House Committee Okays Slash in Membership Deductions

Late in February the House ways and means committee adopted a proposed ceiling on business expense account deductions from the income tax. As it turned out, the ceiling was quite a bit higher than the administration’s recommended elimination of virtually all entertainment deductions. But if the committee’s proposal is enacted into law, permitted outlays now charged off as business expense, such as for club dues, will be quite drastically slashed.

Expense Records Required

The ways and means bill provides that expenditures for recreation or entertainment must be directly related to the conduct of a business. Only the proportion of entertainment cost so related would be deductible, and in the case of club membership, it would have to be used a majority of the time for the furtherance of business. If the membership were used, for example, 55 per cent for business, it would be charged off at that rate. All expenses under the business entertainment section of the revenue code would have to be substantiated by records or other evidence.

Estimate 20 Per Cent Loss

Before the House ways and means committee took the bill under consideration, the Club Managers Assn. made a spot check across the nation to determine what loss in club membership possibly would result from the more stringent bill proposed by the administration. From the replies it received, the CMAA estimated the dropouts would run as high as 20 per cent. However, a less stringent bill such as reported to the House by the ways and means committee might result in a reduction of this figure. According to the CMAA, the greatest loss would occur among persons who have memberships in more than one club.

If the dropouts in club membership amount to 20 per cent, the CMAA pointed out, the immediate loss to the government through the excise tax attached to membership would exceed $15,000,000. In addition, club staffs would be reduced, leading to further reductions in tax revenue.

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