ments as within the language which had been added to the club dues definition in 1941. From 1955 to 1960, the IRS took every opportunity to broaden the definition of club dues to include:

1955—Voluntary payments for use of lockers and bathhouses came under the definition.

1956—Voluntary payments made by members for cleaning and storing of golf clubs were subject to dues tax.

1958—The IRS applied club dues to voluntary payments made by members of yachting clubs for the use of docking and mooring facilities.

1960—Voluntary payments for the rental of horse stalls or for boarding a horse came within the definition of club dues.

THE 1960S AND NCA

In 1960, the 20-percent excise tax on cabarets was reduced to the pre-World War II level of ten percent. Club dues, however, remained at the 20-percent level. The National Club Association was established to address this and other inequities; its first undertaking in 1961 was to fight for a reduction in the tax on club dues.

In 1962, tax legislation was introduced in Congress that would have completely eliminated the deductibility of club dues as a business expense. Working with other organizations, NCA helped defeat this bill.

Later that same year, NCA led the effort with the Club Managers Association of America (CMAA) and other groups to press Congress to repeal or reduce the excise tax on club dues.

Not only was the excise tax a burden to clubs, the paperwork associated with the accounting of the tax was immense. Walter A. Slowinski, a partner with the law firm of Baker, McKenzie, testified on behalf of NCA before the House Ways & Means Committee. Slowinski asked the Committee to “provide legislative relief which will eliminate the necessity of having clubs keep more and more detailed records for no productive purpose.” He went on to say that “the [IRS] is now sweeping all payments under the umbrella of dues [and] the traditional concept of dues has been abandoned.”

Prior to 1961, taxpayers were allowed a deduction if they could prove that entertainment expenses were incurred for a business purpose. In 1962, Congress and the IRS officially recognized that club dues were proper business deductions. (See H.R. Rep. No. 1447, 87th Cong., 2nd Sess., 1962, p. 22.) Although Congress recognized dues as a business deduction, changes were made to Section 274 of the Internal Revenue Code. The new language charged individuals with the burden of proving that use of the club was primarily (more than 50 percent of the time) in pursuit of business. The change also required extensive documentation of all deductible entertainment expenses.

During 1965, NCA supported legislation and proposals that would reduce the excise tax on club dues to 10 percent, as well as measures that would provide much-needed paperwork relief to clubs. Clubs were to receive a bigger bonus than expected. On June 21, 1965, President Johnson signed into law legislation entirely repealing the excise taxes on all clubs and fees. [P.L. 89-44, H.R. 8371]

The celebration did not last for long. The following year legislation was introduced to reinstate the excise tax at the pre-World War II level of 10 percent. NCA lobbied to help defeat this legislation. In 1969, NCA testified again before the House Ways & Means Committee against the Tax Reform Act of 1969; clubs came away without any additional tax increase or changes in the law.

THE CARTER YEARS—1970S

The late 70s ushered in a new president and a new focus on club dues and business-entertainment expenses. As the economy faltered, President Carter proposed massive tax reforms and the search for new government funding sources began. The proposed reforms included disallowing 50 percent of the business deductions for business meals and luncheon club dues, and 100 percent of the deductions for club dues and other business-entertainment expenses at clubs and similar facilities. The deduction for “ordinary and necessary” business expenses, including reasonable amounts for entertainment, had been allowed since 1916, when the income tax law was enacted.

On March 17, 1978, NCA President Milton E. “Bob” Meyer, Jr., testified before the House Ways & Means Committee charging that President Carter’s proposal to disallow deductions for club dues
and entertaining expenses was a politically motivated attack that could devastate the club industry. During his testimony, Meyer noted that if the Carter Administration wanted to curb abuses in expense and club dues deduction, that stricter enforcement of documentation requirements was the answer. Meyer labeled the President’s use of the term “three martini lunch” as “an unbecoming emotional play that transgresses the bounds of intellectual honesty and confuses the real issue involved, which is: To what extent is it proper for government, through the tax code, to influence the management decisions of business and professional people as to how they conduct their business and maximize their profits?”

James E. Maser, then president of Club Corporation of America, also testified before the Committee that day. Maser told the Committee that if dues revenue was reduced, “the only practical way to reduce costs to meet reduced revenues [would be] through large payroll reductions.” Maser went on to tell the Committee that business-entertaining expenses were valid business expenses similar to advertising.

In addition to testifying before Congress, NCA mounted an extensive campaign to retain the tax deduction for clubs. The lobbying campaign included visits with all key Congressional leaders and Administration officials. Arnold Palmer was called upon to assist in the effort. Prior to the House-Senate Conference Committees’ meeting that was to decide the fate of club dues deductions, Arnold Palmer, at the request of NCA, talked at length with Rep. Dan Rostenkowski (D-IL) about the devastating effect the disallowance would impose on private clubs.

Palmer discussed the anticipated club closings that would result should dues deductions be eliminated, and told the Congressmen that thousands of employees would probably be laid off. Palmer was a crucial participant in helping develop a compromise proposal that ultimately saved club dues at the final hour.

As a result of their efforts, the private club industry managed to keep the wolf at bay again in 1978, when on October 15, Congress approved a tax bill that did not end deductions for club dues. The important victory for private clubs came in the waning minutes of the 95th Congress when, despite intense lobbying by Administration officials, a House-Senate Conference Committee rejected the provision that would have ended club dues deductions.

The announcement came in the late evening hours and in an emotionally packed moment. NCA members, gathered at NCA’s 1978 convention, received the news that private club dues were saved. “The odds against the Conference Committees’ removing the Senate’s vote to end dues deductions were astronomical,” noted NCA incoming-President Herb Emanuelson, Jr., “but thanks to the continuous lobbying effort by our Washington lobbying team and the support of member clubs, we convinced key members to defend our cause.”

Speaking before NCA’s 1978 annual convention, Rep. Guy Vander Jagt (R-MI), who earlier in the day predicted a loss, announced the victory efforts on behalf of club dues deductions as “masterful.”

**THE REAGAN YEARS—1980s**

In 1985, the Reagan Administration introduced a proposal to repeal entirely the deductibility of club dues and restrict the deductibility of business meals. The president of NCA at the time, Joseph N. Noll, testified before the Ways & Means Committee on June 26, 1985, in opposition to the part of the President’s tax proposals to eliminate the tax deductibility of club dues.

“Eliminating the tax deductibility of certain expenses is unjustified and would devastate the private club industry,” Noll told members of the Ways & Means Committee. Appearing with four other panelists, representing the restaurant, hospitality and entertainment industries, he predicted that 81,000 full-time employees would be laid off because of the decline in club use. Noll went on to challenge the wisdom of having government dictate which business expense deductions are appropriate and deductible, and which are not.

Three months later, on October 4, 1985, Noll testified before the Senate Finance Committee on the same subject. Noll again expressed his concern over the number of jobs that would be lost due to the changes in the deductibility law.

Noll also addressed the public perception of widespread abuse of the business deduction. He stated, “Under the present code there are very stringent restrictions on deductibility and precise documenta-