golf business

Are Taxes Stripping Our Industry Bare?

by Nick Romano, managing editor

On any list of problems that plague the golf business, you'll probably find taxes rated relatively high. In fact, unless immediate action is taken to curb the onslaught, many courses and clubs may reach a terminal stage in this decade.

In a random sample by GOLF BUSINESS of courses and clubs throughout the nation, real estate assessments at these facilities were higher in 1976 than the year previous. One club, Blue Skies Country Club, Yucca Valley, Calif., saw its tax bill soar 67 percent in a year, from $8,392 to $14,000. Increases were also prevalent in the midwest. Club Manager George Gillam of the Grosse Ile (Mich.) Golf & Country Club got a bill 16 percent higher than his '75 rates, up from $57,000 to $66,000.

It has reached the point where people look at the tax problem as the possible demise of the industry. For example, Steve Ahlberg, tax specialist for the National Club Association, indicates that an association survey showed 11 percent of the clubs with golf facilities responding felt increasing taxes might cause them to sell or move. More than 22 percent were convinced the burden would some day force them to liquidate.

GOLF BUSINESS conducted another survey of its own last fall in more than 100 facilities to get a feeling for the tax opinions of pros, superintendents, managers, club presidents, and daily fee owner-operators. They gave a resounding "yes" to the question of whether taxes would ultimately cripple the business. Eighty percent of those responding felt the burden would catch up with the industry.

Comments were interesting and perceptive. "We have allowed the state governments to get too huge," said one PGA professional from Jamestown, N.Y. "American voters are allowing their governments to follow the trend toward complete socialism," stated a daily fee owner from Charlotte, N.C. Another daily fee owner, this time from Louisville, balked at tax-supported municipal golf competition in his own area. "Private business has to compete with these government-owned facilities and we, the taxpayers, pick up their deficit."

"Taxes may cripple this industry, but not destroy it," said Howard Kahn, club manager at Starmount Forest Country Club, Greensboro, N.C. A daily fee owner from Birmingham, Ala., called taxation "government's battle with the continuance of the free enterprise system."

Selling off parts of your course's land is not the best of methods to keep up with tax demands, but some owner-operators have been forced into this. Karl Greene, Jr., owner of Bridgeview Golf Club, Columbus, Ohio, sold the land on which nine holes of his previous 18-hole facility were located. The 46-year-old public course in the center of town was being taxed heavily because it was adjacent to a large development of apartments.

For the private country club, the additional taxes are often met with the only alternative clubs have: a dues increase. The question is how long members will absorb these increases just to keep up with inflationary trends while in reality, getting no additional service. Are clubs falling behind by just maintaining the status quo?

Obviously, there has been little concerted effort by the trade associations in golf business to work on taxation on an allied front. It is a tough nut to crack because of the inequity of assessment, differing state laws, and the lack of information on the subject written in laymen's terms.

On the national front, the NCA has probably done more work on tackling the real estate problem than any one group, but it certainly does not have the answer for the escalating costs of local and state governments and how they ultimately hurt the clubs and courses that are assessed.

How assessments are made

Attempting to assess or appraise a golf course is not an easy task. These parcels of land are not sold on a regular basis, and it is extremely hard to figure the going market price. Large areas of land on which country clubs sit are indeed unusual in the scope of the developed, urban areas where the bulk of the country's clubs are.

When property is assessed, there are three standard approaches assessing officials can use to come up with the tax bill. They are known as: the market data approach, the income approach, and the cost approach.

Establishing the fair market value of a golf course, based on what it would sell for on the open market, can be an inequitable way to tax. Because of this, this approach is seldom utilized. If, though, you are in area where several courses have changed hands in the last few years, you may want to consult the new facility owner or the local assessing authority to get a handle on how much yor property is truly worth.

Although more difficult, the income approach would probably be more tangible to compute for the assessor. The income data at a golf course or club is readily available, but daily fee operators strive just to break even in many cases, and the private country club has income that is based on the amenities and services it establishes for its members.

Assessors using this approach would take just about every avenue of income into account, such as: green fees, golf car rentals, food and beverage service, pro shop sales, nonmember business such as golf activities or banquets, swimming pool charges, lessons, and locker room fees.

After all the income is totalled, the assessor would then deduct cost of operation to arrive at the net income. Salaries for all personnel would be subtracted, and supplies for the foodservice and total club operation would be computed, along with maintenance funds for the golf course and bills for water and energy needs. Club administration costs would also be deducted including, oddly enough, taxes, insurance, licenses necessary for the operation, accounting costs, and general office expenses. After this all is subtracted from income, the net is established and the appropriate rate is achieved. Again, this would offer little direction in assessing nonprofit clubs. The income approach could be quite applicable to the daily fee operation, though.

Most popular of the three and most widely accepted, is the cost approach. Many assessors and private fee appraisers concur this tactic will probably be the best in gaining an equitable assessment. In general, the courts seem to accept the cost approach, because it does the best job at handling unique assessments like golf courses and country clubs.

When assessors employ this technique, they take the overall value of the land, then add the present cost of the buildings and improvements upon the property — less, of course, the depreciation. Most facilities are viewed as parcels of land that are utilized for golf course purposes only with a minimum nine holes on the property. Any additional facilities that are not entirely golf-related — for example, a resort hotel complex — would be taxed on another value.

Many assessors will tax the land on its market value as is and can look at such improvements to the course as new automatic irrigation equipment, new greens and tees, or additional landscaping as valuable assets to the property that will ultimately be figured into the total facility worth. In the same vein, such improvements should be deducted from overall value as they age and depreciate.

Who assesses?

Real estate taxation is not something easy to generalize about. There are more than 13,500 separate assessment units in the United States. Some employ full-time staffs that go out into the field and assess in the proper manner. Some do not have any staffs at all; this is especially true in rural areas where county governments run on skeleton crews. According to various state laws, assessments may be made on-the-spot every year, or every 10 years. Even then, if there is a lot of property in the area that would have to be taxed, assessing officials in certain portions of the nation may not visit a specific site for several years. Here, they would generally rely on office files and what the assessments have been in the past. This practice would almost always disregard any improvements or buildings that may have been added to the property since the last assessment.

In fact, in certain assessment districts, there is no communication between the assessing authority and the agency that issues building permits. This would keep the assessor in the dark, and he might only realize improvements to the property if he had the opportunity to drive by it or make an on-the-spot visit.

Assessment practice is not an exact science. It will vary from township to township, county to county, and state to state. There are inequities. According to the International Association of Assessing Officials, in 1971 the assessed value of local taxable property was $552.7 billion. That rose to $853.4 billion 4 years later. The total

Richard Almy of the International Association of Assessing Officials.

local property tax yield in 1975 was approximately $50 billion. Census figures show, though, that the real property value was close to $1,755 billion. If nominal rates were raised to reflect full market value, total tax yield would have more than doubled to $116.5 billion in revenue.

This hits home even harder when the figures indicate that if fair market value were taken into greater account, more than $80 billion in additional funds would come in to local governments. Reforms are needed across the board, but the pace of correcting these problems is slow in view of the political ramifications.

Mass appraisal techniques have cost government most of the trust it may have had in the past. Use of computers is becoming more popular for assessors and the service that these machines provide is only as good as the assessing official in the field that feeds it data.

It has been difficult to establish just how much time an assessor may spend at a site when he does go out in the field. According to Richard Almy, director of research and technical services for the International Association of Assessing Officials, an average visit in certain areas of the country may not last more than 15 minutes. Of course, this would occur after the assessor has consulted files of past assessments at your course or club.

"Assuming the role of the environmentalist is not the job of the assessor," says Almy. "They are not there to dwell on the aesthetic side of the land, but on what is the land's best use." That may be the problem with real estate taxation in itself. What is or who decides "best use"?

State constitutions, often vague, dictate to most taxing authority what best use is. There is little doubt, though, that many assessors take into account what the land of a golf course or country club could become if the present facility wasn't there. That attitude has surely led to the higher-than-normal tax increases at many clubs and courses over the last few years.

Is open space best?

Open space legislation has been a key issue for many clubs and courses for years, but in the states that do not have any such laws, the strategy in pushing such bills through the state legislation is somewhat unorganized. According to the NCA's Ahlberg, "Many golf people do not know what the tactics are in achieving such open space campaigns."

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Lack of local publicity was the chief reason Ahlberg cited in the failure of recent campaigns in states such as Ohio. Ohio, in 1971, got use legislation through both houses and signed by the governor, but then the state supreme court stepped in and ruled the bill unconstitutional.

Like many other states, courses and clubs in Ohio are taxed on potential use factors. The state allows no classification of land for special purposes under the present tax setup. In 1975, the proposal went to the voters and even in an off-year election, the question was voted down almost three-to-one. Critics of the greenbelt campaign in Ohio have noted that the electorate was not given the story properly and had gotten the false impression that it was just another tax break scheme for a special interest group.

Ahlberg admitted that the fight for greenbelt in many states is just in its infancy. "We are just scratching the surface," he said. Fifteen states currently have some form of easement on the books (see page 25).

Indications are New York is attempting to update its law, and club-related associations in the Empire state have been working quite hard over the last few years to get legislation through the continuing battle of upstate interests versus downstate interests. The joint proposal has been languishing in the legislature for nearly a year. New York's law would establish a tax break for open and natural lands, particularly in and near rapidly growing urban and suburban areas. This is especially true in Westchester county, near New York City. Outdoor recreational land assessments, such as proposed in New York, would certainly protect many privately-operated facilities in the state and save management from the alternative of eventually selling all or parts of their land, because of the growing tax burden.

Money is the key to any successful legislative campaign and without enough, most greenbelt moves in the next year are doomed, especially if they end up in a general referendum as did the Ohio proposal in 1975. The Ohio Golf Association's Nick Popa told GOLF BUSINESS the $27,000 budget for the 1975 ballot was merely a token effort.

"Agriculture in the state had moved for an easement in 1973, and we thought the people were well-enough educated on the similarities of the cases," Popa stated. The gamble did not pay off. Ohio agriculture pulled out all the stops in its effort, spending $300,000 on TV, radio, and newspaper advertising. Popa indicated the ballot defeat was further complicated by the governor's insistence on four controversial issues being included on the ballot. Their overwhelming rejection by the voters spelled disaster for greenbelt. Moves in Ohio are not mute, since the golf interests are having a hard time finding a champion for their cause. The one they previously had in the Ohio senate lost in the recent election.

Sometimes, though, low-profile campaigns may have to serve as the answer, since voter suspicions are easily roused in these post-Watergate days. An advantageous way to lobby for such legislation is for golf groups to align themselves with other recreation interests. For example, the commercial camping industry in the state. This is what is occurring in Massachusetts. Although the state golf association is thoroughly involved in the attack on real estate taxes, it would probably be unwise to try it alone. To most of the population, golf is still considered in many areas a rich man's sport. This would be reemphasized when country clubs become openly involved in the lobbying effort.

Momentum is also developing in

other states. Indications are Kansas and Texas will soon be involved in movements for easements by state associations. The National Club Association has made it clear it has advice available for state groups which are considering mounting an effort. Ahlberg noted that the NCA has also stressed the importance of clubs and courses telling their story to assessors, establishing public relations.

There is a point, though, where public relations ends and clubs or courses are forced to appeal their assessments to higher authority. In states such as Washington and Connecticut, the cases have hit the courts with the clubs eventually glad they went through the legal maneuvers.

Rolling Hills Country Club in Wilton, Conn., was being assessed as unimproved land near a 2-acre residential zone. In 1971, Rolling Hills appealed its assessment to the local tax review authority with the authority upholding the original assessment. Contending that it was indeed open space land and should be taxed in that classification, the club took its case to the Court of Common Pleas. That body ruled in favor of the open space claim. The town of Wilton appealed the verdict to the state Supreme Court.

Upholding the ruling of the lower court, the Supreme Court ruled in 1975 that privately-owned golf courses, like privately owned farmland, do qualify for lower assessments. This would fall under the law that passed in Connecticut in 1963. The town of Wilton was done in by its own planning and zoning commission, which had classified the course on several, separate occasions as open space.

Writing the opinion of the court at that time, Associate Justice Herbert S. MacDonald ruled, "It certainly is not arguable that the mere fact of the private ownership and the use of the land disqualifies the land from open space classification. Otherwise there would be no purpose even in considering preferential tax treatment for privately-owned farmland, forest land, and other lands which qualify physically as open space land (according to state law.)

Taxation and discrimination

Even beyond the tough problem of taxation, state governments have thrown in the moral implications of restrictive admissions policies, something which still strikes fear into many in the industry that see the loss of this "freedom of association" spelling the true end to the private country club as we know it today.

Most publicized of these cases is probably the Maryland case (GB, Aug. 1976). The attorney general there is left with the responsibility of deciding if clubs still qualify for open space classification based on whether those clubs withhold membership or guest privileges from anyone because of race, religion, sex, or national origin. That issue was tacked on to the original 1966 tax legislation in 1974. In accordance with the law, the attorney general there launched an investigation into whether discrimination was indeed present at any of the facilities. In the final analysis, 22 clubs had not answered an extensive questionnaire adequately enough to get the tax break. In the final analysis, 19 clubs were left to investigate, but at this point, none of them has had any discriminatory charges leveled at them.

Problems in Canada

Escalating assessments or threats of higher tax bills are not unique to the United States. Our neighbors to the north in Canada are also wrestling with the tax man.

Provincial government in Ontario is planning to triple the assessment rate on golf courses and country clubs in 1978. Ontario has more than 400 golf courses. Less than 100 are private clubs, so 75 percent of the courses in the province are open to the public.

In 1970, some courses in the province were being taxed at market value. The result was a drastic increase for those operations. A major committee was appointed by the provincial government and after 18 months, the 20-member panel concluded the market value approach would close down many facilities in the area. Recommendations on tax easement were made to the government in 1972 and still have not been carried out.

A. Ross Thomson, executive director of the Ontario Golf Association, told GOLF BUSINESS from his Toronto office that if the planned assessment increases go through next year, it will mean the end for many courses. "The government has ignored our recommendations, and now municipal rates are set to escalate."

Coordinating the lobbying effort for the OGA with provincial officials is Bob Osborne, but lately his work has been stalled by changes within the local government. After months of working with treasury officials in Ontario, Osborne saw much of his work get sidetracked by a personnel shakeup in the Ministry of the Treasury. Talk in Ontario now is that the minority government is planning new elections later on this year, further adding to the confusion of just who will be in charge of province taxation.

Even if the taxation problem becomes too much to bear, there are indications the government would be in favor of acquiring courses that can no longer meet their tax responsibilities. This would at least preserve open space in the province and not short the many golfers in the area.

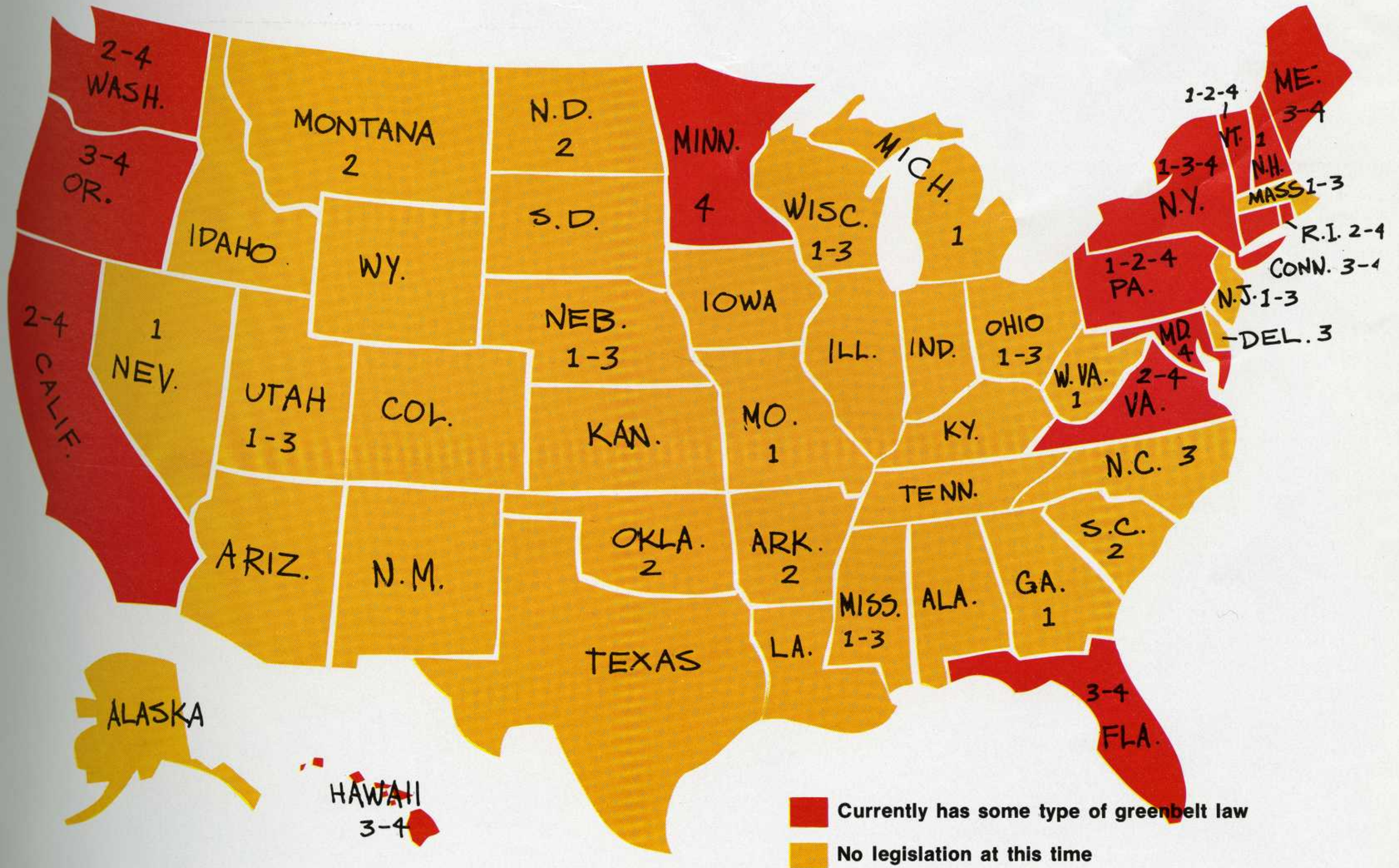
Irony and the IRS

Municipalities acquiring poorly managed facilities thus could lead to those courses being bought by cities and counties. Then, those acquired facilities compete directly for golfers with existing daily fee and private club operations in that market.

Strictly involving the private country club, nonmember business allowances by the Internal Revenue Service have raised many questions in taxation outside those of real estate. To maintain their non-private status and to avoid taxes that would be incurred if clubs were run on a profit basis, audits by the IRS every year or two are becoming more common. There is evidence the IRS will scrutinize more on the specifics of clubs engaged in nonmember outings, banquets, and dinners. Some IRS offices have already requested that managers file information on such income. They want to know what activities are involved and even which rooms were rented by the groups.

Some private clubs do pay taxes to the federal government and an exempt status probably will not reduce the tax bill, but there are many additional benefits clubs obtain by being

Greenbelt scoreboard: where does your state stand on taxes?



placed in this classification. For example, nonprofit clubs are not subject to the federal equal opportunity laws which dictate employment practices.

New developments in legislation on the federal level with bills like H.R. 1144 have altered the views of the IRS in dealing with nonmember business. Codes now state that tax-exempt clubs should have "substantially all" activities for pleasure, recreation, and other non-profitable reasons. In the past, the IRS had taken the hard line that clubs in this category had to deal "exclusively" in these areas, almost excluding nonmember business.

Investment income is another area where taxation can become involved for clubs. Nonmember business guidelines established with the passage of H.R. 1144 are now 15 percent of the total gross receipts of the club. Investment income guidelines dictate activity. If there is, that allowable percentage (under 15 percent) would be subtracted from the maximum 35 percent. Sources in the government admit the 15 and 35 percentages are not carved in granite, but the government will probably not revoke exempt status if clubs stay within these ranges.

Taxes are with the golf business to stay. Reassessments will continue to occur. National Club Association figures indicated in one survey that 70 percent of the facilities they questioned had been reappraised within the last 3 years.

Best suggestion for course and club management personnel to cut into the assessment problem: tell your own story. The system can be beaten, but only if clubs and courses join it. □

Number designations:

1. Constitutional amendment needed for legislation.
2. Land is assessed for potential use.
3. Land is assessed for best use.
4. Current Open Space legislation in practice.

Information supplied by National Club Association.

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