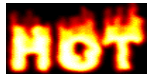




"Educating & Consulting The Private Club Industry"

September 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**

**Every Club Has Nonmember Income. Why is it so difficult for Clubs to capture this income in a separate category?** Member vs. nonmember income is not a new concept. It has been a rule for Clubs for a very long time. Tax law requires that income be separated between Member and nonmember income as the net profits or losses from these two categories are taxed very differently. Yes, all membership organizations, both 501(c)(7) and Code Section 277 taxable Clubs must separate their gross receipts into either a Member category or a nonmember category. Plain and simple!

With automated accounting systems, it seems as though it should be very simple to capture this information at the time of any transaction. If a nonmember (defined as a person not on your current Membership roster) pays a charge at the Club with a credit card, this income should be classified as nonmember gross receipts. Daily, monthly and annual reports should be relatively easy to print out totaling gross receipts from Members vs. nonmembers. For example, dining room sales should be easily classified as either Member sales or as nonmember sales. Room rentals, where a nonmember pays for the charge by credit card should easily be classified as nonmember rent. Golf guest fees charged to a Member's account would be classified as Member related income. (Deviations from the above occur at such times as the parties of more than 8 rule kicks in to require the Controller to pursue the question regarding reimbursement by a nonmember.)

If a 501(c)(7) tax-exempt Club wants to pursue food-to-go with a Member, the food-to-go category should be separated into a separate bucket called nontraditional and also classified as nonmember income for the nonmember income daily, monthly and annual report. Yes, nontraditional activities with Members of a 501(c)(7) Club must be separated and reviewed for the "de minimis" rule. Plain and simple, correct?

Why then is it so difficult for CPA firms, those preparing tax returns for Clubs, to gather the nonmember income information and report accordingly? Is it because the automated accounting systems do not allow for the separation of income in this fashion? If not, Clubs should put pressure on the vendors to alter their accounting programs accordingly. However, if the accounting systems do allow for the allocation between Member, nonmember and nontraditional gross receipts and the Club elects not to use the function, well, the Club Treasurer should look into this as part of their good Board Governance to ensure the Club stays in compliance with tax laws. If Management does not want anybody to know how much nonmember income is actually being generated as one Manager has suggested, well.....

### **Club Tax Book**

Does your Club fully understand how the IRS taxes Member vs. nonmember net income? If 501(c)(7) tax-exempt, does your Club fully understand the importance of reviewing gross nontraditional activity income annually? If a Club Manager, Treasurer, or the outside CPA were to ask for the total amount of nonmember gross receipts as of today for planning purposes, can the information be presented immediately?

Would it be helpful for Club Controllers to have a cheat sheet to assist in better understanding tax law or is your Club relying on your CPA firm to answer all of your questions?

**Club Tax Book**, initially created as my own cheat sheet, is separated into the following Chapters:

1. Law Applicable To Clubs
2. Club Tax Issues
3. Articles On Club Tax Issues
4. Fringe Benefits
5. Policy Statements and Glossary
6. Club Marketing Q&A's
7. Club Treasurer's Workbook
  - o Handbook
  - o Checklists

Should your Club subscribe to **Club Tax Book**?

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