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by Ken Emerson

ACCENT ON MANAGEMENT

More guidelines from IRS

In early January, the staff of the National Club Assn. met with officials of the Internal Revenue Service to try to seek assistance and guidance in interpreting the Tax Reform Act of 1969. Although most clubs have been under this law for a year or more, the IRS has yet to issue guidelines.

Prior to the meeting NCA had furnished IRS with a position paper which defined the main points we wished to have established in the regulations. As a result of the meeting it is now possible to reach conclusions.

The most important part of the definition of exempt function income—that portion of the club's income exempt from the unrelated business income tax—is a determination of what constitutes "exempt function income."

In the case of a member who pays his dues to the club, the income will be deductible. When a member has lunch at the club, alone or with his family and pays the club for his charges, the payment is deductible.

A question arises, however, in the case of a member who uses his club solely for his own business purposes with his employer paying the dues. In the typical case the member simply turns his club bill over to his employer's accounting department and the company sends a check to the club. This will be exempt function income and deductible. The fact that the corporation paid the bill is not alone determinative.

In the situation where the member is reimbursed by the guest, a taxable

situation will nearly always arise. Where the member's employer pays, a new and difficult rule will be established. The Service will attempt to determine, or more accurately, have the club determine, whether the guest is the guest of the member or the guest of the employer company. The goal of the IRS here is to provide no tax where a salesman entertains his customers, but to tax, for example, the company Christmas party.

The new rules will also deal with bona fide reciprocal arrangements setting forth in writing some restrictions which had until now existed only in unwritten policy.

For our present purposes, however, it is essential to realize that income from members of reciprocal clubs will not be considered exempt function income and will be taxable. The statute is clear on this point, and clubs should expect the regulations to be equally clear.

The next most important item in the new law, after exempt function, is the allowable deductions.

A club may not deduct expenses incurred in earning exempt function income; the income is not taxable, so the expenses are not deductible. The remainder of a club's expenses will be deductible.

Clubs must, therefore, be prepared to segregate business deductions. They allocate all deductions between exempt income and taxable income.

The new regulations will not be specific about the method used for this allocation. The Service is prepared to accept any reasonable method of allocation. The Service indicates that they intend to allow considerable flexibility regarding deductions. NCA anticipates very vague language in the regulations. NCA will do all it can to give specific guidance in this area and is hopeful that it shall be able to recommend some specific, workable systems in the near future.

Many other aspects of the law as it applies to private clubs were discussed at the meeting and it is clear that when the regulations are released in the next few weeks clubs will receive a large amount of material within a very short time. Much work will have to be done, and NCA will make every attempt to respond to all who ask its help.

Although NCA must first respond to its members, it has a primary responsibility to the health of the club industry and is available to assist clubs as necessary for the betterment of the whole industry. □