

HASHEM and SIMMS, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Dear client:

This newsletter will briefly summarize the guidelines for determining the very limited circumstances under which such dues are deductible. Once you have had a chance to review this material, We suggest that we get together in order to discuss your particular circumstances.

When a taxpayer joins an organization for business purposes, the deductibility of membership dues depends on the nature of the organization.

Dues paid to business associations (such as professional associations, trade associations, chambers of commerce, civic or public service organizations, and stock exchanges) and labor unions are generally deductible if the basic requirements for the "business expense deduction" are satisfied. The business expense deduction is allowed generally under §162(a) of the Internal Revenue Code for all ordinary and necessary expenses paid or incurred during the taxable year in carrying on a trade or business. Thus, to deduct a dues expenditure, three requirements must be met: (1) the activities of the taxpayer must constitute a trade or business; (2) there must be a connection between the dues payment and the conduct of the trade or business; and (3) the dues payment must be an ordinary and necessary expense in the context of the taxpayer's trade or business.

In addition, separate rules are provided under §274 of the Internal Revenue Code, for club dues paid or incurred for membership in "any club organized for business, pleasure, recreation, or other social purpose." In general, dues paid for membership in any "club organized for business, pleasure, recreation, or other social purpose" (such as a country club, golf and athletic club, airline club, hotel club, or clubs operated to provide meals under circumstances generally considered to be conducive to business discussion) are per se not deductible. Clubs are organized for business, pleasure, recreation, or other social purpose if a principal purpose of the organization is to conduct entertainment activities for members of the organization or their guests or to provide members or their guests with access to entertainment facilities (such as yachts, hunting lodges, fishing camps, swimming pools, tennis courts, bowling alleys, automobiles, airplanes, apartments, hotel suites, and homes in vacation resorts). Business leagues, trade associations, chambers of commerce, boards of trade, real estate boards, professional organizations (such as bar associations and medical associations), and civic or public service organizations (such as Kiwanis, Lions, Rotary and Civitan) are not treated as clubs organized for business, pleasure, recreation, or other social purpose, unless a principal purpose of the organization is to conduct entertainment activities for members or their guests or to provide members or their guests with access to entertainment facilities.



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The general disallowance provisions do not apply to the deduction of such expenses relating to business leagues, trade associations, chambers of commerce, boards of trade, real estate boards, professional organizations (such as bar associations and medical associations), and civic or public service organizations (such as Kiwanis, Lions, Rotary and Civitan) or labor unions.

The rules placing restrictions on the deductibility of club dues are complex and may be also be affected by other tax laws. For this reason, the facts of your situation should be carefully reviewed. We suggest that you contact us at your convenience so that we can further discuss the tax consequences of your proposed transaction.

Sincerely,

George K Hashem

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