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# IRS Takes Flight: New Audits Target Corporate Aircraft Usage

Dentons Federal Tax Controversy Insights

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**Introduction**

The Internal Revenue Service (IRS) recently announced plans to audit corporate aircraft usage, focusing on large corporations, partnerships, and high-income taxpayers in a February 21 news release, **IR-2024-46**.

The stated aim of this initiative, made possible by the Inflation Reduction Act, is to ensure that these groups are not evading their tax responsibilities, particularly when it comes to the allocation of personal and business use of corporate aircraft and claims to bonus depreciation under the 2017 Tax Cuts and Jobs Act.

**Why the focus on corporate aircraft?**

The IRS's decision to target corporate aircraft usage stems from the complexity of tax law in this area and the potential for large scale tax evasion, given the substantial expenses involved with corporate aircraft acquisitions and operations. The tax code allows businesses to deduct expenses related to maintaining assets, such as corporate aircraft, but only if they are used for business purposes. Aircraft usage for personal reasons by executives or other employees could impact a company's eligibility to claim these deductions.

While the primary focus will be on the corporations and partnerships owning aircraft, they are not the only parties at risk in the audits because personal use of company aircraft may result in income inclusion for the individual using the aircraft for personal travel. So, we also expect that the IRS will begin reviewing and auditing individual taxpayer returns in connection with this initiative.

## A Comprehensive Approach to Tax Compliance

The IRS's campaign to audit company aircraft usage is part of a larger focus on large corporations, partnerships, and high-income taxpayers. We expect the IRS to increasingly utilize artificial intelligence to conduct audits in this area as well as other areas.

These efforts are part of a broader strategy to close the gap in tax compliance created by over a decade of budget cuts and inadequate resources. With the help of the Inflation Reduction Act, the IRS is now taking swift and aggressive action to address these issues.

## Conclusion

Companies and executives owning aircraft should be aware of the IRS' focus on corporate aircraft usage. Compliance with the tax laws in this area requires a detailed understanding of the applicable rules. And, of equal importance, is the maintenance of adequate records and evidence establishing that applicable IRS and Federal Aviation Administration (FAA) rules and regulations have been complied with.

Our firm's tax controversy and aviation teams are well-equipped to assist clients before, during and after audits related to corporate aircraft usage. Our tax controversy team represents clients in disputes with the IRS and other tax authorities. We have extensive experience in dealing with high-stakes tax controversies and can provide valuable guidance to clients facing audits related to personal use of corporate aircraft.

Our aviation team is well-versed in the unique tax and regulatory issues faced by aircraft owners and operators. We can help clients understand the tax implications of corporate aircraft ownership and provide advice on how to structure aircraft ownership and operations to minimize potential tax liabilities while remaining compliant with the myriad of FAA regulations governing corporate aircraft.

By working together, our two teams provide comprehensive and coordinated support to clients facing audits related to corporate aircraft usage.

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