*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 standards 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:

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| Receipts under $2,500 or 5 per cent of gross membership receipts (whichever is larger) indicate to IRS that a club is being operated properly for tax exemption purposes. | The CMAA contends that 5 per cent is entirely too low and that 10 per cent is more reasonable. |
| Gross receipts are defined as income from membership sources only, including dues and assessments, but not initiation fees. | 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. |
| General public includes everyone except members and their guests. The term includes any organizations or groups that use the club.<br>Membership sponsorship of any group is seriously questioned. However, if 75 per cent or more of a group are club members, the group is considered a member and not an outside group. | 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 charitable, educational or scientific groups which have long used club facilities. This is a community responsibility of the club. The IRS has agreed to consider this as an exception if the group qualifies for tax exemption under revenue laws. The club would not be permitted to make a profit or charge off any overhead for making its facilities available to such a group. |