



Welcome

One of the pleasures of working in the Club sector is watching our clients grow and prosper. However, growth can sometimes create major problems for the unwary. Our cover story looks at this issue; its causes and consequences and the solution.

We also take a look at the performance of the sector over the past three quarters.

If you have questions arising from any article in this edition, please don't hesitate to contact either myself or Nick Nancarrow.

We trust you enjoy the read.

Ian Neale
PARTNER

ClubsNSW
INDUSTRY SUPPORTER 2009-2010

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Sports clubs too popular for their own good

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Sports clubs too popular for their own good

"Many sporting clubs classified as sporting tax exempt may be at risk of being caught out by the ATO because they have inadvertently compromised their status", Cutcher & Neale Partner and club specialist Ian Neale says.

The Tax Office has seen a few clubs overstep its guidelines and this "has led them to believe that it is time to investigate", he believes.

If you run or are on the board of a sports club, you should understand the rules around sporting clubs tax exemption.

"Things start going wrong," Ian says, "when clubs become victims of their own success.

"The club buys some poker machines, opens a bar and builds a function area so they can host weddings. The revenues begin to feed the social rather than the sporting activities.

"Because they may be attracting a lot of social members, they might change the constitution and allow other sorts of members to participate in the board, or to vote for the board."

But it is when they invest in things other than bowling greens and golf courses that the line defining tax exemption may be crossed.

For the purposes of the Tax Office, Ian says this makes a club a "moving target". Worse is the risk that the tax man "may go back four years – there is potentially four years of exposure when they thought they were exempt".

Tax Office guidance dictates that clubs pass three tests if they are to remain tax exempt. They must only produce a profit for the "nourishment" of the club, and no other party; they must operate to encourage the sport in question; and their main purpose must be sport, not social activity.

Yet, Ian says, "Many accountants would be doing the books like they did it every other year. We have clubs moving from non-taxable to taxable status. Our skill lies in alerting those that are moving to the risks they face."

Where a well-advised board would understand the risks of moving away from the objectives in the constitution, "A person who joins a bowling club board is going to be unaware of the fact that they need to be conscious of tax regulations. The very fact that you get someone new joining a board could absolutely lead to slippage."

"After a few changes, you have a completely new board after five years and they don't always understand the tax implications. That's why a board needs to rely on third party advice to make sure they understand what the trigger points are so they don't cross the line."

"On an annual basis the directors need to examine a checklist of issues both financial and non-financial – governance, constitution, premises, membership and voting structures," Ian says. And as a consequence of expansion, in any given year five to ten per cent of clubs would need to be watchful about their tax status.

The constitution is one thing but what is actually happening in the club might indicate something different.

"If you have any doubt about possible drift in your own status", Ian warns, "now is the time to review your situation."

Our skill lies in alerting clients who are moving from non-taxable to taxable status to the risks they face.



How is your club performing?

% Change of Cutcher & Neale Clubs Revenue compared to the same period as last year			
	Bar Revenue	Poker Machine Revenue	Total Revenue
2009 Annual Results	3%	9%	10%
September 09 Quarter	(1%)	0%	1%
December 09 Quarter	(1%)	(7%)	(3%)
March 10 Quarter	(3%)	(7%)	(5%)
2010 YTD Results	(1%)	(5%)	(3%)

The table above provides an analysis of our club client's bar, poker machine and total revenue when compared to the same periods as last year.

For the year ending 30 June 2009, our clients experienced good growth.

However 2010 YTD results have show declines in revenue when compared to last year.

Poker machine revenue was severely impacted in the December 2009 and March 2010 quarters with declines on average of 7% for both quarters.

Did you know...

Henry Review snapshot

The recent release of the Henry Review did not recommend the removal of club tax arrangements. Enhancements may be made to the current mutuality principle with a more simplified and efficient tax arrangement. Other information affecting clubs from the review were:

- Company tax rates will be reduced from 30% currently to 29% in 2013/14 and 28% in 2014/15.
- Superannuation guarantee will increase from the current 9% to 12% in 2019/20 with increments of 0.25% from 2014.

Beware POS pitfall

Clubs that utilise point of sales systems should closely monitor "no sales" that are rung up through the till systems. Reports can be generated from these systems that show the number of these sales for each day. Unexplained or unusual "no sales" could be indicating that fraudulent activities may be occurring in your club.



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