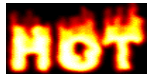




"Educating & Consulting The Private Club Industry"

October 2011

We hope that you find this brief newsletter of interest and that it provides you with useful and meaningful information. If you have any questions about any of the topics or issues, please do not hesitate to give me a call.



Club Tax Book Issues

"Can We Drop Our 501(c)(7) Tax-Exempt Status To Pursue Nonmember Use Of Our Club With A Vengeance?" This is a very common question that comes into our office. Board Members especially want the answer to this question. Are you prepared to offer a well thought out response, providing researched tax answers as well as documented statistics on Member vs. nonmember income profitability? If not, you should prepare yourself because the question will be asked. Consider this e-mail:

My general question is if we are not making any money as a not for profit club anyway, who cares if we lose our 501(c)(7) tax-exempt status? We need to be creative and start to bring outside parties in to our restaurant in order to make ends meet. If we were to exceed the 15% nonmember related gross receipts test, I can't see what the downside would be to losing the tax-exempt status. I believe as a 501(c)(7) tax-exempt Club, we get no other benefit of being a tax-exempt entity other than not paying any tax on our net income (which has been nonexistent). We pay property taxes and sales tax on all purchases.

If we fail the 15% test, what is the worst that can happen to us if an IRS agent comes in and declares we are not a 501(c)(7) if we have no UBTI or any taxable income for that matter? Would it be better for us to proactively change our status to "For Profit" or just wait until the IRS comes in and deems that we are no longer tax-exempt? If we do change our status to a "For-Profit" entity, how would that be accomplished? In that same vein would we need to change our liquor license to a public liquor license from our existing private one?

Are you prepared to answer your Board Member? Are you armed with the facts and statistics? **Club Tax Book** provides documented explanations as to why losing tax-exempt status may not be a good thing. Do you know the times in the life of a Club when there can be a significant federal tax liability? Can you identify non-federal tax implications to the loss of 501(c)(7) tax-exempt status?

June 30, 2011 – IRS Revokes Club's Tax-Exempt Status; LTR 201138054

The IRS revoked the tax-exempt status of another social Club because too much of the Club's income came from nonmembers. Those that are interested in receiving a copy of the Revenue Agent's "Explanation of Items" providing the details of the case, send us an e-mail with the request. Below are excerpts from the ruling:

Conclusion: "The IRC Section 501(c)(7) tax exempt status of ORG should be revoked since the nonmember income received by ORG exceeded 15% of ORG's total gross receipts for the years under examination. Further, it advertises the use of their facilities to the general public reflecting evidence that ORG is engaged in a business and is not being "operated exclusively for pleasure, recreation, or social purposes."

Alternative Issue: "During our examination of your Form 990, we noted that you did not comply with the record keeping requirements of Revenue Procedure

71-17,1971-1 C.B. 683. This Revenue Procedure provides that a social club must maintain specific records as to the use of its facilities in order to substantiate a host-guest relationship for determining member versus non-member usage. Failure to maintain such records may result in all income derived from the use of your facilities being presumed to be unrelated business income. To avoid such a presumption, you should take appropriate steps to insure that you comply with this Revenue Procedure in the future."

Could It Be, "All About Golf"?

Did you miss the webinar Mitch did for **belongSUITE**, a technology-driven sales, communication and design solutions company for the Club Industry? Not to worry! You can view the 1 hour archived presentation at your leisure by clicking on the following link:

[Watch the recording now!](#)

Visit www.clubtax.com for more info or call us at 561-776-0452. To subscribe/unsubscribe, e-mail info@clubtax.com.