THOMAS HAVEY & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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Members of the American Institute of Certified Public Accountants

October 28, 1988

Mr. Robert Sorock
5544 Lakeview Drive
Bloomfield Hills, MI 48013

Dear Mr. Sorock:

At the request of Mr. Thomas Huntt, we have reviewed the tax consequences arising from the occupancy of the property owned by the Humane Society at 14670 Secena Road, Germantown, Maryland by it's President, Mr. John A. Hoyt. The property is used as Mr. Hoyt's residence at no cost to him.

Mr. Huntt has provided us with the following additional information: the Society pays the real estate taxes and special assessments on this property valued at $3,575.65 for 1988, as well as the casualty and liability insurance and major repairs in excess of $100.00. In addition, Mr. Hoyt pays for utilities, lawn maintenance, decorating, and minor repairs which cost less then $100.00.

In connection with our review, we engaged the services of the rental agent of a local real estate firm, Mount Vernon Realty, to perform a market analysis and determine the fair rental market value of the property. Based upon the information provided by Mr. Huntt, and the market analysis performed, Mount Vernon Realty has estimated the fair rental value to be $1,200.00 per month.

For federal income tax purposes, the residence provided to Mr. Hoyt qualifies as a noncash fringe benefit. The value of the benefit is taxed as additional compensation to Mr. Hoyt, since the benefit does not otherwise qualify for exclusion under any of the exclusion provisions in the Internal Revenue Code. The value of the benefit is based on the fair rental value of the property or at a rate of $1,200.00 a month.

The Humane Society realizes no rental income as a result of the income imputed to Mr. Hoyt. The expense of providing the benefit is measured by the actual expenses (e.g. insurance, taxes) associated with the ownership of the property.

The Society may treat the benefit as paid in accordance with it's pay period, or monthly, or quarterly, or on any basis so long as it is treated as paid at least once a year. As earned income, the value of the benefit is considered subject to income and employment tax withholding.

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As a practical matter, the Society may choose to pay the benefit at the end of the calendar year and withhold Federal income tax at the flat 20% supplemental wage rate in lieu of computing withholding taxes periodically on total wages including the value of the fringe benefit.

We hope you find this information helpful. If we can be of further assistance, please contact us.

Sincerely,

Craig A. Stevens

Craig A. Stevens, C.P.A.
Tax Manager

CAS:lmp

Enclosure
cc: Mr. Thomas Hüntt