

Understanding Taxes and Regulations for Business Aviation Aircraft (Part 2)

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SCHEDULERS & DISPATCHERS CONFERENCE

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Today's Seminar Topics



- Documentation & Recordkeeping AKA How to defend business use.
- What is SIFL? What are the Special Rules?
- Determining Business Flights vs Personal Non-Entertainment Flights vs Personal Entertainment Flights
- Entertainment Use (Disallowance)
- SEC Reporting Rules
- Pulling it all together



DOCUMENTATION & RECORDKEEPING



DOCUMENTING USE

- Keep Adequate Records (Treas Reg 1.274-5T(b)(2)
 - Such as
 - Log Book, Trip Sheet
 - Calendar Entry, Emails,
 - Agenda,
 - Location of activity
 - Identify non-business passengers
 - Is the flight for the business of the company providing the flight



DOCUMENTING USE (cont'd)

- Capture as much of the necessary information prior to the flight
 - Flight Log
 - » Passenger manifest
 - » Name of host/lead employee
 - » How many passengers
 - » Where each is passenger going
 - » Business reason or nature of business expected for each psx
 - » Intermediate stops
 - Details of all expected expenses



DOCUMENTING USE

- For all employees and guests on every flight
 - Identify the passenger
 - Name of passenger, particularly if you are claiming business or personal non-entertainment
 - Control or Non-control Employee or guest of same
 - Specified individual, or not, or guest of same
 - Determine Primary Purpose
 - Facts & circumstances
 - Amount of time spent on each activity
 - What is the relationship between the business activity and transportation costs



DOCUMENTING USE

- Document Recurring Scenarios
 - If you have recurring flights, document how these flights have been handled – Be Consistent
 - » Flights between HQ and other company locations
 - » Flights to major customers, vendors or industry events
 - » Deadheads, commuting to/from 2nd home
 - » Recurring employees & guests
 - How are these flights be treated for SIFL Purposes,
 Entertainment Use, Time-Sharing, etc.
 - How are spouses or non-employees be treated



COMMON STRATEGIES

- Employ a Corporate Aircraft Use Policy
 - This will save time in the future and provides consistency
 - » Corporate Policy vs Individual Judgments
 - » Institutes an approval process for employee use of aircraft
 - » Describes how flights of guests and/or spouses are handled or even allowed.
 - » Discusses the tax treatment of recurring scenarios
 - » May address the internal accounting for the departments using the aircraft.



COMMON STRATEGIES

- Personal Use Group
 - This could consist of anyone who deals with the aircraft/flight department, such as
 - Chief Pilot, Flight Dept manager, Scheduler/Dispatcher, tax department, accounting department, human resources, executive assistance, owner, etc.
 - Communicate on a regular basis with affected persons



COMMON STRATEGIES

- Develop consistent accounting processes
 - Review flights on a regular and consistent basis
 - Maybe month-by-month, or quarter.
 - » Remember the longer between the flight and review, the more apt one is to forget what was the purpose of the flight and may even loss of records.
 - Develop an objective and standardized approach to classifying flights



What is SIFL? What are the Special Rules?



WHAT IS PERSONAL USE?

- Non-business use of an aircraft provided by the company to an employee
 - Any chartered aircraft, fractional aircraft or wholly owned aircraft provided to the employee for non-business use
- Non-Business
 - Flights for purposes other than the business of the company
 - Flights that are for the business of the passenger, but not the company's business
 - Outside board meetings or for other companies business
 - Vacation, entertainment, recreation



OVERVIEW

- The FAA limits the ability of an Employee to reimburse the company under Part 91 for personal use
 - Any unreimbursed costs of an Employee's personal use of the company aircraft must be included in the Employee's income for federal income tax purposes
 - SIFL is a formula accepted by the IRS, as is the Fair Market Rule



WHY SHOULD YOU CARE?

- Tax costs to the company
 - Loss of deductions
- Tax costs to the Employee(s)
 - Increased income (Fringe Benefit/imputed income)
- FAA enforcement
- IRS enforcement
- Your tax benefits depend on how you use the aircraft



IRS VALUATION RULES

- Fair Market Rule
 - Also known as the Charter Valuation Rule
 - This is what it would cost to charter an equivalent aircraft
 - Typically higher amount than SIFL

SIFL Rule

- The Noncommercial Special Valuation Rule or the (IRS Code Section 1.61-21(g))
 - NOTE The "SIFL" calculation is generally less than the actual cost of the flight. This may or may not be a good thing (i.e. Entertainment Use)



IRS VALUATION RULES (cont'd)

- Can the employee pay for this?
 - IRS requires that an employee
 - Pay, or
 - Have the value imputed (added) to their income, For the benefit of flying on board a company aircraft for purposes not related to the business of the company.
 - Or a combination of both
 - FAA Rules
 - In general, one cannot pay for non-business use of an aircraft, however imputation is good
 - However, new FAA Chief Counsel interpretation, which allows certain employees the ability to pay on certain occasions. (Caution: Application of Commercial FET)



CONTROL vs NON-CONTROL EMPLOYEE

- Control Employee
 - Owns 5% of more of company;
 - Paid in the top 1% of the company
 - Most officers or Directors
 - Retired former control employees
- Non-Control Employee
 - Everyone Else
- If an employee can authorize a personal use flight, the employee is probably a control employee.



SIFL

- SIFL Rates are published by the IRS & NBAA twice a year
 - 1/1/16 6/30/16
 - \bullet 0 500 miles = \$0.2144
 - 501 1500 miles = \$0.1635
 - Over 1500 miles = \$0.1572
 - Terminal Charge = \$39.19
 - 7/1/16 12/31/16
 - 0 500 miles = \$0.2061
 - 501 1500 miles = \$0.1572
 - Over 1500 miles = \$0.1511
 - Terminal Charge = \$37.68



• SIFL (cont'd)

 Aircraft Multiples have been the same since the rule came out in 1989

Weight	Control Employee	NonControl Employee
6000 lbs or less	62.5%	15.6%
6,001 – 10,000	125%	23.4%
10,001 – 25,000	300%	31.3%
25,001 or more	400%	31.3%



CALCULATING SIFL

- Per person, per leg
- On all types of aircraft, including helicopters
- Value international flights
- Value personal use on Part 135 aircraft
 - Sell seats versus sell aircraft
- Any individual who is less than 2 years of age, is always valued at zero



CALCULATING SIFL (cont'd)

- Definition of a Flight
 - The distance is measured in Statute Miles
 - From where the individual boards the aircraft to where the individual deplanes
 - Round Trip = 2 flights
 - On a passenger-by-passenger basis
- Deadhead flights are not valued
- Mileage incurred in an Intermediate Stop not included in mileage



CALCULATING SIFL (cont'd)

- Information Needed
 - Status & Type of Passengers
 - Business vs non-business
 - Control vs non-control employee
 - Current SIFL Rates & Terminal Charge
 - Aircraft Multiples
 - Aircraft Weight
 - Flight Information such as # of flights/legs and distance in statute miles



- Seating Capacity Rule AKA the 50% Rule
 - If 50% of the <u>seating capacity</u> of the aircraft is filled with passengers on business, then someone occupying an empty seat <u>could</u> realize a zero valuation
 - This rule only applies to employees, spouses or dependent children
 - Not to guests (cousin, friend, non-dependent children, etc.)
 - If the 50% rule is met, a Guests' travel would be valued at the non-control employee rate, regardless of whose guest they are.
 - Board Member A Board member is not an employee for purposes of this section, therefore a Board member cannot realize a zero valuation.
 - However, see guests above.



- Trip primarily for employer's business
 - Value all 3 legs, then
 - Value the trip as if the personal leg did not occur
 - Subtract the 2nd from the 1st and the difference is what is added to the employees income.
- Primarily personal trip
 - Value the flight from the Personal Destination to home, this is what is added to the employees income.



- Seating Capacity Rule, (cont'd)
 - 24 month rule The seating capacity of the aircraft must remain the same for 24 months
 - Flight Crew Seats occupied by the flight crew are not consider in the calculation of the seating capacity of the aircraft.
 - Jump Seat
 - Or a seat that is not used by anyone other than crew for take-off and landing



Spouse Travel

- An employer can deduct for spousal travel as a business expense as long as certain conditions are satisfied under Section 274(m)(3).
 - Spouse is an employee, and
 - Trip is for a "Bona fide" business purpose, and
 - Expenses are otherwise deductible



- Spouse Travel (cont'd)
 - Expenses Likely Taxable When
 - No formal request for family member to attend event(s)
 - Family members Are not required to attend meetings, Are not given assignments in advance or Do not make presentations at the event(s)
 - Children or other family members make trip
 - Family member performs only "helpful" services, such as limited note taking, secretarial services, etc.
 - Family members participate in substantial tourist activities (shopping, sightseeing, etc.)



- Spouse Travel (cont'd)
 - Expenses Likely "Bona Fide" When
 - Formal or official correspondence requests spouse or other family members of Co employees make trip or attend event(s)
 - Spouses are required to attend meetings, given assignments in advance or make presentations at the event(s)
 - Children or other family members do not make trip
 - Family member performs "necessary" services by acting as a representative of Company in a substantial manner
 - Non-Company individuals (alumni, donors, recruits, etc.) attend event(s)
 - Family members do not participate in tourist activities



Security Rule

- If the employee falls under the Safe Harbor Rule (IRC Section 1.132-5(m))
 - What is this?
 - Then they can use a 200% multiple regardless of the weight of the aircraft and the status of the employee (control vs non-control)
 - For control employees in aircraft that weigh over 10,000 pounds this could be a significant savings
 - Change in use of this rule since 2005
 - Entertainment Use



- Foreign travel in Excess of 7 Days
 - Foreign travel SIFL reduction rules apply if the following 2 conditions are met:
 - Business trip outside the United States lasts for more than 7 days
 - At least 25% of the individual's time on the trip is devoted to non-business activities
 - If both conditions are met, SIFL may be reduced to the ratio of non-business days divided by total days
 - Travel days and weekend days count as business days

Does not apply to employees or guests traveling entirely for nonbusiness purposes



Determining Business Flights vs

Personal Non-Entertainment Flights vs

Personal Entertainment Flights



TYPES OF COMPANY FLIGHTS

- Business Flights
 - Flights that are incidental to the business of the companies' business (entity that has the operational control of the aircraft)
- Personal Non-Entertainment Flights ("PNE")
 - Flights that are for business, but the business of the company owning or operating the aircraft.
- Personal Entertainment Flights
 - Flight that are for transportation to activities that provide entertainment to the passenger



WHAT IS ENTERTAINMENT

- "Entertainment" means any activity which is generally considered to constitute entertainment, amusement or recreation: Treas.
 Reg. 1.274-2(b)(1)
- "Entertainment use is an amusement or recreational activity, such as traveling to a sporting event or a vacation destination" Notice 2005-45
- An activity not "directly related to" or "associated with" the active conduct of a trade or business
- Entertainment is often described as a frame of mind...passenger expects enjoyment after flight



EXAMPLES OF NON-ENTERTAINMENT

- Attending to business that is not the business of the company that owns the aircraft
- Attending a meeting of the Board of Directors of an unrelated company
- Accompanying a spouse to a business event
- Charitable flights, such as Angel Flights
- Routine Personal Activities
 - Commuting Flights



EXAMPLES OF NON-ENTERTAINMENT

- Routine Personal Activities (cont'd)
 - Flights with investment advisor, attorney, accountant
 - Flight to take child to boarding school or college
 - Flight to attend funeral
 - Key is lack of entertainment, not "routine" nature of the activity



Entertainment Use and the Section 274 Expense Disallowance

Personal Entertainment or "PE"



- For expenses associated with the aircraft, deductions for specified individuals' personal entertainment use are disallowed
 - To the extent the expenses exceed the amount treated as compensation or reimbursed
- The prescribed method for calculating the Disallowed Costs is daunting
- Whether a flight involves Personal Entertainment requires careful review

What are Specified Individuals?



- Individuals subject to § 16(a) of the Securities Exchange Act of 1934 OR any individual who would be subject to it if the company were an issuer of equity securities subject to the Securities Act.
- Under these rules, specified individuals generally include officers, directors and 10 percent owners.
- Officers are defined by reference to securities laws and include the principal financial officer, principal accounting officer or controller, vice presidents in charge of a principal business unit, division or function and any other officer who performs a similar policy-making function.
- Generally, people who have the authority to use the plane for personal purposes.
- And their family members and guests (very important)

Examples of "PE" and "PNE"



Personal Entertainment

- Vacations and Resort Destinations
- Spectator Sports
- Hunting, Fishing, Golfing, Skiing
- Holiday Travel
- Shopping Trips

Personal Non-Entertainment

- Commuting flights
- Travel to outside boards
- Medical travel
- Charity work
- Travel to meet with personal business managers

Calculating Disallowed Expenses



Four Disallowance Methods

- Occupied seat hours
- Occupied seat miles
- Flight-by-flight, by seat hours
- Flight-by-flight, by seat miles

Aircraft Depreciation is an extensive topic. A separate session was held this morning.

All Costs Included

- Aircraft <u>Tax</u> Depreciation and Lease Payments
- Aircraft Improvements & Upgrades
- Interest payments
- All Maintenance Costs
- Insurance, Hangar, Security and Utilities
- All aviation personnel salaries, benefits and training
- Management Fees, Trip and Handling Fees

You Must "Ghost" Deadheads



- Required: Attribute Deadhead Flights to the Passengers Who Caused Them
- Your disallowance calculations must "ghost" the passenger(s) causing the deadheads onto these flights, for purposes of disallowing PE flights.
 - Therefore, remember to also attribute BUSINESS passengers onto the deadheads which they also caused
- When a deadhead leg occurs between two occupied legs, the ghosting calculation is challenging
 - Consult examples in IRS regs or discuss with your aviation tax advisor

The "Detour Rule"



- When a flight includes multiple destinations, at least one of which is for business purposes, and at least one of which is for entertainment purposes, the flight hours/miles allocated to entertainment use will be the excess of the total flight hours/miles flown during the trip over the number of flight hours/miles that would have been flown if the flights
- Works great for simple flights when all passengers are flying for the same reason; however, overly complex when:
 - Passengers are aboard for mixed purposes
 - The flight involves multiple company aircraft which are heavily utilized

Occupied Seat Hours/Miles



- To determine the disallowance for the entertainment flight, multiply the average cost per occupied seat hour/mile by the total number of occupied seat hours/miles for each entertainment flight
- Calculate the occupied seat hours/miles
 - Multiply the flight hours/miles for each flight by the number of passengers
- Calculate the cost per-occupied seat hour/mile
 - Divide the annual aircraft expenses subject to disallowance by the annual occupied seat hours/miles
- Calculate the disallowance of deductions
 - Multiply the occupied seat hours/miles by the cost per hour/mile
 - Subtract the amount imputed as income (SIFL) to, and/or reimbursed by, the
 Specified Individual from the expenses for the personal entertainment flight

Flight by Flight Seat Hours/Miles



- Calculate cost per hour/mile
 - Annual aircraft expenses / annual flight hours/miles
- Calculate the expenses for the flight
 - Cost per hour/mile x flight hours/miles
- Calculate percentage of entertainment occupied seat hours/miles
 - Entertainment occupied seat hours/miles / total occupied hours/miles
- Calculate the disallowance of deductions
 - Expenses of the flight x percentage of entertainment occupied hours/miles
 - Subtract the amount imputed as income (SIFL) to, and/or reimbursed by, the
 Specified Individual from the expenses for the personal entertainment flight
- The deduction should equal the SIFL and/or reimbursed amount

What's the Difference: SIFL vs Disallowance?



SIFL Income

- SIFL affects your passengers!
- Fringe benefit income assigned to your pax for personal use of the aircraft
- Compensation per the IRS
- Included in their W-2 or 1099
- "Standard Industry Fare Level" -mileage rates & terminal charges
- Two methods
 - SIFL rates set by the IRS each year
 - Charter Rate Method (market prices)

Entertainment Disallowance

- Disallowance affects the company!
- Makes a percentage of your aircraft costs non-deductible
- Proportional to the personal entertainment use of your aircraft
- This can be a significant dollar impact, especially when a new airplane is being depreciated
- The disallowance is often overlooked by companies with aircraft.



SEC Reporting Rules Developing Reporting for Proxy Reporting

What is a Proxy Statement?



- Required when soliciting shareholder votes
- Published before annual shareholder meetings
- Reporting by publicly-traded companies regulated by the SEC
- Provides key information to shareholders:
 - Background of executives and the BOD
 - Specific compensation details of Named Executive Officers (NEO's)
 - Compensation for the BOD
 - Related party transactions over \$120,000

Sample Proxy: Coca Cola 2016



	Year		Perquisites and Other Personal Benefits										Additional All Other Compensation					
Name			Aircraft Usage		Car and Driver		Security	International Service Program Benefits		Financial and Tax Planning		Other	Reimb	Tax oursement	to Com	Company ontributions pany 401(k) wings Plans		isurance remiums
Mr. Kent	2015	5	192,337	\$	198,217	5	130,591	N/A	\$	-	\$	-	\$	59,250	5	56,000	\$	3,936
	2014		178,593		185,248		128,333	N/A		_		-		76,423		133,000		1,944
	2013		239,924		176,013		135,788	N/A						27,951		266,000		1,692
Ms. Waller	2015		0		0		0	N/A		-		-		0		48,349		2,111
	2014		0		0		0	N/A		_		-		0		32,366		586

Aircraft Usage

The Company owns and operates business aircraft to allow employees to safely and efficiently travel for business purposes around the world. Given the Company's significant global presence, we believe it is a business imperative for senior leaders to be on the ground at our global operations. The Company aircraft allow employees to be far more productive than if commercial flights were utilized, as the aircraft provide a confidential and highly productive environment in which to conduct business without the schedule constraints imposed by commercial airline service.

The Company aircraft are made available to the Named Executive Officers for their personal use in the following situations:

The Company aircraft is the Board's strongly preferred method for all travel by Mr. Kent, for both business and personal travel. This is for security purposes due to the high profile and global nature of our business and our highly symbolic and well-recognized brands, as well as to ensure that he can be immediately available to respond to business priorities from any location around the world. This arrangement also allows travel time to be used productively for the Company. Mr. Kent and his immediate family travelling with him use the Company aircraft for a reasonable number of personal trips. Personal use of the Company aircraft results in imputed taxable income. Mr. Kent is not provided a tax reimbursement for personal use of aircraft. For the same reasons, limited personal use of the Company aircraft is permitted for Mr. Quincey upon becoming President and Chief Operating Officer.

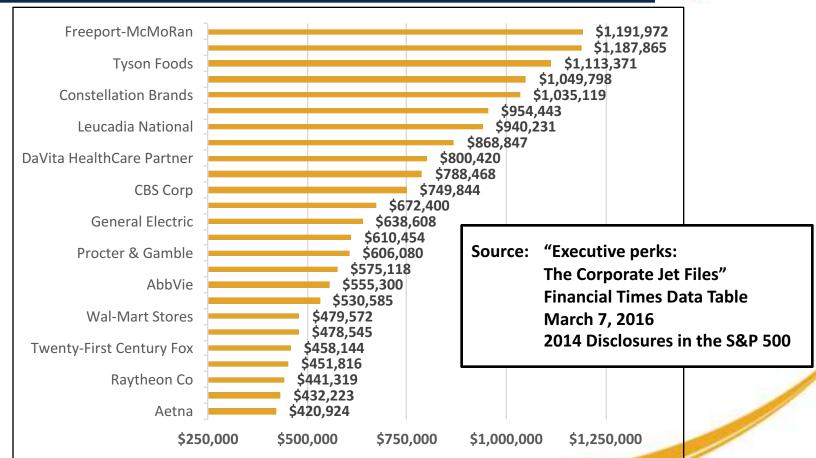
- No other Named Executive Officer uses the Company aircraft for personal purposes except in extraordinary circumstances. The Company aircraft was not used solely for personal purposes by Named Executive Officers in 2015 other than Mr. Kent.
- Infrequently, spouses and guests of Named Executive Officers ride along on the Company aircraft when the aircraft is already going to a specific destination for a business purpose. This use has minimal cost to the Company and, where applicable, a nominal amount is included in the All Other Compensation table above. Income is imputed to the Named Executive Officer for income tax purposes, but no tax reimbursement is provided since such persons are not traveling for a business purpose.

- In determining the incremental cost to the Company of personal use of the Company aircraft, the Company calculates, for each aircraft, the direct variable operating costs on an hourly basis, including all costs that may vary by the hours flown. Items included in calculating this cost are as follows:
 - aircraft fuel and oil:
 - travel, lodging and other expenses for crew;
 - prorated amount of repairs and maintenance;
 - prorated amount of rental fee on airplane hangar;
 - catering;
 - logistics (landing fees, permits, etc.);
 - telecommunication expenses and other supplies; and
 - the amount, if any, of disallowed tax deductions associated with such use.

When the aircraft is already flying to a destination for business purposes, only the dired variable costs associated with the additional passenger (for example, catering) are included in determining the aggregate incremental cost to the Company. While it happens very rarely, if an aircraft files empty before picking up or after dropping off a passenger flying for personal reasons, this "deadhead" segment would be included in the incremental cost.

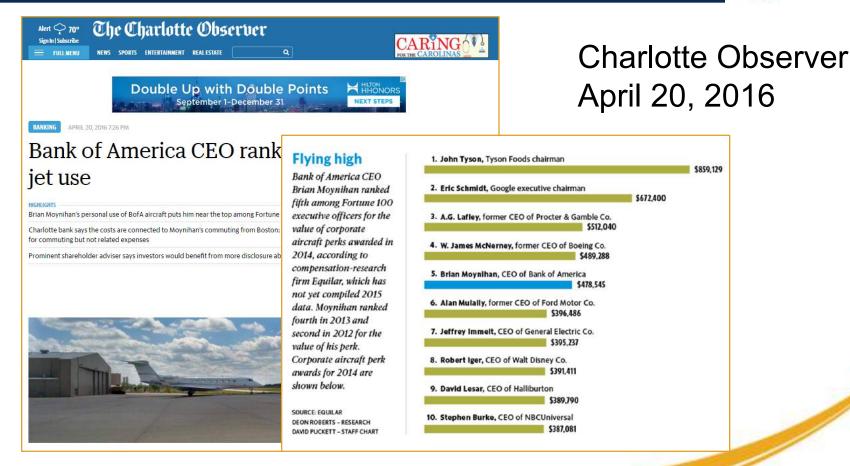
SEC Disclosures Attract Media Scrutiny





They Also Attract "Hometown" Interest





SEC Proxy Reporting



- Must Disclose the "Value" of Aircraft Personal Use for each "Named Executive Officer" (NEO)
 - Amounts exceeding \$10,000 must be disclosed in the company's "Summary Compensation Table"
 - Amounts exceeding the greater of \$25,000 or 10% of total perquisites require separate footnote explanation
 - Generally, included under "All Other Compensation"
- Value = "Aggregate Incremental Cost" (AIC) of Providing the Compensation. Significant variations in calculations across reporting companies.

"Just one non-business round trip between LAX and Teterboro can trigger SEC reporting requirements."

Named Executive Officers ("NEO")



- SEC Regulation S-K Item 402(a) requires disclosure of all compensation paid to NEOs:
 - Principal Executive Officer (PEO)
 - Principal Financial Officer (PFO)
 - 3 most highly compensated executive officers (other than PEO and PFO)
 - Up to 2 additional individuals for whom disclosure would have been provided, except that they had left their senior role by year-end
- Also applies to Directors compensated for services provided as directors (see 402(k))
- Personal Use of Corporate Aircraft by NEOs and Directors is a Perquisite ("Perk") reportable as "Other Compensation"

Aggregate Incremental Cost "AIC"



- Summary: Those costs which the company would not have incurred but for the personal use of the aircraft by NEOs or their guests
- Significant variations among reporting companies, but some common practices include:
 - Exclusion of fixed costs (pilots' salaries, benefits, training, maintenance (other than paid by the hour plans), hangar, insurance, depreciation, purchase and lease costs)
 - Inclusion of variable costs (fuel, trip-related expenses)
 - Exclusion of business flights where business passengers are aboard (negligible incremental cost for personal use passengers)
 - Use of published hourly variable/direct operating costs (DOC)
 - Use of actual hourly DOC (best practice)

Common Reporting Practices



- Use of actual operating costs
 - Inclusion of variable costs (fuel, trip-related expenses)
 - Exclusion of fixed costs (salaries, depreciation, maintenance)
- Use of an hourly rate, plus trip expenses
 - Published hourly rate for the specific aircraft, or
 - A company-specific hourly average
- Estimating the "Incremental" flight hours caused by personal legs:



Considerations for Effective SEC Reporting



Decisions Required	Considerations & Alternatives
1. Capturing Aviation Costs	How are they compiled?Can you segregate AIC from other costs?
2. Select a Basis for Cost	Actual Operating Costs?Budgeted Costs?Published Industry Rates?
3. Selection of a Method to Assign Cost to Flight Legs	Specific identification of costs to flights?Hourly costing or Pro-rata allocation?
4. How to Track the Purpose of each Flight (and each Passenger)?	Scheduling software?Flight request forms?Other?
5. How will Flights be Classified as Business or Personal?	By the Lead Passenger?By a Defined Process?By a Committee?By a Company Policy?

Practical Accounting Considerations Drive these Decisions in Each Company



Take a Breath....

There's Only Three Standard Concerns

1 SIFL Income

Entertainment
Disallowance

3 SEC Proxy Disclosure

Fringe Benefit
Income added to
the W-2 of the
Host Passenger

Aviation Costs
Not Deductible
to the Company

The Company's Cost of Providing Personal Use to each Executive



What are the Basics Again?

Three Different Methods

1 SIFL Income

Entertainment Disallowance

3 SEC Proxy Disclosure

- Published Rates Per Mile
- Follow the rules
 - Multipliers
 - Terminal charges

- What's your PE percentage?
- That percentage of aviation cost is Not Deductible
- DOC's
- "Aggregate Incremental Cost" or "AIC"

Simplest Way to View IRS & SEC



Three Buckets of Flights

• No SIFL
• Deductible

Personal **Personal** Non-**Entertainment Entertainment** Report SIFL **Report SIFL Disallowed Deductible** For NEO's, these flights are reportable in your proxy



Where are the Challenges?

1 SIFL Income

Entertainment Disallowance

3 SEC Proxy Disclosure

- Lots of calculations
- Whether to charge SIFL can be gray
- A few tricks, but generally a mechanical effort

- We are still in denial about "PE"
- BIG mathematical calculations
- Gray areas all over the place

- Its on the Internet
- The media, investors, and watchdogs study this
- Again ... Gray

Nuisance

Big Dollars

External Scrutiny

Where SEC Reporting Challenges Can Occur



- The business or personal nature of a trip involves sensitive information
- CEO's office must understand compliance rules if they are part of the classification process
- Maintenance of documentation for subsequent external review of reporting decisions
- Trips involving mixed business and personal use (the sample below has several possible treatments)
 - Cleveland to Tampa for Business
 - Personal Leg to Augusta (the Masters)
 - Return to Cleveland





One Last Factor....

Time Sharing Agreements or "TSA"

1 SIFL Income

2
Entertainment
Disallowance

3 SEC Proxy Disclosure

- TSA allows key execs to reimburse the company for personal use
- TSA reimbursements will reduce the Company's Cost ("AIC")
- Typically Negates SIFL
- The Executive is Paying
- No Impact on PE percentage
- Still generating PE use
- TSA Payments lower the proxy disclosure
- Might eliminate it

Where Time Sharing Agreements Can Be Challenging



- A TSA involves reimbursement which leads to several additional accounting requirements
 - Establishing a clear invoicing process with each NEOs
 - Uncertainty or debate whether the TSA reimbursement should apply to a particular flight
 - Frequent requests by the lessee (NEO) to receive an estimate of the required reimbursement (before a trip)
 - Fuel tracking methods must be selected (actual FIFO burn; average cost, other)
 - Maintaining deposits and avoiding loans to NEOs
 - Possibility that aggregate passenger SIFL could exceed the TSA permitted reimbursement
- A TSA creates a new level of interaction between the lessor (company personnel) and the lessee (NEO)





- Who's in charge of your process?
 - It's hard to disagree with "the boss"
 - Especially when reimbursement must occur
- Designate the process owner(s), who must have authority to:
 - Review confidential flight information
 - Make flight determinations





Questions & Open Discussion

1 SIFL Income

Entertainment Disallowance

3 SEC Proxy Disclosure

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