



Top tips for buying and financing your business jet by Lorna Titley

So, you want to buy a business jet? Owning and operating your own plane can be an expensive and complicated business. Before you take the plunge and join the frenzy of new people wanting to buy an aircraft, make sure you read this advice from our panel of specialist experts.

Many would-be jet owners start off chartering planes on an ad-hoc basis before they decide that having their very own aircraft would be more convenient and desirable. Ownership, however, can be very different from chartering. Buying a charter flight is relatively easy and straight forward. With ownership, you have multiple parties and a raft of considerations to deal with – not to mention the additional costs.

For those who already own a superyacht, the transition to buying an aircraft may be smoother. Certainly, as a yacht Owner, you will already be au fait with the concept of operating costs adding significantly to the total bill. **Eric Weisskopf of Hyperion Aviation /Flying Group**, an aircraft management company, warns new buyers to get a grasp of overall costs before they commit. *“You see a Falcon 50 priced reasonably at \$2million, but then what will the annual running costs be?”* he asks.

The real costs of owning a business jet can soon add up. First, there's the cost of maintenance, plus the fuel of course which is a significant expense right now and keeps rising. Then you have your crew which is a cost that many people underestimate. To man a large aircraft, for instance, you may need 2 or even 3 pilots. On top of that, you may have to consider the cost of training your crew. "An owner may have to pay 3 lots of say \$130,000 for "type rating", that is bringing the crew up to the level required to pilot a specific plane," explains **Fabrice Roger, Sales Director at Jetcraft**, specialist aircraft brokers. He describes the 3 months following the buyer signing the LOI (Letter of Intent) as a "difficult, unstable phase where you can get into 6 figure territory very quickly." Indeed, some operators say that you should factor in roughly 10% of the purchase price to come up with the annual operating costs.

The key for new buyers is to get educated about the costs and other complex issues around ownership. A trusted advisor such as a specialist lawyer, operator or a broker will help you navigate the right path through the maze. Choose someone who is experienced in aircraft purchase and who knows at what stage in the process you will need to consult with other advisors. "Engage with the people you need to engage with as early as you can," advises **Mark Bisset, Partner at Clyde & Co**. He cites clients who decide to refinance their aircraft and plan to speak to their banks only after the purchase. "But the banks may have specific requirements and they may not like particular operators or registries. So, you need to address these issues at the purchase stage," explains Bisset.

U.S. attorney **David T. Norton of Shackelford, Bowen, McKinley & Norton, LLP** emphasizes the need to choose the right advisor. "In the States, we have problems creating structures, probably more so than in the UK," he says. "Many U.S. buyers want to use their real estate attorney to assist with buying their business jet. She or he may be a very good lawyer, but if they don't know anything about the applicable FAA regulations and you've set up what they want you to do, I can almost guarantee that you've created an illegal charter," notes Norton. He concurs with Mark Bisset that getting early advice is crucial. "I get calls from people who say, "I close on my plane purchase tomorrow" or worse, "I closed the deal yesterday." Unfortunately, I really can't help you because that's not enough time to structure what you want to do."

Defining how you will use your aircraft is one of the first and most important decisions that you must make. "Is your jet for private or commercial use? Is it for your corporation for instance? Do you intend to go to charter?" asks **Eric Weisskopf of Hyperion Aviation /Flying Group**, an aircraft management company. "Your decision regarding whether to charter or not can affect the registries you can use and ultimately can have implications for the tax, VAT and financing associated with your aircraft. Making this decision at a later stage is always a costly exercise."

In the UK the requirements for a commercial operation are completely different to those of a private operation. So, while many owners want to defray some of the costs by chartering out the aircraft there are certain registries, such as the Isle of Man, that are then closed to them. What's more, if you decide to go down the chartering route, then this will also influence your choice of operator, as they will need to have an AOC and an EU operating licence.

As a new buyer, your expectations about chartering out may be unrealistic. "Owners tend to be quite optimistic about the level of chartering an aircraft can achieve," observes Mark Bisset. He points out how choosing the chartering path can also affect an owner's tax and Vat position, as well as tying them to an operator. "If you are asking the operator to import the aircraft under their AOC, you are then linked into that operator for a certain period of time." If you fall out with your operator early on, as can sometimes happen, this can end up creating problems for the longer term.

Many owners raise finance to make their purchase, so if this is you, then the advice is to start involving the financier early on. *"Financing an aircraft brings a certain complexity with it,"* notes **Johan Blitz of UBS**. *"We have clients who ring and say can you send me the contract within a couple of days and this is not possible."* To be eligible for aircraft finance with a bank like UBS, you must be onboarded with their wealth management side. It is also advisable to talk through what such an onboarding process entails and what the timeline is. Then, the bank will want to know where the plane is to be registered, who operates it and ownership structures. *"It doesn't help if a client decides on a registry that no bank would support,"* comments Blitz.

If you are buying your jet from a manufacturer, then they may be asking for pre-delivery payments. Some banks would like to see pre-payments secured and that should also be in the interest of the buyer. Blitz advises buyers who have been asked for pre-delivery payments to speak with the manufacturer and see if there is anything they, or the buyer himself, can offer to make this situation more workable.

Perhaps you are now wondering what you can leave at the bottom of your aircraft buyer's "to-do" list? If insurance springs to mind, then think again. *"With the difficult aviation and marine insurance market we've had over the last 2 years, the insurance broker needs more time,"* explains **Juris Zacs, Insurance Broker & Branch Manager, at Marine Insurance Services**. *"The less time the underwriter who makes the decision has, the less information they have and the longer it will take for them to come up with a solution,"* he adds. There are for instance solutions to help save money on insurance during a period when the aircraft is not actually flying. Another consideration is where you are going to buy a single stand-alone policy or join an operator's policy? There are benefits on both sides. A single policy in theory can be more expensive. On the other hand, if you are insured via an operator's policy, then the insurer will need to look carefully at information regarding the operator's whole fleet as this is important when weighing up the risk.

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We can't of course talk about owning and operating a high-value asset without addressing tax and, in some cases, VAT. If you are planning to buy your plane in the U.S., then David T. Norton has some sanguine advice for you. *"The biggest cost I deal with, as a lawyer, is the underestimation of tax and the overestimation of tax benefit,"* he states. *"If you buy a plane in the U.S. you're going to get hit with fairly significant sales user taxes depending on what State the airplane is based in, and a lot of people are really shocked about that."* Another big driver, States-side is the bonus depreciation, which Norton has also dealt with extensively. *"Over the last 2 years the bonus depreciation issue – when you get to take or accelerate depreciation against assets – has been huge,"* he says. *"You'd be amazed how many people overestimate the benefit they are going to get from that. And that can be very shocking when you've based your whole purchase decision on the bonus depreciation that you're not going to qualify for because the aeroplane is really 100% for personal use."*

If you plan to buy in the UK or EU, then what VAT should you expect to pay? For buyers affected by the import or sale VAT on aircraft arising in the EU or UK, a typical solution would be to set up an importation scheme through the Isle of Man. Bisset has a word of warning, however, for UK owners seeking to reduce their tax exposure by having their aircraft on an AOC. *"Don't let the tax dog wag the tail,"* he advises. *"We have so many discussions with Owners about the only solution to saving tax on their aircraft is by having it on an AOC. But if you go down that route, then you may not have first refusal on using your aircraft, as if a charter comes up it will take precedence. As the owner you want to have first priority over your aircraft."*

The pandemic has left its mark on most industries, with business aviation experiencing a surge in demand as new owners seek innovative, safe ways to travel during this period. What advice would our experts offer you, as a new buyer in this current market? Fabrice Roger points to the low inventory levels that led to a lot of frustration amongst buyers. *"We've had comments from new buyers saying, 'Oh it's a very complicated process buying a plane,'"* he comments. However, he contrasts this feedback with trends in the U.S. market, where buyers tend to be more educated about how to go about purchasing a jet. *"In the States, people are showing up with all the preparation done, everything ready,"* he adds, *"Whereas buyers elsewhere who are not ready are missing the opportunity to buy from the limited stock of available planes."*

Mark Bisset concurs on the need for buyers to be prepared. *"It's a seller's market. Buyers need to show they are ready,"* he says. *"If we have a buyer that starts saying things like, 'Oh my purchase is subject to finance or there is a delay in receiving the deposit or they haven't decided which lawyers they are using, red flags then start waving from the seller's perspective."* In other words, you as a buyer in this market need to demonstrate that you are ready to move fast, or you will lose the deal.

With all this to consider, is buying a business jet really for you? There is a rule of thumb – which may vary depending on who you talk to – that if you do over 250 hours of air travel per year then buying a business jet becomes cost-efficient. Whichever way you look at it, owning and operating a plane is expensive undertaking but one that can save huge amounts of time and therefore add immeasurable value for you and your corporation. Whatever you do, take expert advice early on!

I would like to thank our panel of experts, who participated at Opportunities in Business Jets, 9th Annual Conference, staged by Quaynote in Malta during March 2022. They are David T. Norton, Shackelford, Bowen, McKinley & Norton, LLP; Mark Bisset, Partner, Clyde & Co; Eric Weisskopf, Hyperion Aviation /Flying Group; Fabrice Roger, Sales Director, Jetcraft; Juris Zacs, Insurance Broker & Branch Manager, Marine Insurance Services and Johan Blitz, UBS.



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