



News from the Hill

BY JASON DICKSTEIN
AEA GENERAL COUNSEL

Nine Innings: Baseball, Taxes and the AEA Convention

Every spring, the start of baseball season, the end of tax season, and the AEA Convention all take place around the same time. In honor of these three events, this month's column is devoted to nine tips — one for each inning in a regular, regulation baseball game — designed to help your avionics shop thrive. These nine “innings” range from tax advice to aviation-law compliance tips.

Inning 1: Training Manual Issues

Part 145 repair stations are required to submit their training programs to the FAA for approval by the last day of the month in which their repair station certificates were issued. This deadline has come and gone for most of us, and we are waiting for the FAA to review and respond to the manuals.

Many AEA members used the AEA template, which essentially was the FAA's template from its advisory circular. Several AEA members have been told this is unacceptable. The reason for this rejection is because the FAA issued internal guidance establishing acceptance standards so high, the example in the FAA's own advisory circular does not meet the standards.

From the plain language of the FAA's published guidance, compliance with the advisory circular guidance represents one way to meet the requirements of the regulations. So,

the FAA is not at liberty to reject manuals that are in full compliance with both the advisory circular and the regulations.

If you find yourself in a debate with a local FAA office that has rejected your manual despite the fact it is in full compliance with both the advisory circular and the regulations, give the AEA a call.

Inning 2: IRA Expansion

The IRA deduction has been expanded under the new tax laws. Previously, there were limits on taking an IRA deduction if you already were covered by a pension plan.

Under the new rules, you may be able to take an IRA deduction if you are covered by a retirement plan and had a modified adjusted gross income of less than \$85,000 (if you are married and filing jointly with your spouse; different amounts may apply to those with another filing status).

The deadline for making a contribution to a traditional IRA for the year is the due date of your return, not including any extensions of time to file. For most of us, this means you have until April 17 to make an IRA contribution that will be deductible from your 2006 taxes.

Inning 3: Quality Systems and Ratings

Earlier this year, the AEA published several articles about the FAA's proposed changes to Part 145 that would

affect the ratings system and the quality assurance requirements for repair stations. The comment period closed March 1, but it is not too late to file relevant comments with the FAA. As long as the late-filed comments would not inhibit the rulemaking process, the FAA will consider your comments in processing the proposed rule.

For those of you anticipating the potential rule changes, you might want to focus on getting a capabilities list that reasonably and accurately describes your business capabilities in a way that is easy to comply with and easy to keep updated. Also, make sure your internal process for updating your capabilities list is easy to follow, is being consistently followed, and you are documenting the fact you are following the process.

Inning 4: Retirement Fund Withdrawals for Reservists

The AEA is proud of its members' history of service to their country. Many AEA members serve in the military reserves.

If you or one of your employees is serving on active duty, money might be a little tight. If you know an active duty reservist who needs some extra cash to help make ends meet, make sure he or she knows about the change in the tax laws that permits qualified reservists to withdraw retirement funds without the normal early withdrawal penalty.

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Specifically, a qualified reservist called to active duty after Sept. 11, 2001 and before Dec. 31, 2007, can take a taxable distribution from an IRA or 401k plan without paying the 10 percent early withdrawal distribution penalty. The distribution must occur during the period beginning on the date of the active duty order and ending on the close of that active duty period.

Be sure to contact an accountant to determine whether the changes in the tax laws can help you.

This provision is useful for employees of AEA shops who currently are on active duty. A qualified reservist is one who was a reservist or national guardsman called to active duty for a period in excess of 179 days or for an indefinite period.

Some AEA employees who have returned from duty may have taken such distributions and simply paid the 10 percent early withdrawal distribution penalty. If you fall into this category and if your distribution should have been exempt from the penalty, you have until Aug. 16, 2007, to obtain a refund of the penalty paid.

Inning 5: Manufacturing Rule Changes Affecting Repair Stations

The FAA proposed changes to the Part 21 manufacturing rules. Although a casual glance at the rules might not reveal it, the rules would have a significant affect on repair stations. One of the problems with the proposal is that the elements affecting AEA members are not reflected in the cost-benefit analyses.

One of these changes affecting AEA members is the proposed rule that would make fabrication in the course of maintenance illegal (you would need

a PMA for any form of fabrication, no matter how minor, and even if the process was called-out in the manuals).

Another significant proposal would make it illegal to sell some non-regulated products (so-called “commercial parts”) to repair stations unless the production approval holder had specially designated the part and also obtained the permission of the FAA for the designation. This would make it difficult and expensive to get much

of the hardware and many of the minor parts (the non-safety-sensitive parts) necessary to the continued operation of the aircraft.

The Small Business Administration and the Commerce Department both expressed concern over the FAA’s proposal and the affect it would have on current commercial practices — and the fact the affect did not appear to be adequately justified by any safety concerns. The AEA continues to work on these issues to try to ensure the final rule will not adversely affect AEA members.

Inning 6: Exemption Amount Increased

Generally, taxpayers are entitled to exemptions for themselves and their dependents. The amount you can deduct for each exemption has increased from \$3,200 in 2005 to \$3,300 in 2006.

You may lose part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which the phase-out begins depends on your filing status. For 2006, the phase-out begins at:

- \$112,875 for married persons filing separately
- \$150,500 for single individuals
- \$188,150 for heads of household

- \$225,750 for married persons filing jointly or qualifying widow(er)s

If your adjusted gross income is above the amount for your filing status, use the “Deduction for Exemptions Worksheet” in the Form 1040 instructions to figure the amount you can deduct for exemptions.

Inning 7: Charitable Deductions

Many AEA members make charitable contributions. All cash contributions made in tax years beginning after Aug. 17, 2006, to any qualified charity must be supported by a dated bank record or a dated receipt.

To be deductible, non-cash contributions of clothing and household items donated to charity after Aug. 17, 2006, must be in good used condition or better. The value of items in poor condition will not be deductible unless the item has been specifically appraised (in which case the appraised value may be used — this allows the contribution of high-value items that may be reworked by the charity).

If you contribute any single item for which you claim a deduction of more than \$5,000, you need to obtain a qualified appraisal and complete IRS Form 8283 (which should be submitted with your tax return). More information about qualified appraisals can be found in Internal Revenue Bulletin: 2006-46, Notice 2006-96 (Nov. 13, 2006).

If the item donated is a motor vehicle, you should complete and file IRS Form 1098-C. Vehicle donations must be reflected in a written acknowledgment of receipt (See IR-2005-149, Dec. 22, 2005).

Inning 8: Archer MSA Limits Increased

An Archer medical savings account allows a person to obtain a high-deductible health insurance plan, then retain a certain amount in a protected fund to pay normal out-of-pocket health costs.

The amount retained in this fund is tax-deductible.

The theory of such a plan is that taxpayers who are directly responsible for their own health-care costs will be more responsible about how they spend their health-care dollars.

For 2006, the minimum annual deductible of a high-deductible health plan increased to \$1,800 (\$3,650 for family coverage). The maximum annual deductible of a high deductible health plan increased to \$2,700 (\$5,450 for family coverage). The maximum out-of-pocket expenses limit increased to \$3,650 (\$6,650 for family coverage).

Inning 9: Don't Expect Much From the Nationals

For those of you who share my passion for baseball's Washington Nationals, don't expect much in 2007. Neither their hitting nor their pitching will likely win any awards. They are supposed to be "rebuilding" their farm system.

The Nationals likely will be just as effective as the 2007 Congress (with Democrats holding new majorities in the House and Senate but a Republican in the White House). Expect a few stolen bases, but not many balls out of the park until they are a bit more seasoned.

In baseball, this means the Nationals should not expect much post-season play. In government affairs, this means AEA members should continue to turn their sights to the FAA, rather than Congress, for major changes in the rules applying to us all during 2007. By fall 2007, however, Congress will begin considering issues calculated to help or hinder candidates in the 2008 elections. Don't be surprised to see a little fire on Capitol Hill in September and October (just don't expect any fall fireworks from RFK Stadium where the Nationals play).

I'll still have season tickets, so

AEA members who plan to be in D.C. this summer should give my office a call if you would like to catch a baseball game.

Extra Innings

Be sure to contact an accountant to determine whether the changes in the tax laws can help you. For problems with FAA regulatory compliance, give the AEA a call and let us help. And, if you are a Washington Nationals fan, take heart in the fact the team has a new owner who appears to be committed to building a great team over the long haul. □