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Accent on management

by Ken Emerson

Revenue Ruling 69-232: How it affects clubs

The Internal Revenue Service has issued in recent months a series of revenue rulings designed to clarify its position on various types of income which, it feels, are not appropriate to private golf clubs. The latest of these is Rev. Rul. 69-232, which is concerned with the manner in which a country club disposes of real estate.

While the Income Tax Regulations provide that a club which engages in business, such as selling real estate, is not organized and operated exclusively for non-profitable purposes, there are certain exceptions, acknowledges IRS. Even though a profit is realized, the sale of property will not cause a golf club to lose its exemption, provided the sale is incidental and meets certain tests.

The service will consider all the facts and circumstances of a sale before deciding whether or not it may be cause for loss of exemption. Included in these considerations are: 1) The purpose of the club in purchasing the property; 2) The use the club makes of the property; 3) The reasons for the sale, and 4) The method used in making the sale.

Rev. Rul. 69-232 then cites the following three examples.

A club purchased the building and land that it had occupied under a lease for several years and continued to use the property for club purposes. Within a short

time the members realized that ownership of the property was impractical because the club's income was insufficient to support its activities and the carrying charges on the property. For this reason the property was sold as a single unit. The club realized a profit from the sale. After the sale the club leased other facilities for its purposes. The proceeds from the sale were used to furnish its new club facilities.

It is held that the sale of the property under the circumstances described was incidental within the meaning of the regulations. The club originally purchased the property for social purposes. It could not have continued to operate for these purposes unless it sold the property. The facts indicate that the club sold the property primarily to eliminate the financial burden imposed by ownership, not to derive a profit. Therefore, the sale did not jeopardize its the exempt status.

A club needed a site for a golf course, clubhouse and other club facilities. In order to obtain the best site for the golf course, the club had to purchase a larger tract of land than it needed because the landowner refused to sell less than the entire property. After the golf course, the clubhouse and other facilities were built, excess land remained. The

continued on page 34

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continued from page 32

club could have sold the property in a single unit. However, it decided to subdivide the land into building lots, make improvements on the lots and offer them for sale. Sales of the lots brought in substantial profits.

The club was not compelled to dispose of the excess land in the manner described. Its only purpose in electing to do so was to increase the profit to be derived from the sale of such land. Under these circumstances, the purpose of the club in subdividing and improving the land was to produce a profit. Therefore, it is held that the disposition of the land was not an incidental sale of property within the meaning of the regulations. Accordingly, the club is not entitled to retain its exemption.

A golf club owned and occupied land in the suburbs of a large city. As the city expanded, the value of city property greatly increased. But taxes and maintenance costs also increased. Many of the club facilities had become antiquated and needed replacement. Most of the members had moved farther out in the suburbs so that the close-in location was no longer important. Consequently, the club sold the property to land developers at a profit. The club then used the proceeds to purchase land and build a more modern clubhouse and golf course farther out in the country.

It is held that this sale was incidental within the meaning of the regulations. The primary purpose of the sale was not to make a profit, but to lower the club's overhead and improve its facilities by moving to a more suitable location. There is no requirement in the law that a club must continue to occupy uneconomical and outdated premises in order to continue its exemption. Therefore, the sale did not adversely affect the exempt status of the club. □

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