB→JAX→TEB
 - 1887 statute miles
- SIFL Non-Business pax for the 1887 miles
- Ignore the business stop in JAX

Documentation

- Initial collection of relevant data
 - What information is needed?
 - Who collects it?
 - In what format is the information documented and stored?
- Classification (business, personal business or entertainment) PER PASSENGER
 - Who makes classification decision?
 - Leg by leg
- Consistency

FL 10 Perspective

FAA

No reimbursement for non-business use except for:

- FAR 91.501
 - “Carriage of officials, employees, guests and property of a company on an airplane operated by that company, or the parent or subsidiary of the company or a subsidiary of the parent, when the carriage is within the scope of, and incidental to, the business of the company (other than transportation by air) and no charge, assessment or fee is made for the carriage in excess of the cost of owning, operating and maintaining the airplane...” FAR 91.501(b)(5)
 - Time Sharing Agreement - 2xfuel + certain incidental costs FAR 91.501(b)(6) FAR 91.501(c)(1), and (d) (1-10)
 - Other FAR 91.501 exceptions
- Nichols Opinion (Schwab Re-Interpretation)
 - List of “high-level employees” and officials” designated by the company’s board
 - “Routine” travel
 - Pro rata cost of owning, operating and maintaining the aircraft
 - Recordkeeping

IRS

If no reimbursement for non-business use:

- Treated as a fringe benefit
- Value taxed as income
- Value determined under SIFL formula or charter approach
- For non-business entertainment flights, the difference between the cost of the flight and **SIFL or the charter rate** causes the disallowance of depreciation and other deductions

If reimbursement for non-business use:

- Subject to FAA limitations
- For non-business entertainment flights, the difference between the cost of the flight and the **reimbursement** causes the disallowance of depreciation and other deductions
- 7.5% Federal Excise Tax

SIFL: Special Rules & Exceptions

Spousal Travel

- General rule: In most cases, spousal travel is non-business
- Requirements for spouse to be treated as a business flight:
 - Must be an employee of the employer
 - Must travel on bona fide business purpose
 - The travel expense must be otherwise deductible
- The mere expectation of the employer company that a spouse will attend a function requiring travel does not constitute employment

SIFL: Special Rules & Exceptions

- Age – it helps to be young!
 - Children under 2 years of age are not included in valuation
 - Be certain to document the age of the child in your paperwork



SIFL: Special Rules & Exceptions

- 50% Seating Capacity Rule:
 - If 50% of the seating capacity is filled with employees traveling on business when the employee or family member boards and deplanes, then no fringe benefit is imputed
 - Seating capacity: Max number of seats installed on the aircraft at any time *on or prior to the date of the flight within 24 months*
 - Seats not legal & not used for takeoff not counted

SIFL: Special Rules & Exceptions

- “Bona Fide Business-Oriented Security Concerns:”
 - Must have a study done
 - Must be part of a *complete* program
 - But may be limited to certain areas
 - Specific study for family members if they travel without employee
 - Use a 200% multiplier regardless of aircraft weight and control status of employee
 - For control employees in aircraft over 10,000 pounds, this is a significant savings

SIFL: Special Rules & Exceptions

Foreign travel

- Disallowance rule applies only to individuals – see NBAA Personal Use Handbook, page 12, 13
- Does not apply to employer company
- SIFL calculation for business trip greater than 7 days uses this methodology

Learn More about Entertainment Use

- *Beyond SIFL: Advanced Personal Use Considerations*
 - Today from 10:30am – 11:45am

For More Information:

- NBAA's aviation taxes website:
 - <http://www.NBAA.org/taxes>
 - NBAA Personal Use Handbook
 - Current and historical SIFL Rates
 - Personal Use Calculator
- NBAA's Ops Service Group
 - info@nbaa.org or 202.783.9250
- NBAA Tax Forums / Tax Conference
 - <http://www.NBAA.org/seminars>
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