BUDGETS 1970:

# HOW THE GOVERNMENT CAN UPSET

By KEN EMERSON

Trying to second-guess the Government will add to the frustrations of budget preparation this year. The impending Federal Minimum Wage and Tax Reform bills and increased state taxes could markedly affect clubs: finances. But intelligent predictions of the outcome are almost impossible


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BY STEVE MANVILLE

# YOUR PLANS

The club industry will probably remember 1970 as "the year of the budget."

Never before have clubs been more aware of the need for serious budget planning. Never before has it been so difficult to make the kinds of intelligent predictions that are imperative to accurate forecasting.

In many cases the economic waters are being muddied by dramatic changes within the business environment of the clubs and the club memberships. However, with increasing frequency pending governmental activities in both Federal and state legislatures make it difficult to anticipate many of the factors likely to affect a club's budget.

The two areas most likely to be influenced by future legislative action are payroll costs and taxes. While it is entirely possible that more light may have been shed on some parts of the tax picture—principally those affected by the Federal Tax Reform bill—by the time this is read it is highly unlikely that state taxes and payroll costs will be similarly illuminated before mid-1970.

The reason for both uncertainties is essentially the same. Action on state taxes will not take place before the various state legislatures convene for their 1970 sessions; the new Minimum Wage bill, although introduced in both Houses, is unlikely to come to a vote before Congress meets next year.

However, if workable budget forecasts are to be made, consideration will certainly have to be given to both of these tax areas as well as to the Wage Hour Law. An examination of the three show just how vital they are to the golf industry.

## *Wage Hour Law 1969*

This piece of legislation includes four points that can affect clubs, one or more of them will apply to nearly every club in the country and will result in increased payroll expenses. They are: 1) a minimum hourly wage of $2; 2) elimination of the culinary overtime exemption; 3) elimination of the tip credit; and 4) elimination of the $250,000 exemption which will bring all clubs, regardless of gross income, under the law.

Just how seriously the wage law will affect each club depends largely on whether or not that club is presently covered by the law and to what extent it is making use of the various features of the law. It is expected however, that it will have a measurable impact on most clubs. While the National Club Assn. expects to testify during hearings, given the present attitude prevailing throughout the country, it appears that most provisions of the bill will pass.

## *Tax Reform Act of 1969*

It is probable that this bill will pass the Senate during the current session in substantially the same form approved by the House. The following sections are those most likely to affect a club's budget. The bill extends the unrelated business income tax to private clubs. Unrelated business income is defined as "the gross income (excluding exempt income), less deductions which are directly connected with the production of that income." It also extends the regular corporate tax to the investment income of clubs. A club which is not exempt from taxation will be allowed deductions for goods, services and insurance, only to the extent derived during that year. The bill does *not* call for a tax on capital gains realized from the sale of club properties.

If the bill passes the Senate in its present form it will mean that the only club income exempt from taxes will be "the gross income from dues, fees, charges, or similar amounts paid by members of the club as consideration for providing such members or their guests goods, facilities, or

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services in furtherance of the purposes constituting the basis for the exemption of the organization to which such income is paid."

In particular, club budgets will have to provide for taxes on funds set aside in savings accounts or certified deposits and for taxes on that income derived from sources not directly related to the club's tax exempt purpose.

### *State taxes*

In addition to the Federal Tax Reform Act serious consideration must be given to the possibility of additional state taxes. Until recently the most likely area of increase seemed to be centered around personal property taxes. In some areas these had increased five-fold until clubs in those areas made a concerted effort to pass state recreational land bills which provided some measure of relief.

In the past two months, however, we have seen the emergence of a State Excise Tax on club dues and fees. Should other states follow the lead of Connecticut, and it appears likely that others will certainly try, we can expect to see an increasing number of state tax legislation assessing taxes of up to 10 per cent on all club dues, fees and assessments. Only the greatest vigilance in protecting their interests will give the clubs any relief.

These then are the three areas which must be considered by club budget committees even though final action cannot be accurately predicted at this time. Each club will have to consider its own local situation and its own position in the state economy in order to satisfactorily anticipate probable increases in costs. And even then, a cautious budget committee will undoubtedly want to consider a mid-year meeting with an eye toward revising estimates in the light of a changing situation. □