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Trending up: executives using company aircraft for personal travel



THE REASONS FOR A CORPORATE EXECUTIVE TO USE THE COMPANY JET—including safety, security, and privacy—HAVEN'T CHANGED. IN TODAY'S WORLD, THOUGH, THOSE REASONS ARE MORE IMPORTANT THAN EVER BEFORE.

While corporate aircraft have been much maligned over the years, the simple fact is that executives use them for the same reasons many people drive a car to work instead of taking a bus: they provide safe, reliable, flexible, and secure transportation.

Key executives can go where they want, when they want, and work in total privacy along the way. In today's world, those benefits are more important than ever before. In fact, it's increasingly common for companies to direct their top executives to use the corporate aircraft for safety and security, according to Alan Goldstein, a past chairman of the NBAA Tax Committee and a special advisor to Flight Department Solutions.

"Companies also want to know where their executives are so they can get them back to their home office quickly if the need arises," he said. "Traveling on the corporate jet, even on vacation, allows them to study sensitive documents and other materials in privacy. It's beneficial for both the company and the individual."

A recent feature in **Fortune** magazine stated that of the 95 public Fortune 100 companies, 65 have CEOs who "were either eligible for or received some form of jet [use] perk." According to the story, the average cash value of that usage was just north of \$140,000 per year.

As for private companies, there's no way of knowing what jet use they provide for their senior executives. But since they're private, it really doesn't matter—except to the IRS.

NOBODY RIDES FOR FREE.

While it's easy to get caught up in what a huge perk private use of corporate aircraft is for the top echelon, people often forget that the IRS requires executives to “pay” for it.

“If a company employee uses the airplane for personal travel, that's a taxable fringe benefit,” Goldstein said. “It's not an insignificant amount of money—not like a free turkey for Thanksgiving. Under IRS rules, the employee has to pay for the aircraft's use. But it's a complicated issue, since FAA rules don't allow payments except in limited instances.”

It's a lot easier if the company has the airplane on a Part 135 charter certificate; then the executive can just pay to “charter” it. But in a strictly Part 91 operation, satisfying IRS requirements is more complicated.

“Most of the time, reimbursement for personal use is a non-cash payment,” Goldstein said. “The imputed-income method is most popular because the company basically adds the calculated value of the flight to the executive's W-2 form at the end of the year. The employee then pays the taxes on that added value. Typically, it comes out to be the approximate cost of a first-class airline ticket.”



And, by the way, those additions to the W-2 form include the cost for everyone accompanying the executive on the trip. So if employees bring a spouse, children, or anyone else, they have to pay for the privilege.

What about companies using their jet to take customers or suppliers on a junket, say to the Super Bowl or on a fishing trip? Goldstein said that a recent change to the tax rules that few corporate operators know about is that the IRS has completely eliminated deductions for “entertainment” expenses, including for use of the company jet.

When you look at what it costs today to own and operate a corporate aircraft, those lost deductions can be significant.

“Let’s say the company operates a three-year old Falcon 7X and the DOC (direct operating costs) for crew salaries, fuel, maintenance, insurance, hangarage, etcetera, is \$5,500 dollars an hour,” he said. “So, if you have, say, \$12.2 million a year in deductible operational expenses, including the aircraft’s standard depreciation, and ten-percent of all of their flights are for personal or entertainment use, then that’s \$1.2 million in lost tax deductions.”

But, again, considering all the benefits that the company aircraft provides, that is probably one loss that the board, in more and more situations, is willing to accept.

KNOW THE RULES. PLAY BY THE RULES.

Goldstein said that it’s becoming increasingly important for flight departments to keep clear and accurate records of every flight. Such records are essential if you’re to know who’s on the aircraft and why, what’s deductible, and how to correctly collect flight reimbursements.

“To most flight departments, every flight is a business trip,” Goldstein noted. “They’re not aware of why every passenger is on the airplane, so they need good records. Some ‘personal’ trips are fully deductible if they’re for medical treatments or if the executive is attending an outside board meeting. There are a lot of circumstances to consider.”



Still, with all the ins and outs of taxes and lost deductions related to personal aircraft use, more and more companies are turning to charters and fractional-share programs to provide “personal” flights for their top executives.

“That totally eliminates any IRS grey areas,” Goldstein said, adding that another option, “in cases where a flight department has multiple aircraft, is to delegate an airplane that’s already fully depreciated to personal and entertainment flights.”

STAYING SECURE IS AS IMPORTANT AS STAYING CONNECTED.

IRS rules aside, personal flights often include non-company passengers, such as spouses, children, relatives, and friends. And, along with the usual chorus of “are we there yet?,” another problem you may have to deal with is everyone wanting to use the aircraft’s Wi-Fi connectivity system and the need to maintain the security of the onboard network and connections.

“You want the network to be at least as secure as the ones in passengers’ offices and homes,” said Mike Syverson, senior vice president of development for Gogo Business Aviation. “That’s what people should expect when they are in a business jet that provides high-speed connectivity, and Gogo’s network and onboard systems provide it.

“There is an ever-pressing need to be vigilant about potential threats to the security of the connectivity systems and networks in business aviation,” Syverson continued. “As a result, security has been fully integrated into our network and systems from the beginning. And some companies prefer to use their own VPN, which we encourage, to make the connection as secure and effective as possible.”

Another good security measure: no one on the trip should share any photos or information about your schedule or destination on social media. In today’s connected society, it’s difficult for many people to resist telling everyone everything about where they are and what they are doing. But it defeats the purpose of flying on a private jet for a private vacation to have passengers posting their every move on Instagram or Snapchat.

GPS can also defeat that purpose. So before you fly, everyone in your party should disable their devices’ tracking features. It’s another way to improve security and protect passengers’ privacy.

After all, aren’t those two of the main reasons senior executives use their company aircraft for personal travel in the first place?

This piece was researched and written by AIN's content marketing department with final approval by Gogo Business Aviation.

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