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Aviation Alert From Hardy Law

U.S. Corporate Aviation Summit Hot Topics

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Aeropodium's US Corporate Aviation Summit just wrapped up in Miami, Florida. It was two days of discussion on diverse issues currently facing the corporate aviation industry. These are some of the highlights.

Aeropodium- US Corporate Aviation Summit Hot Topics

Off-Shore Aircraft Registries. Remember several months ago when the FAA shocked the industry by placing a moratorium on owner-trust aircraft registration for foreign owners and then quickly lifted it? Well, the FAA recently announced that they are still carefully studying whether the liberal practice may be curtailed.

That may be troubling to our trust company friends in Utah, but it presents an opportunity for off-shore registries looking to expand their roster. Representatives from the Registries of Aruba and the Isle of Man were at the Summit to promote the advantages to foreign owners and operators registering aircraft with them.

They presented a number of advantages; here is a short list of the Aruban Registry provided by Jorge Colindres Marinakis: (1) Aruba's high and favorable regulatory standards that accept aircraft type certified by the FAR's, EASA, Transport Canada and Brazil; (2) Aruba's favorable taxation system for non-residents at "0" tax rate if the aircraft is registered under an AVV (Tax Except Company); and (3) Aruba registered aircraft have no restrictions to enter US air space or any other country and can pre-clear US Customs and Immigrations in Aruba, making its flight domestic while entering the USA. I'll also mention for the Cape



Town Convention fans that Aruba has signed and ratified the Convention and Aircraft Protocol.

"Hybrid" Usage. Even if you own an aircraft, sometimes it makes sense to use a different aircraft or service for some of your flights, and we're seeing more of this. For example, instead of flying just the CEO from Atlanta to Orlando for the day in the company's G-IV, it is probably more economical and practical to book a flight with ImagineAir, who provides point-to-point, on-demand service throughout the Southeast in Cirrus piston aircraft. Pride, protectionism and fear of not utilizing a sunk cost can be barriers to recognizing these alternatives, but are worth facing.

ImagineAir and Linear Air, who offers a similar service from its base in the Northeast, with Eclipse 500 very light jets, were at the Summit to explain how their small-aircraft shuttle services survived the recession while others failed, and how they now hope to thrive.

Likewise, Tom Chapman of Synergy Jet Group reported more hybrid usage in the fractional market. On-demand, fixed pricing, day-pricing, even "code-sharing" with airlines. The message to users is that you have a lot more negotiating power with fractionals than you did a few years ago.

Valuation and Financing. The gap between desired and actual value led to unrealistic high prices several years ago, then stagnation over the last couple of years when the recession hit. Chris Miller of Guggenheim sees that gap pretty much closed for top-end corporate aircraft, hopefully resulting in a normalized, realistic buying/selling/finance market for those aircraft. The rest of the fleet, however, may be lagging a year or more behind.

Chris also noted, however, that for the first time, many corporate aircraft are approaching the end of their life cycle, fuel efficiency being a big factor, especially with advancing technology and unrest in oil-producing countries. As a result, while financing for aircraft may be loosening a bit overall, it may be shutting off for these older (25-30 years old) aircraft.

Revenue Producing Options for Corporate/Private Aircraft. As always, be careful when setting up ownership and operational structures for aircraft. Whether allowing others to use the airplane to defray costs, or even keeping it in the corporate family, it is easy to inadvertently cross into what the FAA will consider an unlicensed charter (putting you at risk of FAA fines and insurance coverage denial).

The FAA did take a surprise turn in late 2010 when it reversed a long-standing position and now plans to allow personal flights for executives to qualify under the Affiliated Group Exemption to the charter rules. But that will only apply in limited circumstances (so again, be careful- other options remain).

On the tax side, the surprise 100% bonus depreciation of 2010 continues to encourage new aircraft sales, but the program is not expected to continue past 2012- use it while you can!

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