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When top guns fly, shareholders pay

By Geraldine Fabrikant The New York Times
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NEW YORK Richard 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 Wright, a vice chairman, flies to his vacation home in Palm Beach, Florida, and Bank of America shareholders when Charles Gifford, the chairman emeritus, flies among his homes in Boston; Nantucket, Massachusetts; and Key Largo, Florida.

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 the trip counts as personal income for the executives, some companies are even paying the executives' taxes on the trip.

Others are agreeing to provide leisure travel for retirees, like Sanford Weill, who just departed Citigroup as chairman. Edward Whitacre will travel on the corporate plane once his contract is up as chief executive of AT&T, as will Peter Chernin after his tenure as president of News Corp.

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

"One chief executive told me: 'You can fool around with my stock options all you want, but don't fool around with my airplane,'" said Richard Moore, treasurer of the state of North Carolina. "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 2005 government filings of 100 of the largest public corporations 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 jet use rose as well, to 67 from 60.

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

Each trip has become more costly in another way for shareholders. Until 2005, companies could count on a sizable tax break for travel on corporate jets. But Congress was concerned that taxpayers were essentially providing a subsidy for corporate air fleets.

Congress changed the law, and the Internal Revenue Service issued new guidelines last year to scuttle the tax break when it involved personal travel. The actual cost of the Italy round-trip flight to Time Warner might be $60,000 to $170,000, according to Conklin & de Decker Aviation Information, an aviation research and consulting company. Previously, Time Warner 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 Parsons, the base income would be just $2,800, using a formula established by tax and transportation authorities of 14 cents 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 big companies. 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.

"Personal use of corporate aircraft is almost always inappropriate," Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware, said. "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 Parsons, who had a pay package of $16 million last year, a round-trip Gulfstream charter flight to Italy would be about $90,000, 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 from about $1,100 to $36,000 on the trip.

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

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

Coca-Cola covered the additional tax for its chairman and chief executive, E. Neville Isdell, bringing his personal travel total to $252,000.

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

However the cost is calculated, travel perks are a holdover from a different time, before corporate scandals brought down so many executives of public companies and securities regulators began seeking more detailed disclosure of compensation.

"It used to be that people made a choice between the investment banks where they were well paid and comparable jobs at large corporations, where they were not well paid but they got tremendous perks," Bruce Greenwald, professor of finance at Columbia University Business School, said. "But now what they get is outrageous pay and imperial perks."

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 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," Brian Foley, a compensation consultant in White Plains, New York, said.

Executives sometimes say that they have no choice in how they travel when explaining why the company and shareholders pick up the tab. In more and more cases, companies say their boards are requiring travel on corporate aircraft for what they cite as security reasons.

GE, Motorola and Time Warner require travel on the corporate plane. News Corp. does for its chairman and chief executive, Rupert Murdoch, as well as its president, Chernin.

Often, the companies cite an emphasis on security since the Sept. 11, 2001, terrorist attacks. 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."

Mary Hevener, a partner at the law firm Baker & McKenzie, says she represents a third of the Fortune 500 companies on matters connected to their corporate jets and adds that she gets calls once a month from someone who has received death threats.

But such security arrangements trouble David Yermack, a professor at New York University School of Business. 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 CEO: '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, a pest control company with a market value of $1.5 billion, has its chief executive, Gary Rollins, travel on company 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 start fighting back."