

COMPLIANCE WEEK

Corporate Aircraft Usage By Executives Soars

By Jaclyn Jaeger — July 10, 2007

Two words best describe aircraft usage by corporate C-suite executives: sky high.

According to a Compliance Week analysis of the perks offered by 250 large companies, personal use of corporate aircraft was the most common benefit, offered by 76.4 percent of the group.

The compensation research firm Equilar further reports that the number of Fortune 100 companies that offer their CEOs compensation for the personal use of corporate aircraft increased from 68.4 percent in 2005 to 78 percent in 2006.

For these executives, the median value of the aircraft benefit also increased 12.1 percent from \$108,579 in 2005 to \$121,676 in 2006. Alexander Cwirko-Godycki, research manager at Equilar, notes that some of the increase is likely a result of new Securities and Exchange regulations, which lower the disclosure threshold for executive perks and are forcing companies to report much higher costs for perks generally.

Personal Airlines

A close look at many of the companies analyzed by Compliance Week reveals that most do not limit aircraft use to business purposes. Ford Motor Co., for example, paid \$172,974 in aircraft usage last year to CEO Alan Mulally so that his wife, children and guests could travel on company aircraft “for personal reasons without him at company expense, at his request,” according to the company’s proxy statement. The reason, Ford says, is “to ease the burden of Mr. Mulally moving to Dearborn, Michigan and away from his family in Seattle.”


Manufacturing giant 3M likewise offered a similar relocation benefit to President and CEO George Buckley at a cost of \$224,460, “much of which occurred during the first part of 2006 when he commuted between Minnesota and his home in Illinois until his family completed its move to Minnesota,” its proxy states.


Relocation, however, is not that only reason executives need to take advantage of such a benefit. Time Warner’s Chief Financial Officer Wayne Pace, for example, is permitted “to use the corporate aircraft to travel between his work location in New York City and the residence he maintains in Atlanta.”

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A Note On This Series

This article continues our four-part series on executive perks. Future articles examining specific perks in-depth will be published for the next two weeks. The other topics include:

 [Part 1: An Exclusive Report On Perks \(July 3, 2007\)](#)

 [Part 2: Aircraft Usage Soars \(July 10, 2007\)](#)

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Time Warner is also one of several companies that require their highest-paid executives to use corporate aircraft for all travel purposes, citing safety and security reasons. Other companies that mandate use of corporate aircraft include entertainment giant Harrah's, Eastman Kodak, Countrywide Financial, and Black & Decker. And Other Executive Perks



Oringer

Andy Oringer, an executive compensation lawyer at law firm Clifford Chance, says the concerns are legitimate. While the chance of a crash or other accident on a commercial airline is slim to none, a flier's risk profile changes dramatically if he consistently travels among major business and money centers like many executives do, he says.

Business Tool

With or without taking safety precautions, "personal use is a very small component of overall business aviation," says Mike Nichols, vice president of operations, education and economics for the National Business Aviation Association.

He contends that "business aircrafts really are a business tool," and so companies do not take the purchase or the usage of one lightly. Before a company buys a business aircraft, it typically does an "aircraft business analysis," he says. Such an analysis involves extensive research, from figuring out where the executives likely will need to travel to how often travel is necessary to "what the best way is to get employees—at all levels—from point A to point B."

Critics might argue that companies spend excessive amounts of money for executives' personal aircraft use, but they do not appear to be splurging on aircraft purchases, says Dan Hubbard, another NBAA spokesman. He cites statistics from AvData, an aviation research firm, that says the number of jets and turboprops in the United States has increased 15 percent in recent years, from 14,837 in 2001 to 17,087 today. Of that latter number, 11,800 are used by businesses. "The bottom line is the numbers haven't increased all that dramatically," Hubbard says, adding that the majority of planes are used by small and midsized businesses.

Companies also consider many factors before actually buying an aircraft. From a cost perspective, "they look at airline travel, travel on the roads, and chartered airlines, and they'll determine from that if it's appropriate to purchase a business aircraft," says Nichols.

"If you include the cost of the employee's time, often business aviation is a very viable way to travel versus the amount of time you might spend driving," he adds.

Company aircraft usage is also meant to save executives' time. One advantage is that the aircraft is on the company's schedule, as opposed to a commercial airline's set schedule, Nichols says. With private planes, executives also are able to conduct personal business matters on the flight or prep for a meeting, whereas commercial airlines do not provide for that level of privacy, he adds.

Offering personal use of aircraft can be very attractive to executives, and attracting top talent is an important element that many critics don't take into consideration, Oringer says. "I always worry about people forgetting about these you-get-what-you-pay-for aspects with executive compensation," he says. "If you do pay these monies and you do get the best and the brightest, all of a sudden the companies are increasing in value by geometric amounts, maybe there's a connection."

Shareholder Criticism

Shareholders haven't been so agreeable, especially when a considerable number of companies pay tax grossups on executives' aircraft use. According to Equilar, 27 percent of chief executives among Fortune 100 companies in 2006 received tax reimbursements to cover taxes associated with the personal use of corporate aircraft. The median value of these tax reimbursements is \$10,103.

Making the tab even more expensive for shareholders is the revised Section 162 of the Internal Revenue Code, which limits company deduction of employees' travel fares to expenses that are "ordinary" and "necessary" and directly attributable to a business expense.

To take full advantage of this benefit, companies should keep thorough logs of airplane use. "The plane logs are detailed about destinations and mileage, but they need to be supplemented to add the business reasons for each passenger's flight, in order to calculate potential deduction disallowance," says Mary Hevener, a partner at the law firm Baker & McKenzie.

Scaling Back

As a result of being under the closer eye of shareholders and the IRS alike, some companies are now letting their CEOs fly the friendly skies less often. Wells Fargo, for example, announced that CEO Richard Kovacevich received \$34,000 in personal use of its aircraft until September 2005, when he began chartering the companies' planes through a third party and paying his own way.

Ford Motor Co., too, announced that Executive Vice President Mark Fields would no longer use company aircraft for his personal trips home on weekends. In its proxy, Ford said that compensation for such trips totaled \$517,560 in 2006.

But to offset that downturn, Hevener says, "many more" companies are buying time-share leases of planes, "simply because it is so much more efficient than commercial air travel. Companies cannot afford to have their top executives wasting hours—sometimes days—in airports, dealing with flight cancellations and difficult rebookings."

The shape of things to come, however, remains to be seen. "It will be interesting to see the way the companies react and whether this benefit continues to be provided," Oringer says.

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