Aircraft Club / Issue 25 / March 2014
New SIFL Rates for first half of 2014 p1 / Executive travel to tax home p2

New SIFL rates for first half of 2014 and executive travel to tax home using employer-provided aircraft

This month's issue of Aircraft Club discusses the new SIFL rates for the first half of calendar year 2014; and the ramifications of executive travel to his/her tax home utilizing employer-provided aircraft, both of which are noteworthy compliance issues.

SIFL rates

Cruising altitude

The US Department of Transportation has recently released the Standard Industry Fare Level (SIFL) formula rates for personal flights taken on employer-provided aircraft for January 1, 2014, through June 30, 2014.

Stuck on the runway

Certain fringe benefits, such as personal flights provided to employees on employer-provided aircraft, are includible in the gross income of those employees. As provided in the regulations, the value of such flights should generally be equal to the fair market value, or the amount the employee would pay for a similar flight in an arm's length transaction. However, the regulations provide a special valuation rule (the

SIFL formula) to determine the value of non-commercial flights.

The SIFL formula determines the value of a non-commercial flight in a 3 step calculation:

Step 1: The number of miles flown during the flight is multiplied by the SIFL cents/mile rate applicable to the period during which the flight was taken.

Step 2: The valued calculated in *Step 1* is then multiplied by the appropriate aircraft multiple. The aircraft multiple is based on the maximum certified take-off weight of the aircraft and the type of employee (i.e., a *control employee* or a *non-control employee*).

Step 3: The applicable terminal charge is then added to the value calculated in *Step 2*.

The SIFL cents/mile rates and the applicable terminal charge are determined by the Department of Transportation and are updated semi-annually. The applicable rates for January 1, 2014 through June 30, 2014 are as follows:

Miles	Cents/mile
Up to 500 miles	$.0.2515 per mile
501—1,500 miles	$0.1918 per mile
Over 1,500 miles	$0.1844 per mile
Terminal Charge	$45.98

Aircraft weight	Control employee	Non-control employee
6,000 lbs or less	62.5%	15.6%
6,001—10,000 lbs	125%	23.4%
10,0001—25,000 lbs	300%	31.3%
25,001 lbs or more	400%	31.3%

Landing

If you have any questions in connection with the valuation of personal flights on employer-provided aircraft please call Rick Farley at (646) 471-4084 to discuss your questions in further detail.

Executive travel to tax home

Cruising altitude

A recently released study conducted by the Treasury Inspector General for Tax Administration (TIGTA) with regard to the tax compliance of some top IRS executives regarding reimbursements for travel for work highlights the issue of the ‘tax home’ concept that many taxpayers must contend with when providing certain executives use of the company aircraft to commute to the tax home of the executive from his/her personal residence.

Stuck on the runway

In the study, the TIGTA found that out of a sample of 31 IRS executives reviewed, 9 of such executives did not properly classify their travel reimbursements as taxable in situations where the executives traveled for assignments for more than a year away from their tax home.

Many executives commute on a weekly basis to their regular place of business from their principal residence, which often can be located hundreds of miles away (or more) from the executive’s regular place of business. For example, if an employer, located in New York City, hires a new executive, who currently resides in Dallas with his family to work in

New York City beginning immediately, the employer may provide the company aircraft to allow the executive to travel between New York City and Dallas on a weekly basis until such time the executive is able to relocate his family to the New York City area. In such a fact pattern, the employer must be cognizant of the tax home rules to understand the tax ramifications to both itself and the executive for the provision of the company aircraft.

Travel expenses are not deductible under section 162 unless such expenses are incurred while away from one's tax home. Further, whether travel expenses are deductible and, thus, excludible from an employee's income, is contingent upon whether the travel is temporary in nature. A 'one-year rule' in section 162 generally provides that a taxpayer cannot be treated as temporarily away from home during any period of employment if that period exceeds one year. If employment away from home at a single location is reasonably expected to last and does last for one year or less, the employment generally will be regarded as temporary. Employment expected to last for more than a year generally will be considered indefinite, whether or not it actually exceeds one year.

Thus, in the example above, upon hire and commencement of work in New York City, the executive's tax home is New York City since it is reasonably expected that his work there would last more than one year. Consequently, the provision of the company aircraft to him to travel to and from his principal residence in Dallas is a taxable fringe benefit, since it is commuting to work, the value of which is to be included in his income.

However, from an employer's perspective, since in this example the travel is for a personal non-entertainment reason, the aircraft expenses incurred by the employer associated with such commuting flights by the executive are not subject to the deduction disallowance rules for personal entertainment flights provided to a specified individual.

The example detailed above is just one example of many potential different fact patterns that may involve the interplay of the tax home rules with the use of employer-provided aircraft by executives. Each set of facts and circumstances should be analyzed separately to determine the proper application of the tax home rules.

Landing

If you have any questions in connection with tax home issues using company aircraft, please call Rick Farley to discuss your questions in further detail.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

Rick Farley, *New York*
+1 (646) 471-4084
richard.c.farley@us.pwc.com