
Executive Certificate in Aircraft Financing and Leasing

Taxation and Accounting in Aviation Finance

Aircraft Financing and Leasing Glossary

Accounting

Accounting in the context of aircraft financing and leasing refers to the systematic recording and analysis of financial transactions related to aviation assets. It involves preparing financial statements, tracking expenses, and ensuring compliance with accounting standards such as GAAP (Generally Accepted Accounting Principles) or IFRS (International Financial Reporting Standards).

Accrual Basis

Accrual basis accounting is a method of accounting where revenues and expenses are recorded when they are earned or incurred, regardless of when cash is exchanged. This method provides a more accurate representation of a company's financial position compared to cash basis accounting.

Acquisition Cost

The acquisition cost of an aircraft is the total amount spent to acquire the aircraft, including the purchase price, delivery costs, customization expenses, and any other costs directly attributable to bringing the aircraft into service. This cost is a key factor in determining the aircraft's value and depreciation.

Ad Valorem Tax

Ad valorem tax is a tax imposed on the value of an asset, such as an aircraft. It is typically calculated as a percentage of the asset's assessed value and can vary based on the jurisdiction where the aircraft is located. Ad valorem taxes can impact the financial viability of aircraft financing and leasing transactions.

Amortization

Amortization is the process of spreading the cost of an intangible asset, such as a lease or loan, over its useful life. In aircraft financing and leasing, amortization is used to allocate the cost of the asset over time, reflecting its gradual consumption or expiration.

Asset-backed Securities (ABS)

Asset-backed securities are financial instruments backed by a pool of assets, such as aircraft leases or loans. These securities are structured to generate cash flows from the underlying assets, which are then distributed to investors. ABS can be a source of funding for aircraft financing and leasing transactions.

Balance Sheet

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It shows the company's assets, liabilities, and equity, providing insight into its financial health and stability. Balance sheets are essential for assessing the financial strength of entities involved in

aircraft financing and leasing.

Capital Lease

A capital lease is a lease agreement that is treated as a purchase for accounting purposes. It transfers substantially all the risks and rewards of ownership from the lessor to the lessee, making the lessee responsible for the maintenance, insurance, and other costs associated with the leased asset. Capital leases are recorded on the lessee's balance sheet as both an asset and a liability.

Depreciation

Depreciation is the systematic allocation of the cost of a tangible asset over its useful life. In aircraft financing and leasing, depreciation is used to reflect the reduction in value of an aircraft due to wear and tear, obsolescence, or other factors. Depreciation expense is recorded on the income statement and can impact the profitability of aviation assets.

Double Taxation

Double taxation occurs when the same income is taxed twice, once at the corporate level and again at the individual level. This can be a challenge in aircraft financing and leasing transactions involving multinational entities, as different tax jurisdictions may have conflicting rules on how income is taxed.

Equity

Equity represents the ownership interest in a company or asset after deducting liabilities. In aircraft financing and leasing, equity can refer to the ownership stake in an aircraft or aviation business. Equity investors provide capital in exchange for a share of ownership and profits, playing a crucial role in funding aviation projects.

Financial Leverage

Financial leverage refers to the use of debt to finance investments or operations. In aircraft financing and leasing, financial leverage can magnify returns for investors but also increase risks. Lenders often assess the level of financial leverage in aviation transactions to evaluate the borrower's ability to repay debt.

Financial Statements

Financial statements are formal records of the financial activities and position of a business, including the income statement, balance sheet, and cash flow statement. These statements provide insights into the financial performance and condition of entities involved in aircraft financing and leasing, helping stakeholders make informed decisions.

Gross Lease

A gross lease is a type of lease where the lessor bears all the costs associated with owning and operating the leased asset, including maintenance, insurance, and taxes. The lessee pays a fixed rent, and the lessor is responsible for managing the property. Gross leases are common in aircraft leasing arrangements.

Interest Rate

The interest rate is the cost of borrowing money, expressed as a percentage of the loan amount. In aircraft financing and leasing, interest rates impact the cost of capital and the overall profitability of aviation investments. Lenders set interest rates based on factors such as credit risk, market conditions, and loan terms.

Joint Venture

A joint venture is a business arrangement where two or more parties collaborate to undertake a specific project or business activity. In aviation finance, joint ventures can be formed to acquire, lease, or operate aircraft, allowing participants to share risks, resources, and rewards. Joint ventures are common in complex aviation transactions.

Lease Agreement

A lease agreement is a contract between a lessor (owner) and a lessee (user) that allows the lessee to use an asset, such as an aircraft, for a specified period in exchange for periodic payments. Lease agreements in aircraft financing and leasing define the terms, conditions, and responsibilities of the parties involved.

Leveraged Lease

A leveraged lease is a type of lease where the lessor borrows a significant portion of the funds needed to purchase the leased asset, using the asset itself as collateral. The lessee makes lease payments that cover the debt service and provide a return to the lessor. Leveraged leases are structured to maximize tax benefits for both parties.

Lien

A lien is a legal claim or right against an asset as security for a debt or obligation. In aircraft financing and leasing, lenders often place liens on aircraft to secure their interests and ensure repayment of loans. Liens can affect the transfer of ownership and registration of aircraft, making them a critical consideration in aviation transactions.

Operating Lease

An operating lease is a lease agreement that allows the lessee to use an asset, such as an aircraft, for a limited period without transferring ownership rights. Operating leases are treated as off-balance sheet items and do not appear on the lessee's financial statements. These leases are commonly used in aviation for short-term or non-core assets.

Present Value

Present value is the current worth of a future sum of money, calculated by discounting the future cash flows at a specified rate of return. In aircraft financing and leasing, present value is used to determine the fair market value of leases, loans, or investments. It helps investors assess the profitability and risk of aviation assets.

Recourse

Recourse refers to the legal right of a lender to seek payment from the borrower or a guarantor in case of

default on a loan. In aircraft financing and leasing, lenders may require recourse provisions to mitigate credit risk and ensure repayment. Recourse can involve seizing collateral, pursuing legal action, or enforcing guarantees.

Securitization

Securitization is the process of pooling financial assets, such as aircraft leases or loans, and issuing securities backed by these assets. These securities are sold to investors, providing liquidity to the originator of the assets. Securitization can be used to finance aircraft acquisitions or refinance existing debt in aviation transactions.

Structured Finance

Structured finance involves creating complex financial instruments tailored to meet specific needs or objectives. In aircraft financing and leasing, structured finance techniques are used to optimize capital structures, manage risks, and enhance returns. Structured finance solutions can include asset-backed securities, collateralized debt obligations, and other innovative structures.

Tax Equity Financing

Tax equity financing is a financing method that uses tax benefits, such as depreciation deductions or tax credits, to attract investors to aviation projects. In aircraft financing and leasing, tax equity investors provide capital in exchange for tax advantages, helping to lower the cost of funding and increase returns for stakeholders.

Value Added Tax (VAT)

Value Added Tax is a consumption tax levied on the value added to goods and services at each stage of production and distribution. VAT can apply to aircraft purchases, leases, and related services, depending on the jurisdiction. Understanding VAT rules and compliance is essential for managing tax liabilities in aviation finance transactions.

Withholding Tax

Withholding tax is a tax deducted at the source from payments made to non-residents, such as interest, dividends, or royalties. In aircraft financing and leasing, withholding taxes can impact cross-border transactions and reduce the after-tax returns for investors. Managing withholding tax obligations is crucial for optimizing the financial structure of aviation deals.

Xenophobia

Xenophobia refers to the fear or hatred of foreigners or strangers. In the context of aircraft financing and leasing, xenophobia can manifest as bias or discrimination against international investors, partners, or customers. Overcoming xenophobia is essential for fostering trust, collaboration, and innovation in the global aviation industry.

Yield

Yield is the rate of return on an investment, expressed as a percentage of the amount invested. In aircraft

financing and leasing, yield measures the profitability of aviation assets, leases, or loans. Investors analyze yields to assess risk-adjusted returns and make informed decisions about allocating capital in the aviation sector.

Zero Coupon Bond

A zero coupon bond is a debt security that does not pay periodic interest but is sold at a discount to its face value. The bondholder receives the full face value at maturity, generating a return from the difference between the purchase price and the redemption value. Zero coupon bonds can be used in aviation finance to raise capital without immediate cash outflows.