

Congress of the United States
House of Representatives
Washington, DC 20515-4906

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The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Camp:

I am writing to call your attention to actions that the Internal Revenue Service is taking regarding the tax treatment of private aircraft where the owners contract for the management of the aircraft. There is concern that, as a result of a recent Chief Counsel Advice memo, the IRS may be expanding the scope of operations covered by commercial taxes and imposing an additional tax on monthly management fees.

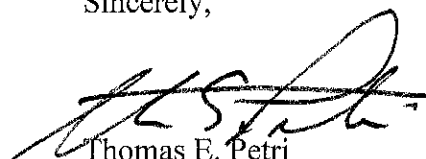
Many private aircraft owners contract with management companies to take advantage of the experience and expertise these companies have in following FAA regulations and in maintaining and operating aircraft. The operators are licensed by the FAA, which brings enhanced safety benefits to the operations. The FAA has always considered these arrangements to be private and the IRS had as well.

Now, however, the IRS appears to have reinterpreted what is "taxable transportation" and whether monthly management fees paid by the owner to the management company are subject to additional tax. This is a new interpretation that has caused concern in the industry and raised questions of whether double taxation is occurring. I understand that there recently have been some audits where the IRS is applying this new interpretation to the previous seven years, resulting in huge fees.

I would appreciate your review as to whether it is the intent of Congress that flights on private aircraft that involve aircraft management companies be considered commercial aviation flights for IRS tax purposes. This could have important implications to this sector of the aviation industry, and it would be helpful to have this situation clarified.

Again, this issue has generated much concern within the aviation industry, and I look forward to learning the views of the Committee concerning current IRS guidance on the issue.

Sincerely,



Thomas E. Petri
Member of Congress