Troublesome points in
“Gross Receipts” test

CMAA, IRS Officials Discuss
Tax Exemption Status

Officers and directors of the CMAA and Internal Revenue officials recently met to
thresh out some of the troublesome points involved in the question of a club’s income
tax exemption status.

A “gross receipts” test, tentatively drawn up by IRS, was submitted to the CMAA
delegation for its study and comment. The purpose of the test is to adopt minimum
guidelines that can be followed by both a treasury agent and a club in determining
whether a club’s tax exempt status is to be questioned when an audit is made.

The IRS emphasized that advertising for public business makes a club suspect even
though it can show that its operations come within the minimum gross receipts stand-
ards set by the revenue bureau. However, it is conceded that an exempt status is not
affected by an occasional public function when there is no profit motive or economic
benefits to the members.

Here are the major points of the IRS proposal . . . and CMAA’s comments on them:

Receipts under $2,500 or 5 per cent
of gross membership receipts (which-
ever is larger) indicate to IRS that a
club is being operated properly for tax
exemption purposes.

Gross receipts are defined as income
from membership sources only, includ-
ing dues and assessments, but not initia-
tion fees.

General public includes everyone ex-
cept members and their guests. The
term includes any organizations or
groups that use the club.

Membership sponsorship of any
group is seriously questioned. How-
ever, if 75 per cent or more of a group
are club members, the group is con-
sidered a member and not an outside
group.

Inclusion of dues and assessments is
fair. But since initiation fees are subject
to the 20 per cent excise tax, they
should be counted as gross receipts.

Initiation fees are important revenue
to new clubs.

The 75 per cent “test” is generally
fair. But the chance of falling below
that figure might prevent a club from
making its facilities available to charit-
able, educational or scientific groups
which have long used club facilities.
This is a community responsibility of
the club. The IRS has agreed to con-
sider this as an exception if the group
qualifies for tax exemption under re-
venue laws. The club would not be
permitted to make a profit or charge
off any overhead for making its facilit-
ies available to such a group.