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# The UPDATE Report

*CONGRATULATIONS TO THE FOLLOWING COMPANIES ON THEIR ASA-100 ACCREDITATION:*

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**Chromalloy Material Solutions**
*San Antonio, TX*

**Crestwood Technology Group**
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## New ITAR Rules for Brokers are Open for Comment

The Department of State has published a proposed rule that seeks to amend the International Traffic in Arms Regulations (ITARs) as they apply to brokers and brokering activities.

Brokering is distinguished under the regulations from exporting. Thus, those who might negotiate a deal as an agent, or finance a deal, but who never get involved in the actual exporting of ITAR-controlled articles and services, are nonetheless subject to the State Department's regulations.

Under the current rules, persons who broker exports of ITAR-controlled articles and services are required to register, and also in many cases to obtain licenses before they engage in brokering. This is meant to curb arms-dealing, but in practice it affects export of many aircraft parts that are controlled under the ITARs.

The recently-proposed changes to the ITARs would help by removing many dual-use parts as well as defense-related parts that do not serve a unique defense purpose from the scope of the ITARs.

The proposed rule would change ("clarify") the definitions of the terms "broker" and "brokering activities." It would also provide additional exemptions from the

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## INSIDE THIS ISSUE:



ASA AVIATION SUPPLIERS ASSOCIATION

## MESSAGE FROM ASA'S PRESIDENT


### THE UPDATE REPORT

is the newsletter of the Aviation Suppliers Association.

### OUR COMMITMENT

ASA is committed to providing timely information to help members and other aviation professionals stay abreast of the changes within the aviation supplier industry.

**The UPDATE Report** is just one of the many benefits that ASA offers members. To learn more about our valuable educational programs, please contact ASA.

### THE UPDATE REPORT STAFF

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*Editor . . . . . Jason Dickstein*
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### QUESTIONS ?


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Dear Colleagues,

After 23 temporary extensions it looks as if the FAA will finally have a long-term funding bill. The funding bill has cleared the house and senate and hopefully will be signed by President Obama before you read The Update Report.

There are several new changes being released regarding the ASA-100 accreditation program. ASA Staff worked with the Quality Committee on changes to ASA-100 and the Board of Directors have approved the changes. A revision to ASA-100 will be released in first quarter. ASA will provide information explaining the changes and the implementation schedule. The certificate for ASA-100 accreditation has been changed and new certificates will be mailed to ASA-100 accredited companies. The effective date for the new certificate is March 1, 2012. The new certificate includes changes that protect the trademark of the ASA-100 accreditation logo and the integrity of the certificate.

ASA has announced four training workshops located in areas with a concentration of members. The workshop agenda is on the website. Once again, the workshop fee is priced in a manner to allow all members access. ASA expects to announce a few additional workshop dates and online training curriculum shortly. The annual conference is just a few months away and the hotel is taking reservations. Online registration will open in February. The conference schedule is on the website.

A member survey will be emailed this month. The survey will assist the Directors in strategic decisions about long term projects for the Association. Please take a few minutes to reply to the survey.

Take care, Michele



### LIST OF ADVERTISERS

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regulations for certain brokering activities. Here are the proposed new definitions, which would be published in section 129.2 of the ITARs:

**Broker** means any person (as defined by § 120.14 of this subchapter) who engages in brokering activities.

**Brokering activities** means any action to facilitate the manufacture, export, reexport, import, transfer, or retransfer of a defense article or defense service. Such action includes, but is not limited to:

(1) Financing, insuring, transporting, or freight forwarding defense articles and defense services, or
(2) Soliciting, promoting, negotiating, contracting for, arranging, or otherwise assisting in the purchase, sale, transfer, loan, or lease of a defense article or defense service.

The regulations go on to explain that "engaging in the business of brokering activities requires only one action as described above." Things that are explicitly excluded from the proposed definition of brokering activities include:

- Domestic U.S. sales or transfers
- Activities by U.S. government employees acting in their official capacity, and
- Mere administrative services, like merely providing office space to a broker or exporter who is appropriately registered. Legal services for an exporter, for example, are excluded from the definition of brokering activities.

These proposed rules will remain open for comment through February 17, 2012. ASA plans on filing comments on these proposed rules; if you would like to add to ASA's comments, contact Jason Dickstein.

## ASA Files Formal Comments with the FAA on the Instructions for Completing the 8130-3 Tag

The rules for completing the 8130-3 tag are being revised. Draft Order 8130.21H (the instructions for completing the 8130-3) was recently released for comment, and ASA filed substantial comments on the new draft in order to help improve it.

The guidance for completion of the FAA Form 8130-3 tag makes some substantive changes in an effort to align with the results of ongoing harmonization efforts between the United States and the European

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**Flugel, LLC**
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**Worthington Aviation**
*Eagan, MN*

**Zodiac Services America**
*College Park, GA*

***FOR THEIR REACCREDITATION TO THE ASA-100 STANDARD***

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Union, as well as the completion of the Technical Implementation Procedures that correspond to the U.S.-EU bilateral agreement that went into effect May 1, 2011. ASA commented on three issues in hope of clarifying items that have become, or may become, stumbling blocks to the documentation and traceability system.

Some participants in the aviation industry have been running into problems with obtaining export approvals on products also granted domestic airworthiness approval. ASA observed and commented that the guidance for obtaining domestic airworthiness approval had transitioned, without explanation, from a permissive rule requiring additional steps to ensure export approval, to a rigid forbidding of export approval. ASA commented that such a reading was improper, and that although a domestic airworthiness approval did not by itself constitute an export approval, neither did it preclude the possibility of obtaining export approval, as some had interpreted.

ASA also commented that with the implementation of the U.S.-EU bilateral, the requirement that an exporter comply with a "specific country's special import requirements" had become misleading. This is because under the Bilateral, EASA assumes oversight over the EU Member States' import requirements. This has the effect of both improving uniformity and harmonization, but also of rendering specific countries' import requirements illusory. ASA recommended clarifying this by adding an "agency's" special requirements are satisfied.

Finally, ASA commented that the new classification of Rebuilt Engines as a manufacturing practice instead of a maintenance release not only swept an issue of zero-timing rebuilds under the rug, but also worked as a disadvantage against small businesses by encouraging European customers to seek out only major manufacturers—the only ones allowed to do rebuilds—at the expense of smaller businesses providing equally effective overhauls. Most importantly, the proposal ignores the existing regulatory authority for rebuilding, which is derived from Part 43 (the maintenance regulations) and not from Part 21 (the manufacturing instructions). ASA's comments were designed to avoid a mismatch between the guidance and the regulations.

ASA's comments are available on the ASA website.

# ASA Supports FAA's ICA Guidance, but Asks for Additional Language Supporting Distributors' Needs for Commercial Parts Lists

ASA has filed comments with the FAA on the FAA's proposed guidance on Instructions for Continued Airworthiness.

The proposed guidance is known by its title "Inappropriate DAH Restrictions on the Use and Availability of ICA."

ASA explained that it supports the Policy Statement and welcomes the FAA's efforts to improve safety by establishing clear guidelines for its acceptance of ICA distribution mechanisms.

Historically, the aviation parts distribution industry has only been interested in one element of the ICAs: the Illustrated Parts Catalogs (IPCs). This has changed with recent changes in the regulations.

ASA members have an interest in seeing consumers, like air carriers and repair stations, have an opportunity to choose the right parts to support safe flight. To this end, ASA has championed traceability paradigms in the industry that help to ensure that customers know what they are getting and get what they need. These traceability paradigms have helped to address suspected unapproved and counterfeit aircraft parts issues in the industry. An important element of modern aircraft parts distribution is the transparent ability of anyone in the system to be able to review the appropriate documentation for an aircraft part and identify its approval basis from that documentation.

It is normal in the industry for distributors to buy parts in need of overhaul, and manage the overhaul process. These parts are then made available for use in the aviation community (the distributor may be managing the logistics for an air carrier or other operator, or the distributor may own the parts and then offer the overhauled parts for exchange or for outright sale). ASA members rely on the maintenance community to inspect and repair rotable parts and they need them to have the right data to support those efforts.

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The FAA's recent changes to the Part 21 manufacturing regulations implemented a new definition for the term "commercial parts." This new definition is different from the common industry usage of that term in the past. Under the new definition, the only "commercial parts" are those parts listed in the commercial parts list of the ICAs.

Recent Unapproved Parts Notices have listed distributors who have handled the unapproved parts as if the distributors were 'guilty parties.' The FAA has admitted in the Federal Court system that UPNs are "orders." Avia Dynamics, Inc. v. FAA, 641 F.3d 515, 519 (D.C. Cir. 2011). Therefore, it is a matter of compliance that distributors must forbear from selling unapproved parts. See FAA Advisory Circular 21.29C change 2, Detecting and Reporting Suspected Unapproved Parts (August 17, 2011). The only way to identify whether a part is or is not a "commercial part" is to have access to the commercial parts lists published as part of the ICAs. Therefore, distributors of aircraft parts now have a practical need to comply with certain elements of the ICAs (the commercial parts lists).

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In light of the fact that distributors now need to comply with the Commercial Parts Lists (CPLs) of the ICAs, this guidance should make it clear that distributors are now among the parties who need access to the ICAs/CPLs. We specifically recommended to the FAA that the following paragraphs be added to the policy:

### *Making ICA Available to Aircraft Parts Distributors*

One of the elements of an ICA is a detailed description of the product and its components. E.g. 14 C.F.R. Part 33 App'x A33.3(a)(2). This is generally accomplished by publishing an illustrated parts catalog.

Distributors of aircraft parts rely on the illustrated parts catalog (IPC) in the ICAs to help identify parts and to ensure, at the time of receiving inspection, that parts appear to be genuine and correctly labeled.

The recent rule change permitting manufacturers to create commercial parts lists (CPLs) makes it clear that the CPLs are part of the ICAs. Aircraft parts distributors need access to the CPL in order to ensure their continued compliance with approved parts obligations.

The FAA maintains a list of accredited aircraft parts distributors pursuant to the requirements of Advisory Circular 00-56 (Voluntary Industry Distributor Accreditation Program). Aircraft Parts Distributors identified on this list are among the class of parties who must have access to the CPLs and IPCs. Unless the distributor is entitled to other parts of the ICAs for other reasons (such as qualification under Order 8110.54), a distributor's entitlement to the ICAs is limited only to the IPC and CPL.

An owner/operator or repair station also has the right under §21.50(b) to obtain the ICA from the DAH and then provide the IPC and CPL to the parts supplier(s) of its choice.

ASA also made it clear that the Association supports clear guidance, and supports the FAA's efforts to clarify the ICA guidance. ASA's comments are available on the ASA website.

## DOT Statistics Show Air Travel is on the Rise

As the world struggles with economic recovery, the number of passengers traveling both domestically and internationally continues to increase.

Although not as significant an increase as last year, the U.S. Bureau of Transportation Statistics reported a year-over-year increase of between one and three percent for the first nine months of 2011 (only August showed a minor decline from the previous year). The Department of Transportation also reported a 4.8% increase in passengers transported between the United States and International airports for the 12-month period ending July 2011. Airlines have also been adding jobs and increasing seat capacity. A number of airlines, both domestic and foreign, are adding additional routes. Air freight also appears to be increasing.

As more and more passengers are carried and more flights added, it is important to remember that fluctuations in passenger travel can affect air carriers' expenditures on replacement parts. Gauging these air traffic trends is important to ensuring the appropriate availability of replacement parts to customers. It is also worth monitoring the transitioning age of airline fleets. As more new planes are delivered and older planes are taken out of service, demands for quantity and type of replacement parts will likely vary.

# New IRS Guidance on Tax Treatment of Materials and Supplies (including Rotable Parts)

The IRS announced in December Temporary Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property. At the same time, they announced a proposal to make that temporary guidance permanent.

These new rules are meant to help companies distinguish between expenses related to property, and capital expenditures related to property. It also provides guidance on depreciating materials and supplies (guidance that may change the tax treatment of some inventory held by your customers). Aircraft parts distributors may find themselves affected by several elements of this rule, including guidance distinguishing "materials and supplies" from inventory, as well as new guidance for the tax treatment of rotable parts.

One purpose of the proposed regulations is to clarify that if an expenditure merely restores the property to the state it was in before the work (like a repair), then situation prompting the expenditure arose and does not make the property more valuable, more useful, or longer lived, then such an expenditure is usually considered a deductible repair. In contrast, a capital expenditure is generally considered to be a more permanent increment in the longevity, utility, or worth of the property.

For example, if you decide to repair weather-related damage to your warehouse, this should be treated as a repair that does not need to be capitalized. On the other hand, if you decide to construct a new bay door on your warehouse to accommodate larger trucks, then this adds to the utility of the property and it should be treated as a capital expenditure.

The new rules also address the tax treatment of materials and supplies. They clarify that the costs of acquiring or producing units of tangible property are required to be capitalized. This means that if a company purchases and /or produces goods for resale, the amount paid to acquire or produce those goods must be capitalized. So if you are supplying a manufacturer, the manufacturer may not deduct the cost of the inventory that goes into the final product until the product is actually sold. This provides a firm tax basis for just-in-time manufacturing and discourages manufacturers from carrying a substantial raw materials or parts inventory.

The new rule also clarifies that an exception exists for materials and supplies that are not considered inventory. Amounts paid for such materials and supplies are deductible in the year in which the goods are used in your company's operations. However, incidental materials and supplies for which no records of consumption, or for which beginning and end of year inventories are not taken, may be deducted in the year in which they are purchased (yes, this will provide a tax incentive to avoid keeping metrics on items, but the value of tracking such materials usually exceeds the tax incentive to not track them). In all cases, the materials and supplies do not need to be capitalized into the value of the larger items on which the materials and supplies are used.

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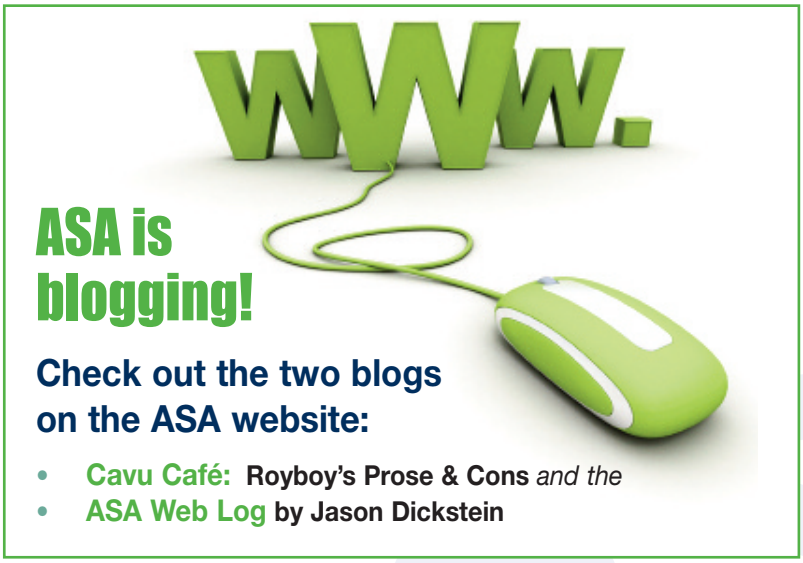

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The formal definition of materials and supplies is:

> *Definitions*—(1) *Materials and supplies.* For purposes of this section, *materials and supplies* means tangible property that is used or consumed in the taxpayer's operations that is not inventory and that—
>
> (i) Is a component acquired to maintain, repair, or improve a unit of tangible property (as determined under § 1.263(a)–3T(e)) owned, leased, or serviced by the taxpayer and that is not acquired as part of any single unit of tangible property;
>
> (ii) Consists of fuel, lubricants, water, and similar items, that are reasonably expected to be consumed in 12 months or less, beginning when used in taxpayer's operations;
>
> (iii) Is a unit of property as determined under § 1.263(a)–3T(e) that has an economic useful life of 12 months or less, beginning when the property is used or consumed in the taxpayer's operations;
>
> (iv) Is a unit of property as determined under § 1.263(a)-3T(e) that has an acquisition cost or production cost (as determined under section 263A) of $100 or less (or other amount as identified in published guidance in the **Federal Register** or in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter)); or
>
> (v) Is identified in published guidance in the**Federal Register** or in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter) as materials and supplies for which treatment is permitted under this section.

Finally, the guidance specifies that rotable and temporary spare parts are used or consumed in the taxpayer's operations in the taxable year in which the taxpayer disposes of the parts. This new guidance may drive some interesting recordkeeping among air carriers that carry rotable inventory. Under this new rule, there is a distinct tax advantage to being able to show that you are using rotables in the year purchased (so they can be treated as ordinary and necessary business expenses in the year that they are purchased). This may encourage air carriers to keep fewer rotables in their inventories, relying more heavily on distributors to provide rotables on a just-in-time basis.

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Rotables in a distributor's inventory will usually be treated as inventory, rather than under the new rotable rule, because the new rule defines rotables as:

"rotable spare parts are materials and supplies under paragraph (c)(1)(i) of this section that are acquired for installation on a unit of property, removable from that unit of property, generally repaired or improved, and either reinstalled on the same or other property or stored for later installation"

Obviously, distributors typically do not use rotables in this way; however repair stations may find some of their parts inventory being treated as rotables under the new rule.

The temporary regulations can be found online here:
http://www.gpo.gov/fdsys/pkg/FR-2011-12-27/pdf/2011-32024.pdf

The purpose of the temporary regulations is to implement the rule immediately before going through notice and comment. The permanent version of the regulation is subject to notice and comment. The proposed permanent rule can be found online here:
http://www.gpo.gov/fdsys/pkg/FR-2011-12-27/pdf/2011-32246.pdf

Comments on whether these temporary rules should be made permanent are due by March 26, 2012.

# New Reporting Requirement for Health Insurance Applies to Next Year's W-2s … Start Your Record Keeping Now!

- Employer's health insurance payments will have to be reported on the W-2 Forms starting in January 2013 (for 2012 wages)
- There is a temporary exception for businesses with fewer than 250 employees
- The temporary exception is expected to expire in January 2014
- All businesses should start keeping records to support this reporting requirement

The IRS recently issued a notice entitled "Interim Guidance on Informational Reporting to Employees of the Cost of Their Group Health Insurance Coverage." The purpose of the notice is to provide guidance to employers on the informational reporting to employees about the cost of their employer-sponsored group health plan coverage. This requirement is found at § 6051(a)(14) of the Patient Protection and Affordable Care Act of 2010, and is intended to provide useful consumer information to employees. The reporting requirement is informational only and does not cause excludable employer-provided health care coverage to become taxable.

The guidance applies generally to the 2012 W-2 Forms. These are the forms required for calendar year 2012 and are provided to employees, and filed with the Social Security Administration, in January 2013. The guidance will affect your actions in about a year, but the record keeping for 2012 starts now.

Those employers who wish to report cost of health coverage on 2011 Forms W-2 may also look to the notice for guidance, though reporting is not required for 2011. The reporting requirement does not apply to Forms W-2 issued prior to 2011, and reporting is not mandatory for the 2011 calendar year. Therefore, an employer will not be treated as failing to meet the requirements if it fails to include the aggregate cost of applicable employer-sponsored coverage on 2011 Forms W-2.

Note that this is interim guidance. It is therefore applicable until further guidance is issued. Any new guidance applies only going forward, and will not apply to any calendar year beginning within six months of issuance. So if new guidance was issued in July 2012, it would not take effect until January 2014.

Employers generally must provide a written statement to each employee showing the amount paid to the employee during the calendar year, by January 31 of the following year. This notice is provided on the Form W-2. Section 6051(a)(14) requires that aggregate cost of applicable employer-sponsored health coverage be reported to the employee on Form W-2. Contributions to an Archer MSA, any health savings account of an employee or spouse, or salary reduction contributions to flexible spending arrangements do not fall under § 6051(a)(14) *[they fall under other reporting requirements, though]*. The guidance also explains that "applicable employer-sponsored coverage" means coverage under any group health plan made available to the employee by the employer which is excludable from the employee's gross income. Things that do not fall under "applicable employer-sponsored coverage" include liability insurance, workers comp, automobile medical payment insurance and other types of insurance under which medical care is secondary or incidental. These benefits are

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not subject to the new reporting requirement. Part II of the notice also provides a number of other definitions with which employers will want to ensure they are familiar.

The new reporting requirement has a broad mandate. All employers that provide applicable employer-sponsored coverage during the calendar year are subject to the requirement. However, in the case of the 2012 Forms W-2, and pending further guidance, employers are not subject to the reporting requirement for any calendar year if they were required to file fewer than 250 Forms W-2 for the preceding year. This means that businesses with fewer than 250 total employees (measured by number of W-2 Forms issued) will not need to perform this reporting exercise. This is temporary transition relief – the statute does not provide for this exception – so eventually the reporting requirement will apply to everyone; but for now, the interim guidance has established that the earliest that smaller businesses will have to make this report is in January 2014 (for the 2013 W-2 Forms).

The aggregate reportable cost is reported on Form W-2 in box 12, using the code "DD." The total of the aggregate reportable costs attributable to an employer's employees is not required to be reported on Form W-3. When an employee terminates employment, the employer may use any reasonable method of reporting the cost of coverage provided under a plan, provided the method is used consistently for all employees receiving coverage who terminate employment during that calendar year. Each employer for whom an employee works during a calendar year must report the aggregate cost of coverage provided. If an employee works for employers for whom there is a common paymaster, the common paymaster must include the aggregate reportable cost of coverage. The related employers who are NOT the common paymaster must not report the cost of coverage provided. If an employee transfers to an employer that qualifies as a successor employer, both the successor and predecessor employers must report the cost of coverage, unless the successor employer issues one Form W-2 reflecting all wages paid to an employee by both employers. If an employer is not required to otherwise issue a Form W-2, it is not required to issue one solely for reporting aggregate cost.

Aggregate reportable cost generally includes both the portion paid by the employer and the portion paid by the employee. The aggregate reportable cost includes any person covered under the plan because of relationship to the employee, including spouse, dependents, and adult children. This includes cost that is includible in the employee's gross income.

In general, the cost of coverage under all applicable employer-sponsored coverage must be included in the aggregate reportable cost. The guidance, however, provides a number of exceptions that are not included in aggregate reportable cost and must not be reported. Employers should refer to § 6051(a)(14) and the interim guidance to familiarize themselves with these exceptions.

An employer may calculate the reportable cost in a couple of ways. An employer may use the COBRA applicable premium method. Under this method, the reportable cost for a period equals the COBRA applicable premium for the coverage period. Alternatively, an employer may use the premium charged method. This method may be used to determine the reportable cost only for an employee covered by an employer's insured group health plan. Under this method, the employer must use the premium charged by the insurer for the employee's coverage as the reportable cost.

An employer may use the modified COBRA premium method with respect

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to a plan only where it subsidizes the cost of COBRA or where the actual premium charged by the employer to COBRA qualified beneficiaries during a period is equal to the COBRA applicable premium for each period the prior year.

Reportable cost under a plan must be determined on a calendar year basis. If the cost for a period changes during the year, the reportable cost for the year must reflect the increase or decrease. If an employee changes coverage during the year, the reportable cost for the employee must take into account the change in coverage by reflecting the different reportable costs for the coverage elected by the employee for the periods to which those changes apply. If an employer is charging an employee a composite rate the employer may calculate and use the same reportable cost for a period for the single class of coverage under the plan or all the different types of coverage under the plan for which the same premium is charged to employees. This will depend on the type of composite rate the employer charges.

## *FAA Has Released New Unapproved Parts Notifications*

The FAA has released new UPNs. Below is a list of companies associated with the UPN. Click on each company name below to read more. CLICK HERE for a link to the FAA homepage regarding all UPNs.

**Master Machine Products – Monrovia, CA**
http://www.faa.gov/aircraft/safety/programs/sups/upn/media/2011/upn_2011-20110418007.pdf

**Rubbercraft Corporation – Long Beach, CA**
http://www.faa.gov/aircraft/safety/programs/sups/upn/media/2011/upn_2011-20110630014.pdf

## CALENDAR OF EVENTS

### ASA 2012 Annual Conference

**June 24-26, 2012** . . . . . **Grand Hyatt Hotel** • *Seattle, WA*

### Industry Events

**April 3-5, 2012** . . . . . **MRO US** • *Dallas, TX*
**May 2-3, 2012** . . . . . **AP&M EXPO EUROPE** • *London, UK*

### ASA Workshop Series/Training

**March 7, 2012** . . . . . **REGULATORY WORKSHOP** • *Los Angeles, CA*
**March 13, 2012** . . . . . **REGULATORY WORKSHOP** • *Miramar, FL*
**April 17-18, 2012** . . . . . **HAZMAT TRAINING** • *Los Angeles, CA*
**May 16-17, 2012** . . . . . **HAZMAT TRAINING** • *Miramar, FL*
**September 18, 2012** . . . . . **REGULATORY WORKSHOP** • *Dallax, TX*
**September 20, 2012** . . . . . **REGULATORY WORKSHOP** • *Chicago, IL*

## CONTACT US!

ASA Staff is always interested in your feedback. Please contact us with any comments or suggestions.


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