



**QUICK FACT SHEET
DOCUMENTATION FOR FEDERAL INCOME TAX PURPOSES**

GENERALLY SPEAKING:

Favorable federal income tax treatment of aircraft-related costs and expenses requires a taxpayer who operates an aircraft to properly document its use in order to support the treatment. A log, trip sheet, etc. sufficient to establish each element for the appropriate tax treatment should be maintained *contemporaneously* – at or near the time of the aircraft use. Generally, for each passenger on each flight, such records should:

- Identify passenger (by name), relationship to company, whether the passenger is a control/non-control employee (or guest of same), a specified individual or not (or guest of same), (if the passenger is a guest) identify host employee's name and if a passenger is a child under 2 years of age.
- Describe primary purpose of such passenger, determined by looking at the facts and circumstances, including the amount of time spent on each activity (which is an important factor), the proximate relationship between the business activity and transportation costs, the existence of an agenda, location of the activity, characterization of the trip and the presence of spouse or guest.
 - Please note there are special rules for foreign travel.
- Characterize each passenger's purpose as:
 - On the business of the company providing the flight (i.e. BUSINESS); OR
 - Everything else (i.e. PERSONAL). If personal, characterize as personal entertainment or personal non-entertainment.
- If the passenger's purpose is business (or personal non-entertainment), document in writing:
 - Business (or non-entertainment) reason for travel or nature of business benefit expected;
 - Dates of departure and return, number of days spent on business (or non-entertainment); and
 - Any other facts and circumstances to support the characterization as business (or non-entertainment).
- Note other information, including:
 - Aircraft information, including passenger seating capacity;
 - Origin, destination and intermediate stops, with airport identifiers
 - If leasing the aircraft from a related party, potentially whether the passenger is a 5% owner (or related party); and
 - If leasing the aircraft on a non-exclusive basis, which flights are flown under the lease and for which lessee.

NOTES

- The default treatment is personal, so no documentation or poor documentation means the flight may result in taxable benefits for the employee passengers and disallowed aircraft expense deductions for the company.
- Primary purpose is a facts and circumstances test, so a business trip to a popular vacation location may require more substantiation.
- Consistent treatment is important.
- Please see IRC § 274(d) and Treas. Reg 1.274-5T(b)(2) for additional information on substantiation

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