

AIRCRAFT MANAGEMENT - TRUST BUT VERIFY!

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“Trust but Verify” is an old Russian proverb, cited often by President Reagan regarding international relationships. **It’s also useful in working with your aircraft management company when it comes to budgets and asset values.**

Aviation consultant [Dave Weil](#) explains how to manage the financial aspects of that relationship in [Managing Your Management Company Part One: Finances](#), in the May-June issue of Business Aviation Advisor. This is a reprint of that article.

How to be an effective partner in managing your aircraft

You've just completed an extensive RFP process to select the management company best suited to your needs. "Now we don't have to worry about a thing," you think. But if you want the best return for your investment, someone on your team needs to stay involved.

From my more than 20 years with several aircraft management companies, it is clear that clients who ask questions and review their reports monthly tend to get the most careful attention from the management company's accounting department, especially in these areas:

Monthly Financial Reporting

Your management company should provide you with fully transparent and easily understood reports. Ideally, costs are identified with specific trips, particularly if third party charter trips are flown, so you can verify proper allocation and easily identify any mistakes, and prevent recurring errors. Review your reports carefully every month. Two particularly useful ones are: the monthly trend report, showing a month-to-month comparison by cost category, including direct cost-per-flight hour; and an invoice detail report listing the details of every invoice for each cost category. Your management agreement should require that the monthly report include invoice copies for items greater than a specified dollar amount. Reports and invoice copies should allow you to confirm that no markups are being taken on aircraft costs other than those specified in your agreement.

Benefit Charges

Many management companies charge for payroll taxes, workers' compensation, and benefits as a percentage of salary, particularly when an aircraft has assigned dedicated personnel. Full justification for the percentage charged to you must be provided. Typically, a much smaller percentage should be applied to any bonuses paid to the crew, since not all the benefits and taxes apply to such payments.

Maintenance Charges

An annual maintenance budget should be prepared with actual results measured against it. If you are charged for management company personnel (other than your assigned mechanic) to perform a significant amount of the maintenance, it's best to bring in an independent third party periodically to review the charges. All major maintenance events should be subject to a competitive bidding process with at least three bids. Recognize that quality and timeliness may be more important to you than cost.

Fuel Purchasing

Every management company claims to get their clients great discounts but that's not always so. Fuel, in particular, is an expense with wide variations in amounts actually paid. Ask for comparative reports or other data that demonstrate that the fuel discounts you were originally promised are the actual amounts you are paying.

Insurance

Many aircraft insurance and workers' compensation policies provide a premium refund to reward favorable loss experience. Your agreement should indicate that your share of this refund will be credited back to you annually.

European VAT

For European trips, many expenditures will be subject to Value-Added Tax (VAT) rates of 20%+. There are companies that, for a fee, will assist your management company to get you a VAT refund. Is this resource being used?

Fuel Tax Refund

If your aircraft flies trips for which the federal excise tax (FET) applies — for example, trips flown as charter under FAR Part 135 for purposes of internal rebilling — then you

are entitled to a refund on the fuel tax that was paid at the pump for fuel burned on the FET taxable trips. Be sure your management company credits you for these refunds when they take the credit on their own excise tax return.

FET on Management Company Payments

Be aware of this controversial situation: some IRS auditors try to assess the 7.5% FET on payments made by aircraft owners to their management company for Part 91 (non-commercial) flights. Ascertain that your management agreement is constructed so as to minimize the likelihood of the tax being assessed. And ask to be updated on whether or not the IRS has approached them on this matter.

If your aircraft is or will be managed, plan to be an active partner in the relationship with your management company. It's good to trust but better to verify.

About the Author

Dave Weil is the CEO of Flight Dept Solutions, a company dedicated to helping aircraft owners have a more positive, customized and cost-effective aviation experience. He served for 17 years in senior executive roles at TAG Aviation USA and its predecessor, Aviation Methods. He helped TAG grow into the largest aircraft management company in the US and led its expansion into Asia. A past Chair of NBAA's Tax Committee, he holds an MBA from UCLA.

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