

**Loyola University Maryland**  
**Club Membership Monthly Usage Form & Policy**  
**Effective 12/1/09**

**Introduction**

According to Internal Revenue Code regulations, an employer may allow for certain business related expenses, including social and recreational club memberships, to be excluded from employee income if appropriate usage documentation and reporting procedures are in place. The Club Membership Usage Form will enable Loyola University Maryland to allow exclusions within the Internal Revenue Code for employees provided all operating procedures are followed. Employees who have social and recreational club memberships that are paid for by Loyola University must complete the Club Membership Usage Form every month in order to exclude business related expenses from taxable income.

**Regulatory Requirements**

Internal Revenue Code Section 274(a)(3) disallows, in general, any deduction for amounts paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose, effective for amounts paid after Dec. 31, 1993. Specific expenses (e.g., meals) incurred at a club are deductible only to the extent they otherwise satisfy the standards for deductibility.

This Section 274 deduction disallowance does not preclude an employer from excluding from gross income any payment which qualifies as a working condition fringe (Internal Revenue Code Section 132). Working condition fringe benefits are defined (§132) as: “any property or services provided to an employee of the employer to the extent that, if the employee paid for such property or services, such payment would be allowable as a deduction under section 162 or 167.” In order for an employer to exclude the “working condition fringe benefits”, they must meet strict record keeping and substantiation requirements, with regard to the details and the time period within which the expenses are incurred, reported and validated. These specific requirements can be found in Reg. §1.62-2(c) (1); Reg. §1.62-2(d); Reg. §1.62-2(e); Reg. §1.62-2(f); Reg. §1.62-2(g).

Monthly expenses that are deemed to be personal in nature are fully taxable for the amount of the expenditure and will be taxed on a monthly basis, subject to applicable withholdings. Valid business related expenses are considered working condition fringe benefits and hold no tax implication for the employee.

The amount of annual dues that is considered taxable compensation to the employee is related to the percentage of the annual business use and will be taxed on an annual basis. If the club is not used during the 12 month period the annual value of the dues will be considered taxable compensation. Please see the example below:

*Assume Company X provides Employee B with a country club membership for which it paid \$20,000. B substantiates that the club was used 40% for business purposes. The business use of the club (40%) may be considered a working condition fringe benefit, notwithstanding that the employer's deduction for the dues allocable to the business use is disallowed by §274(a)(3), if X does not treat*

**Loyola University Maryland**  
**Club Membership Monthly Usage Form & Policy**  
**Effective 12/1/09**

*the club membership as compensation under §274(e)(2). Thus, B may exclude from gross income \$8,000 (40% of the club dues, which reflects B's business use). X must report \$12,000 as wages subject to withholding and payment of employment taxes (60% of the value of the club dues, which reflects B's personal use). B must include \$12,000 in gross income. X may deduct as compensation the amount it paid for the club dues which reflects B's personal use, provided the amount satisfies the other requirements for a salary or compensation deduction under §162 . [Reg. § 1.132-5(s)(3)]*

Loyola University will take advantage of the special accounting rule which allows an employer to treat certain fringe benefits provided to employees in November and December of one year to be reported in the following year. The evaluation year will be November – October. For example, the annual dues taxation for year 2010 will include the usage evaluation from November 1, 2009 through October 30, 2010. Annual dues will be taxed in during the month of December.

Timing of taxation will depend on when the expense was incurred and when the Club Membership Usage Form was received by the Payroll Office.

**Operating Procedures**

The following operating procedures must be followed by employees to exclude business related expenses from taxable income:

1. Within 30 days of the month end, the employee completes the Club Membership Usage Form, attaches receipts, and submits it to the Vice President for Finance and Treasurer for signature.

For any month where a Club Membership Usage Form is not completed and received on time, the monthly expenses will be considered fully taxable and there will be no subsequent adjustments. The Club Membership Usage Form must be submitted even if there are NO expenses for the month. In order for Loyola to exclude any business expenses all fields on the Club Membership Usage Form must be completed.

2. The Vice President for Finance and Treasurer reviews the Club Membership Usage Form and receipts and either approves it or requests additional information from the employee. Once the Club Membership Usage Form has been approved by the Vice President for Finance and Treasurer it is sent to the Payroll Office for processing.
3. The Payroll Office calculates any tax implications and sends an email to employees notifying them of any pending taxation.

**Loyola University Maryland**  
**Club Membership Monthly Usage Form & Policy**  
**Effective 12/1/09**

Examples of how the Club Membership Usage Form should be completed are shown below:

Name and Address of Club	Date of Use	Personal (Y/N)	Amount of Expenditure	Business Reason for Expenditure/Activity	Name & Business Relationship of Individual(s) Involved
Country Club of Maryland	10/29/09	N	\$200.00	Took potential donor for golf outing to discuss funding a chair within Sellinger School of Business	Joe Smith, Owner: Creative Business Solutions, me. Joe will be donating 500K to Sellinger School of Business.
Center Club	10/25/09	Y	\$100.0	None	Dinner with my spouse to celebrate our wedding anniversary.
Center Club	10/27/09	N	\$200.00	Dinner with donor and his spouse to consider renewing annual donation	Mr. and Mrs. Dennis Smith, my spouse, me.