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Q & A: The Dues Tax

Purpose: This Informational Publication answers some frequently asked questions about the application of the dues tax.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. § 12-540 et seq.

What is the Dues Tax?

The Connecticut dues tax is a 10% tax imposed on dues or initiation fees paid to any social, athletic, or sporting club. The tax is imposed on the club, which collects reimbursement for the tax from its members.

Dues include obligatory membership payments and assessment charges to members regardless of the purpose for which made and any charges for social, athletic, or sporting privileges or facilities for any period of more than six days.

Initiation fees include any payment, contribution, or loan required as a condition of membership, whether or not a certificate of interest or indebtedness or share of stock indicates the payment, contribution, or loan.

Club means any organization owned or operated, or both, by its members. An organization operated by its members is an organization whose members effectively control the operation of the club. Controlling the operation of the club includes activities such as present members deciding who will be accepted as new members and establishing membership rates.

When Is the Tax Due From the Member?

The tax on dues or initiation fees is due at the time the amount is paid to a social, athletic, or sporting club, based on the amount of the payment being made.

For example, if a member pays a fee in installments, the tax due at the time the member remits the payment is 10% of the installment payment.

On What Amount Is Dues Tax Imposed?

The dues tax is imposed on the amount actually paid by a member and received by the club. For example, as an initiation fee, a club requires that each of its members purchase a bond having a face value of \$5,000, full payment of the bond to be made in two years. The club pays \$500 ($\$5,000 \times 10\%$) in dues tax for each bond purchase because the members actually paid \$5,000 to the club.

As an alternative, the club may allow each member to purchase the bond with a \$5,000 face value for \$4,500 if paid within 45 days of the bond's issuance. The club pays \$450 ($\$4,500 \times 10\%$) in dues tax on each bond purchase made within 45 days of the bond issuance because the member actually paid \$4,500 to the club.

Are Any Clubs Exempt From Dues Tax?

The following clubs are exempt from the dues tax:

- Clubs where the annual dues of a member enjoying full privileges and any initiation fee required of the member are each \$100 or less.
- Clubs sponsored and controlled by a charitable or religious organization, governmental agency, or nonprofit educational institution.
- Any society, order, or association operating under the lodge system or any local fraternal organization among students of a college or university. *Operating under a lodge system* means carrying on activities under a form of organization that comprises local branches chartered by a parent organization, and are largely self-governing entities called lodges, chapters, or any similar title.
- Lawn bowling clubs.
- Professional organizations, such as real estate organizations, are not social, athletic, or sporting clubs and therefore are not subject to dues tax.

If the Annual Dues of a Member Enjoying Full Privileges are More Than \$100 and the Annual Dues of Other Members are \$100 or Less, Which Dues are Subject to the Dues Tax?

If the dues or initiation fees of one member enjoying full privileges are more than \$100, then the dues or initiation fees of the whole club become taxable.

Example: A club charges members enjoying full membership privileges annual dues of \$125. The club also charges annual dues of \$80 to persons not enjoying full membership privileges.

Because the amount of the annual dues for a member enjoying full membership privileges is \$125, all annual dues and all initiation fees paid to the club are subject to dues tax, including dues paid by persons whose annual dues are \$80.

Are Application Fees for Club Membership Subject to Dues Tax?

Yes. Fees associated with applying for membership to a social, athletic, or sporting club are subject to dues tax.

Are Charges for Instruction Subject to Dues Tax?

No. Charges for instruction in activities such as golf, swimming, tennis, sailing, and other sports are not taxable.

Are Charges for a Club's Operating Costs Subject to Dues Tax?

Yes. Fees a club charges its members as reimbursement for its operating costs are subject to dues tax. For example, a yacht club pays sales tax on its purchases of electricity. Each quarter, the club bills each member renting a boat slip to reimburse the club for the member's portion of the electricity used, including sales tax. This charge to members is subject to dues tax.

Are Any Services Subject to Both Dues Tax and Sales and Use Taxes?

Yes. Charges for the mooring and storage of noncommercial vessels, except the dry or wet mooring of the vessels from October 1 through May 31, are subject to sales and use taxes under Conn. Gen. Stat. § 12-407(a)(2)(M). In addition, all charges for the mooring and storage of vessels are subject to dues tax regardless of the time of year, because Connecticut dues tax is imposed on any amount (including charges for mooring and storage) paid as dues or initiation fees to any social, athletic, or sporting club.

Is the Rental of Tangible Personal Property Subject to Both Dues Tax and Sales and Use Taxes?

Yes. Separately stated charges for the rental of tangible personal property from any social, athletic, or sporting club to its members for a period of more than six days are subject to dues taxes as well as sales and use taxes.

Example: A club separately charges its members \$125 for the monthly rental of a golf cart. The fee is subject to sales and use taxes for the rental of tangible personal property. It is also subject to dues tax because it is a charge from the club to a member for social, athletic, or sporting privileges for a period of more than six days.

Charges by any social, athletic, or sporting club for the rental of tangible personal property to its members for a period of less than six days are subject to sales and use taxes, but not dues taxes.

Example: A club charges a member and guest \$25 to rent a golf cart for the day. The fee is subject to sales and use taxes for the rental of tangible personal property. However, it is not subject to dues tax because it is a charge from the club to a member for social, athletic, or sporting privileges or facilities for a period of less than six days.

Additionally, charges made to members by a separate retail entity (for example, a pro shop not owned by the club) are not subject to dues tax since they are not charges from the club to its members.

Is a Charge by a Social, Athletic, or Sporting Club for the Storage of Tangible Personal Property Owned by a Member Subject to Dues Tax or Sales and Use Taxes?

A social, athletic, or sporting club may, for a charge, permit its members to store their tangible personal property on the club premises. An example is when a golf club charges a member to store his golf cart and golf bag in a building on the golf course.

Charges by a social, athletic, or sporting club made to a member for the storage of the member's tangible personal property for a period of more than six days are subject to dues tax. However, such charges are not subject to sales and use taxes as storage services under Conn. Gen. Stat. § 12-407(a)(37)(P), because furnishing of space for storage does not include accepting specific items of property for storage, such as golf bags at a golf club.

Charges for locker rentals are excluded from dues tax. However, these services, included in miscellaneous personal services under Conn. Gen. Stat. § 12-407(a)(37)(BB), are subject to sales and use taxes regardless of whether the rental charge is paid by members or nonmembers.

Are Charges to Club Members for Food and Beverages Subject to Dues Tax?

Yes. Charges to members for food and beverages are subject to dues tax. Clubs may require their members to spend a certain amount on food and beverages during a specified period of time, typically monthly or quarterly. However, amounts members actually spend on food and beverages are subject to sales and use taxes and not dues tax.

Example: A club requires its members to spend \$200 per calendar quarter on food and beverages at its dining facility. At the end of each quarter, a member spending \$30 on food and beverages (which are only subject to sales and use taxes) is billed \$170 by the club for the remaining spending requirement. The unspent portion of the food and beverage requirement (\$170) is only subject to dues tax.

Whether a member pays in cash, by credit card, in advance, or is subsequently billed, the portion of the food and beverage requirement that is unspent is subject to dues tax. The club must determine the amount of the unused portion of the food and beverage requirement. The tax is due at the end of the required spending period specified by the club.

What Are Special Assessments?

Special assessments are any amounts billed by clubs and paid by members as dues or initiation fees for the construction or reconstruction of any social, athletic, or sporting facility or any increase in charges to members that will be used to acquire farmland, open space, or forestland; construction or reconstruction of any capital addition to the facility; or furnishings and fixtures required by reason of the construction or reconstruction for use of the facility when construction or reconstruction is complete.

Are Special Assessments Subject to Dues Tax?

Special assessments are excluded from the dues tax if the amounts paid to the club are apart and in addition to the normal dues structure of the club.

Any special assessment must be clearly identified at the time it is billed as a special assessment fee. Amounts received from special assessments must be clearly segregated in separate accounts on the records of the club or organization. Entries into and disbursements from these accounts must be clearly identifiable as to the source, payee, and purpose.

Nontaxable assessments are amounts sufficiently designated as being formally dedicated for one of the following, whether spent by the club itself, used to retire debt incurred by the club, or used to replenish funds the club expended.

- Construction or reconstruction of any social, athletic, or sporting facility or capital addition to the facility generally includes, but is not limited to buildings, tennis courts, swimming pools, golf courses, and boat docks.

Funds for ordinary maintenance and repair of club facilities do not qualify for this exclusion. For example, funds designated for repainting a club's kitchen facilities are not subject to this exclusion. However, a special assessment for painting in connection with building a new kitchen or gutting and replacing an existing kitchen would qualify.

- Any increase in charges to members that will be used to acquire farmland, open space, or forestland as defined in Conn. Gen. Stat. § 12-107b. The club must file an application or applications under Conn. Gen. Stat. § 12-107c, Conn. Gen. Stat. § 12-107d, or Conn. Gen. Stat. § 12-107e for the next assessment list following the acquisition of the land. Generally, assessments imposed on club members to purchase land are not exempt from tax.

- Charges for furniture or fixtures, including installation, for any social, athletic, or sporting facility, to the extent the furnishings or fixtures are required, by reason of the construction or reconstruction of the facility, for use of the facility when the construction or reconstruction is complete.

Example: Funds designated for purchasing pool furniture for an existing pool facility would not qualify for this exclusion because the funds designated for the furniture are not required by reason of construction or reconstruction of the pool. However, funds designated for purchasing pool furniture in connection with building a new pool would qualify.

What Is the Deadline for a Club to Expend a Special Assessment?

Amounts a club receives from its members for a special assessment must be expended within three years of payment to the club to qualify for the exclusion from dues tax. This rule does not mean the project for which the special assessment was imposed must be completed within three years, only that the club must spend each individual payment of the assessment within three years of its receipt.

If any amount collected as a special assessment is not spent for a qualifying use within three years after the date of its payment, the exclusion ceases to apply. The club is liable for the dues tax on the amount as if its payment had been made on the first day following the expiration of the three-year period.

Must Amounts Financed to Construct Club Facilities Be Expended Within the Three-Year Deadline?

No. The loan a club obtains for construction or reconstruction of club facilities or for qualifying furniture or fixtures over and above the dues it assesses its members is not dues and is not taxable.

The financing a club obtains to fund a project need not be expended within the three-year period required for special assessments. The amount financed by the club is not taxable no matter when it is expended. Only amounts the club actually receives from members are subject to dues tax unless spent within three years under the special assessment exclusion.

Is the Payment to Purchase a Required Capital Improvement Certificate Subject to Dues Tax?

Yes. Regardless of the name of the purchase requirement (such as a membership certificate or a capital improvement certificate), and whether the member's payment is refundable, the payment for the requirement is taxable because it is a condition of membership within the meaning of initiation fees.

Are Bond Purchases by Club Members to Generate an Operating Fund Subject to Dues Tax?

Yes. The purchase of the bond qualifies as an assessment charge to members regardless of the purpose for which the charge is made and, therefore, is subject to dues tax.

Are Assessments for Required Work Time by Members Subject to Dues Tax?

If clubs require members to devote a number of work hours to a club and assess members who do not complete the amount of time required, the assessment is subject to dues tax.

Are Charges for Late Payment of Dues, Initiation Fees, or Assessments Subject to Dues Tax?

Yes. The charges for late payment of dues, initiation fees, or assessments, including any penalties, interest, or finance charges, is an increase in the amount of the dues, initiation fees, or assessments members must pay. Therefore, the amount a club charges for the late payments is subject to dues tax.

Are Fines for Violating House Rules Subject to Dues Tax?

No. Fines associated with violating the house rules of a social, athletic, or sporting club are not dues and, therefore, are not subject to dues tax.

What Happens When a Club Refunds Dues or Initiation Fees to a Member?

When a social, athletic, or sporting club refunds a payment of dues or initiation fees (including the amount of tax previously collected and remitted on the payment) to a member, the club may claim a refund for the amount of tax repaid. The refund claim must be in writing and must be made within three years from the date the overpayment was made.

Effect on Other Documents: Informational Publication 2003(11), Q & A: *The Dues Tax*, is modified and superseded and may not be relied upon on or after the date of issuance of this Informational Publication.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

IP 2019(4)
Dues Tax
Issued: 03/06/2019

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