

# Warns Clubs to Meet Unfair Tax Threat\*

By HARRY J. FAWCETT

Gen. Mgr., The Kansas City (Mo.) Club

All clubs operating under the tax exemption accorded to corporations whose charters specify that their operations are not for profit, pay an excise tax of 20 per cent on their dues and fees. Now because of the provision in our charters that we do not operate for profit, we are not compelled or required to make income tax returns or pay taxes on our net income. Well, some of you will say right now, "We all know that; what is he trying to tell us?"

What I am about to tell you is that the future security of every man or woman holding a job as club manager today may be affected by forces now at work and most certainly the future welfare from a financial standpoint of every dues paying club in the United States is affected by those same forces.

Previously I have warned that legitimate clubs had better look to the wording of their charters, that forces were then at work inquiring into possible additional sources of taxation by the federal government, and that in time they could not help but consider the clubs again as a further source of revenue. I warned those clubs who were making large but legitimate profits to keep careful budgets of possible future expenditures for replacements of machinery, equipment and furnishings depleted during the war years. I urged that you set up on your books reserves for that purpose so that your expenditures for these necessary and legitimate expenses could be justified.

It had been common knowledge that these forces were at work and originally their objective was to embarrass and to destroy, if possible, the competition to what we might term legitimate industry, that is, those operating under our capitalistic scheme of things of and by the so-called "Co-ops." Now a lot of you will probably wonder what I am driving at here but I would remind you that the "Co-ops" and the legitimate dues paying clubs of America come in the same category as far as making a report of their operations annually to the treasury department. We both use Form 990. I could say then, and it has been amply demonstrated as C.M.A.A. President Bangs related to me in correspondence a

few weeks ago, that the Treasury department is now asking clubs in various sections of the country to amplify the information given on your Form 990. The Treasury department has it within its power to rule that your club may not come within the provisions for corporations not organized for profit by the information they will get from your returns on 990. In that event I am not so certain that we would be badly off.

In the meantime let me say that there is just one defense if you wish to keep among those corporations who pay an excise tax on their dues and fees instead of an income and profits tax, and that is to live up to your charter, which calls for you to operate without profit. I venture to say that if every club in the United States today were to make all of the necessary repairs and replacements required in their establishments they would have no profits to speak of.

## What Class of Charter?

I am not certain whether a club would be better off working under the commercial scheme as any other business in the category of corporations for profits does, or remain in the category of corporations not organized for profit. That is something which requires a great deal of study and certainly a great deal of thought before such a change is seriously considered by any club.

I am going to make this recommendation, however, for the consideration of our Board of Directors, "that the advice of some of our national accounting firms be sought or a committee appointed to make a study of the relative advantages of club operations in the future under the dispensation granted to us as corporations not operated for profit as against the advantages that might accrue were this dispensation passed up and clubs re-organized on an operations for profit basis."

A year ago at your convention, you were addressed by one of the officers of the American Hotel Association and it became evident from the reports of his remarks at that convention that all of the hotels comprising that association no longer looked with sympathetic, brotherly affection on the clubs of America. In fact, one began to discern a rift in the friendly relations which no doubt had im-

\*Address at annual convention, Club Managers Assn. of America.

pelled the Seattle group to invite a representative of the American Hotel Association to address our convention.

Right here I want to answer the challenge of the American Hotel Association and say that just as there are certain hotels in the United States of which the American Hotel Association might not care to brag of its affiliation, there are perhaps a few clubs in this country that in the misguided zeal of some manager or officers will seek hotel business. But, I believe we can make the positive statement in answer to the American Hotel Association that none of the legitimate clubs of America knowingly and wittingly violate our charters and go out to compete with the hotels or restaurants in our communities.

### Cooperate with Hotels

Naturally, I cannot speak for all clubs but I do think the club I manage is a representative one and I don't mind telling you that I believe we enjoy the respect of every hotel in Kansas City for the way in which we handle such business as may wittingly or unwittingly be offered to us in the course of each year. We have certain rules to which all catering business we do is subject—we do not ask a member to specify whether or not his guests are all members of the club when he offers us a party of up to 25 people. However, on any affair involving food service, if the number exceeds 25 persons, we insist that 50 per cent of those attending the affair must be members of our club. We do not draw such a line on cocktail parties as we feel that any member has the right to invite as many friends of his in for cocktails as he may care to have. Many times when there are banquets down the street from us at some of the hotels run by my friends, we will have one or more cocktail parties at our club preceding such banquets and we see nothing wrong in that, and I do not feel that we are competing with the hotels in permitting our members to offer their hospitality to any number of their friends on such occasions.

We are frequently approached by associations, fraternities and others to hold dances and other social affairs here and they are invariably turned down if they do not come within the requirements mentioned as to the number of members of our club attending the affair. As a matter of fact on such occasions we recommend our hotel friends and I have personally telephoned various hotels at various times trying to locate suitable rooms for such gatherings.

When I made protest to them against the clubs of America being listed as non-tax paying institutions because certain hotel men made such statements without qualifying them, the hotel trade papers

were quick to air my protest and this I say is to their eternal credit. Their's was the American way. To be fair to both sides. To give both sides an equal chance. Now our complaint against those members of the American Hotel Association is that by not qualifying their statements they gave a great many people the impression that all clubs were tax free. Now once more I will use the Kansas City Club to prove a point we want to make to the hotels of America and that is that when I figured up the total of the 20 per cent tax for last year, which this club paid on its dues and fees, it amounted to \$65,357.11. I am assured on very competent authority that a hotel corporation, whose name need not be given here, but which was operated very successfully last year, paid income and excess profits tax equaling a little over 8 per cent of their gross revenue, and that the total income and profits tax which this hotel paid took 40 per cent of their net profit. Now—using that as a comparison—my club paid in excise taxes more than 200 per cent of our net income. This information has not been long in my possession. I had hazarded a guess in one of the articles which I wrote and which was published last year that regardless of the fact that the legitimate clubs of America paid no income tax, their excise tax payments to the Federal Government would exceed income and profits taxes of comparable hotels and when I say comparable, I mean comparable gross receipts. This—the first chance I have had to check on my guess—proved that it was just too modest, that in the case of my own club we not only exceeded the income and profits tax of a very successful hotel with our excise tax payments—we doubled them!

### Pays More Tax Money

Dollar for dollar of gross revenue, the average legitimate club of America pays more tax money to the Federal Government than does the average hotel.

I don't think even a hotel man who is prejudiced will claim that an income or profits tax dollar will buy Uncle Sam one penny's worth more of the things Uncle has to buy than an excise tax dollar—that it will provide any more soldiers or sailors pay or that it will buy any better medicine, food or clothing than any other tax dollar—do you?

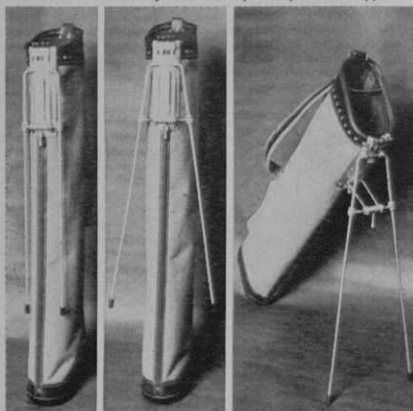
In all fairness, I know and all of you in this room, I think, know that the organizations which do not pay taxes are the YMCA's, the YWCA's, the war service organizations, etc. In many smaller communities, the churches too compete for restaurant business with tax paying restaurants and hotels.

There is no question in my mind but what the staggering sums of money men-

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tioned in the papers every day now for defense, for rearmament, for maintaining an army and perhaps furthering a war will call on the part of those entrusted with the task of raising revenues at Washington for the closest scrutiny of every possible source of tax revenue. I know our clubs and the people we represent will always be willing to do their part but when other groups seek to misrepresent us, we must have someone on the ground at Washington to speak for us, to be prepared with facts and figures to substantiate the position I have outlined that we now — dollar for dollar — pay as much federal tax as hotels — that in most cases we pay more — that we operate within our charters — that we are not tax evaders. This is so important that I am hoping the Club Managers Association of America will appoint a committee to place into effect a campaign to solicit from our employers, the clubs we work for, contributions based on a sliding scale of so much per member, or some other equitable basis to be worked out by the directors of our association toward defraying the expense of a competent representative in Washington, D.C. and toward the expense of our secretary or such other representatives as it may be necessary to send to Washington from time to time to appear before the com-

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mittees recommending new taxes, and to appear before the committees holding hearings on the revenue bills proposed in the future so that we may have our day in court when new taxes are proposed and be able to speak up and not let the hotels or any other associations damn us and place us in an unfavorable position before the public when the relative ability to bear new taxes is being considered.

## MANAGERS PLAN

(Continued from page 32)

an estimate of the cost served, and the chefs are supplied with complete details for preparing the items. There are 100 pictures in the series prepared by a committee headed by Frank Rolfs of the Cincinnati Club and Roy Leonard of the Cuvier Press Club.

Clarence March spoke on floor planning in renovating clubs to get more usable space.

Leonard Pfaelzer spoke on the meat outlook for this year as not being, at present sight, any more perplexing than it's been for some time and it would be anybody's guess what government regulations might be. He believed that the experienced suppliers and clubs would continue to be able to handle any meat problem that came up. He thought that

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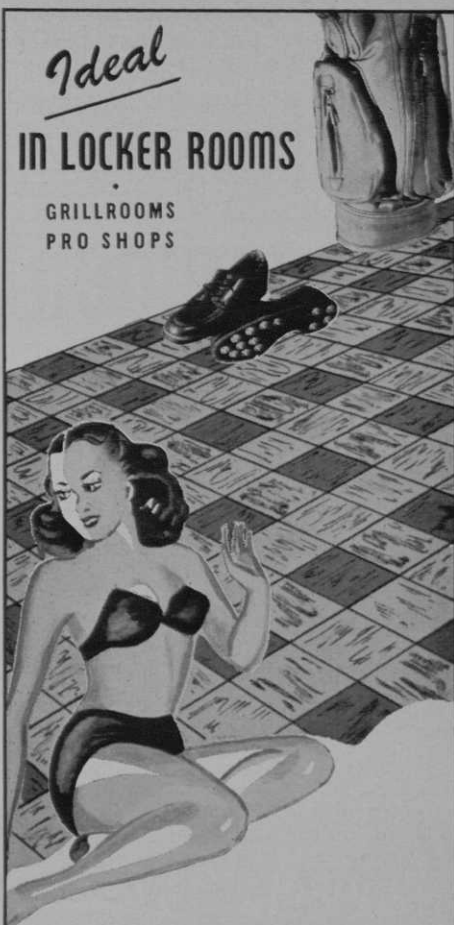
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