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## PAGE ONE

## Frequent Fliers

Amid Crackdown, the Jet Perk  
Suddenly Looks a Lot PricierFor CEOs, Personal Flight Costs  
Can Reach Six Figures;  
Their Tax Bill Stays Low

## Barry Diller's Plane in Africa

By MARK MAREMONT

Staff Reporter of THE WALL STREET JOURNAL  
May 25, 2005; Page A1(See Corrections & Amplifications item [below](#).)

Just after 1:40 p.m. on the day before Thanksgiving, a luxury Gulfstream IV jet owned by Barry Diller's publicly traded media conglomerate, [IAC/InterActiveCorp](#), took off from Teterboro Airport near New York, headed for St. Thomas in the U.S. Virgin Islands. The jet returned on the Sunday after the holiday, according to a database containing flight data filed with the Federal Aviation Administration.

That was just one of at least eight flights to the Caribbean made by IAC's jet in the past six months. The plane also journeyed to Africa for 10 days around the New Year holiday and has made two recent trips to Italy, the database shows.



Barry Diller

IAC won't discuss the trips or who traveled on them. But in a recent filing, it told shareholders something that sheds light on the peregrinations: Mr. Diller, its chief executive officer, racked up \$832,000 in free "personal use" of the company's plane in 2004, a perk whose value rivals that of his \$930,000 salary. Mr. Diller was the only top executive listed as using the company's jet.

Companies have long defended corporate jets as vital business tools, needed to efficiently convey top executives to far-flung operations or meetings. But new disclosures, prompted in

large part by a crackdown by the Securities and Exchange Commission, show that executives are using the jets for vacation and leisure travel to a far greater extent than previously known.

The SEC crackdown, which came after officials were convinced that

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## COMPANIES

Dow Jones, Reuters

IAC/InterActiveCorp. (IACI)

PRICE	24.50
CHANGE	-0.05
U.S. dollars	4:00 p.m.

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many companies were hiding or undercounting the cost of this sensitive perk, has led to many more companies revealing six-figure spending on their executives' personal-jet travel. At least 33 executives received more than \$200,000 apiece in personal-plane benefits in 2004, a Wall Street Journal analysis of recent proxy filings shows. In a few cases, frequent-flier executives are reaping more in personal trips aboard the corporate plane than in salary. Meanwhile, executives must report only a tiny fraction of these costs as income under separate Internal Revenue Service rules -- and some companies grant them extra pay to cover the resulting taxes.

**SIDEBAR**

- [Tax Breaks Remain on Jet Perks](#)

The SEC's focus on corporate-jet usage comes amid broader attention given by

regulators and prosecutors to undisclosed executive perks and other benefits. Companies from Tyson Foods Inc. to General Electric Co. and Adelphia Communications Corp. have faced accusations that they failed to disclose lavish benefits for their top executives.

At [J.P. Morgan Chase & Co.](#), the change in reporting on executives' personal use of company jets has been dramatic. A year ago, the giant bank pegged the benefit to President James Dimon at just \$31,000 in 2003.

But in its recently filed proxy, the bank revised that, saying the actual figure for that year should have been \$182,000. For 2004, the value of Mr. Dimon's personal-jet usage more than doubled to \$395,000. A J.P. Morgan spokesman said: "We made the switch following public guidance from the SEC on the subject," but the bank declined to comment further.

Such disclosures make it clear that personal-jet travel is by far the largest extra benefit given to many executives, raising new questions about whether it is being adequately regulated. Some critics contend even the beefed-up figures greatly undercount -- by at least two to three times -- the real costs of this perk. Recent scandals also have shown that executives can hide abuse of the corporate jet by claiming personal travel is for business purposes.

[JPMorgan Chase & Co. \(JPM\)](#)

PRICE	35.75
CHANGE	-0.05
U.S. dollars	4:03 p.m.

[Eastman Kodak Co. \(EK\)](#)

PRICE	26.28
CHANGE	-0.45
U.S. dollars	4:02 p.m.

[eBay Inc. \(EBAY\)](#)

PRICE	38.00
CHANGE	-0.30
U.S. dollars	4:00 p.m.

[Citigroup Inc. \(C\)](#)

PRICE	47.11
CHANGE	-0.17
U.S. dollars	4:02 p.m.

[CVS Corp. \(CVS\)](#)

PRICE	54.85
CHANGE	-0.11
U.S. dollars	4:02 p.m.

[World Wrestling Entertainment Inc. Cl A \(WWE\)](#)

PRICE	10.84
CHANGE	0.29
U.S. dollars	4:02 p.m.

\* At Market Close

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Although Congress recently closed one corporate tax loophole related to personal-jet travel, the individual tax treatment of the personal flying perk remains very generous. The tax regime, which was set up two decades ago, can result in executives paying federal tax of less than 1% of the cost of renting a private jet for the same trip. Some companies, including [Eastman Kodak Co.](#) and [eBay Inc.](#), give their executives extra pay to cover the added costs of paying those taxes.

Mr. Diller appears to be one of the biggest users of a corporate jet for personal travel. Since his company switched to more-extensive disclosure of this perk three years ago, Mr. Diller has received free travel on the company jet that IAC valued at nearly \$2.2 million. The amount would have been even higher, except that in 2004 he reimbursed the company \$169,000 to cover "certain personal use" of the plane.

The executive, whose company controls Internet travel sites Expedia and Hotels.com as well as the Home Shopping Network, is frequently mentioned in gossip columns as attending lavish parties on both coasts. With a personal fortune valued in the hundreds of millions of dollars, he is also known as a keen yachtsman.

An IAC spokeswoman, Deborah Roth, says Mr. Diller's personal-jet use is fully disclosed and is part of a "fair and reasonable" overall compensation package. She adds that his personal use of the company plane provides a number of benefits for IAC over commercial air travel, "including the ability of Mr. Diller to continue to transact business via email and telephone on the company's behalf" while on board the jet, along with flexibility to change his travel plans and "significantly heightened security."

Many other companies cite security concerns in explaining use of the personal jet. Some require their top executives to use the corporate craft for personal as well as business travel. Until recently, the more aggressive of these companies took the stance that the security policies meant personal flying wasn't a perk that needed to be disclosed.

Robert L. Oatman, an executive-security consultant in Towson, Md., says he frequently recommends private-plane travel as safer for top executives. Private jets operate in a controlled environment away from the public, he says, and the planes can be used to whisk an executive away from trouble. A CEO is often the company's biggest asset, he adds, and is equally at risk when traveling with the family as on business.

[Citigroup Inc.](#) has a board-approved "Senior Officer Security Program" that requires its three top executives "to use corporate transportation, whether the purpose of the travel is business or personal." [CVS Corp.](#), among others, extends the benefit to its chief's spouse. The drugstore chain says CEO Thomas M. Ryan and his wife are required to use the company's aircraft for all travel "pursuant to the company's executive security policy."

Then there's tiny [World Wrestling Entertainment Inc.](#), which last year started allowing its CEO, Vincent McMahon, to take personal trips on its \$20 million company jet in part for his "personal safety."

Corporate watchdogs are skeptical of the security argument, except for a few high-profile CEOs. "These are the people most able to afford it themselves, so why are stockholders subsidizing their leisure time?" says Paul Hodgson of The Corporate Library, a corporate-governance advisory firm in Portland, Maine. "It seems to be wholly inappropriate."

## Sky Miles

Some of the top users of corporate jets for personal travel in 2004, as disclosed to the SEC:

Name/Company	Personal usage
<b>Barry Diller, IAC/InterActive</b>	<b>\$832,000</b>
<b>Joseph Steinberg, Leucadia</b>	<b>744,000</b>
<b>C. John Wilder, TXU</b>	<b>561,000*</b>
<b>Dennis Dammerman, GE</b>	<b>504,000</b>
<b>Philip Purcell, Morgan Stanley</b>	<b>467,000</b>
<b>Robert Rubin, Citigroup</b>	<b>459,000</b>
<b>Tracy Krohn, W&amp;T Offshore</b>	<b>406,000</b>
<b>James Dimon, J.P. Morgan Chase</b>	<b>395,000*</b>
<b>Michael Jeffries, Abercrombie &amp; Fitch</b>	<b>361,000*</b>
<b>Jay Fishman, St. Paul Travelers</b>	<b>361,000</b>
<b>Margaret Whitman, eBay</b>	<b>358,000*</b>
<b>William Harrison, J.P. Morgan Chase</b>	<b>354,000*</b>

\*Includes payments by company to cover CEO's taxes on plane usage.

Source: WSJ research

Mr. Hodgson also notes that a number of big companies don't allow their CEOs to use corporate planes for personal travel, which "seems to definitely weaken the security argument" for the others.

Among the large companies that say they don't allow personal use of their aircraft: [Johnson & Johnson](#), [Cisco Systems Inc.](#), [Goldman Sachs Group Inc.](#) and [Intel Corp.](#) "If our executives want to go on vacation, they do so on their own dime," says Chuck Mulloy, a spokesman for the microchip giant. As for any safety concerns about its executives, Mr. Mulloy adds: "We've taken security into consideration in this policy."



Alan Beller, chief of the Corporation Finance division at the SEC, says the agency believes some companies have been using security policies to "in effect avoid having to make the disclosure" of what personal-jet usage is really costing. "Perks are personal benefits," he says, "and the fact that the company is requiring the executive to do it doesn't make it any different."

Mr. Beller initiated the latest crackdown on personal-travel disclosures in a speech last October that excoriated companies for "opaque or unhelpful" disclosures of executive pay in general. The speech didn't announce a change in the rules, but it did signal the SEC would be taking a closer look at how companies followed the existing ones.

Mr. Beller's speech was triggered, in part, by the furor over revelations that GE failed to disclose lush perks given to its former chief, Jack Welch, as part of an employment and consulting contract after he retired. Among the benefits Mr. Welch received after his 2001 retirement was unlimited access

to GE jets, a benefit the SEC later valued at \$1.2 million in Mr. Welch's first year of retirement. GE settled SEC charges over the matter in September.

In his speech, Mr. Beller pointedly said some companies had been improperly calculating the value of perks like jet travel, reminding them that a decade-old SEC rule required disclosure of the so-called incremental cost to the company of providing such benefits -- not a more favorable rate calculated by the IRS.

Many companies, including J.P. Morgan, Kodak and [Starwood Hotels & Resorts Worldwide Inc.](#), had been valuing personal travel aboard corporate planes at the lower IRS rate. The IRS rate -- a per-mile figure that is generally at or below the cost of first-class airfare -- is typically the extra amount that's counted as income to the executive as a result of the free flight, on which he or she must pay tax.

The "incremental cost" approach is fairly straightforward: If the CEO takes the plane on a golf weekend, the company totes up the direct expenses of the flight, such as fuel, landing fees and crew hotel charges. The calculation doesn't typically include a percentage of other big-ticket expenses such as the capital cost of the plane, crew salaries and insurance, on the theory that the plane is mostly used for business and the company would have to pay those fixed costs anyway.

For a 2,000-mile round trip from New York to Orlando, Fla., aboard a luxurious \$43 million, 12-to-14-seat Gulfstream V flown by the likes of J.P. Morgan, a senior executive would get an extra \$1,500 tacked onto his taxable income -- under IRS rules. But the incremental cost of that same flight would be more than \$11,000, according to tables published by Conklin & de Decker Associates Inc., a company that tracks flight costs.

At Starwood, the switch to incremental cost resulted in a threefold boost in the disclosed value of personal jet travel by Barry Sternlicht, who recently resigned as its executive chairman. Using the IRS rates, the

company had previously said Mr. Sternlicht racked up a total of \$208,000 of the perk in 2002 and 2003. It recently revised that to \$653,000 for those years, plus another \$319,000 in 2004. Mr. Sternlicht earned more than \$18 million in cash and restricted stock in 2004.

David Yermack, an associate professor at New York University's Stern School of Business who studies executive pay issues, argues that the incremental-cost calculation is still too low. Prof. Yermack says incremental cost might make sense if a CEO takes one or two personal flights a year. "But if you're doing it over and over again, for a number of executives, then you are really acquiring planes for the personal use of executives."

Prof. Yermack says the open-market cost of the CEO's personal flights, as measured by the cost to charter the same aircraft for the same trip, would be a better indicator. "That's what it is really costing the company," he says. "Planes do wear out and have to be insured. And the reality is, you might need fewer pilots if you had fewer vacation flights."

TAG Aviation USA, which offers charter jets, says hiring a Gulfstream V would cost about \$7,000 an hour plus taxes, crew fees and other charges, or about \$43,000 for the same New York to Orlando journey -- nearly four times the incremental cost and 28 times the extra amount that would be added to an executive's income for the same flight, under the IRS rates.

Mr. Beller says the SEC is studying whether market rate or incremental cost is the best measure for the perk. "It's something we believe has to be examined as part of any proposal," he says.

Mike Nichols, an official at the National Business Aviation Association, an industry trade and lobbying group, says the current incremental-cost standard is "fair and appropriate," noting that charter operators are trying to make a profit. "Why would a company report a rate that has profit built into it?" he asks.

However, when wealthy CEOs own their own planes and companies reimburse them to use the craft for business purposes, the transactions are almost always done at market rates.

Take [Google Inc.](#), where Chief Executive Eric Schmidt recently bought a Gulfstream V with his own funds. Google agreed to reimburse him \$7,000 an hour for the use of the jet for Google's business purposes, or up to \$2.1 million this year, which it said was at or close to the market rate for a charter of comparable craft. A spokesman said Mr. Schmidt is a licensed commercial pilot who flies the plane himself.

Despite the SEC's public prodding, a number of companies still are using the lower IRS rate in their SEC filings, including [Federal Express Corp.](#) and [General Motors Corp.](#) GM said it will adopt the SEC's required methodology by next year's proxy, while FedEx -- which filed its most recent proxy statement before Mr. Beller's speech -- said it was studying its executive compensation disclosures in light of SEC guidance. The SEC hasn't yet brought any enforcement cases specifically related to underreporting aircraft perks.

Some companies require reimbursement from executives who take personal flights aboard the corporate jet -- typically at the IRS rate or equivalent first-class fare. Critics contend that's still a bad deal for shareholders, arguing that any reimbursements should be at the open-market charter rate.

After three executives of Dayton, Ohio, utility DPL Inc. resigned last year amid allegations of improper conduct, a probe by a company-hired law firm found among other things that the company had underreported the trio's taxable income associated with personal flights by a total of \$225,000. The law firm's probe alleged that the executives had failed to count family members or guests who had traveled on the planes, or claimed they were flying on business when there was no evidence it was a legitimate business trip. They have disputed the charges. An attorney for two of the former DPL executives called the law firm's report "one sided," adding that the executives had paid for any personal trips and there was no unauthorized use of the aircraft.

Rampant abuse of corporate jets also underlies some of the criminal allegations faced by David Wittig,

former CEO of [Westar Energy Inc.](#), Topeka, Kan.

According to a company probe, Mr. Wittig, who resigned in 2002, improperly claimed as business travel a number of journeys that were really personal. They included transporting his children's nanny to and from New York, ferrying his children to summer camp in Minnesota, a 10-day family vacation in Europe and Mr. Wittig's yearly trips to attend the NCAA Final Four basketball tournament.

Mr. Wittig, who has denied wrongdoing, faces retrial next month in U.S. District Court in Kansas City, Kan., on fraud charges that include many of the same allegations, after a jury couldn't reach a verdict in a trial that ended in December. He also is appealing a conviction on separate money-laundering charges.

Westar says it no longer allows any personal use of aircraft.

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### **Corrections & Amplifications:**

The current Internal Revenue Service rate used in computing the deductible costs of operating an automobile for business purposes is 40.5 cents a mile. An article that accompanied the continuation of a page-one article Wednesday on corporate-aircraft perks incorrectly gave the 2004 rate of 37.5 cents a mile.

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### **Tax Breaks Remain on Jet Perks**

In the American Jobs Creation Act, Congress last year closed one tax loophole connected with personal-jet perks. It used to be that a company could deduct the difference between the cost of flying its executives around, and the smaller amount that was put on the executives' W-2 forms to account for the value of the perks. That is no longer the case.

But other tax breaks remain. If the company's security policy requires an executive to fly on its corporate fleet for personal as well as business travel, the Internal Revenue Service cuts the tax due by as much as half, on the theory that the executive doesn't have a choice about incurring the extra cost.

At General Electric Co., where three top executives are "required" to use company craft for personal travel, all three racked up jet-perk bills of more than \$100,000 last year. The biggest user was Vice Chairman Dennis Dammerman, at \$504,000. A spokesman says GE's security program "meets the requirements that permit the designated executives to pay the taxes at the lower rates allowed by the IRS."

The bottom line: At the reduced tax rate, an executive traveling alone on a 2,000-mile round trip from New York to Orlando, Fla., could pay less than \$300 in federal income tax for a trip with a market value of more than \$43,000. Put another way, at the reduced rate the IRS pegs the value of travel on a Gulfstream V at about 36 cents a mile per person, less than the 37.5 cents per mile Uncle Sam allows for personal use of an automobile.

Some make sure their executives don't pay anything for their personal use of company jets, by adding to their income to cover any taxes they owe. Among those offering this perk: [Eastman Kodak Co.](#), [Citigroup Inc.](#) and [ConocoPhillips](#). At [eBay Inc.](#), where Chief Executive Margaret Whitman took home \$2.5 million in cash compensation last year, the company also granted her a \$128,000 "bonus" to cover any income taxes on her \$229,000 of personal jet flights.

An eBay spokeswoman said, "This payment is part of Meg's overall compensation package, which we believe is appropriate given the growth in value eBay shareholders experienced in 2004."

---- Mark Maremont

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