

# Flight Cards

- Newest form of accessing private aircraft
- Flight time purchased in advance in blocks of 25-500 hours
- Similar to a fleet membership that grants access to all aircraft for a specific number of hours per year
- Cost - from \$85,000 to \$300,000 per 25 hours (depending on type and size of aircraft)
- Offered by fractional, National charter and charter brokers
  - “block-Frax”
  - “block-Charter”

# Flight Cards

## Advantages

- No initial plane acquisition cost as with complete or fractional ownership
- Cost competitive with chartered flights
- Maintenance and safety are frequently more consistent than chartering
- Most programs allow simultaneous use of multiple aircraft
- Usually no deadhead charges

# Flight Cards

## Disadvantages

- Typically more expensive per flight hour than fractional ownership
- Limited to the company's fleet
- No tax benefits from plane depreciation

# Flight Cards

## Criteria for Usage

- Anticipated flying time is 25-50 hours per year
- Usage requirements vary
- May require multiple planes at one time
- Trips require overnight stays
- Flights originate at different locations

# Flight Cards

## Bombardier SkyJet (Block-Charter)

- Reserve flight time in increments of 25 hours
- Costs include an initial membership fee and a flat hourly rate for hours actually flown
- No deadhead fees are charged
- Hourly rate can be converted for use in Europe
- Membership extension can be granted for hours remaining after initial membership period (one year)
- Accrual program for credit towards fractional/complete ownership

# Flight Cards

## CitationShares Vector Jet Card (Block-Frax)

- Expected to be available early in 2004
- Issued in increments of 25 hours
- Price ranges from \$85,000 to \$145,000 (per 25 hours) dependent upon type of aircraft
- Additional charge for federal excise tax
- Operates using company fleet of fractional aircraft

# Flight Cards

## Delta AirElite (Block-Charter)

- 3 Membership Levels:
  - Silver – 25 hours of flight time
  - Gold – 50 hours of flight time
  - Platinum – 100 hours of flight time
- Must select between Light, Midsize and Large class of aircraft
- Can add flight time at any point
- Can upgrade/downgrade size at any point
- Efficiency bonus for flying roundtrips

# Flight Cards

## NetJets Marquis Jet Card (Block-Frax)

- One-year prepaid lease for 25 hours of occupied flight time
- Rates range from \$110,000 to \$300,000 (depending on aircraft type and size)
- Can swap up/down in aircraft size if needed (via interchange ratios)
- Guaranteed availability with 10 hours notice
- Interchangeable with European Marquis Card
- Operate using the company owned fleet of fractional share aircraft

# Flight Cards

## Sentient TravelCard (Block-Charter)

- Silver TravelCard
  - Minimum opening balance of \$100,000
  - 2 hour minimum charge per flight day for all categories of jets
- Gold TravelCard
  - Minimum opening balance of \$250,000
  - 1 hour minimum charge per flight day for light and mid-sized jets
  - 2 hour minimum charge per flight day for heavy jets
- Platinum TravelCard
  - Minimum opening balance of \$500,000
  - 1 hour minimum charge per flight day for light and mid-sized jets
  - 2 hour minimum charge per flight day for heavy jets

# Flight Cards

## Sentient TravelCard (Block-Charter)

- Premium rates exist for one-way trips
  - Roundtrips (return to point of origin and at least 2 hours flight time for each trip day) range from \$2,050 to \$7,850 per hour
  - One-way trips range from \$3,100 to \$9,450 per hour
- Additional fees for federal excise tax and catering
- Do NOT have commit to one type of aircraft for duration of program
- No timeframe for using funds
- Full refund of entire remaining balance at any time

# Which is Right for You?

**The answer depends on various factors...**

- Annual flight hours
- Travel patterns
- Amount You are willing to spend
- Safety and security concerns
- Amount of business usage
- Willingness to accept operational liability / risk

# Which is Right for You?

And which is most important to you...

- Cost
  - Highest cost – full ownership
  - Lowest cost – charter brokers
- Flexibility - most options on a daily basis
  - Most flexible – fractional, charter or flight cards
  - Least flexible – full ownership
- Consistency
  - Most consistent – full or fractional ownership
  - Least consistent – charter brokers

# Which is Right for You?

**And which is most important to you...**

- Availability
  - Least lead time required – full ownership
  - Most lead time required – national charter
- Liability
  - Highest risk – full ownership and fractional
  - Lowest risk – charter, national charter, charter brokers or flight cards

# Tax Considerations of Ownership and Use of Private Aircraft

Cathy Schrupp

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# Tax Considerations

- Ordinary and necessary business expense
- Deductible expenses
- Like-kind exchanges
- Personal use

# Ordinary and Necessary Business Expense

- “Ordinary and necessary” not defined in Internal Revenue Code
- Case law defines “ordinary” as a common and accepted practice
- Case law defines “necessary” as appropriate and helpful in carrying out the taxpayers trade or business

# Ordinary and Necessary Business Expense

## Favorable Facts

- Operating entity owns aircraft
- Expansive client base or travel requirements
- Private aircraft provides more flexibility
- Private aircraft saves time
- Timing and duration of trips is unpredictable
- Prompt arrival and departures are required
- Personal use is incidental to business use

# Deductions: Airplane Maintenance

- Routine Maintenance
- Engine Overhauls
  - Mandated by the FAA
  - Federal Express Corporation Tax Case

# Deductions: Depreciation

Year	Bonus	Accelerated	Straight-line
1	6,000,000	2,000,000	833,333
2	1,600,000	3,200,000	1,666,667
3	960,000	1,920,000	1,666,667
4	576,000	1,152,000	1,666,667
5	576,000	1,152,000	1,666,667
6	288,000	576,000	1,666,667
7	-	-	833,333
<b>Total:</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>

# Deductions: Depreciation

- **Meets “Predominant Qualified Business Use” Requirements**
  - 5 year recovery period
  - 200% declining balance method
  - Qualifies for Bonus Depreciation
- **Does NOT meet “Predominant Qualified Business Use” Requirements**
  - 6 year recovery period
  - Straight line method

# Deductions: Depreciation

## Qualified Business Use – Special Rule for Aircraft

STEP 1: At least 25% of use must be for business use, not including:

- Leasing property to any 5% owner or related person
- Use of property provided as compensation for the performance of services by a 5% owner or related party
- Use of property provided as compensation for the performance of services by any person not described above unless an amount is properly reported by the taxpayer as income to the person

# Deductions: Depreciation

## Qualified Business Use – Special Rule for Aircraft

STEP 2: At least 50% of use must be business use, including the following:

- Leasing property to any 5% owner or related person
- Use of property provided as compensation for the performance of services by a 5% owner or related party
- Use of property provided as compensation for the performance of services by any person not described above unless an amount is properly reported by the taxpayer as income to the person

# Deductions: Depreciation

## Bonus Depreciation

- 50% rate for qualified property placed in service after May 5, 2003
- 30% rate for qualified property placed in service after September 10, 2001 and prior to May 6, 2003

# Deductions: Depreciation

## **Bonus Depreciation – Qualified Property**

- Recovery period of 20 years or less (5 years for noncommercial aircraft)
- Original use commences with the taxpayer after September 10, 2001
- Placed in service before January 1, 2005
- Property with more than 50% Qualified Business Use

# Deductions: *Alternative* Minimum Tax Depreciation

- Depreciation Method – 150% declining balance
- Recovery Period – 5 years
- Bonus Depreciation – No adjustment from MACRS

# Deductions: Depreciation Recapture

**Applies when qualified business use decreases to 50% or below**

- Prior excess depreciation deductions are “recaptured”
- Included in gross income in the first year the property doesn’t meet qualified business use
- Recapture amount is the excess of all prior depreciation deductions (including bonus depreciation) over the straight-line method
- **IRREVERSIBLE!**

# Deductions: Depreciation Recapture

Year	Bonus	ADS	QBU %	Recapture
1	6,000,000	833,333	55%	5,166,667
2	1,600,000	1,666,667	55%	(66,667)
3	960,000	1,666,667	45%	(706,667)
4	576,000	1,666,667		
5	576,000	1,666,667		
6	288,000	1,666,667		
7	-	833,333		
<b>Total:</b>	<b>10,000,000</b>	<b>10,000,000</b>		<b>4,393,333</b>

# Like-kind Exchanges

**No gain or loss is recognized when property is exchanged for property of a “like-kind”**

- **Qualifications:**

- Exchanged property must be held for productive use in a trade or business or for investment
- Received property must be similar in function and must be held for productive use in a trade or business or for investment

# Like-kind Exchanges

## Taxable Basis

- Tax Basis of the property relinquished
- Decreased by any cash received, and
- Increased by any recognized gain or cash paid

# Like-kind Exchanges

Purchase price of Falcon \$ 19,500,000

Less: FMV of Cessna (12,000,000)

Additional Required Financing 7,500,000

Original Cost of Cessna \$ 15,000,000

Less: Accumulated Depreciation (9,500,000)

Adjusted Basis - Cessna 5,500,000

New Basis \$ 7,500,000

Old Basis 5,500,000

<sup>64</sup> Total Basis - Falcon

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**13,000,000**

# Personal Use

**General Rule: The fair market value of the employee's personal use of the airplane less the amount paid by the employee must be included in the employee's income.**

- Fair market value is defined as what would be paid in an arms-length transaction
  - Pilot provided by employer: Charter Rates
  - Pilot not provided by employer: Lease Rates for comparable plane and distance are used as fair market value