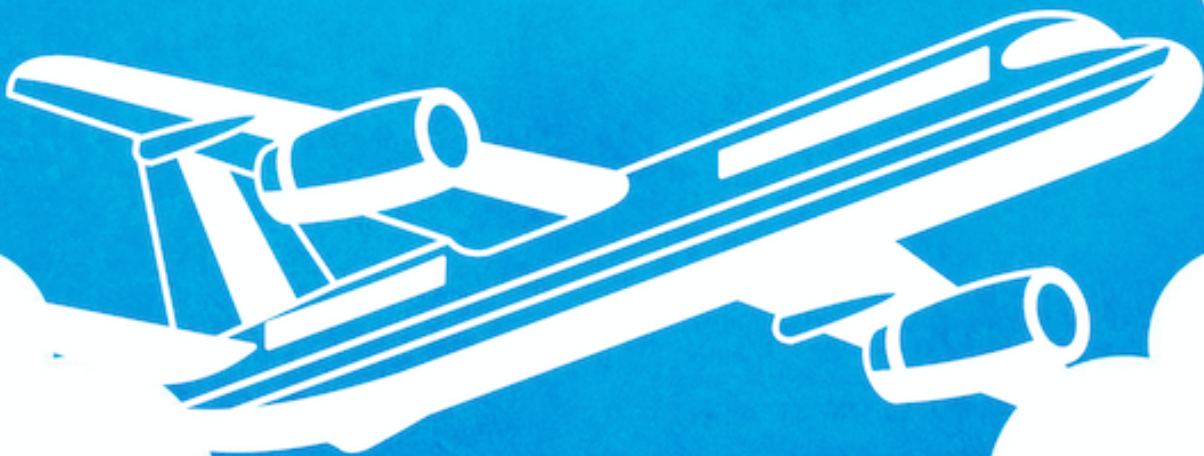


# HIGH FLYERS

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HOW THE PRIVATE JET LOBBY SHIFTS COSTS TO  
THE REST OF US, THREATENS OUR SECURITY,  
AND FUELS A WARMING PLANET.



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The IPS Inequality.org website (<http://inequality.org/>) provides an online portal into all things related to the income and wealth gaps that so divide us, in the United States and throughout the world. **Subscribe to our weekly newsletter at Inequality.org or follow us on Twitter and Facebook: @inequalityorg**

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## KEY FINDINGS

This report examines the ultimate excess in modern society, the private jet, including how they are publicly subsidized, the security threats they pose, and the detrimental environmental impact they present. This report follows the work of a report released by the Institute for Policy Studies in 2008 of the same title.

Some major takeaways:

- The private jet lobby spent \$56 million lobbying over the past ten years to save more than \$1 billion in annual taxes they avoid due to preferential tax treatment.
- The tax cut package under consideration in the Senate maintains and expands the private jet tax carve-out, while the Republican budget plan increases fees on commercial airline passengers.
- Private jets contribute less than one tenth of the resources they use from the Federal Aviation Administration Trust Fund. Commercial airline passengers heavily subsidize private jet passengers.
- Commercial jets are taxed at up to 40 times the rate of private jets on the exact same route despite identical needs in terms of transportation infrastructure.
- Private jets threaten our national security as owners can obscure their identity and passengers face zero security screening.
- A single private jet trip burns more greenhouse gases than the average American does in a whole year.

Solutions:

- End the private jet tax carve-out and tax private jets at the same rate or higher than commercial air travelers. Don't make it more expensive to fly commercial while subsidizing private jet travel.
- Close the security loopholes in private jet travel and tax carbon emissions effectively to account for the environmental impact of private jets.

## Introduction: Tale of Two Flyers

Nothing symbolizes the growing concentration of wealth and power as much as the private luxury jet, flying high above the rest of us. The private jet lobby –and their super-wealthy passengers –have created a parallel universe of perks and privileges that would shock most commercial passengers if they knew about them.

In both tax policy and homeland security, the high flyers have used their power to create one set of rules for themselves and another set of rules for the rest of us.

As wealth has concentrated in the hands of a few, so has the demand for private jets. The *Forbes* 400, all of them high-flying billionaires, have more wealth combined than the bottom 64 percent of U.S. households combined.<sup>1</sup>

**There are over 12,000 private luxury jets in the U.S. and industry analysts project that over the next decade over 9,000 new jets will be built, worth over \$270 billion.** These jets are owned and used by the wealthiest people on the planet. According to Wealth-X, the typical private jet owner is a 63 year-old male with a net worth of \$1.6 billion.<sup>2</sup>

### What It's Like to Fly Private

The plight of the ordinary U.S. commercial air traveler has become unquestionably grimmer over the last decade. The indignities of air travel include longer security lines, going shoeless and beltless through multiple security checks, evaporating legroom, lost baggage, and (if you're lucky) stale peanuts or pretzels. In the last few years, commercial airlines have calibrated as to how much mistreatment customers can tolerate, in the form of shrinking seats and miscellaneous fees for every component of travel.

Meanwhile, down at the general aviation center –where passengers board their private jets – the times have never been better. High flyers drive to small terminals, usually far away from the bustle of commercial passenger hubs. These terminals may be located at major airports, but have separate entrances and parking areas.

Often, drivers are permitted to bring VIP passengers right up to the plane, where their unscreened luggage can be loaded directly into the cargo hold. Passengers greet their pilots and flight attendants and board the aircraft with their pocket knives and water bottles. Private flyers don't have to bother with little plastic bags with three-ounce containers of shampoo or strangers rifling through their undergarments. No one dumps their personal items and water bottles into a trash bin or frisks their bodies. A weather delay doesn't lead to compounding cancellations or passengers marooned for days. Flights might be pushed to a later window, but are rarely cancelled.

Waiting time? Instead of showing up 2 hours early, you only need to show up about 15 minutes before your private jet departure.<sup>3</sup>

Does this great inequality in flying experiences matter? After all, private jet flyers pay a steep premium for their privileges. Most people would love to avoid the hassle of commercial travel and bask in the luxury of private jet travel. But there are real costs to ordinary citizens and other travelers as a result of the growth in private jet travel.

As this report shows, the rest of us pay to subsidize the private jet sector. And their lobbyists use their political clout to win tax breaks for the private jet set and fee increases for commercial travelers

Private jet security is a joke –and the private jet lobby has worked to ensure that private jet passengers are not subject to any of the security scrutiny that regular commercial flyers must face.

And the environmental costs of private jet travel are enormous. The carbon footprint per passenger of private jets is several times greater than flying on a commercial aircraft.

## **Private Jets Are Already Heavily Subsidized**

Nothing reveals the power of the private jet lobby more than its ability to deliver the goods for its privileged customers, now in the form of privileged tax status. Private jets are already heavily subsidized and if the Senate passes the tax package currently under consideration those privileges will be further engrained in our tax code, at the expense of everyone else.

To understand the private jet tax break under consideration in the Senate, one first has to grasp just how lopsided the tax structure is for private jets compared to commercial airline passengers. Private jets pay just a single tax, 21.8 cents per gallon of jet fuel or 19.3 cents per gallon for aviation gasoline. This fuel tax is higher than the fuel tax rate commercial airlines pay, but commercial flights more than make up for it with other taxes.

Commercial airline passengers, by comparison, pay a 7.5 percent federal excise tax on tickets, a \$5.60 federal security surcharge, a \$4.10 Federal Flight Segment Tax, and \$4.50 Passenger Facility Charge. And that's just on flights in the continental United States. International flights are subject to an \$18 in international arrival and departure tax while flights to Hawaii and Alaska are subject to a \$9 tax. Also, if you happen to use frequent flyer airline miles to buy your ticket, you'll pay a 7.5 percent tax on those miles.<sup>4</sup>



Some of these taxes, like the passenger facility charge and the segment tax, are on each leg of the flight meaning they're charged multiple times on flights with layovers. All told, **taxes make up more than 20 percent of the typical price a commercial airline traveler pays on their ticket.**<sup>5</sup>

These are just the taxes and fees placed on passengers. Commercial airlines also pay fuel tax at 4.3 cents per gallon of jet fuel as well as the normal array of income taxes, property taxes, sales taxes, and payroll taxes all businesses are subject to. The costs associated with maintaining an infrastructure for air travel are covered disproportionately by the flying public. Private jet passengers are allowed to coast behind, avoiding paying their fair share.

**Per flight, private jets generate about two percent of taxes and fees of commercial flights on an identical flight.**<sup>6</sup> This means that private jet passengers and owners are not contributing to the upkeep of our air traffic control system or our airports. Consider just one example, according to *Bloomberg*, a privately-owned Embraer SA Phenom 100E flying from Nashville to Philadelphia would pay nearly 98 percent less than an identical commercial flight. In other words, commercial airlines pay 40 times more in taxes than private jets to take the exact same flight.<sup>7</sup>

**Commercial airline passengers pay 40 times more in taxes than private jet passengers to take the exact same flight.**

According to *Bloomberg*, taxes on high performance private business jets, as in the planes that corporate executives fly around on, contribute just 0.7 percent to the Federal Aviation Administration Trust Fund that finances air-traffic control and other vital operations, yet they make up 10 percent of U.S. flights.<sup>8</sup> That doesn't even include the private jets owned or leased by individuals. Put simply, private jets are heavily subsidized by commercial airline passengers.

## The Private Jet Carve Out in the Trump Tax Cuts

A carve-out in the tax package under consideration in the Senate would further cement the preferred tax status of private jets by ensuring that chartered flight services are not subject to the same taxes commercial airlines pay.

The provision, currently receiving bipartisan support from Senator Sherrod Brown (D-OH) as well as many Republicans would benefit NetJets, a company based in Senator Brown's home district of Ohio.<sup>9</sup> NetJets business model is rooted in managing private jets for their ultra-wealthy clientele. What the proposed tax change does would exempt the company from the 7.5 percent federal excise tax on airline tickets from being applied to private jets under management by companies like NetJets.<sup>10</sup>

The company argues such a tax should not apply to them and cite cases brought before the Internal Revenue Service that have upheld their case. However, one wonders given the heavily subsidized status of private jets why wouldn't a federal excise tax that impacts commercial airline passengers extend to private jet owners?

## Commercial Airline Passengers Footing the Bill

To compound the insult, GOP congressional leaders are looking to make it more expensive for commercial airline passengers to fly. Also a priority for Senate Republicans, included in their Transportation Appropriations bill, alongside the carve-out for private jets in their tax cut bill, is a provision to nearly double the Passenger Facility Charge (PFC) that commercial airline passengers pay on every flight from \$4.50 to \$8.50 on the first segment of each flight.<sup>11</sup> The PFC, collected by commercial airports controlled by public agencies, is a fee that passengers pay on their plane ticket that helps finance airport upgrades.

**A family of four flying round trip cross-country with a layover would see their Passenger Facility Charge rise from \$72 to \$104 under the new regime.**

Consider that a PFC is charged per flight (with a maximum of two PFCs charged on a one-way trip and four on a round-trip flight), so flights with a layover pay double. A family of four flying round trip cross-country with a layover would see their PFC rise from \$72 to \$104 under the new regime.

The provision was introduced by Senator Susan Collins (R-ME) as a revenue enhancement for airport expansions. But airports currently have \$14.2 billion in unrestricted cash and investments constituting nearly a year of liquidity, meaning they could stop making money for a year before they would become insolvent.<sup>12</sup> The trust fund that covers capital improvements to airports currently has a projected uncommitted balance of approximately \$6.7 billion by the end of 2017, the highest level since 2001.<sup>13</sup>

Raising the PFC would have significant consequences for commercial airline passengers. For every \$1 increase in the PFC, airline passengers would have to pay an additional \$800 million combined.<sup>14</sup> Such fare increases would have a detrimental impact on air travel causing airlines to either reduce service or raise fare prices. According to Airlines for America, **14 unique taxes and fees are placed on commercial airline travel compared to the singular tax placed on private jet travel.**<sup>15</sup>

It's unclear that airports need extra funding at all. It's further unclear why commercial airline passengers should be the ones footing the bill if airport funding is in order rather than the heavily subsidized private jet industry.



## Private Jet Lobby Flexing its Muscle

The Trump tax cuts include higher taxes and decreased services for students, workers, seniors, and children. So how did the desires of private jet owners make it into the bill? The private jet lobby is incredibly powerful in Washington not just representing the interests of the wealthiest households and their myriad political connections but also by spending a tremendous sum of money.

**The three biggest trade groups representing private jets have spent a combined \$56 million on lobbying on this issue and others in the past decade.**<sup>16</sup> These trade groups include the National Business Aviation Association (NBAA) that represents corporations' private jet interests, the Aircraft Owners and Pilots Association (AOPA) that represents pilots and individuals that own private jets, and the General Aviation Manufacturers Association (GAMA) that represents private jet manufacturers.

**The benefits resulting from this lobbying effort are immense, totaling at least \$1 billion annually.**

Among the major tax breaks for private jets is the depreciation loophole that enables private jet owners to fully depreciate their aircraft in five years rather than seven years for commercial airlines. This alone costs the public \$300 million per year in lost tax revenue. The law as written implies that a private jet's value drops to zero after five years for tax purposes, an absurd claim. President Obama attempted to close this loophole in 2013, but was met with intense opposition by the private jet lobby.

“Are Republicans in Congress really willing to let these cuts fall on our kids' schools and mental healthcare just to protect tax loopholes for corporate jet owners?” Obama said in February 2013.<sup>17</sup> This question looms large today in the face of the tax cut package under consideration in Congress.

The other major subsidy for private jet comes in the form of commercial airline passengers subsidizing the infrastructure that private jet passengers rely on.

Private jets use 15.6 percent of Air Traffic Control (ATC) resources according to a 2005 FAA study on cost allocation.<sup>18</sup> Looking at the 2017 cost projections from the FAA, this means private jets will cost the system \$1.776 billion.<sup>19</sup> However, looking at the Airport and Aviation Trust Fund (AATF) revenue, non-commercial fuel taxes, the only tax paid by private jets into the trust fund, account for just 1.55 percent of net receipts, \$233.5 million.<sup>20</sup> That leaves \$1.5 billion in services that private jet owners use but don't pay for, a massive subsidy. Put

simply, private jets account for 15 percent of the air traffic control usage but contribute only 1.55 percent towards the costs.

**Private jets account for 15 percent of the air traffic control usage but contribute only 1.55 percent towards the costs.**

The rest of the costs associated with maintaining the air traffic control system falls on commercial airlines and their passengers. Commercial airlines contribute 95 percent of the Airport and Aviation Trust Fund (AATF) revenue (excluding cargo), but use just 73 percent of the resources. The remaining portion of the AATF budget not covered by private jets or commercial airlines is

“transportation of property” or cargo and mail, paid by companies like UPS and FedEx, which accounts for about \$500 million.

Private jets are not only heavily subsidized by ordinary airline travelers, they also pose a significant danger to our security.

## Private Jets Threaten Our Security

Next time you stand at airport security in your socks, having your fingernail clippers and peanut butter confiscated –while you watch your grandmother get frisked by a complete stranger –remember the private jet high flyers. They are laughing at you and your subservience to invasive security systems.

Meanwhile, the superrich drive their black sedans right up to their aircraft and unload their rifles and golf clubs directly into the passenger compartment. The private jet lobby has fended off regulators to protect their voluntary security status. They have also looked the other way as foreign owners buy US jets through secret trusts and gain precious FAA security clearances.

The private jet lobby has used their lobbying clout to block increased security provisions, ensuring minimal oversight of private jet owners and passengers. Their clout has trumped increased scrutiny as to the ownership of these jets and reduced security risks.

In 2008, the TSA was advocating for new regulations on private jets. At the time, Homeland Security Secretary Michael Chertoff had voiced concerns about terrorists using private jets and proposed expanded background checks on passengers and tightening security for small airports.<sup>21</sup>

But the private jet lobby mobilized their powerful network of wealthy and powerful customers, pilots and companies. They pressed regulators and by with 2010, the TSA had backed off plans to increase security of private jets.<sup>22</sup>

In June, TSA issued new stricter rules for commercial passengers.<sup>23</sup> But private jets remain a glaring security loophole. Passengers can still drive up to a private jet and unload weapons and other materials without any cargo inspection.

In a 2011 piece in *The Atlantic*, editor Jeffrey Goldberg described his personal experience hitching a ride on a private jet to a television appearance. Boarding a luxury jet at Teterboro airport outside New York City, a private security guard checked his name off a list. It was misspelled as “Goldba” but he was allowed to proceed. Passengers boarded the plane with no further physical inspection of their gear. There was no door to separate the pilots from the passengers. Goldberg asked his companion, “So let’s just say that I’m a terrorist pilot and I have a bag filled with handguns and I shoot these two pilots and then I take control of the plane and steer it into the headquarters of the CIA,” near which they would soon be flying. “What’s stopping me?”

“There’s nothing stopping you,” his friend said. “All you need is money to buy a plane, or a charter.”

“Luckily for America,” Goldberg writes, “I am not a terrorist, I did not kill the pilots, and I did not steer the plane into the headquarters of the CIA. Nor did I pack my bag with Semtex or a dirty bomb.” After landing at Dulles airport, Goldberg observed, “we passed far bigger planes than the one on which we had flown: 20- and 30-seat private jets, of obviously significant weight and fuel-storage capacity. Of course, one can charter 757s and 777s for private use as well.”

Goldberg observed that there were no TSA personnel stationed at these general aviation terminals and that the private jet industry is almost entirely “self-regulated.”

“The TSA has proposed that it be allowed to impose certain security measures on private jets,” writes Goldberg, “such as requiring operators to ensure that their passengers are not on the no-fly list, but for now the agency screens only those Americans who cannot afford to fly on private planes.

The TSA administrator, John Pistole, suggested he sees a less substantial threat from general aviation than he does in the commercial realm, and the general- aviation “community” is not enthusiastic about government regulation. “Clearly the general- aviation community has a lot of equities and interest in our rules,” he told me, delicately. The TSA does, however, distribute helpful tips to those who work at

private- aviation airports, including, “Always lock your aircraft.” And there is this warning: call 911 if you happen to notice “pilots appearing to be under the control of others.”

UK security specialists have expressed ongoing concern about the lack of scrutiny over private jets as a potential loophole in post-9/11 security. Lord Carlile of Berriew has warned about the possibility of jets being hijacked and used as “vehicle bombs” to target the public. In a 60-page report, security experts decried that it would be relatively simple to orchestrate such attacks and that the thousands of private aircraft should be subjected to far stricter checks.<sup>24</sup> More recently, private jets have been scrutinized as a weak link in the UK security system.<sup>25</sup>

## Masking Ownership of Private Aircraft

Registering aircraft with US aviation authorities provides many benefits including enhanced resale value, less scrutiny when traveling in international airspace, and fewer bureaucratic requirements and fees. But in two reports, the Inspector General for the Federal Aviation Administration expressed concern over approximately 5,600 aircraft that are owned under trusts for non-U.S. citizen but are included on the Civil Aviation Registry. The Inspector General found they have insufficient information about the ownership and identity of beneficial owners.<sup>26</sup>

The recently disclosed “Paradise Papers” reveals that foreign nationals are using shell trusts to hide the identity of plane owners. A mountain of records leaked by the Bermuda-based law firm, Appleby, shows how the law firm assisted wealthy jet owners from Russia, Africa and the Middle East to create fictitious US ownership entities. Several U.S. banks, including Wells Fargo and Bank of Utah, are among the most prolific creators of trusts holding private jet ownership. Bank of Utah manages more than 1,390 aircraft trust accounts, most of them foreigners.<sup>27</sup>

The Bank of Utah provided the trustee services to enable a Russian oligarch Leonid Mikhelson to obtain a US registration for his jet. These banks use custodial trust accounts to register the ownership of plane registrations.

In a Spotlight series in *The Boston Globe*, researchers found that the US remains “an easy mark for drug dealers, terrorists and others who prize anonymity when registering aircraft or getting licensed to fly.”<sup>28</sup>

The *Globe* review found that one out of every six aircraft are registered through trusts, Delaware corporations, or using post office box addresses, techniques commonly used to mask who the true owner is.

In a tragic incident, the *Globe* described found that the owner of a Piper aircraft flown by narco-traffickers into the home of a Venezuelan family, killing several family members, was registered in the United States by a Texas-based company called Aircraft Guaranty. The *Globe* found more than 1,000 planes registered in Aircraft Guarantee's name at an address in their Texas town that doesn't have an airport. "But it's enough to give clients both anonymity and coveted US registration for their planes."

Several members of Congress have introduced bipartisan legislation to require disclosure. "Without beneficial ownership information for aircraft registration, the FAA may be registering aircraft that do not meet its own requirements," said Congressman Stephen Lynch, lead sponsor of transparency legislation. "There are serious national security risks when the FAA approves an aircraft registration, but does not have all the information, particularly if an aircraft is owned by a shell corporation or a foreign entity. We need increased transparency in aircraft registration, as well as improved accountability from the FAA, to prevent fraud, corruption, or illicit activity by bad actors."

## Private Jets, Public Environmental Costs

A commercial round trip flight between New York and San Francisco generates 20 percent of the greenhouses gases that the average car driver emits over an entire year—about 0.9 metric tons of carbon dioxide per person. According to the World Bank, the average American generated about 16.4 metric tons of carbon dioxide in 2013. The global average is about 5 metric tons.

Globally, over 20,000 planes are in use around the world, serving 3 billion passengers annually. By 2040, this number is projected to rise to more than 50,000 planes in rigorous service. Similarly, private jet use is expected to also double over the coming decade.<sup>29</sup>

Flying coach creates a smaller footprint. As business class and first class the seats are larger, fewer people are being moved by the same amount of fuel. The World Bank estimates that the carbon footprint of flying business class is three times greater than flying coach. Flying in a private jet would be considerably greater carbon footprint than even first class in a commercial flight.<sup>30</sup>

Private jet lobby has tried to obfuscate this matter with a number of bogus surveys and confusing facts. Novajets, a private jet firm, goes as far as saying, "Flying in private jets is

considered the safest mode of travel for the environment.”<sup>31</sup> They point out that automobiles contribute more to greenhouse gas emissions than aviation overall. While technically true, this is a silly apples-to-oranges comparison. The number of people moving on a daily basis in automobiles is significantly greater than the number of people who fly and even more so compared to private jet users. The relevant question is which mode of transport is most carbon intensive per individual.

Small planes are by far the most polluting method of transportation, in terms of the amount of carbon dioxide (CO<sub>2</sub>) released per person-mile. Analysts at the Helium Report, an on-line guide to luxury vacations, calculated that an hour of flying in a private jet burns as much fuel as an entire year of driving.

**The Gulfstream IV, for example, emits between 83,000 to 90,000 pounds of CO<sub>2</sub> on just one cross-country round trip. The average American emits just 50,000 pounds of CO<sub>2</sub> total per year.**

The Gulfstream IV, for example, emits between 83,000 to 90,000 pounds of CO<sub>2</sub> on just one cross-country round trip. The average American emits just 50,000 pounds of CO<sub>2</sub> total per year.<sup>32</sup> Although commercial airliners use more fuel than private jets, they also seat dozens more people, causing their per-capita fuel usage to be less than that of private jets. See our 2008 edition of High Flyers for an extensive discussion of the full environmental cost of private jet travel.<sup>33</sup>

## Solutions

**Level the playing field between private and commercial passengers.** Why shouldn't private jet passengers pay the same taxes and fees the rest of us pay to maintain our nation's air travel infrastructure including airports, air traffic control, and air safety? Both George W. Bush and Barack Obama considered instituting fees on private jets, yet neither succeeded in overcoming the opposition of the powerful private jet lobby.<sup>34</sup>

**Block the increase in Passenger Facility Charge.** If greater funds are required for our nation's airports, they should come from the private jet industry, not from increasing costs on ticket prices for commercial airline passengers.

**Close the private jet depreciation loophole.** President Obama proposed eliminating the loophole that enable corporate depreciation of private jets in five years compared to seven years for commercial jets.<sup>35</sup> This commonsense reform would prevent the further subsidization of the private jet industry.



**Institute TSA Security Oversight of Private Jets.** Eliminate the “self-regulating” features of private jet security with greater TSA oversight of private jet security.

**Pass the Aircraft Ownership Transparency Act of 2017 (HR3544)** which would require the disclosure of beneficial ownership information for aircraft registration to ensure that the FAA has a more complete picture on who owns aircraft prior to approving a certificate of registration in the United States.<sup>36</sup>

H.R. 3544, requires that the beneficial ownership of an aircraft is identified prior to approval of a certificate of aircraft registration by the FAA. In the case of an aircraft owned or controlled by more than one entity, the legislation requires identification of the relationship between entities. In addition, in the case of a trust or association, the legislation calls for the chain of control including the owner, trustee, and beneficiary. The legislation defines a beneficial owner as “each natural person, who directly or indirectly, exercises control over the covered entity through ownership interests, voting rights, agreements, or otherwise; or has an interest in or receives substantial economic benefits from the assets of the covered entity.”

**Tax the Carbon Hogs.** Levy a luxury consumption tax on private jets, one of the most egregious sources of carbon pollution. A luxury sales tax and an annual use fee on private jet ownership and use could generate substantial revenue.<sup>37</sup>

## Conclusion

Private jets have flown under the political radar throughout the debate over reforming the nation’s tax code. The only time changes to their tax status has been considered has been in conjunction with efforts to maintain rather than eliminate their massive tax advantages. There’s been even less public discussion of addressing the significant security and environmental threats posed by private jet travel. Meanwhile, the Senate is considering adding fees to commercial airline travel, effectively further burdening ordinary travelers who subsidize private jet travelers. This report draws a clear line on the absurdity of these unfair and dangerous conditions and offers serious, actionable solutions.

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