



A Message from Ned

Limitations and Calculations for 501(c)(7) Tax Exempt Clubs Under Revenue Procedure 71-17.

Hopefully many of you read the title of this WSN and think, “how basic!” Unfortunately, my recent experiences tell me this topic is not as basic as it should be. In my opinion, there are many reasons it’s not simple; most often it is due to a new Club Controller, CFO or GM who are also new to the Club world. Another reason is when a new Club client comes to BFMM who has worked with a previous CPA Firm whom weren’t knowledgeable in this industry.

Under Revenue Procedure 71-17, the IRS limitation of non-member revenue is 15% of the Club’s total income. Total gross revenue of the Club, in this calculation, includes dues and operating assessments, but not initiation fees. Unfortunately, reciprocal and non-traditional incomes are always considered non-member income.

Hopefully your Club is under the 15% threshold, but our experience shows that many Clubs are over the limit because they are looking for other revenue streams to support the loss of member dues. Be aware that exceeding the 15% test is not an automatic revocation of tax exempt status for 501(c)(7) Clubs, but one of many factors to be considered by the IRS in the event of an audit. If you are selected for an IRS audit, you should immediately reach out to your professional team, ideally your CPA firm, for guidance and assistance.

Please call or email me with any specific questions you may have.

See you at the Club,

Ned McCrory, CPA
Managing Partner & Principal
Private Club Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

THINGS TO KNOW

Revenue Procedure 71-17 Tips:

- Calculate the 15% test during the year to make sure your Club is tracking in the right direction.
- Require your members to complete the 71-17 Member Function Questionnaire. Your members will push back, but the forms will be the first documents requested by the IRS in the event of an audit.
- If you would like more information related to Revenue Procedure 71-17 and member checklists, simply call or email me and it will be sent to you immediately.



Ned McCrory and Teri Finan of Club Benchmarking at the annual Club Tax Network Conference.



**BATCHELOR
FRECHETTE
McCRORY
MICHAEL & CO.**
www.bfmncpa.com

*40 Westminster Street, Suite 600
Providence, RI 02903*

Ned McCrory
*Telephone: (800) 417-3280 x3023
E-mail: nmccrory@bfmncpa.com*

Non-member income calculations:

- Party of 8 or less, and at least 1 is a member = all member income.
- Party of 9 or more, and 75% are members = all member income.
- Party of 9 or more, less than 75% members, and meets a direct business or social objective of members = all member income.
- In all the above, payment must be made directly by a member in the group or the member's employer.
- Anything else = non-member income!