I.R.S. to Crack Down on Corporate Jet Users Who Abuse Tax Code

By [Alan Rappeport]

New York Times

Reporting from Washington

Feb. 21, 2024

The News

The Internal Revenue Service said on Wednesday that it would begin cracking down on corporate jet owners that abused the tax code by claiming millions of dollars in deductions on airplanes that were sometimes being used for personal travel.

The scrutiny of corporate jet use will involve new data analytics tools, which the I.R.S. has been developing with the $80 billion in funds it was granted through the Inflation Reduction Act of 2022, to determine when executives or other company officials might be using corporate planes for vacations and private trips. The agency plans to begin dozens of new audits that will focus on large companies, partnerships and wealthy taxpayers.

“These aircraft audits will help ensure high-income groups aren’t flying under the radar with their tax responsibilities,” Daniel Werfel, the I.R.S. commissioner, said in a briefing to announce the initiative.

Why It Matters

The agency’s focus on corporate jet use is taking place as it is under pressure to show that it’s making good use of the infusion of funds it was given by Congress. Lawmakers have already agreed to take back $20 billion of the $80 billion that it received, and

Republicans in Congress, who have for years tried to starve the I.R.S. of resources, have been trying to rescind more of its money.

The Biden administration estimates that nearly $700 billion per year of tax revenue that is owed to the federal government goes uncollected. It has pledged to chip away at that so-called tax gap with more audits of companies and the rich.

Last month, the I.R.S. said it had collected $482 million from 1,600 millionaires since it ramped up its enforcement efforts.

Background

The tax code allows businesses to deduct the cost of maintaining a corporate jet as long as it is being used for business purposes. Many companies, however, allow executives, shareholders and partners to use company planes on personal trips while continuing to claim the full value of those deductions.

The I.R.S. audits will go beyond the companies that own the jets to include the wealthy passengers, who the tax agency says should be reporting those trips as income.

Sales of corporate jets rose following the 2017 tax legislation that Republicans enacted. That law enhanced a deduction known as bonus depreciation, which allowed for the deduction of the full cost of a plane in the first year of ownership.

Mr. Werfel estimated that tens of thousands of corporate jets were operating in the United States and that a substantial amount of tax revenue was falling through the cracks.

“On a given taxpayer’s tax return, the amount of the deduction for aircraft travel can be in the tens of millions of dollars,” Mr. Werfel said. “That’s why it’s so important that we get this right, because the amount of the deduction, given the value of the asset, is so material.”

What’s Next

Distinguishing between business and personal travel is not always simple, and the I.R.S. could be forced to engage in lengthy litigation as it tries to audit some of the nation’s highest fliers over their corporate jet use.

The agency said it would begin with an initial wave of up to four dozen audits of corporate jets before looking to expand the effort.

Alan Rappeport is an economic policy reporter, based in Washington. He covers the Treasury Department and writes about taxes, trade and fiscal matters. More about Alan Rappeport

A version of this article appears in print on Feb. 22, 2024, Section B, Page 4 of the New York edition with the headline: I.R.S. Set to Crack Down On Corporate Jet Users Who Abuse the Tax Code.