

No Line to Board Private Jets, but There Is a Line to Buy Them

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By **Paul Sullivan**

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WEALTH MATTERS

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No lines to check in for your flight, barely any security, certainly no jockeying at the gate waiting for the moment your boarding group is called. It's a fantasy, perhaps, unless you're rich enough to be part of the private-jet set.

There's no denying that flying private is easier, faster and more comfortable than sitting in even the nicest first-class seat, environmental concerns aside. But to have space in a cabin filled with people you picked comes at a steep price — as much as tens of thousands of dollars an hour.

Yet despite the hefty costs, this has been a banner year for private planes.

Sales of business jets were up 15 percent at the end of the third quarter over the same period last year, said the General Aviation Manufacturers Association, the aircraft makers' trade group. Experts in private aviation said sales of both new and used airplanes were up, driven by an economy that is thriving for the super rich and a huge tax break in the 2017 tax law.

Not to mention the status conveyed by owning a private jet. A recent Vanity Fair piece called private jets "the singular fetish object of the modern billionaire."

As odd as it may sound, there were even end-of-year deals this season on "white tail" jets, which the makers build without a buyer's order. But the aviation experts said buyers needed to budget for not just the purchase price but many millions more each year to fly and maintain the plane.

"Throughout the year, some of our most well-heeled clients were in a great position to capitalize on excess inventory," said Dan Drohan, chief executive of Solairus Aviation. "People are taking advantage of year-end acquisitions of white tails. We're taking delivery of several in the last five days of the year."

Deciding whether to buy your own jet requires extensive calculations based on the hours and distance you want to fly as well as the operating costs, which are substantial. The annual operating budget starts at just under \$1 million for lighter jets like Embraer's Phenom 300 and rises to \$4 million or more for jets, like the Gulfstream G650 and Bombardier Global 6500, that offer the most flight range, speed and amenities.

Aside from the wow factor, the biggest motivator to buy a jet in the last year has been a tax break in the 2017 overhaul. The break is intended primarily for business expenses. So a private jet owner must use the plane at least 50 percent of the time for business purposes to deduct the entire purchase price of the plane in the first year. Personal use is allowed — as in transporting your family across the country to join you at a meeting — but not entertainment use, as in going to the Super Bowl.

This deduction also applies to used aircraft. "The fact that Trump let you take 100 percent depreciation Year 1, you're in a \$5 million plane for \$2.5 million," said Bill Papariella, chief executive of Jet Edge, a jet charter and management company. "They're flying off the shelves."

When the plane is eventually sold, the owner needs to pay income tax on the sale price. And if the owner doesn't use the plane at least 50 percent of the time for business, the deduction goes away. The lost deduction means a restatement of that year's tax filing. It could also mean that the value of that plane would be depreciated over a longer period, greatly reducing the tax benefit.

Strict record-keeping becomes essential to preserve a remarkable tax break, said Jerald D. August, tax partner and head of the international tax and wealth planning practice group at Fox Rothschild.

The least expensive way to get onto a private jet is through fractional ownership with companies like NetJets or Flexjet. With that type of ownership, a person buys a portion of an aircraft — in eighths, quarters or halves. Depending on the aircraft, this could translate to about \$1 million for a quarter of a jet.

But that doesn't include flight costs, like fuel and pilot time. Those hourly fees are more expensive than the hourly cost if you operated the plane on your own — sometimes more than double. There are also fractional fees. Of course, you're sharing the expense of the plane with other owners. The fractional jet company is making a profit as well as taking care of maintenance.

When it comes to buying your own jet, there are a minimum number of flight hours that make it cost efficient. Mr. Drohan said the total was about 150 hours. An aviation lawyer pegged it at 300 or more. The most a jet flies in a year are 1,200 to 1,400 hours.

Mr. Papariella said his company, Jet Edge, worked to charter planes to offset fixed costs to owners, but those savings come at the cost of hours on the plane's engines. He said the company's fleet of under 100 jets flew a total of 1,100 hours in September and 1,460 in October.

Charters offer a balance between having more control over when you fly and lowering some of the costs of ownership. Jet Edge's average client has a minimum net worth of \$50 million, which is low in the private jet world.

Mr. Papariella's clients often look to buy used jets, some decades old, that still perform at a high level but cost less up front, he said. A Gulfstream G4 from 2002 might cost \$3 million — far better than \$60 million plus for the current G650. But that old Gulfstream still costs \$1 million or more a year to operate, he said.

"Even if you're very wealthy, you could still be shocked by a monthly bill," he said. "We want to include the owner in how we make money. It's for guys who are used to having information at their fingertips."

Still, some buyers don't want to share.

A lawyer who advises on jet purchases said the plane was just another asset for his billionaire clients. Many of them are happy for the plane to sit idle when they're not using it, even if it entails paying for a crew to be at the ready.

Management companies like Executive Jet Management, a part of Berkshire Hathaway's NetJets, and Solairus Aviation focus primarily on managing jets for the owners, which includes negotiating down fixed costs like fuel and pilot training but also ensuring compliance with flight and safety regulations.

"First and foremost, owning an aircraft is a very technical ownership experience," said Brian Hirsh, president of Executive Jet Management. "Unlike real estate, there's a lot of regulatory compliance factors to consider like pilot training, standards, certification, aircraft airworthiness. The role of the management company is to make it hassle free."

EJM, as it is known, charges \$5,000 to \$20,000 a month for its management services. Additional costs like fuel, pilots and crew are passed through to owners but at discounts achieved by buying alongside NetJets.

"Collectively, we have 766 aircraft, which makes us the fifth-largest airline between United and Southwest," he said. "We take those discounts and pass them through to owners."

Mr. Drohan said clients needed to consider the three Ms in buying a jet: mission (where and how they're flying), means (how much they want to spend) and motivation (which, he said, "is a nice way of saying ego").

"The last thing I say to people before a purchase is buy the airplane you want," he said. "You'd be surprised how many people try to talk themselves into something smaller or less expensive."

The private jet world is the domain of the have-mores and have-the-mosts. But the costs may make that airline premium economy seat more attractive.