Tax Savings On Flying

Owner or operator of general aviation aircraft may be entitled to certain Federal income-tax deduction. Business expenses, depreciation, airplane damage, etc., offer possibilities

by CHARLES G. KOPP and ALAN H. MOLOD

EDITOR'S NOTE: Messrs. Kopp and Molod, authors of this article on tax savings for aircraft owners and operators, are Associates of the Philadelphia law firm of Wolf, Block, Schorr and Solis-Cohen, of which AOPA's General Counsel, Alfred L. Wolf (AOPA 5), is a partner. This discussion of Federal income taxes continues a service to AOPA members started several years ago. (See The PILOT *for March 1958, March 1959, February 1961, March 1963 and March 1964.)*

Each year the Federal tax law seems to become more complex and confusing than in the past years, and many tax questions are as much up in the air as the planes flown by AOPA members. Particularly in recent years, the complexities of the tax laws have multiplied alarmingly, and for this reason it is imperative for nearly every taxpayer to consult with his lawyer or accountant for purposes of tax planning and reporting.

Intelligent tax planning and reporting may lead to substantial tax savings. There is no dispute that morally questionable practices cannot be condoned. Nothing is wrong, however, either ethically or legally, with taking all of the deductions to which you are entitled as an aircraft owner or operator.

It shall not be the purpose of this article to offer an exhaustive study of the Federal tax laws but rather simply to touch upon some of the more significant avenues which may be followed in order to obtain legitimate tax savings. Particular attention should be paid to the regulations concerning the keeping of accurate and detailed records of expenses, since legitimate expenses may be denied deductibility if they cannot be substantiated by properly kept records.

A 1964 development of general interest to flyers, whether pilots or passengers, is a Court of Appeals decision on the subject of flight insurance. The case deals with the Federal estate tax. Section 2042 of the Internal Revenue Code requires that the gross estate of a decedent include the amount receivable by beneficiaries "as insurance under policies on the life of the decedent with respect to which the decedent possessed at his death any of the incidents of ownership [of the policies]." As early as 1929, it has been accepted that proceeds of accidental death policies are includable in the decedent's gross estate for federal income tax purposes, as "policies on the life of the decedent."

In the recent case of *Noel's Estate v. Commissioner*, decided June 17, 1964, the Court of Appeals for the Third Circuit, overruling a decision of the Tax Court, held that accidental death proceeds from flight insurance policies were not includable in the decedent's gross estate. The Court of Appeals drew the distinction between a life insurance policy, which is a contract to pay a specified sum upon the occurrence of an inevitable event, and an accident policy, which is a contract to pay a specified sum by reason of an event which is "evitable and not likely to occur." The Court of Appeals determined that the "essential nature" of an accident policy as such is not altered by the inclusion of a death benefit in its provisions. Certiorari to the Supreme Court has been granted in this case, however, and it is quite possible that the Supreme Court will reverse the Court of Appeals.

There is, of course, a way to prevent the includability of flight insurance proceeds in the decedent's estate, notwithstanding the decision in the *Noel* case. The way it is done is simply to have the insured's wife or other beneficiary obtain a separate annual travel policy covering all of the husband's flights. The wife or other beneficiary should apply for the policy, pay the premium, and in short, "own it" in every way. As long as the insured cannot exercise any incidents of ownership, the proceeds payable upon the insured's death will be estate tax free. If the policy contains a clause, as many do, giving the insured the right to change the beneficiary, the wife or other beneficiary who owns the policy should have the insurance company strike out that provision.

The most important development in the Federal tax law during the past two years, as far as aircraft owners and pilots are concerned, has been the development of fixed rules and regulations for determining the deductibility of expenses incurred with respect to an aircraft used in connection with "business entertainment." The expenses referred to here are expenses such as depreciation, operating costs, maintenance, repairs, insurance, painting, rentals, etc. Prior to 1963, if a taxpayer used an aircraft for purposes of promoting the goodwill of customers, the taxpayer could deduct some or all of the expenses incurred in operating the aircraft where such expenses were found to be ordinary and necessary business expenses. Under Section 274 of the Code and the Regulations thereunder, however, the taxpayer must satisfy two new requirements, in addition to the "ordinary and necessary" test, in order to deduct the expenses incurred in using an aircraft for entertaining business customers. The taxpayer must establish (1) that the aircraft was used primarily for the furtherance of the taxpayer's trade or business and (2) that the expenses were directly related to the active conduct of the taxpayer's trade or business.

What do these two new tests mean?

First, what constitutes using an aircraft primarily for the furtherance of the taxpayer's trade or business? Generally, an "entertainment" facility shall be considered as used primarily for the furtherance of the taxpayer's trade or business if it is established that the primary use of the facility during the taxable year was for purposes considered "ordinary and necessary" under Sections 162 and 212 of the Internal Revenue Code of 1954. In the case of aircraft, the regulations state specifically that an aircraft shall be deemed to be used primarily for the furtherance of the taxpayer's trade or business if the taxpayer establishes that more than 50% of the hours flown during the taxable year were hours flown in connection with travel considered to be ordinary and necessary within the meaning of Section 162 or 212 of the Internal Revenue Code of 1954. However, a taxpayer is not precluded from satisfying the "primary use" requirement according to a different measure, if reasonable. The second question is what are expenses "directly related" to the active conduct of the trade or business? Generally, expenses are considered directly related to the active conduct of the taxpayer's trade or business if it is established that they meet each of the following requirements set forth in the Regulations:

"(i) At the time the taxpayer made the entertainment expenditure (or committed himself to make the expenditure), the taxpayer had more than a general expectation of deriving some income or other specific trade or business benefit (other than the goodwill of the person or persons entertained) at some indefinite future time from the making of the expenditure. A taxpayer, however, shall not be required to show that income or other business benefit actually resulted from each and every expenditure for which a deduction is claimed.

"(ii) During the entertainment period to which the expenditure related, the taxpayer actively engaged in a business meeting, negotiation, discussion, or other bona fide business transaction, other than entertainment, for the purpose of obtaining such income or other specific trade or business benefit (or, at the time the taxpayer made the expenditure or committed himself to the expenditure, it was reasonable for the taxpayer to expect that he would have done so, although such was not the case solely for reasons beyond the taxpayer's control).

"(iii) In light of all the facts and circumstances of the case, the principal character or aspect of the combined business and entertainment to which the expenditure related was the active conduct of the taxpayer's trade or business (or at the time the taxpayer made the expenditure or committed himself to the expenditure, it was reasonable for the taxpayer to expect that the active conduct of trade or business would have been the principal character or aspect of the entertainment, although such was not the case solely for reasons beyond the taxpayer's control). It is not necessary that more time be devoted to business than to entertainment to meet this requirement.

"(iv) The expenditure was allocable to the taxpayer and a person or persons with whom the taxpayer engaged in the active conduct of trade or business during the entertainment or with whom the taxpayer establishes he would have engaged in such active conduct of trade or business if it were not for circumstances beyond the taxpayer's control."

The two new tests discussed above operate in the following fashion. If an aircraft is not used primarily for the furtherance of the taxpayer's trade or business (e.g. less than 50% of flying hours during the taxable year are in connection with travel considered ordinary and necessary under Sections 162 and 212 of the Internal Revenue Code of 1954), *no deduction* whatsoever will be allowed for any expenses incurred in connection with using the aircraft for business entertainment purposes. On the other hand, if it is found that the aircraft is used primarily for the furtherance of the taxpayer's trade or business, the taxpayer will be allowed to deduct the expenses incurred in operating the aircraft to the extent that the aircraft was used for entertainment directly related to the active conduct of the taxpayer's trade or business.

It is important to remember that goodwill entertainment is counted in determining whether an aircraft is used primarily for the furtherance of the taxpayer's trade or business (first test) but is *not* counted in determining the extent of entertainment "directly related" to the taxpayer's trade or business (second test). For example, if a taxpayer establishes that 40% of his flying hours during the taxable year were for "directly related entertainment" and 25% of his flying hours during the taxable year were for "goodwill" entertainment, the taxpayer will be able to deduct only 40% of the expenses incurred in operating his aircraft. The limitations prescribed by Section 274 of the Code and the Regulations thereunder severely restrict the deductibility of expenses incurred in operating an aircraft for "business entertainment" purposes. It is indeed important for the aircraft owner and operator to be aware of these restrictions; otherwise he will be counting on tax deductions where none in fact exist.

The above described limitations on deducting the operating costs of an aircraft used for business entertainment purposes, of course, do not apply where the aircraft is used for pure business transportation. All "ordinary and necessary" expenses are deductible for pure business transportation without regard to the special entertainment limitations described above. In this area, the Internal Revenue Service has now generally accepted the premise that expenses incident to the use of an airplane for business transportation should not be any less deductible than the costs of an automobile for the same purpose.

In addition to the deductible items connected with your personal flying, you should give careful attention to all of your claimed deductions for travel, entertainment, etc. In recent years, "business expense" deductions of this type have become a prime target for

IRS agents. Now, Section 274 of the Code requires the keeping of accurate and detailed records of these expenses, and the failure to do so will result in loss of the claimed deduction.

The Regulations provide that no deduction shall be allowed for any expenditure or item with respect to (1) traveling away from home (including meals and lodging) deductible under Section 162 or Section 212, or (2) any activity which is of the type generally considered to constitute entertainment, amusement, recreation, or with respect to a facility (e.g. an airplane) used in connection with such activity, unless the taxpayer substantiates each *element* of such expenditure. The elements of an expenditure are (1) amount, (2) time and place of traveling or entertainment or use of a facility with respect to entertainment, (3) business purpose, and (4) business relationship to the taxpayer of each person entertained, or using an entertainment facility.

A taxpayer must substantiate each of the above elements of an expenditure by adequate records or by sufficient evidence corroborating his own statement. A record of the elements of an expenditure made at or near the time of the expenditure, supported by sufficient documentary evidence, has a high degree of credibility not present with respect to a statement prepared subsequently when generally there is a lack of accurate recall. To meet the "adequate records" requirement, a taxpayer should maintain an account book, diary, statement of expenses or similar record, and documentary evidence which, in combination, are sufficient to establish each element of the expenditure. Documentary evidence, such as receipts, paid bills, or similar evidence to support an expenditure are required for (1) any expenditure for lodging while traveling away from home, and (2) any other expenditure of $25 or more. In general, each separate payment by the taxpayer shall ordinarily be considered to constitute a separate expenditure. However, concurrent or repetitious expenses of a similar nature occurring during the course of a single event shall be considered a single expenditure.

As noted earlier in this article, in order to deduct the expenses incurred in using an aircraft for entertaining business customers, the taxpayer must establish that the aircraft was used primarily for the furtherance of the taxpayer's trade or business, and that the expenses were directly related to the active conduct of the taxpayer's trade or business. In establishing that the aircraft was used primarily for the furtherance of the taxpayer's trade or business, the taxpayer must maintain records of the use of the facility, the cost of using the facility, mileage or its equivalent (e.g. flight hours), and such information as shall tend to establish such primary use. For each use of the facility claimed to be in furtherance of the taxpayer's trade or business, the above-mentioned elements of an expenditure must be substantiated, and for each use of the facility not in furtherance of the taxpayer's trade or business, an appropriate description of such use, including cost, date, number of persons entertained, nature of entertainment, and such information as flight hours must be provided.

In terms of tax return reporting, there are certain rules which an employee must follow in order to claim deductions for business expenses. Where the employee is required to, and does, "account" to his employer, the Regulations provide for the following treatment of business expenses: (1) Where the total amount of reimbursements, advances, and expenses charged directly or indirectly to the employer (through credit cards, etc.) is equal to the total amount of ordinary and necessary business expenses paid or incurred by the employee, the employee need not report in his tax return the amount of his business expenses or reimbursements. The employee need only state in his return that the total of amounts charged directly or indirectly to his employer and received from his employer as advances or reimbursements did not exceed the ordinary and necessary business expenses paid or incurred by such employee. (2) Where the reimbursements, advances and direct and indirect charges to the employer exceed the employee's business expenses paid or incurred, the excess amount must be included in the income of the employee. The amount is shown on the tax return (Form 1040) on line 8, part II, page 2 as "Excess Reimbursements." Again, total expenses and reimbursements need not be reported; only the excess of reimbursement over expenses. (3) Where the employee's business expenses paid or incurred exceed the reimbursements, advances, and direct and indirect charges to the employer, the employee may secure a deduction for the excess if he submits a statement showing the following information as part of his tax return:

(a) The total of all amounts charged to and received from the employer in connection with the ordinary and necessary business expenses of the employee;

(b) The total amount of ordinary and necessary business expenses paid or incurred by the employee (including those charged directly or indirectly to the employer) broken down into such broad categories as transportation, entertainment expenses, meals and lodgings while away from home overnight, and other business expenses;

(c) The nature of the employee's occupation, and the number of days away from home.

To "account" to one's employer, as used in the Regulations, means to submit an expense account or other required written statement to the employer showing the business nature and amount of all the employee's expenses. The business expenses reported to the employer should be broken down into broad categories such as transportation, meals and lodging while away from home overnight, entertainment expenses, and other business expenses. An employee has made the equivalent of an accounting to his employer, however, if the employee receives an allowance not in excess of $25 per diem in lieu of subsistence, or a mileage allowance not in excess of 15 cents per mile. If the employee had an expense allowance or charged expenses to the employer, he should indicate that by checking the small box in the bottom left hand corner of page 2 of Form 1040.

Where the employee is not required to "account" to his employer for his ordinary and necessary business expenses, or though required, fails to "account," he must submit a statement showing the following information as part of his tax return:

(1) The total of all amounts charged to and received from his employer in connection with the ordinary and necessary business expenses of the employee.

(2) The total amount of ordinary and necessary business expenses paid or incurred by the employee (including those charged directly or indirectly to the employer) broken down into such broad categories as transportation, meals and lodging while away from home overnight, entertainment expenses, and other business expenses.

(3) The nature of the employee's occupation and the number of days away from home on business.

The employee should submit the above information in a statement attached to his return and complete his return (Form 1040) as follows:

(a) If the employer's payments equaled the employees' business expenses, no further entry need be made on the tax return since the amounts cancel each other.

(b) If the employer's payments exceeded the employee's business expenses, the excess amount should be included in income on line 8, part II, page 2, of Form 1040 and identified as "excess reimbursements."

(c) If the employee's business expenses exceeded the employer's payments, the employee may claim a deduction for the excess. This deduction will appear on the tax return (Form 1040) either on line 3, part III, page 2, or, if deductions are itemized, in part IV, page 2, under "Other deductions."

An official work sheet, IRS Form 2106, is available at local tax offices to aid the taxpayer in calculating transportation expenses, travel expenses away from home and reimbursed business expenses. This form may be, but is not required to be, attached to the tax return.

Although the Commissioner may require any taxpayer to substantiate such information concerning expense accounts which may appear to be pertinent in determining tax liability, taxpayers will not, ordinarily, be called upon to substantiate expense account information except those in the following categories:

(1) A taxpayer who is not liable to account to his employer or who does not account;

(2) A taxpayer whose expenses exceed the total of amounts charged to his employer and amounts received through advances, reimbursements, or otherwise and who claims a deduction on his return for such excesses;

(3) A taxpayer whose employer is a close family member or related corporation; and

(4) Other taxpayers in cases where it is determined that the accounting procedures used by the employer for the reporting and substantiation of expenses by employees are not adequate.

When your plane is used solely for business, other than for "business entertainment," all of your expenses relating to the aircraft are generally deductible. If the aircraft is used both for business and pleasure, that portion of the expense which can be attributed to the business use of the plane is deductible. In a recent case decided October 7, 1963, a Federal district court made this allocation on the basis of flying hours attributable to business use as compared to flying hours attributable to personal use. However, a taxpayer is not precluded from claiming a different basis of allocation, if reasonable.

Other than the important item of depreciation, there are several things you should watch if your plane is used in business.

1. If you hire a pilot and any other crewman to fly your plane, their salaries would be deductible.

2. Hangar rental or any other cost connected with storing, maintaining or parking your plane would be deductible.

3. Your total gasoline and oil cost would be deductible. Of course, if you deduct the total cost of oil and gasoline, you cannot take a separate, additional deduction for state and Federal gasoline taxes you may pay. If you obtain Federal or state refunds on the gasoline taxes you pay, the refunded amount cannot be included in your cost.

4. The premiums for insurance that you carry on your airplane would also be deductible as a business expense.

5. Any judgments you were forced to pay due to your negligence in flying would be deductible.

6. If you suffer a loss when you sell your airplane, such loss is deductible.

7. Cost of all repairs made on your airplane during the tax year would be deductible; cost of additional tires, if used for less than one year, also would be deductible as repairs. If the tires had a greater life you would then deduct depreciation over the life of the tires rather than take the full amount in one year.

8. When your plane is used for business activities only a part of the time, you should carefully compute the exact percentage of time that it is used for business transportation. That percentage would then apply to the items normally deductible as business expenses. Further in this connection, a recent case has held that, in computing the gain or loss on the sale of an aircraft used part of the time for business and part of the

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time for pleasure, the adjusted cost basis of the aircraft and the proceeds of the sale must be allocated according to the percentage of the aircraft's business and personal use. Accordingly, the case held that a gain was recognized on the business part of the aircraft and a nondeductible loss was realized on the personal part of the aircraft. This result was reached in spite of the fact that the taxpayer suffered a loss on the over-all transaction (taxpayer sold aircraft for $35,380; taxpayer's cost less depreciation was $40,495.58).

Airplane owners should particularly be aware of the extent to which casualty and theft losses, not compensated for by insurance or otherwise, are deductible. Many people are under the impression that the actual amount of the loss is deductible. In fact, in the case of any casualty or theft loss, whether or not incurred in a trade or business, the amount of the deduction will be the lesser of either (1) the amount which is equal to the fair market value of the property immediately before the casualty reduced by the fair market value of the property immediately after the casualty, or (2) the amount of the adjusted basis of the property. There is one exception. If property used in a trade or a business or held for the production of income is *totally* destroyed by casualty, the amount of the adjusted basis of such property shall be allowed as the deduction even though the fair market value of the property immediately before the casualty was less than the adjusted basis of such property.

In the case of a loss sustained by an individual, the deduction shall be limited to that portion of the loss which is in excess of $100 if the property was not used in a trade or business or held for income producing purposes. The $100 limitation applies separately in respect of each casualty and applies to the entire loss sustained from each casualty. The $100 limitation applies separately to each individual taxpayer who sustains a loss even though the property damaged or destroyed is owned by two or more individuals. However, a husband and wife who file a joint return are treated as one individual taxpayer. If the loss is sustained in respect of property used partially for business and partially for nonbusiness purposes, the $100 limitation applies only to that portion of the loss properly attributable to the nonbusiness use.

It is possible that a portion of your airplane's cost may be credited against your income tax liability. This credit is popularly known as the "investment credit" and was added to the tax laws by the Revenue Act of 1962. You should consult with local counsel for further information as to its application.

Now for the depreciation item which is extremely important in reducing the cost of business flying. When your airplane is used in a trade or business, a depreciation deduction is allowed to the extent of that use. This means that if one-half of your airplane mileage is for business purposes and the other half is for pleasure flying, then one-half of the regular depreciation allowance may be deducted on your Federal tax return.

Generally, the purpose of the depreciation deduction is to permit the taxpayer to write off the cost of his property over the estimated useful life of the property. The key question, therefore, is: What constitutes the useful life of an airplane for this tax purpose?

Taxing authorities have always considered that a five-year life for aircraft is reasonable. This official position was taken in an IRS publication known as "Bulletin F." The new Depreciation Guidelines, issued in July, 1962, however, have extended the useful life of aircraft to six years, both for airlines and for individual owners. The taxpayer may still use a shorter period (i.e. five years), however, if he can demonstrate that his replacement practices are consistent with the proposed shorter life. This may be shown by the use of all facts and circumstances, including the taxpayer's past and intended replacement practices, or by meeting certain mathematical tests set forth in detail in the Guidelines.

After determining the aircraft's useful life, you must then determine its salvage value, i.e., fair market value, at the end of its useful life. The next step is to consider the method of depreciation you wish to use in computing your depreciation deduction. If you use the "straight line" method of depreciation, you may write off the cost (less salvage value) of your aircraft (used in business) in equal amounts over five or six years.

Also, if you determine that your aircraft's useful life is six years or more, you may elect to take, under certain circumstances, an additional 20% "bonus" depreciation allowance for the first taxable year in which you are allowed a depreciation deduction on your aircraft. The 20% "bonus" depreciation is computed without reference to salvage and is limited to 20% of the cost, up to $10,000 ($20,000 on a joint return), of your aircraft. This "bonus" depreciation is in addition to your regular depreciation allowance which is computed (under any method) on the balance of the unrecovered cost (minus salvage value where appropriate under depreciation method used) of your aircraft.

In addition to the "straight line" method of depreciation, the tax laws allow even more favorable depreciation allowances in certain special cases. These methods apply, however, only to new aircraft purchased on or after January 1, 1954. If you have bought a new plane since that date you can take advantage of what is commonly termed the "double declining balance" method of depreciation. This method allows you in the first year to write off the cost of your airplane at twice the "straight line" rate. (Prior to 1954, an aircraft owner could write off only 15% the straight line rate.) The "straight line" rate, as explained above, is the normal method used when the taxpayer writes off the cost of his airplane by taking equal amounts each year as a deduction for depreciation.

Here is how the "double declining balance" method would work on a new $10,000 airplane with a useful life of five years:

	Remaining Basis	Declining Balance Rate	Depreciation Allowance
1st year	$10,000	40%	$4,000.00
2nd year	6,000	40%	2,400.00
3rd year	3,600	40%	1,440.00
4th year	2,160	40%	864.00
5th year	1,296	40%	518.40

While salvage is not taken into account in determining the annual allowances under this method, in no event can an asset be depreciated below a reasonable salvage value.

The effect of this provision is to permit you to write off approximately two-thirds of the cost of new planes and equipment over a period equal to one-half of their useful lives. This method permits a depreciation deduction of twice the "straight line" rate in the first year the aircraft is purchased. This offers an obvious tax advantage to many taxpayers.

The law also allows the "sum of the year-digits method" for new airplanes bought after December 31, 1953. In many cases, this method will be even more advantageous to the taxpayer than the "declining balance" method.

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The "sum of the year-digits" methods of depreciation for an aircraft having a useful life of five years and a remaining cost basis of $10,000 after deducting a reasonable salvage value from original cost works as follows:

	Rate of Depreciation	Depreciation Allowance
1st year	5/15ths	$3,333.34
2nd year	4/15ths	2,666.67
3rd year	3/15ths	2,000.00
4th year	2/15ths	1,333.33
5th year	1/15th	666.66

Of course, if the useful life is more or less than five years, the "sum of the year-digits" method would produce a different rate of depreciation.

The Revenue Act of 1962 contains a provision (Section 1245) which is important to aircraft owners who have taken, and are taking, depreciation on their aircraft. Prior to the enactment of the Revenue Act of 1962, an aircraft owner could offset his annual depreciation deduction against ordinary income, and, upon a subsequent sale of the aircraft, be afforded favored capital gains treatment on the gain, if any, realized from the sale. The Revenue Act of 1962 changes the above rules in the following manner. If an aircraft, upon which depreciation has been taken, is sold *after* Dec. 31, 1962, at a gain, the gain will be taxable at ordinary income rates to the extent of depreciation taken on the aircraft *after* Dec. 31, 1961. The remainder, if any, of the gain will be taxed at capital gain rates.

The above explanation and treatment of depreciation is by no means exhaustive. For example, there is some question as to whether or not depreciation may be taken by the aircraft owner in the year in which the aircraft is sold. Information given in this article should be used only as a general guide. Your accountant and attorney will be helpful allies in applying these principles to the facts of your case, as well as suggesting other avenues of tax savings.

There are certain basic deductions which are available to all aircraft owners (as well as other taxpayers) whether or not their aircraft is used to any degree for business purposes.

Nonbusiness deductions are available only if the standard deduction is not used. The standard deduction for married persons whose adjusted gross income is at least $5,000 is 10% of such adjusted gross income; but the deduction cannot exceed $500 if an individual return is used or $1,000 if a joint return is filed. A single person whose adjusted income is $5,000 or more is entitled to a deduction of 10% of adjusted gross income or $1,000, whichever is the lesser.

If your deductions exceed the standard allowance, you should itemize them. In the case of many aircraft owners, it is clearly advantageous to itemize deductions. For example, if you borrowed money to purchase your plane, the interest you pay on the loan is deductible, whether or not the aircraft is used for business.

Any losses or damage to aircraft, not compensated for by insurance, due to fire, storm, theft or casualty would also be deductible. This includes losses or damage to your aircraft in flight which are not due to your willful act or negligence.

Expenses incurred by Civil Defense volunteers in the performance of their volunteer duties, such as the expenses of attending state meetings or other expenses attributable to the rendition of such volunteer services, have been ruled deductible contributions. This should be of interest to most volunteer personnel in defense activities.

Also, it has recently been held that unreimbursed out-of-pocket expenses incurred in the operation, maintenance and repair of a personally owned aircraft, automobile, communication system, and telescope, are deductible as contributions when such expenses are directly attributable to the performance of Civil Air Patrol volunteer services. Expenses similarly incurred for the purchase and maintenance of distinctive uniforms required to be worn while engaged in official Civil Air Patrol activities are likewise deductible as contributions. Only those expenditures which are directly attributable to performing gratuitous services for the CAP are deductible, however, and no deduction is allowed for a proportionate share of the expenses incurred in the general maintenance of the aircraft, automobile, communication system, and telescope.

Occasionally, an AOPA member writes that he learned to fly so that he could use his own airplane, or one owned by his employer, in conducting his normal business activities. "Can I deduct the cost of this training?" he asks. A deduction of this sort is not allowed, however, any more than the cost of learning to drive an automobile is deductible. A professional pilot, on the other hand, who pays for additional training required by his employer, can properly deduct his training costs.

Although most of the flyer's attention will be centered on his income tax return, he should not lose sight of the fact that substantial savings are also possible if he applies for all of the gasoline tax refunds to which he is entitled. Two cents of the four cents per gallon Federal gasoline tax is refundable to nonhighway consumers. Many of the states also allow refunds paid on gasoline used in aircraft. You should investigate the situation in the states where you make your major purchases. AOPA's report "Aviation Gasoline Refunds" may be of assistance to you in this matter. The report lists the gasoline tax and the refunds allowed in each state. It also explains how refund applications should be filed.

From all of the above, it is clear that there are legitimate ways in which the cost of flying can be reduced by taking advantage of proper income tax deductions. You should consult your attorney in all doubtful cases in order to insure maximum tax savings. ●