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Executives Take Company Planes as if Their Own

By [GERALDINE FABRIKANT](#)

[Richard D. Parsons](#), chairman and chief executive of [Time Warner](#), owns a small vineyard in Tuscany that produces a Brunello di Montalcino selling for \$80 a bottle, adorned with a crest of the Parsons family.

Twice a year, he boards one of his company's four jets to visit his 20 acres in Italy. When he does, Time Warner shareholders pick up the bill.

So do shareholders of [General Electric](#) when Robert C. Wright, a vice chairman, flies to his vacation home in Palm Beach, Fla., and [Bank of America](#) shareholders when Charles K. Gifford, the chairman emeritus, flies among his homes in Boston; Nantucket, Mass.; and Key Largo, Fla.

Chief executives' salaries have risen sharply. On top of that, new government data show, shareholders are paying more for executives' personal travel on corporate jets, long criticized as a symbol of excess.

Because the value of a trip counts as personal income for the executives, some companies are even paying the executives' taxes on trips. Others are agreeing to provide leisure travel for retirees, like [Sanford I. Weill](#), who just departed [Citigroup](#) as chairman. Edward E. Whitacre Jr. will travel on the corporate plane once his contract is up as chief executive of [AT&T](#), as will Peter F. Chernin after his tenure as president of the [News Corporation](#).

Taking the corporate jet is variously described as a necessity for time-pressed executives and politicians, a luxury for the elite, a security precaution, or an addiction, depending on who is talking.

"One chief executive told me, 'You can fool around with my stock options all you want, but don't fool around with my airplane,'" recalled Richard H. Moore, treasurer of the state of North Carolina, who oversees \$72 billion in investments. "You can compare it to crack cocaine. Once they get used to having the plane there waiting for them, they don't want to go back."

Equilar, an independent compensation research firm, reviewed the government filings of the 100 largest public companies that had made their 2005 government filings and found that companies reporting personal use of corporate aircraft billed shareholders 45 percent more for such travel than in the previous year. The number of companies reporting personal use of jets rose as well, to 67 from 60. The reported value, which critics say vastly understates the actual cost, was \$10 million.

"There are individual companies that have put policies in place to reimburse the company," said Tim Ranzetta, president of Equilar in San Mateo, Calif., "but overall costs have gone up pretty dramatically."

A Rising Travel Bill

Though it is not disclosed, each trip has become more costly in another way for shareholders in just the last year, and not just because jet fuel prices are soaring.

Until 2005, companies could count on a sizable tax break for all travel on corporate jets. But Congress was concerned that taxpayers were essentially providing a subsidy for corporate air fleets because neither executives nor companies were paying taxes on the value of personal travel.

Congress changed the law, and the [Internal Revenue Service](#) issued new guidelines last year, scuttling the tax break when it involves personal travel instead of business travel. The actual cost to Time Warner of Mr. Parsons's round trip to Italy might be anywhere from \$60,000 to \$170,000, according to Conklin & de Decker Aviation Information, an aviation research and consulting company. Previously, the company could write off the full cost, for a tax savings of up to \$42,500, assuming a 25 percent corporate tax rate. No longer.

The company's tax break now is generally limited to the much lower amount added to the executive's income for that jet's use. That figure is not disclosed. For Mr. Parsons, the base income would be just \$2,800, using a formula established by tax and transportation authorities of 14 to 21 cents a mile and a landing fee. Shareholders make up the difference between the \$42,500 no longer saved on taxes and the \$2,800.

The extra cost is more symbolic than significant to companies with billions in revenue. But it means that each time executives use corporate aircraft for their personal travel at cheap rates, they shift even more costs to shareholders.

Executives are well compensated, some critics say, and such perks send the wrong signal to workers while diverting corporate resources that could be better used elsewhere.

"Personal use of corporate aircraft is almost always inappropriate," said Charles M. Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware. "We pay them enough so that if they need to use private aircraft, let them charter it."

At the very least, executives could have the value of the corporate jet calculated at charter rates for their income purposes, the critics suggest. Then the executives would pay taxes on something akin to a market rate for their personal travel.

For Mr. Parsons, who had a pay package of \$16 million last year, a Gulfstream charter flight to Italy would be about \$90,000 round trip, using the \$5,000 an hour estimated by Conklin & de Decker. Assuming a combined

federal and state personal tax rate of 40 percent, his taxes would rise to \$36,000, from about \$1,100, on the trip.

The income for Mr. Wright's trip to West Palm Beach would rise to about \$25,000, from about \$900 now, using the charter rate, Conklin & de Decker said. He would then owe about \$10,000 in taxes on the trip, instead of about \$400. And G.E., which awarded him total compensation of nearly \$25 million last year, would get to write off \$25,000.

Congress could also revisit the issue on behalf of shareholders. The Senate passed a measure that would force executives to record a higher value on personal travel and to pay more in taxes on it. The House did not. The Senate had attached the measure to a pending tax reconciliation bill. Yesterday a conference committee reached agreement on what would be in the new bill, and the provision on jets was not included.

Corporate jet travel is an especially delicate topic in Washington. Lawmakers travel heavily on corporate fleets for fund-raising, and their campaigns reimburse the corporations at very low rates. Under federal rules, they usually use the price of a first-class ticket, considerably less than the price of operating the private jet. Only if there are no commercial flights must a politician calculate the value using much higher charter rates.

Senator Barack Obama, Democrat of Illinois, announced that he would stop flying on corporate jets this spring as lobbying scandals engulfed Congress. The Senate and the House, however, rebuffed efforts to curtail corporate travel by members of Congress in their package of lobbying law changes.

The allure of a private plane waiting at a private hangar at a small airport, like Teterboro in New Jersey, can be great. Many executives negotiate their exit packages to keep the perk as long as possible.

Under his employment contract, Mr. Chernin of the News Corporation can travel on its jet 50 hours a year after his contract expires in 2009 while he continues to produce programming for the company.

Lowell W. Paxson has struck a deal that would let NBC Universal gain control of [Paxson Communications](#), a television station company, within the next year. But in a side deal between Paxson and the Paxson Management Corporation, a private company that he controls, Mr. Paxson won the right to use Paxson's aircraft for his own business and personal use. He will pay for fuel and pilots' salaries on personal trips.

Some chief executives actually travel free because their companies cover the taxes that the executive incurs, a practice frequently referred to as a tax gross-up.

Cardinal Health reported \$151,000 in personal aircraft use last year for Robert D. Walter, its chairman and chief executive. The total included \$35,000 for his taxes.

The [Coca-Cola Company](#) covered the additional tax for its chief executive, E. Neville Isdell, bringing his personal travel total to \$252,000.

Family members may get to travel at shareholders' cost as well. [Hewlett-Packard](#) allows its chief executive, Mark V. Hurd, to travel on its planes and covers the taxes on 25 hours of his personal flight time. It also pays taxes for his wife's travel when she accompanies him on business. A spokesman said the company paid Mr. Hurd \$23,000 in tax reimbursements for their travel last year.

Time Warner does not pay the taxes on Mr. Parsons's travel. The company, which confirmed that his Italian vacations were treated as personal trips, declined to specify the total expense and tax impact.

But Conklin & de Decker ran the numbers to show how it might add up. Before 2005, the company could write off the landing fees, pilot overtime, fuel and related costs for such a flight on a Gulfstream to Italy, for an estimated \$60,000. In most cases, the company could also write off a portion of its annual costs, like depreciation, insurance and salaries, on the plane. That could bring the total write-off for the trip to \$170,000.

Costs Called Incremental

Many companies point out that the annual costs of having a plane do not change, whether or not an additional personal trip is made. Therefore, they say that the incremental cost of a trip in fuel and landing fees, now disclosed in the annual proxy statement filed with the Securities and Exchange Commission, is the most relevant number.

A few companies, especially those whose executive pay has drawn attention, have curbed the use of travel perks. Bank of America recently said it would start using charter rates to calculate how much income to report for its executives on their personal travel.

Wells Fargo has gone much further. It disclosed that its chief executive, Richard M. Kovacevich, had \$34,000 in personal use of its aircraft until September 2005. Then he began chartering the companies' planes through a third party and paying his own way at charter rates.

"In the case of the truly highly paid chief executives, there is a real question as to why they can't pay their own way for personal travel," said Brian Foley, a compensation consultant in White Plains.

Citing Security Precautions

Executives sometimes say that they have no choice in how they travel when explaining why the company and shareholders pick up the bill. In more and more cases, companies say their boards are requiring travel on corporate aircraft for what they cite as better security. The amount that must be added to executives' income for personal jet travel, already low, is lowest when mandated for "security reasons."

G.E., [Motorola](#) and Time Warner say that they require travel on the corporate plane. News Corporation does for its chairman and chief executive, [Rupert Murdoch](#), as well as its president, Mr. Chernin.

Often, the companies cite an emphasis on security since 9/11. A Time Warner spokesman said his company "looked at risk factors concerning security for our executives and came to the conclusion that private aircraft offers a distinct advantage."

But such security arrangements trouble Prof. David Yermack of the Stern School of Business at [New York University](#). In a study of 250 companies through 2002, he found that once companies began reporting personal use of the corporate jet, their shareholder returns disappointed. He considers a footnote about security requirements a red flag that the board and the chief executive do not have arm's-length negotiations.

"It is like telling the C.E.O.: 'We insist that you eat at a five-star restaurant for your own nutrition, and we insist that you drink \$800 Champagne for your health,' " he said. "I could see it if they were chief executives in Afghanistan or Colombia. But it seems so preposterous in our country."

Companies big and small make this argument and need not cite any real threat to safety. [Rollins Inc.](#), a pest control company with a market value of \$1.4 billion, has its chief executive, Gary W. Rollins, use its planes for security reasons. The company paid his taxes of \$7,214, bringing his travel income to \$116,988 last year.

Michelle Leder, who tracks corporate compensation on her Web site, [Footnoted.org](#), wrote that the only rationale for security needs at Rollins could be if "one day cockroaches decide to start fighting back."

A company spokesman said that "people of Mr. Rollins's business stature may be targets of foul play, which can jeopardize corporate leadership."

Private jet travel for current and former executives is just another fringe benefit, says Mary B. Hevener, a partner at Baker & McKenzie, whose firm represents many Fortune 500 companies on matters connected to their corporate jets.

"It is cheaper than giving money. And there are a lot of friendly ongoing relationships between executives and former executives," she said. "So why not say, 'Come and play golf.'"

"As a tactical matter, if you have the benefit already, what does it cost you? It's like my having an apartment in Florida. I lend it out to be friendly. It only costs me having my maid come in and clean up."

Using a private plane has psychological benefits for top officers, said David Bilson, a founder of Trans-Exec Air Service, which owns and charters eight Gulfstreams and whose flight attendants are trained as gourmet chefs and skilled at massages and facials. (More men get facials than women, he says.)

"You need to live the part," Mr. Bilson said of chief executives. "If a C.E.O. can go get a quick golf trip down on a private jet without too much hassle, God bless him."

"These high-profile people may have individuals protecting their children and security guards at their office," he added. "For them to get into a commercial airliner may be contrary to the security policies."

If demand for personal travel nudges the company to buy an extra jet, it costs shareholders significantly, though like most business costs it does not have to be broken out in financial reports. "The bigger the fleet, the bigger the issue," said Mr. Foley, the compensation consultant.

Bank of America has agreed to provide Mr. Gifford with 120 hours of jet use for five years after he retires as chairman and 100 hours each year afterward. The Charlotte, N.C.-based bank will lease a jet for Mr. Gifford, who orchestrated the merger of FleetBoston and Bank of America.

"He spent 38 years building FleetBoston into an extremely valuable company," said Terry Francisco, a company spokesman. "His aircraft usage in no way interferes with normal banking business."

Companies typically do not have to disclose travel by former executives. [Louis V. Gerstner](#) has continued to use [I.B.M.'s](#) aircraft since he retired as chairman three years ago.

Companies can also write off the full cost of any flight for retired executives, once they leave the board and if they own less than 10 percent of the stock, explained Robert M. Brown, associate chief counsel at the Internal Revenue Service. That may help explain why companies are willing to give departing chief executives use of the corporate fleet.

Lee R. Raymond, the former chief executive of [Exxon Mobil](#), can cite security as a reason to travel on the corporate jet. Exxon began requiring its executives to travel on corporate jets over a decade ago after the kidnapping and death of Sydney J. Reso, who oversaw the company's international operations.

But Mr. Raymond will continue to use corporate jets for personal and business travel for two years following his retirement from the top job last December. Mr. Raymond, whose 2005 compensation exceeded \$400 million, will reimburse the company not for the actual cost of those trips or at a charter rate, but based on the low rate now stipulated in tax and transportation laws.

Patrick McGeehan and David Cay Johnston contributed reporting for this article.

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