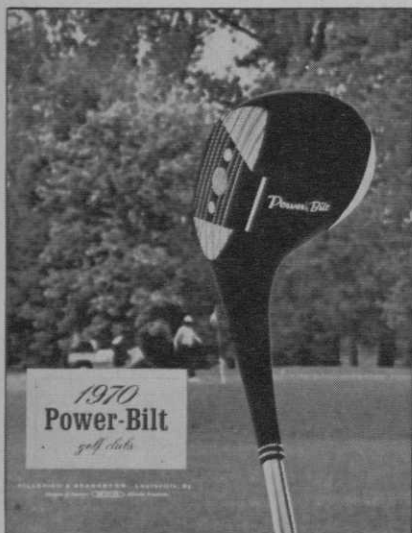


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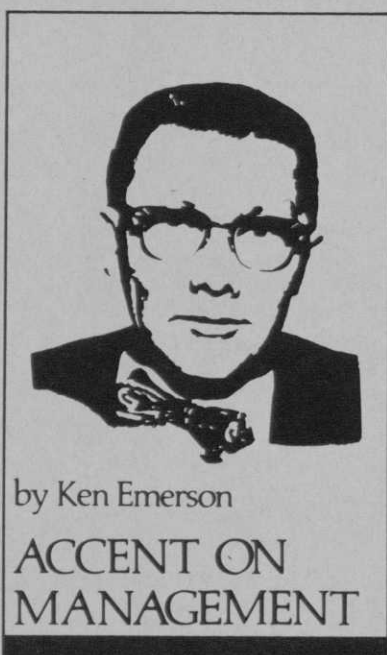
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by Ken Emerson

ACCENT ON MANAGEMENT

Group action by private clubs; Tax Reform Act

Allied Assn.

The private clubs of this country comprise a very considerable segment of the hospitality industry. Therefore, it is surprising that they have never attempted to bring together those associations which represent all their various aspects. Never, that is, until now.

This past November saw the first such meeting as the professional and trade associations of the private club industry met in a historic "summit" meeting in New York City. Calling themselves the Allied Assn., representatives assembled from the Club Managers Assn. of America, Golf Course Superintendents Assn., National Assn. of Club Athletic Directors, The National Club Assn., National Golf Foundation, Professional Golfers' Assn. and the United States Golf Assn.

In the past most clubs have felt that they were each a unique and different organization and so rarely felt a need to work closely with each other. However, recent events have made it clear that all clubs, though they will always

have their own identities, do have many related problems. Such areas of mutual concern are particularly obvious with respect to governmental regulations, staffing and labor, public relations, state and Federal taxation and the social rights of private clubs.

It was the recognition of these problems and the awareness that they could be approached most successfully through group action that motivated the meeting. The most immediate result of the meeting was an exchange of information on a broad range of subjects and the beginning of basic planning for a coordination of action on common problems.

Tax reform

Perhaps no better example of one such problem, which will have far reaching effects on *all* clubs, is the Tax Reform Act of 1969.

This new law will greatly change the position of social and recreational clubs and will now provide a revolutionary new method of imposing the income tax on clubs.

Clubs are taxable on all non-member income and investment income after the first \$1,000. Income not taxed will include monies received from members for dues and services, most capital gains (under certain restrictions) and amounts set aside for charitable purposes.

The underlying rationale for the exemption from income tax for clubs is found in Section 501 (c)7 of the Internal Revenue Code which provides tax exemption for: "Clubs organized and operated exclusively for pleasure, recreation and *other non-profitable purposes.*" However, this language has been interpreted to include only purposes of pleasure and recreation.

In addition to their group-oriented functions, clubs have traditionally provided members with a number of related individual ser-

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EMERSON

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vices. These include steam baths, haircuts, rooms, packaged liquor and tobacco, and even roasting a Thanksgiving turkey that was too large to fit in the oven at home.

For many years it was universally thought that providing the ancillary services mentioned above was within the exempt purposes of private clubs. However, recent rulings made by the IRS, both formally and informally, indicate that certain of these activities (and, by implication, the other) are not "in furtherance of a club's exempt function."

The objection to these services is that they are neither social nor recreational in the view of the Treasury Department, even though they do contribute to the members' pleasure in the realistic sense of the word. Even if the Treasury view is correct, however, the proper concern is not that such activities be prohibited, but that they be taxed.

Until now the Treasury has had only the very crude instrument of revocation of a club's exemption as a means of enforcing the reading of the statute. With the extension of the unrelated business income tax to clubs it was expected that a much more appropriate remedy would be made available.

However, the Act as passed by Congress and signed by the President appears to preserve all of the old rule regarding retention of exempt status while assessing the income tax at the same time. Apparently this will include the 5 per cent rule on outside business, a ban on package liquor sales and the prohibitions against investment income.

The Internal Revenue Service will now begin to draft regulations under the new provisions. This will be a lengthy process and represents an opportunity for clubs, by working in close cooperation with their association, to make known their views. The National Club Assn. must now begin this work. □