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ACCENT ON MANAGEMENT

Thoughts on taxes and the "tax-exempt" club

How are private clubs throughout the country reacting to the Tax Reform Act of 1969, its related IRS regulations and to Revenue Procedure 71-17, the IRS revenue procedure concerned with record keeping and with nonmember use of a private club? Comments and opinions were plentiful and readily available during the National Club Assn.'s recently concluded series of tax seminars on the subject.

I had the privilege of participating in these seminars, which were held in Los Angeles, Seattle, Dallas, New Orleans, Lake Geneva, Wis., and Washington, D.C. And I had the opportunity to compile these concerns in order to assist the NCA in preparing its statement on the regulations, which has since been filed with the Internal Revenue Service. It may be of interest and value to share a few of these comments with the readers of GOLFDOM.

First, although there was over-all dissatisfaction expressed with the severe record keeping requirements of Rev. Proc. 71-17, it was evident that the majority of the industry will make every effort to adhere to them as closely as possible. This was due to a great extent to the excellent impression made by the representatives of the U.S. Treasury Department and the Internal Revenue Service, who participated in all but one of the seminars, and to the cooperation of the Treasury Department in making them available. This action was in the finest tradition of Government and industry cooperation.

Secondly, it appears that in a few instances, barring clarification that may result from NCA's comments to the Service, some differences will not be settled short of litigation.

One of the areas of serious concern to golf clubs is that of interclub competition. Historically, this has involved round-robin tournaments in which teams from other clubs visited each other over a period of several weeks. It would appear that under the new regulations all charges made by members of visiting teams would create taxable income. The NCA hopes to clarify this problem as well as several others involving reciprocal members with its testimony before the Internal Revenue Service.

No section of the new regulations and Rev. Proc. 71-17 has raised more vocal opposition than the record keeping requirements, particularly the necessity of getting members to sign informational forms when they entertain nonmembers. Although these requirements are extremely complex, there is the added question of whether or not they also constitute an invasion of privacy in their demand for information. Although the problem is being resolved, easily completed forms have been designed to ensure interim compliance.

Some clubs have voiced such vehement objections to the regulations that they have raised the question of what would happen if they failed to keep the records required by 71-17. The answer is simple: They will have to pay a much greater tax than if they keep required records. Unpalatable though it may seem, taxpayers—in this case the individual clubs—must prove their deductions in order to gain the benefits that those deductions provide.

Another frequently voiced proposal was the thought that many clubs might decide to relinquish their tax-exempt status. Although no satisfactory decision can be reached until a club reviews its position and its financial statement both as a tax paying and as a tax-exempt organization, serious consideration must be given to Section 277 of the Revenue Code which, by requiring a club to clarify member and nonmember income and expenses, seems to require that a tax paying club keep the same type of records as a tax-exempt one.

The very complexity of the new regulations and of Rev. Proc. 71-17 has given rise to misunderstanding of the rules they lay down. Even some national tax reporting companies have been misled into circulating incorrect information. One such piece of misinformation was contained in a recent newsletter of a national tax reporting firm which said in part, "Note that these member-guest relationships apply only for *exemption* (emphasis by the company) purposes. Thus, if a member's employer pays for a group of eight persons (including the member), the payment would be treated as member payments for determining exemption. But even if the club is exempt, the employer's payment for the nonmembers would be taxable as unrelated business income."

This statement is an unfortunate but certainly understandable error. In fact in parties of eight or less the IRS rules say that the income is *not* taxable, providing payment is made by the member or by his employer. (See Rev. Proc. 71-17, Section 3.031, 3.033 and 4.01.)

It is precisely to correct the possibility of such misunderstandings as well as to clarify the many gray areas not covered by either the guidelines or the regulations or by Rev. Proc. 71-17 that the NCA has entered its comments to the Internal Revenue Service. □

Fuqua to sponsor "richest" tournament

Fuqua Industries, Inc., will sponsor the richest purse of the 1972 Professional Golfers' Assn. tour at the Jackie Gleason Inverrary Classic, February 22 to 27, Fort Lauderdale, Fla.—$260,000.