

Co-Ownership...

Making the aircraft of your dreams more affordable

BY KENT MISEGADES, EAA 520919

OWNING THE AIRCRAFT OF your dreams sometimes seems like an impossible goal. The purchase price is just the first of many financial hurdles that need to be resolved. Insurance, maintenance, hangar rent, and other expenses combine to make realizing the dream even harder.

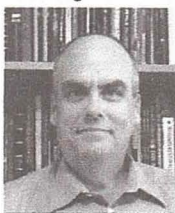
But, sharing expenses with one or more like-minded partners often can make the dream much easier to realize. What should you know to establish and participate in a successful partnership? This month's panel of experts offers some advice.

MEET THE EXPERTS

David Kruger, EAA 845244, is the founder and CEO of the Aircraft Partnership Association (APA), an online service that helps pilots find, join, form, and administer shared aircraft arrangements. (www.TheAPA.com)

Louis (Lou) Meiners, EAA 730225, is the founder and president of Advocate Consulting of Naples, Florida, focusing on operational planning for aircraft ranging from light-sport aircraft (LSA) to large jets. (www.AdvocateTax.com)

David Kruger



Lou Meiners



Pat Phillips



Thom Riddle



Pat Phillips, EAA 124466, an attorney at law in Orlando, Florida, is a member of EAA's Legal Counsel, a group of regional advisors to EAA members on legal and regulatory matters. (www.PatPhillipsLaw.com)

Thom Riddle, EAA 676777, of EAA Chapter 46, Buffalo, New York, is a member of an aircraft partnership and the author of a number of recent articles on aircraft partnerships. See www.SportAviation.org for a direct link to his Frugal Aviator website.

THE BASIC PROS AND CONS

The most obvious advantage to co-ownership is cost reduction for budget-constrained pilots. Entry-level aircraft, when shared, can be cost competitive with other power-sport vehicles such as boats, motorcycles, jet skis, and the like. Co-ownership can also be an effective strategy for existing pilots looking for an upgrade to better and more capable equipment.

Group ownership will usually create higher utilization of the aircraft, avoiding the problems that can stem from an infrequently flown "hangar queen." And the social side of aviation can be enhanced too, with many aircraft partnerships forming a basis for personal friendship around a common aviation interest.

The main disadvantage of an aircraft partnership is some loss of freedom and flexibility of when you can fly the aircraft. There's added complexity too, including the potential for misunderstandings and spoiled relationships among group members.

SIZE OF GROUP

Most aircraft groups are between two and five people in size. There are a couple of good reasons for this, the first being the insurance marketplace, which tends to treat larger groups (beyond five people) as a "flying club" with significantly higher premiums. But there's also a law of diminishing returns the larger the group becomes. See Table. While your first partner will reduce costs by an impressive 50 percent, with each added person the benefit becomes increasingly smaller; by the time the fifth partner is added, your cost saving is just 5 percent compared to four partners.

CHOOSING THE RIGHT PARTNERS

David Kruger suggests someone looking to enter into a co-ownership agreement should

Five Steps to Successful Co-Ownership	
1	Choose your co-owners carefully.
2	Agree on a set of bylaws (operating procedures).
3	Establish a legal entity for the group.
4	Acquire the aircraft.
5	Run the partnership according to your bylaws.

treat the experience like dating and marriage. His APA requires members to complete a detailed profile that includes parameters such as the type of aircraft the member has or wants, where it will be based, budget available for aircraft expenses, number of partners desired, anticipated time and usage of the aircraft, maintenance philosophy, as well as the preferred form of the aircraft sharing arrangement the member would like to be involved with.

Pat Phillips recommends that partners be similar in their flying ability, airplane needs, and their economic status. And, clearly the aircraft should be matched to the flying abilities of the group's members. "It makes no sense, for instance, to own a high-performance airplane if only one of the co-owners is qualified to fly it," he says.

But Lou Meiners makes an important observation that sometimes dissimilar needs make the best arrangements. "We helped (find a partner for) one person who flew his airplane only during the week for business. Instead of having his plane sitting idly in his hangar on the weekend, his plane's new co-owner now has a means to attend his favorite NASCAR races on the weekends, and both have the benefit of reduced costs."

OPERATING PROCEDURES

While creating a basic alignment of needs, skills, and personalities within the group is important, Thom Riddle notes the critical importance of clear operational guidelines: "If

you don't have a clear understanding and agreement upfront about how things will be handled, the money saved by co-owning will be for naught... a well-thought-out operating procedures document will save a lot of grief, aggravation, and discontent later on."

Although this may seem quite daunting, a number of sample operating procedures are available that can be used as a starting point for your group (see the Recommended Reading/Resources box on following page).

Operating procedures will typically cover areas such as:

- **Expenses** Annual expenses such as hangar rental, insurance, and maintenance are normally shared equally; direct operational costs like fuel, oil, and an engine overhaul reserve are borne by individual pilots based on actual hours flown.
- **Scheduling system** websites such as www.AircraftClubs.com have useful online scheduling tools.
- **Allowances/restrictions on use of aircraft** for example, flight into instrument meteorological conditions and overnights away from home base.
- **Group decisions** for example, investment in an avionics upgrade.
- **Exit procedures** when a partner wants to opt out of the deal.

ESTABLISHING A LEGAL ENTITY FOR THE GROUP

Co-ownership arrangements take many forms—partnerships, cooperatives, fractionals, equity, and non-equity flying clubs—each with varying degrees of personal liability, tax advantages, and management responsibility. Each form has pros and cons; good results require taking the time to understand and sort out the options best suited for your group. It's very important to seek expert help on the right legal structure for you and in drawing up the agreement.

Lou Meiners generally recommends the establishment of a limited liability company, or LLC, as entering or leaving co-ownership is easier in such an arrangement. Pat Phillips agrees with that approach, but he also says putting the plane in a subchapter S corporation can work well for some groups. In the best arrangements, all the partners have equal shares of ownership. It's also important to establish the co-ownership group in the right order: gather your people and form the LLC first, put your money in the bank, acquire the aircraft, and then put the aircraft in the LLC. This will help avoid possible double taxation.

IN CONCLUSION

We'll leave the last word to Thom Riddle, who's been a member of a couple of aircraft partnerships. "I can think of no better way to get into the aircraft of your dreams than to find a number of like-minded individuals and share costs in a rational, equitable way. The ingenuity and creativity of individuals designing and building recreational aircraft is what made EAA the organization it is today. When applied to aircraft ownership, those same virtues of ingenuity and creativity pay big dividends by making flying dreams become a reality on a budget."

Number of Owners	Aircraft Acquisition Cost	Annual Operating Cost	Cost Reduction (Percentage)
1	\$60k	\$5.1k	0
2	\$30k	\$2.5k	50
3	\$20k	\$1.7k	66
4	\$15k	\$1.2k	75
5	\$12k	\$1k	80