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Subject: PRO-FORMA TAX TREATMENT - AIRCRAFT OPERATION

Date: Tue, 17 Sep 2013 20:40:36 +0000

Attachments: Avioneta_-_2012_TB_-_Proforma_Tax_Treatment.pdf

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2013_ipatop100(2)18be.jpg

Jeffrey,

The attached schedule of pro-forma tax treatment is based on actual year 2012 activity and assumes the aircraft was placed in service on Jan 1st, 2012 and was Part 135 for the whole year.

Included in the schedule is the amount of US excise tax on the gross revenue (including revenue from business and "personal" use). Under Part 135, my understanding is that all of the "revenue" (including personal use) is subject to 7.5% US excise tax (per discussion with Pat Fenn at Akin Gump and based on my own research).

I calculated the loss using bonus depreciation (50%) and without bonus depreciation. The operation of the aircraft would be characterized as a passive activity on Leon's return. Leon would not be able to claim that he is materially participating in an active trade or business with respect to the aircraft operation (IRC Code Sec 469). The loss would be deductible to the extent of Leon's income from other passive activities.

Passive activity income does not include portfolio income from interest, dividends and capital gains. Passive activity income is typically real estate rental income as well as other trade or business income from business activities in which the taxpayer is not a material participant.

As a passive activity, the losses not currently deductible against current passive income would not be lost—but would be carried forward as ("suspended") and would offset passive income in future years including income from future disposal of the aircraft - mostly recapture of depreciation.

Once the aircraft is officially Part 135 (lawyers say should be soon), Avioneta Holdings, LLC would become an aircraft business with the aircraft "placed in service" for depreciation purposes.

I'm available to discuss.

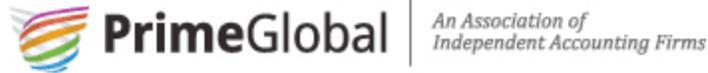
Best,

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