

Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

ETA 3230.2021

Issue Date: October 22, 2021

Membership Fees and Dues Allocation

Effective Date

This ETA is effective beginning July 1, 2022. The Department will accept a taxpayer's reporting prior to July 1, 2022 if the taxpayer made a good faith effort to comply with its reporting requirements by using either the actual records of facilities usage method or the cost of production method, as described in the former WAC 458-20-183 (filed 11/1/95). The Department will not issue refunds for taxes validly paid.

This ETA supersedes any previous rulings or written reporting instructions provided to taxpayers that conflict with the guidance in this ETA.

Purpose

RCW [82.04.4282](#) provides a deduction for amounts representing bona fide initiation fees and dues. The deduction applies only to initiation fees and dues paid by members solely for the privilege of being a member. The deduction does not apply to the amount of fees and dues, however designated, that members pay in exchange for any significant goods or services provided by the business, organization, association, or club ("taxpayer").

RCW 82.04.4282 does not provide any detail for allocating initiation fees and dues between deductible amounts (received for the privilege of being a member) and nondeductible amounts (received in exchange for significant goods or services). The purpose of this Excise Tax Advisory (ETA) is to provide taxpayers with an acceptable method for making such an allocation.

Scope

This ETA applies to taxpayers that have a social, professional, or other bona fide component to the initiation fees and dues they collect from members. This ETA

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Questions? Complete the online form at dor.wa.gov/communications or 360-705-6705 . If you want a binding ruling from the Department, complete the form at dor.wa.gov/rulings.

does not address how to determine whether initiation fees and dues are bona fide for purposes of RCW 82.04.4282. Rather, assuming the taxpayer's members pay some portion of their initiation fees and dues solely for the privilege of membership, this ETA provides an acceptable method for determining the amount of initiation fees and dues that taxpayers may deduct under RCW 82.04.4282.

Allocation is not required if a taxpayer, from its books and records, can clearly segregate the bona fide deductible amount from the nondeductible portion of initiation fees and dues it collects. However, if the taxpayer is unable to clearly segregate from its books and records the deductible and nondeductible amounts received from members, the deduction will not be permitted for amounts received after the effective date of this ETA unless the taxpayer uses the allocation method described in this advisory.

If a taxpayer does not segregate deductible amounts and does not use the allocation method described in this advisory, the Department will presume that the taxpayer's initiation fee and due receipts are fully taxable.

Background

Prior to the effective date of this ETA, the Department allowed taxpayers claiming a business and occupation ("B&O") tax deduction for bona fide initiation fees and dues under RCW 82.04.4282 to elect to use one of two methods to determine the deductible portion of fees and dues received from members. If the taxpayer was unable to segregate the expenses for the deductible portion, the taxpayer could have opted to use either the actual records of facilities usage method or the cost of production method described in former WAC 458-20-183.

For additional information about these two previous methods, see former [WAC 458-20-183](#) (filed 11/1/95).

Due to concerns that these previous methods may not always accurately determine the bona fide, deductible amount, the Department has developed a single allocation method that replaces the two methods previously provided for in former WAC 458-20-183.

What are "bona fide" membership fees and dues?

Bona fide initiation fees and dues are those amounts paid solely for the privilege of belonging as a member of a club, organization, or society.

Fees and dues are bona fide only when:

- Those dues and fees are not in exchange for any significant goods or services without an additional charge; and
- The dues and fees are not graduated based on the amount of goods or services the member receives.

Therefore, if membership fees and dues are in exchange for any significant amount of goods or services to the member *without an additional charge* to the member, then the value of the goods or services cannot be deducted. With respect to graduated fees and dues, if an increase in the fees and dues is accompanied by the provision of additional goods or services to the member, then the value of those goods and services cannot be deducted.

The Department has determined that the following are *not* “significant” goods or services within the meaning of RCW 82.04.4282:

- Maintaining a website when the website explains the taxpayer’s goals and objectives; promoting the taxpayer’s membership and the members’ businesses by providing lists/directories of members, upcoming membership activities, member locations, and services;
- Providing printed material that contains the same information as on the taxpayer’s website;
- Providing newsletters or magazines on news of the taxpayer, its members, the industry, and/or editorial features on topical issues;
- Providing printed membership directories;
- Providing legislative liaison services, including nonspecific lobbying activities and legislative watchdog activities;
- Providing publications that are of a general informational nature concerning the economic and business environment of the state relevant to the members; and
- Certain advertising and marketing services as described in ETA 3202.2017.¹

For purposes of this ETA, the Department will generally consider:

- Membership “fees” or a membership “initiation fee” to be an amount charged to initially admit a person as a member; and
- Membership “dues” to be periodic or recurring charges paid by members for continuing membership.

A taxpayer’s designation of income as “fees” or “dues” is not determinative.²

**Allocation method:
Determining**

When a taxpayer has a deductible, bona fide component to the membership fees and dues it collects, but is unable to segregate the amount that may be deducted as

¹ In general, advertising and marketing services are a significant service; however, ETA 3202.2017 makes an exception in the context of visitor bureaus or chambers of commerce.

² See *Group Health Co-Op. v. Tax Comm’n*, 72 Wn.2d 422, 434, 433 P.2d 201 (1967).

**deductible and
nondeductible
amounts**

bona fide membership fees and dues, the taxpayer must use the following multi-step allocation method.³

Multi-Step Allocation Method Summary:

Step 1: Graduated Fees and Dues.

Are the fees and dues graduated? If yes, work through Step 1 to determine whether the deductible amount of fees and dues attributable to a bona fide component can be determined under this step. If this step does not apply, go to Step 2.

Step 2: Guest Fees and Public Charges.

Are there guest fees or public access charges? If yes, Step 2 applies to allocate the nondeductible amount of membership fees and dues attributable to the significant goods and services that are also available to guests or the public in exchange for guest fees or public charges. If this step does not apply or does not determine all nondeductible amounts, go to Step 3.

Step 3: Cost of Production.

Use this step to determine nondeductible amounts not allocated in Step 2, or if Step 1 or 2 does not apply.

NOTE: Regardless which step may apply, in no case can the amount of fees and dues in exchange for significant goods and services be less than the actual cost of providing the respective goods and services.

Each step is explained in further detail below.

Step 1: Graduated Fees and Dues.

(a) Does the amount of the fees and dues increase based on the level of significant goods and services provided to the members (i.e., members that pay more in fees and dues also receive more significant goods and services)?

If yes, continue to Step 1(b).

If no, go to Step 2.

³ Variations of the allocation method described in this Advisory may be used only after the Department's approval of a taxpayer's advance request submitted in writing to the Department. The taxpayer must demonstrate that the requested variation is required due to unique circumstances. Written requests may be made:

- By requesting a ruling at <https://dor.wa.gov/contact/request-tax-ruling>;
- By calling (360) 705-6705; or
- By writing to:

Taxpayer Services
Washington State Department of Revenue
P.O. Box 47478
Olympia, WA 98504-7478.

(b) Does the taxpayer have a membership class that receives only the privilege of membership (i.e., no significant goods or services) in exchange for class members' dues or fees?

If yes, the deductible amount under RCW 82.04.4282 is such membership class fee or due amount multiplied by the number of members who paid the fees and dues during the applicable tax reporting period.

If no, go to Step 2.

Step 2: Guest Fees or Public Access Charges.

(a) Does the taxpayer charge guests or the public for temporary or short-term access to the significant goods or services that paying members receive in exchange for payment of fees and dues for the membership class that receives only the privilege of membership?

If yes, use the amount of the guest fees or public charges to determine the value of the same goods and services provided to members, based on average member usage of the significant goods and services.

To calculate the value of the significant goods and services provided to each member, multiply the guest fee or public charge by the amount that an average member would use the particular goods and services during the tax reporting period.

For example, in an applicable tax reporting period, a taxpayer's members pay dues in exchange for significant goods and services. Nonmembers may pay an hourly fee to access the same goods and services. To determine the amount of a member's dues that represents the value of the particular taxable goods and services, multiply the hourly fee by the average number of hours that a member would use the particular goods and services during the tax reporting period.

NOTE: If a taxpayer does not have actual records that establish the average usage of a significant good or service by the member, the Department will make a reasonable estimate of such usage.

Continue to Step 2(b).

If no, go to Step 3.

(b) Are there any additional significant goods and services provided in exchange for the membership fees and dues that are not also offered to guests or the public for a fee or charge?

If yes, the nondeductible amount under RCW 82.04.4282 for providing the significant goods and services to members, which are available to

nonmembers for a guest fee or public charge, is the amount determined in Step 2(a) multiplied by the number of members whose membership includes the significant goods and services calculated in Step 2(a) during the applicable tax reporting period.

Continue to Step 3.

If no, the deductible amount under RCW 82.04.4282 is the difference between the membership fees and dues received during the tax reporting period and the amount calculated in Step 2(a), multiplied by the number of members who paid the fees and dues for the significant goods and services during the applicable tax reporting period.

Step 3: Costs of production.

To determine the value of significant goods and services not otherwise determined in Step 2, calculate the direct and indirect costs associated with those goods and services by determining their costs of production. Costs of production include depreciation expenses claimed on tangible assets. The value of significant goods and services (“G&S”) is determined based on the ratio of the production costs of such goods and services to total costs, as explained below.

- **Direct costs of significant goods and services** are expenses that a taxpayer can easily attribute to specific goods or services provided. The cost of materials and labor that result in the goods or services provided generally constitutes the majority of direct costs.
- **Indirect costs of significant goods and services** are calculated by allocating all costs except direct costs between goods and services in proportion with direct costs:

$$\text{Indirect costs of significant G\&S} = \frac{\text{Direct costs of significant G\&S}}{\text{Total direct costs}} \times \text{Total indirect costs}$$

- **Production costs of significant goods and services** are the sum of their direct and indirect costs:

$$\text{Production costs of significant G\&S} = \text{Direct costs of significant G\&S} + \text{Indirect costs of significant G\&S}$$

- **Nondeductible portion of fees and dues income** representing the value of the significant goods and services is determined as follows:

(a) If all significant G&S are valued only in Step 3 (answered “no” in Step 2(a)):

$$\text{Nondeductible portion of fees and dues income} =$$

$$\frac{\text{Production costs of significant G\&S}}{\text{Total costs}} \times \text{Fees and dues income}$$

(b)(i) If there are G&S valued under both Step 2 (answered “yes” in Step 2(b)) and this Step 3:

$$\text{Value of the significant goods and services} = \left(\frac{\text{Production costs of significant G\&S not valued in Step 2}}{\text{Total costs}} \times \text{Fees and dues income} \right)$$

(ii) Next, determine the nondeductible portion of fees and dues income as follows:

The nondeductible portion of fees and dues income is the sum of the amounts calculated in Step 2(b) and Step 3.

Finally, the deductible amount under RCW 82.04.4282 is the difference between the total membership fees and dues and the nondeductible portion of fees and dues.

Documentation to determine allocation

The taxpayer has the burden of substantiating the amount of the reported deduction under RCW 82.04.4282 and must retain and produce the documentation necessary to satisfy that burden. See [WAC 458-20-254](#).

**Example 1:
Illustration of Step 1:
Graduated dues and no significant goods or services offered at basic level**

The Racket, an exclusive tennis and racquet club, offers two levels of membership:

- **Basic membership:** Includes use of the restaurant and bar and unlimited access to the club house to attend club social events. Basic members pay dues of \$150 per month.
- **Gold membership:** Includes Basic membership benefits, plus pool access, pickle ball, racquetball, and squash play (no lessons included); unlimited indoor tennis court use; and access to the club gym. Gold members pay dues of \$350 per month.

The Racket has 600 total members (200 Basic members and 400 Gold members) that paid dues in the current monthly tax reporting period. All new members are subject to a one-time \$1,000 initiation fee. Included in the 600 members are 40 new members during the current month, 10 of which are basic members.

Membership Dues. The Racket has graduated membership dues.

For \$150 per month, the Basic membership allows a member unlimited access to the club to attend any club-sponsored social events, for which there is no additional

charge to the member. The Basic membership also allows access to the restaurant and bar. While the member has access to use the club's restaurant and bar, it does not include any food or drink discounts or uses of the facilities for reasons other than the Basic membership.

Because the membership levels are graduated based on increased levels of significant goods and services (and the Basic membership includes *only* dues that are for the privilege of being a member (Step 1(a)), the **deductible dues** amount is calculated as follows (Step 1(b)):

$$\$150 \text{ (the basic membership due amount)} \times 600 \text{ (the number of members during the applicable tax reporting period)}^4 = \$90,000$$

In turn, the nondeductible dues amount for the applicable monthly tax reporting period is \$80,000. This is the difference between the total monthly membership dues income and the deductible amount calculated above. The total monthly membership dues income is calculated as follows:

$$200 \text{ Basic members at } \$150/\text{month } (\$30,000) + 400 \text{ Gold members at } \$350/\text{month } (\$140,000) = \$170,000$$

The monthly nondeductible amount is \$80,000 (= \$170,000 – 90,000).

Initiation Fees. Assuming the monthly nondeductible dues amount of \$80,000 exceeds the cost of the significant goods and services provided to members (pickle ball, racquetball, and squash play; unlimited indoor tennis court use; and access to the club gym), for that month the initiation fees received for the new members during the current monthly tax reporting period are fully deductible.

If members' initiation fees had instead been graduated, the deductible and nondeductible portions of those fees would be allocated as described in Step 1.

Example 2:
Illustration of Step 2:
Graduated dues and guest fees for all significant goods and services at basic level

Similar facts as in Example 1, except the Basic membership has unlimited access to indoor tennis court use. And the club offers a \$50 guest day pass to use the indoor tennis courts. On average, club members use the indoor courts two times per month.

Membership Dues. The Racket has graduated membership dues (Step 1), but the Basic membership now includes access to indoor tennis courts (Steps 1(b) and 2), for which nonmembers may pay for daily access.

Because the Racket has a \$50 daily guest fee for indoor tennis court use (Step 2(a)), and Basic members do not receive any significant goods and services other than

⁴ In calculating the deductible and nondeductible dues amounts, the taxpayer should use the total number of members in the applicable tax reporting period, regardless of the amount of days in the reporting period that a person was a member or whether the member actually paid dues or fees during the tax reporting period.

indoor tennis court use, determine the value of the same goods and services provided to members (indoor tennis court use) based on the average member usage of the goods and services.

If members use indoor tennis courts on average twice per month, the nondeductible portion of a Basic member's monthly dues is calculated as follows:

$$\begin{aligned} & \$50 \text{ (daily fee for guest access)} \times 2 \text{ (average number of days per month that} \\ & \text{a member uses the taxpayer's significant good or services)} = \\ & \$100 \text{ monthly taxable amount} \end{aligned}$$

Here, there are no additional significant goods or services included in the guest fee that are not covered by the Basic membership due amount (Step 2(b)). In which event, the deductible portion of each member's monthly dues is calculated as follows:

$$[\$150 \text{ (the monthly basic membership due amount)} - \$100 \text{ (the monthly taxable amount)}] = \$50$$

The current monthly **deductible dues** amount is then calculated as follows (Step 2(b)):

$$\$50 \times 600 \text{ (the number of members during the applicable tax reporting period)}^5 = \$30,000$$

The current monthly nondeductible dues amount is \$140,000 (= \$170,000 – \$30,000).

Initiation Fees. Again, assuming the monthly nondeductible dues amount of \$140,000 exceeds the cost of the significant goods and services provided for that month, the initiation fees are fully deductible.

**Example 3:
Illustration of Steps 2
and 3: Graduated
dues and guest fees
for some significant
goods and services at
basic level**

Similar facts as in Example 2, except the club has a pool and Basic membership also includes unlimited access to the pool. There is no guest access to the pool.

Membership Dues. The Racket has graduated membership dues (Step 1), but the Basic membership now includes access to the pool (Steps 1(b) and 2), to which nonmembers have no access.

Because the Racket does not have a guest fee for pool use (Step 2(a)), there are additional significant goods and services provided in exchange for the membership fees and dues (pool access) that are not also offered to guests (Step 2(b)). Use Step 2 to calculate the nondeductible amount of significant goods and services subject to a guest fee or public charge. Use Step 3 for all other significant goods and services that do not have a guest fee.

⁵ See footnote 4 above.

- Significant good/service that does have a guest fee: Indoor tennis court use.
Calculate the nondeductible amount for providing the indoor tennis court access to members, which is available to nonmembers for a guest fee, as follows:

$\$100$ (the amount determined in Step 2(a) for the monthly taxable amount of the indoor tennis court use value) X 600 (the number of members whose membership includes indoor tennis court use during the applicable tax reporting period) = $\$60,000$

Next, go to Step 3 to calculate the value of the pool access, racquetball, and other services for which there are no guest fees.

- Significant good/service that does not have guest fee: Pool access, racquetball, etc. Because the value of some significant goods and services was not determined under Step 2 because they have no guest fee or public access charge, the value of those significant goods and services is determined by calculating the direct and indirect costs associated with them, as detailed below.

Using the costs of production, the value of the pool use and other significant goods and services is determined based on the direct and indirect costs of the taxable significant good or service, as follows.

Assuming the Racket has the following known current monthly costs and fees and dues income:

- Total membership dues income during the current tax reporting period: $\$170,000$
- Total initiation fee income during the current tax reporting period: $\$40,000$
- Total direct costs: $\$150,000$
 - Direct costs attributable to pool use, racquetball, and all other significant goods and services not determined in Step 2: $\$70,000$
- Total indirect costs: $\$15,000$

Based on the above known costs, the indirect costs attributable to the pool use are calculated as follows:

$[\$70,000$ (direct costs of pool use, racquetball, etc.) / $\$150,000$ (total direct costs)] x $\$15,000$ (total indirect costs) = $\$7,000$ for indirect costs of pool use, racquetball, etc. Next, the total production costs of the pool use, racquetball, etc. are the sum of their direct and indirect costs:

$\$70,000$ (direct costs) + $\$7,000$ (indirect costs) = $\$77,000$ (production costs of pool use, racquetball, etc.) Total fees and dues are $\$210,000$ ($\$170,000$ dues and $\$40,000$ fees).

The total amount of fees and dues paid (\$210,000) is more than the actual cost of providing the goods and services valued using the cost of production (\$77,000), so the next step is to determine the value paid for the significant exchange of goods and services.

Use the following calculation to determine the value of the significant goods and services:

Value of the significant goods and services not valued in Step 2 =

$$\left(\frac{\text{Production costs of pool use, racquetball, etc.}}{\text{Total costs (direct + indirect)}} \times \text{Fees and dues income} \right)$$

$$[(\$77,000 / (\$150,000 + 15,000)) \times \$210,000] = \$98,000$$

(The assumption is that income (both fees and dues) is paid to supply the taxable goods and services. Thus, the valuation is based on both fees and dues.)

Because there are significant goods and services valued under Step 2 (indoor tennis court use) and significant goods and services valued under Step 3 (pool use, racquetball, etc.), determine the total value of the significant goods and services by combining the amounts:

Step 2 amounts + Step 3 amounts = Total value of the significant goods and services

$$\$60,000 + \$98,000 = \$158,000$$

The **deductible portion of fees and dues income** is the amount of fees and dues income minus the total value of significant goods and services:

Fees and dues income – Total value of significant goods and services =
Deductible portion of fees and dues income

$$\$210,000 - \$158,000 = \$52,000$$

**Example 4:
Illustration of Step 3:
Dues not graduated
based on level of
significant goods or
services and no guest
fees or public access
charges**

The Happy Valley Visitor Bureau offers membership to towns located in the Happy Valley region that varies based on the number of employees the member has. Membership dues are as follows:

- **Small-sized membership:** member (town) has less than 100 employees: \$300 per month.
- **Medium-sized membership:** member has 101 to 200 employees: \$800 per month;

- **Large-sized membership:** member has 201 or more employees; \$1,000 per month.

All members receive the same benefits: general promotion and incidental marketing activities⁶ to promote tourism specific to the Happy Valley area, the visitor bureau's newsletter, printed membership roster, online bureau publications relating to the area's economy, general member (i.e., non-member specific) lobbying, and access to web design consultation services from the visitor bureau. There are no guest fees or public access charges.

Determine what portion of the dues are attributable to deductible benefits, by using the steps herein, as follows:

- Step 1(a). Although the membership dues amounts are graduated, the level of significant goods and services provided does not increase with the amount paid. Go to Step 2.
- Step 2(a). Does the taxpayer charge guests fees or charge the public for temporary or short-term access to the significant goods or services that paying members receive in exchange for payment of membership fees and dues?

No. Go to Step 3.

- Step 3. The value of taxable significant goods and services is determined by calculating the direct and indirect costs associated with those goods and services by using the costs of production.

Here, the marketing services specific to the Happy Valley area, the newsletter, online publications, nonspecific lobbying, and printed roster are not significant goods or services, as has been determined by the Department.⁷ However, access to web design consultation services is a significant good or service.

Using the costs of production, the taxable value of the web design consultation services is determined by first calculating the indirect costs of the taxable significant good or service, as follows.

The Happy Valley visitor bureau has the following known monthly costs and dues income:

- Total membership dues income: \$55,000
- Total direct costs: \$28,000

⁶ In general, advertising and marketing services are a significant service; however, [ETA 3202.2017](#) makes an exception in the context of visitor bureaus or chambers of commerce.

⁷ See footnote 6 above.

- Total indirect costs: \$9,000
- Direct costs attributable to web design consultation (wages for consultants and office supplies):\$6,000

Based on the above known costs, the indirect costs attributable to the web design services (e.g. office space and building maintenance and utilities) are calculated as follows:

$$[\$6,000 \text{ (direct costs of web design services)} / \$28,000 \text{ (total direct costs)}] \times \$9,000 \text{ (total indirect costs)} = \$1,929 \text{ for indirect costs of web design services}$$

Next, the production costs of the web design services are the sum of their direct and indirect costs:

$$\$6,000 \text{ (direct costs)} + \$1,929 \text{ (indirect costs)} = \$7,929 \text{ (production costs of web design services)}$$

Because there are no significant goods and services that are valued under Step 2 (because there are no guest fees or public access charges), use the following calculation to determine the total nondeductible portion of the dues:

Nondeductible portion of dues income =

$$\frac{\text{Production costs of taxable G\&S}}{\text{Total costs}} \times \text{Fees and dues income}$$

$$[\$7,929 \text{ (production costs of web design services)} / \$37,000 \text{ (total costs)}] \times \$55,000 \text{ membership dues income in tax reporting period} = \$11,784.35 \text{ nondeductible portion of the membership dues}$$

And for the final step, determine the total deductible monthly amount for the tax reporting period:

$$\$55,000 \text{ (total membership dues paid during the tax reporting period)} - \$11,784.35 \text{ (total nondeductible amount of dues during the tax reporting period)} = \$43,215.65$$
