



A Message from Ned

Non-Traditional Income

The last several years of economic difficulties have forced many clubs to try and diversify their revenue stream. Many times this results in additional non-member income. However, non-traditional income is different because it is generated from members, not non-members!

Think about why your club was granted tax-exempt status by the IRS to begin with. It was because like-minded people decided to join together in a private club atmosphere to enjoy a common activity, or common tradition, without a profit motive. This in a microcosm is a private club. So what is non-traditional income? Simply, it would be income generated from members that does not fit the tradition of membership, the camaraderie of friends and the sharing of a common interest. For example, picking up "takeout" food from your Club to bring home. While it's nice to be able to share a pre-cooked meal with your family, it is not a good thing for your Club.

It is also important to keep in mind that all non-traditional income, while generated from members, is deemed to be non-member income and subject to the 15% test. It's possible your 15% test calculates higher than you ever thought!

If you have questions or would like additional information, I encourage you to reach out to me.

See you at the Club,

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

TAX TIPS:

- We talked about takeout food as non-traditional income. Think about your financial trial balance and chart of accounts. You probably have a line item called "Takeout Food". Talk about giving the IRS a road map in the case of an audit!
- What other activities is your Club involved with that would be considered non-traditional income? Examples I have seen or heard about are:
 - a. Off-site catering at a member home.
 - b. Buy a dozen roses at a City Club on Valentine's Day for your spouse.
 - c. Offer to your membership the same great deal to buy the same flat screen TV in the newly decorated guest rooms.
 - d. Sale of cases of wine after a wine tasting event at your club.
 - e. Cigars....see above!



Ned McCrory with David McCabe, the Senior Director of Education at the Club Managers Association of America.



BATCHELOR
FRECHETTE
McCRORY
MICHAEL & CO.

www.bfmmcpa.com

40 Westminister Street, Suite 600
Providence, RI 02903
Telephone: (800) 417-3280 x3032
E-mail: nmccrory@bfmmcpa.com

Return Service Requested

Did you know?

Now that we understand all about non-traditional income, the obvious question is what is the allowable amount in the eyes of the IRS. The tax code says it should not be more than a “de minimis” amount. But what does “de minimis” mean? If a club has total gross of revenue of \$5 million, is \$50,000 significant? After all, one could argue that it is only 1% of total revenue. But what if the IRS agent auditing your Club felt that \$50,000 was significant based on the amount of his/her salary?

Many people use a 5% threshold as the limit on non-traditional income, but where is this documented? Club folklore has it that this was once in the IRS training manual. Maybe, maybe not, but it is not in the IRS code. The only guidance in the IRS code is “de minimis.” A Latin word translated to “lacking significance or importance.” So, tread carefully!