

Bonus Depreciation & 1031 Exchanges

Whitepaper by David Fisher

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What CPAs Must Know About Aircraft Valuation

When clients use aircraft for business, tax strategies like **bonus depreciation** and **1031 exchanges** can provide substantial benefits. But these strategies only hold up under scrutiny when the aircraft's **fair market value (FMV)** is clearly documented and fully defensible. Inaccurate or unsupported values are one of the most common triggers for IRS questions, audit flags, and recapture risk.

Below are the key valuation considerations every CPA should keep in mind.

1. Bonus Depreciation Starts With Accurate FMV

Whether clients are taking 100% bonus depreciation (for eligible years) or accelerated depreciation, the IRS expects:

- A **defensible FMV** at acquisition
- Evidence the aircraft qualifies for bonus treatment
- Clear documentation of **placed-in-service** dates
- Support for actual business use
- Reconciliation to asset basis and depreciation schedules

FMV affects depreciation limits, recapture, and the defensibility of the entire return.

2. 1031 Exchanges Require Strong Valuation Support

While personal-use aircraft no longer qualify for 1031 treatment, many business aircraft do. FMV impacts:

- Boot calculations
- Like-kind analysis
- Transaction timing
- Replacement aircraft qualification
- Taxable vs. non-taxable components

A USPAP-compliant valuation ensures the exchange is properly supported.

3. Upgrades, Maintenance, and Engine Programs Change FMV

FMV is not just age or total time. Critical value drivers include:

- Engine program enrollment (MSP, TAP, JSSI)
- Avionics upgrades, especially glass cockpit conversions
- ADS-B, WAAS/LPV, and compliance equipment
- Maintenance status and upcoming major events
- Damage or repair history

The IRS frequently challenges FMV when these factors are misunderstood or undocumented.

4. When Values Are Unsupported, Audit Risk Increases

Common valuation errors include:

- Using generic pricing guides
- Ignoring recent upgrades
- Overlooking maintenance events
- Misclassifying usage
- Failing to reconcile book value to FMV

Unsupported values often lead to IRS adjustments, delayed filings, or audit escalation.

5. Independent, USPAP-Compliant Valuation Protects the CPA

A USPAP-compliant appraisal ensures:

- A clear, transparent methodology
- Verified market data
- Defensible conclusions
- Documentation suitable for IRS review
- Consistency across returns, exchanges, and audits

This safeguards the client—and protects the CPA's firm.

The Bottom Line

Bonus depreciation and 1031 exchanges offer significant tax advantages, but they also require precision. The strength of these strategies rests on a **well-supported fair market value**, and even small valuation errors can lead to audit questions, basis adjustments, or unexpected recapture. For CPAs advising aircraft clients, having accurate, independent FMV is not optional—it's essential for compliance, documentation, and long-term planning.

My role is to help you protect your clients with valuations that are clear, defensible, and fully USPAP-compliant. By providing transparent methodology, verified market data, and documentation that stands up to IRS scrutiny, I help you:

- Ensure depreciation and basis calculations are correct
- Support 1031 exchange structures with credible FMV
- Reduce audit exposure and minimize recapture risk
- Align tax planning with real-world aircraft market conditions
- Give clients confidence that their filings are accurate and defensible

Whether you're evaluating a purchase, planning an exchange, or preparing for year-end tax filings, having an expert valuation partner removes uncertainty and strengthens the work you deliver.

If you'd like to review a client's aircraft or confirm FMV before finalizing any tax strategy, I'm here to help.



David Fisher

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All appraisal reports are USPAP compliant.

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