



CARES Act Net Operating Loss provisions can benefit business aircraft acquisition in 2020

The recently enacted Coronavirus Aid, Relief, and Economic Security Act (the CARES Act or 'the Act') reinstates the ability for taxpayers to deduct current year tax losses against income from a prior tax year and receive immediate tax refund.

The concept of a net operating loss carryback (NOLCB) is intriguing. Normally, when one's income tax payment is remitted, it is remitted. However, NOLCB actually allows tax payments from up to five years ago to be refunded, due to a loss incurred in the current year. This may have implication for companies who are looking to purchase a business aircraft in 2020.

Here is a simple illustration. Your company (C corporation) has zero net income for 2020. You are considering the purchase of a \$1,300,000 Piper M350 to help manage and grow your business. Assuming 100% business use of the aircraft for 2020, you will be allowed a \$1,300,000 depreciation deduction on the aircraft. The resulting tax loss is \$(1,300,000). The Act allows this loss to be carried back to tax year 2015 and applied against your 2015 taxable income. This will result in a reduction of \$(1,300,000) in 2015 taxable income, which is a tax refund of \$455,000 at the federal corporate tax rate of 35%. If the loss is not fully absorbed by 2015 income, the remaining loss can be carried to 2016, 2017 tax years, etc, until fully absorbed by prior year taxable income.

<u>Piper M350</u>		
<u>Purchase Price: \$1,300,000</u>		
2020 business income		\$0
Acquisition of a business aircraft	\$1,300,000	
100% Bonus Depreciation		\$(1,300,000)
2020 Taxable Income		\$(1,300,000)
CARES Act Net Operating Loss carryback:		
2015 taxable income		\$3,000,000
NOLCB from 2020		\$(1,300,000)
Revised 2015 taxable income		\$1,700,000
Corporate tax rate in effect	35%	
Tax refund due		\$455,000



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The same regulations apply to S corporation or LLC pass-through entities. The difference is that the net operating loss will be reported on the shareholder's or LLC member's individual income tax return (Form 1040).

Due to the Coronavirus pandemic and the lockdown of the economy, many companies will experience a significant decline in income in 2020. With the acquisition of a 2019 Piper M350 and 100% bonus depreciation, a taxpayer can receive income tax refunds from as far back as 2015. While it may be a daunting task to make a significant capital acquisition in the current economic environment, for those companies that are able to weather the storm and position your business for a robust rebound, this tax provision should be carefully evaluated with your tax advisors.

DATE:

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Daniel Cheung, CPA is a principal of Aviation Tax Consultants, LLC (ATC), with offices in Columbus, Indiana and Scottsdale, Arizona. Since its founding in 2003, ATC has been assisting taxpayers in acquiring business aircraft in a tax efficient manner, while complying with Federal Aviation Regulations and working closely with client's tax and legal advisors. ATC's consulting services include the elimination or reduction of sales and use tax at the time of acquisition, maximization of income tax savings, managing the cost of personal use, the avoidance of passive activity loss rules and other IRS regulations.