

## CLIENT ALERT

### Navigating Compensation Governance

## IRS Pursues Tax Revenues Through Examination of Personal Use of Corporate Aircraft

**As part of its campaign to increase tax collections, the Internal Revenue Service has turned its sights to personal use of corporate aircraft by company executives.**

**The IRS believes large companies might be underreporting the value of such personal use.**

**To uncover the extent of this alleged issue, the IRS will begin auditing large companies' recordkeeping and reporting of executive's personal use of corporate aircraft.**

On February 21, 2024, the IRS announced that it will begin to conduct audits of personal use of corporate aircraft as part of its effort to “ensure high-income groups don't fly under the radar on tax responsibilities.”<sup>1</sup> This is part of the IRS' Large Business and International division's “campaign” program. The IRS indicated that it would be auditing large corporations, large partnerships and high-income taxpayers to see if the use of corporate jets is being properly allocated between business and personal use.

Generally, an executive's personal use of corporate aircraft results in two adverse tax consequences. First, a corporation may not deduct the costs associated with such personal use for federal income tax purposes. Second, the executive's personal use will give rise to taxable income. The determination of taxable income is subject to a complex set of tax rules.

Personal use of corporate aircraft may also give rise to a reporting obligation. Public companies are required to disclose the “incremental cost” associated with such personal use in their Summary Compensation Tables. Importantly, the determination of incremental cost *materially differs* from the determination of taxable income.

**Meridian Comment:** The IRS initiative serves as a reminder to companies to ensure that their practices, procedures and recordkeeping appropriately track, value and report personal use of corporate aircraft by company executives. The failure to properly report the level of taxable income from

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<sup>1</sup> IRS Press Release, IRS begins audits of corporate jet usage; part of larger effort to ensure high-income groups don't fly under the radar on tax responsibilities, IR-2024-26, February 21, 2024, available at: <https://www.irs.gov/newsroom/irs-begins-audits-of-corporate-jet-usage-part-of-larger-effort-to-ensure-high-income-groups-dont-fly-under-the-radar-on-tax-responsibilities>

such personal use exposes company executives to potentially large tax bills, as well as underpayment penalties and interest.

For a detailed examination of personal use of corporate aircraft, please see Meridian's article, **Managing Disclosure on Personal Use of Corporate Aircraft** (2019) available at <https://www.meridiancp.com/insights/managing-disclosure-on-personal-use-of-corporate-aircraft/>

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