

Lakeside Inn
1050 North Shore Drive
South Haven, Michigan

September 3, Year*

Evelyn Brinkerhof, Esq.
Baker, McKittrick & Hayes
501 Ship Street
St. Joseph, Michigan

Dear Ms. Brinkerhof:

I have operated Lakeside Inn, a summer resort, as a sole proprietorship since inheriting it from my parents about fifteen years ago. Lakeside is in an excellent location for a summer resort. The lodges, kitchen, dining room and cabins are attractive and in good repair but are in need of modernization such as air conditioning, color TV sets and better lighting. In addition, the resort property, although well-maintained and in good repair, requires the addition of certain facilities such as a swimming pool, tennis courts, club house and lounge in order to compete effectively with the more recently established resorts in the area. I estimate that the total net value of all the assets which currently make up Lakeside is about \$600,000. The assets, my adjusted basis in them, and their value is as follows:

Item	<u>Adjusted Basis</u> (x 1,000)	<u>Value</u> (x 1,000)
1. Kitchen Utensils, Silverware, Dishes, Linen	\$ 0	\$ 48
2. Furniture and Fixtures	66	132
3. Equipment	24	120
4. Buildings	132	288
5. Land	<u>126</u>	<u>372</u>
	\$348	\$960

* See explanatory footnote in Introduction, page vii. note 1

The land and buildings are subject to a mortgage liability in the amount of \$360,000. The kitchen utensils, silverware, dishes and linen were expensed in the year in which they were purchased. The furniture, fixtures and equipment have an estimated remaining actual useful life of about ten years.

The buildings have an estimated remaining actual useful life of about twenty years. All depreciable assets have been depreciated using the straight-line method and the shortest available useful life. I have determined that the modernization and new facilities described above will cost about \$600,000. I have not saved much money over the years, and the most I can invest is about \$12,000.

Conveniently, my college roommate, Ned Alterman, recently inherited a substantial amount of money. Ned is prepared to invest \$600,000 in Lakeside. Ned and I estimate that, once the modernization is accomplished and the new facilities are added, Lakeside will produce, after the deduction of reasonable salaries for Ned and me and all other proper deductions for income tax purposes, about \$66,000 in net taxable income per year. We would like to share equally in the capital and profits of Lakeside once Ned has made his investment.

I recognize that upon Ned's investment in Lakeside some form of entity will be needed for the operation of the resort. Ned and I like the limited liability, centralized management, transferability and continuity of life inherent in the corporate form. Please advise us whether there are any income tax problems or concerns which might arise from the formation of a corporation to own and operate Lakeside and the conveyance of the money and assets described above to the corporation. We would like the income tax treatment accorded each of us, while operating Lakeside, to approximate each one's economic position.

Please let me hear from you at your earliest convenience.

Very truly yours,

Marc Cohen

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