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SUBJECT: WRI's Airplane - Personal Use

CC: Lee Wages



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In anticipation to your questions related to use of WRI's airplane by employees and their spouses (including children, etc.), I have attempted to summarize the key provisions applicable to situations where income should be imputed to the employee for use of WRI's airplane.

(1) Business Purpose

If the flight is undertaken strictly for business, its value is tax-free to the employee as a working condition fringe benefit. If the employee's spouse accompanies the employee and also has a business purpose, no income will be imputed attributable to the spouse portion of the trip. If the employee's spouse accompanies the employee and the employee has a bona fide business purposes but the spouse does not, then income should be imputed to the employee for the spouse's portion of the trip based on the fair market value method or the safe harbor method. The fair market value method is based on the cost of commercial airfare for the same or a comparable flight. The safe harbor method is based on the Standard Industry Fare Level formula (SIFL rates) which is intended to approximate coach and first class fares on commercial airlines. Reg. 1.61-21(b)(6)(ii). Reg. 1.132-5(k).

(2) Primarily Business Purpose

If the flight is undertaken primarily for business, but the employee also spends some vacation time at the business destination after the business portion of the trip is concluded, the flight's value also is excluded. Reg. 1.132-5(k); Reg. 1.162-2(b)(1).

If the flight is undertaken primarily for business, but includes both business and personal use, the value of the personal flight is a taxable fringe benefit. The value of the benefit is the excess of the value of all the flights comprising the trip, over the value of the flights the employee would have taken had he traveled only for business. If a spouse

accompanies the employee on such a trip, income is also imputed to the spouse for the excess value of such flight. Again, the employer may use the fair market valuation method or the safe harbor method to impute income to the employee.

(3) Primarily Personal Purposes

If the flight is undertaken primarily for personal purposes, the employee's taxed on he value of the personal flights that would have been taken had there been no business flights but only personal flights. If the spouse accompanies the employee, income would also be imputed for the spouse's portion of the personal flights. Again, the employer may use the fair market valuation method or the safe harbor method to impute income to the employee. However, in this case, the fair market value method represents the cost that an individual would have to pay in an arm's length transaction to charter the same or a comparable piloted aircraft for that period for the same or a comparable flight.

(4) Personal Purposes

If the flight is purely personal, the employee is taxed on the value of the flight. The employer may use the fair market valuation method or the safe harbor method to impute income to the employee. Again, in this case, the fair market value method represents the cost of a charter flight.

WRI's Tax Treatment of Nonbusiness Flights

For income tax purposes, WRI has assumed that an employee's travel on the corporate airplane is for valid business purposes and no income is imputed to the employee for any trips. In addition, WRI has assumed that if a spouse accompanies the employee on the corporate airplane, there is personal use of the airplane.

In applyong these rules, if an employee's spouse accompanies the employee on a trip and no business purpose is established for the spouse, WRI treats the value of the benefit which should have been imputed for the trip attributable to the employee's spouse as a unallowable deduction in the tax return filed for the taxable year in which the flight was provided. In other words, WRI does not include the value of the benefit in the employee's income. Instead, WRI does not take a tax deduction for the cost of the trip attributable to the employee's spouse. The amount of the unallowable deduction is equal to the value of the flight as calculated under the SIFL formula.

Under the SIFL formula, the value of a single flight is calculated by (1) multiplying all miles of an employee's personal air travel by the designated SIFL cents-per-mile rate, and (2) multiplying this total result by the appropriate aircraft multiple, and finally, (3) adding this result to the appropriate terminal charge.

For example, the value of a round trip from Topeka, Kansas to New York, New York would be calculated as follows:

SIFL mileage rates:

	500 miles	\$.1788	\$ 89.40
	1,000 miles	\$.1364	136.40
	<u>500 miles</u>	<u>\$.1311</u>	<u>65.55</u>
Subtotal	2,000 miles		\$291.35

Aircraft multiple (takeoff weight >25,000 lbs and officer)	<u>400%</u>
Subtotal	\$1,165.40
Terminal charge	<u>32.69</u>
Total taxable value	\$1,198.09
Tax rate	<u>40.00%</u>
Tax due	<u>\$ 479.24</u>

Based on this example, if the employee's spouse accompanies the employee on a trip from Topeka, Kansas to New York, New York and no business purpose is established for the spouse, WRI will treat the value of the benefit which should have been imputed to the employee for the trip attributable to the employee's spouse, \$1,198.09, as a unallowable deduction on the tax return filed for the taxable year in which the flight was provided. As a result, WRI will pay additional income taxes of \$479.24.

WRI Pays Tax for Employee:

Tax gross-up factor	<u>52.50%</u>
Total taxable amount	<u>\$2,282.08</u>
WRI tax cost	<u>\$1,083.99</u>

1999 Schedule M - Qualified Airplane Flights									
Mo - Day	# of Flights	Flight Hours	Number Of Passengers	Terminal Charge	Round Trip	1st Tier	2nd Tier	Remainder	
01-02	1	32.41	5667	500	1500	5667			
01-11	1	32.41	1048	500	548				
01-17	1	32.41	1899	500	1399				
01-21	1	32.41	1154	500	654				
01-24	1	32.41	1899	500	1399				
01-25	1	32.41	1048	500	548				
01-29	1	32.41	856	500	356				
01-28	2	32.41	2598	500	1500	598			
01-30	4	32.41	5472	500	1500	3472			
02-07	2	32.41	2162	500	1500	162			
02-14	1	32.41	1899	500	1498				
02-20	1	32.41	2030	500	1500	530			
02-28	1	32.41	2048	500	1500	548			
03-01	1	32.41	2270	500	1500	270			
03-03	1	32.41	758	500	258				
03-05	1	32.41	758	500	258				
03-09	1	32.41	2049	500	1500	549			
03-11	1	32.41	1998	500	1498				
03-15	2	32.41	3368	500	1500	1368			
03-16	2	32.41	3368	500	1500	1368			
03-18	3	32.41	5082	500	1500	3082			
03-19	2	32.41	3388	500	1500	1388			
03-20	2	32.41	2128	500	1500	128			
03-21	3	32.41	3088	500	1500	3088			
03-22	2	32.41	3712	500	1500	1712			
03-24	3	32.41	11871	500	1500	9871			
03-25	3	32.41	8370	500	1500	8370			
03-28	3	32.41	5968	500	1500	3968			
03-28	3	32.41	8438	500	1500	4438			
03-30	1	32.41	1998	500	1498				
04-11	1	32.41	1998	500	1498				
04-18	4	32.41	7984	500	1500	5984			
04-18	3	32.41	5888	500	1500	3888			
04-18	2	32.41	4058	500	1500	2058			
05-02	2	32.41	4058	500	1500	2058			
05-13	1	32.41	1998	500	1498				
05-15	3	32.41	342	342	0	0			
05-18	3	32.41	342	342	0	0			
05-28	2	32.41	4058	500	1500	2058			
06-01	1	32.41	1998	500	1498				
06-10	8	32.41	3132	500	1500	1132			
06-11	8	32.41	3132	500	1500	1132			
06-12	1	32.41	1998	500	1498				
06-18	1	32.41	2048	500	1500	548			
06-21	1	32.41	2048	500	1500	548			
06-23	3	32.41	8633	500	1500	4633			
06-24	1	32.41	1998	500	1498				
06-28	3	32.41	8144	500	1500	4144			
06-30	2	32.41	3842	500	1500	1842			
07-01	3	32.41	3188	500	1500	1188			
07-08	2	32.41	3892	500	1500	1892			
07-08	2	32.41	4728	500	1500	2728			
07-18	8	32.41	6378	500	1500	4378			
07-18	2	32.41	3614	500	1500	1614			
08-08	3	32.41	8144	500	1500	4144			
08-13	3	32.41	3310	500	1500	1310			
08-13	1	32.41	1998	500	1498				
08-15	3	32.41	3188	500	1500	1188			
08-28	3	32.41	2978	500	1500	978			
08-28	3	32.41	8378	500	1500	4378			
08-28	3	32.41	2978	500	1500	978			
09-03	3	32.41	5868	500	1500	3868			
09-16	2	32.41	1048	500	548				
09-19	4	32.41	2098	500	1500	998			
09-19	1	32.41	2474	500	1500	474			
10-05	2	32.41	3328	500	1500	1328			
10-08	2	32.41	4200	500	1500	2200			
10-17	3	32.41	8144	500	1500	4144			
10-20	4	32.41	8182	500	1500	6182			
11-08	2	32.41	4422	500	1500	2422			
11-11	1	32.41	1998	500	1498				
11-12	1	32.41	1998	500	1498				
11-14	3	32.41	6288	500	1500	4288			
11-14	1	32.41	2028	500	1500	528			
11-18	1	32.41	1998	500	1498				
12-04	1	32.41	2028	500	1500	528			
12-12	1	32.41	2283	500	1500	283			
12-17	1	32.41	1998	500	1498				
12-18	3	32.41	5868	500	1500	3868			
12-30	3	32.41	5868	500	1500	3868			
12-30	1	32.41	1998	500	1498				
Total	174.00	2,625.21	261,877.00	40,184.00	110,912.00	132,761.00	0.1773	0.1352	0.13
							7,124.82	14,995.30	17,251.53
							400%	400%	400%
Total SIFL deduction for 1999		3180,135.00	2825.21	28,408.48	58,981.21	89,048.12			180151.03

1999 Flights	Persons	174 Nonqualified Persons	Wing	71,173.40
81 Flights	3000 Charter	3000 Charter Flights	Hayes	4,848.82
8000 Charter	322,000 Total Value	322,000 Total Value	Lake	58,047.82
2000	58 Flights	183 Nonqualified Persons	Griffin	1,482.37
8000 Charter	3000 Charter Flights	3000 Charter Flights	Torill	8,380.13
354000 Total Value	348,000 Total Value	348,000 Total Value	Mays	2,380.41
			Green	158.88
			Chamber	2,281.97
			Bectler	1,401.98
			J. Martin	1,400.43
			Kaupel	2,208.05
			Beck	1,884.77
			Johnson	1,191.23
			Mohr	1,191.23
			Burke	1,191.23
				180,151.03