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TAXATION OF RECREATIONAL ENTERPRISES ON PRIVATE RURAL LANDS 1/

Taxes, State and local, as well as Federal, are not likely to be one of the more serious problems facing the proprietor of an outdoor recreational enterprise. However, such proprietors may face for the first time the necessity of collecting and paying taxes associated with the operation of a commercial business. It is important that they become adequately informed on tax matters and that these be handled in such a way as to both comply with the law and contribute to the success of the recreational enterprise.

This report is not intended as a handbook to provide ready answers to tax questions which might come to the mind of a prospective proprietor of a recreation business. The tax laws of the Federal Government alone are highly complex. In addition, every State and numerous subdivisions of State governments -- cities, counties, townships, school districts -- have their separate revenue systems. This paper describes the kinds of tax problems which the proprietor of a recreational business will have.

Tax Liabilities

Farmers and others entering the business of outdoor recreation are not likely to encounter tax problems which differ greatly from those of other small businessmen. However, recreational developments on private land in rural areas are comparatively new in many parts of the country. Consequently, it is important that proprietors consult Federal, State, and local revenue authorities to learn of the taxes for which they are liable, how to file the returns properly, and to keep records consistent with good business practices. Individuals may find it convenient and desirable to seek the advice of private tax consultants. Every community of any size will have attorneys or others who specialize in tax matters.

Federal Income and Social Security Taxes

If the proprietor of an outdoor recreational enterprise already has had experience as a small businessman, he probably will face few new problems

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1/ This paper was prepared by a subcommittee appointed by the Working Party on Outdoor Recreation (established by the U.S. Department of Agriculture in 1962). The subcommittee consisted of Bennett S. White, Cooperative State Experiment Station Service; Glennwood Smith, Rural Electrification Administration; and C. B. Markeson, Farmer Cooperative Service. The report is being issued by the Economic Research Service as a reference for Department employees, other rural leaders, and farmers.

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upon entering the recreation field. However, if he has not previously been a taxpayer or has been reporting income as a wage earner or as a farmer, he should now prepare to file a tax return as a businessman. That is, he probably will desire to report business receipts and expenses on Schedule C. The operator who continues to run a farm in conjunction with his recreational enterprise probably will find it advantageous to keep his farm income and expense, which he reports on Schedule F, separate from his new business income and expense. In addition, there is the problem of distinguishing business expenses (deductible) from nonbusiness or personal expenses (nondeductible).

Depending on the kind of business and its size, a variety of income tax considerations may arise. If a substantial investment in depreciable property is involved, the tax liability may be greatly affected by the choice of method of writing off depreciation and useful life of assets. The tax credit for new investment may also be significant. These and other income tax considerations may well be of sufficient importance to warrant getting professional advice.

If the farmer hires employees, he will be responsible for withholding income and social security taxes from their salaries and for remitting the withholdings to the Internal Revenue Service. Necessary forms and detailed instructions can be obtained from the District Director of Internal Revenue.

#### Amusement, Admission, and Other Federal Excise Taxes

The proprietor of a business who furnishes facilities or services subject to excise taxes or who receives payment for an item or a service on which a tax is imposed is liable for the collection and remittance of such taxes.

Broadly speaking, it appears that for the most part Federal amusement and other Federal excise taxes would not apply to most outdoor recreational enterprises operated for profit. However, if the proprietor were to develop a recreational complex including facilities which are "enclosed" according to Internal Revenue definitions, such as a merry-go-round, indoor facilities for swimming, target shooting, or similar amusements, he probably would be liable for the collection of admission taxes and their payment to the Internal Revenue Service. A tax of 1 cent for each 10 cents or major fraction thereof is imposed on admissions which exceed \$1.00 (but only on the excess above \$1.00). The term "admission" to any place includes charges for seats and tables, reserved or otherwise, and similar accommodations located within a definite enclosure.

If the proprietor operates a store or curio shop, he should be prepared to collect and remit Federal excise taxes on any items sold to which such taxes are applicable. For instance, such items as luggage, hat boxes, beach bags, bathing suit bags, pocketbooks, wallets, key cases, jewelry (other than religious adornments), and most toilet preparations and furs are subject to a Federal retail excise tax of 10 percent of the retail selling price.

A Federal excise tax of 20 percent is levied on amounts paid as dues for membership fees to social, athletic, or sporting clubs or organizations



if the dues and membership fees exceed \$10 per year. Normally, the collection and payment of such taxes would be the responsibility of the appropriate club official. However, the proprietor should be aware that such taxes exist if he contemplates leasing land and other facilities to a sportsmen's organization, particularly if dues or membership fees are to be paid directly to the owner of the facilities by club members. Necessary forms and instructions, including copies of "Your Federal Income Tax" and "Tax Guide for Small Business," may be obtained from the District Director of Internal Revenue.

### Taxes Levied by State and Local Governments

Tax laws vary widely from State to State. The proprietor of an outdoor recreational enterprise must acquaint himself with taxes which he may be obligated to pay or to collect and remit to revenue authorities in his particular locality.

Farmers and others who develop outdoor recreational enterprises on a considerable scale may find the value of their property enhanced and it is possible that their tax assessment will be changed. No doubt, the promptness and the extent to which the changed assessment follows changing market values will vary widely among communities. Construction of new buildings, remodeling of existing structures, or addition of personal property, such as horses, boats, and playground, picnic, and camping equipment, all may result in increased property taxes.

Other State and local taxes which for the first time may become of concern to farmers and others entering the recreational business include income taxes, licenses, occupation and business privilege taxes, amusement, admission, and sales taxes, and others. Usually the initial step to be taken in becoming acquainted with the State and local tax situation is to contact the State tax commissioner or comparable officer.

In Illinois, as an illustration, sales taxes definitely would be of importance. The operator of an outdoor recreational enterprise selling tangible personal property, such as food, soft drinks, and fishing equipment, would be classified as a retailer and required to collect the State retail sales tax from his customers. This tax is  $3\frac{1}{2}$  percent for the State, and most cities and villages add an additional half percent. Property outside the city or village limits would not be subject to the latter, but some counties add a half percent to the tax on retailers in rural areas to equalize the tax burden between these and their city or village counterparts.

The seller of recreational services in Illinois (and this would be true in most States) is considered to be a retailer and, as such, is responsible for registering with the Department of Revenue (or comparable agency in other States), securing a license, and displaying it in his place of business. In some States, licenses are obtained free of charge and in others upon payment of a fee. Licenses to sell alcoholic beverages are expensive in most States, and such beverages are subject to State excise taxes.

Hotels and motels in Illinois are subject to a 4 percent tax on rentals. Similar taxes are in effect in some other States. Farmers and other rural

residents who keep guests such as farm vacationers and hunters and fishermen in their own farm houses will need to determine whether they are required to collect this tax from their patrons. In most States, farmers who provide campsites for a fee would not be subject to hotel and motel taxes.





