Calendar No. 516

87TH CONGRESS 1st Session | SENATE | REPORT No. 543

PREPAID DUES INCOME OF CERTAIN MEMBERSHIP ORGANIZATIONS

JULY 14, 1961.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 929]

The Committee on Finance, to whom was referred the bill (H.R. 929) to amend the Internal Revenue Code of 1954 to permit the prepaid dues income of certain membership organizations to be included in gross income for the taxable years to which the dues relate, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY OF BILL

The bill provides that prepaid membership dues income of membership organizations may, at the election of the taxpayer, for tax purposes be spread over the period during which there is a liability on the part of the organizations to provide the service, rather than reported in the earlier year in which the income is received. The liability involved must extend beyond the current year but may not extend for more than 36 months. The membership organizations to which the provision applies are limited to those, such as automobile clubs, which have no capital stock and make no distributions of net earnings to members. A special rule is also provided which spreads over a 5-year period the revenue loss which would otherwise occur in each of the first 3 years of transition to the new method for reporting this prepaid income. The provision is effective for taxable years beginning with the calendar year 1961.

II. REASONS FOR THE BILL

This bill is concerned with the relationship of income tax accounting to generally accepted accounting principles in the case of prepaid income arising from membership dues.

72006

In adopting the Internal Revenue Code of 1954 Congress provided in what was then section 452 that taxpayers might elect to report prepaid income for tax purposes as income over the current year and 5 succeeding years, to the extent proper under the accounting methods used by the taxpayer (the period over which the income could be spread was less than 6 years where the liability to perform services, etc., was for a lesser period). In 1955, however, Congress became aware of the fact that a large revenue loss was involved in another accounting provision, namely, section 462 which related to reserves for estimated future expenses and which involved the doubling up of deductions in its first years of application. As a result Congress at that time repealed not only the provision relating to reserves for estimated expenses, but also section 452 relating to prepaid income since this provision was interrelated with section 462 and since in some cases it was possible to accomplish much the same purpose under either section. Nevertheless, Congress recognized in the committee reports describing this action the desirability of following generally accepted accounting principles for reporting income for tax purposes. It also indicated that study would be given to ways in which this could be accomplished without the substantial revenue loss which would have arisen under sections 452 and 462. Subsequently, in the Technical Amendments Act of 1958, Congress adopted a section (sec. 455) providing for the spreading forward of prepaid income for tax purposes in the case of newspaper and periodical subscriptions. The income in this case may, at the election of the taxpayer, be spread over the period in which there is a liability to furnish the newspaper or periodical.

The problem with which this bill is concerned is substantially similar to the problem dealt with in the case of the prepaid subscription income provision enacted in 1958. In *Automobile Club of Michigan* v. *Commissioner* (353 U.S. 180), in 1957, the Supreme Court held that membership dues received 1 year in advance by that automobile club must be reported for income tax purposes for the year of receipt rather than over the 12-month period to which the dues related. The 1939 Code (and also the 1954 Code) provides that income is to be computed in accordance with the method of accounting regularly employed by the taxpayer in keeping his books, unless this method does not clearly reflect income. The Supreme Court denied this automobile club the right to spread the income over the period to which the dues related primarily on the grounds that the services which the club must render for the member might not be spread in the same manner as a pro rata allocation of the club dues.

The pro rata allocation of annual membership dues over the 12 months to which the dues relate may not precisely match the periods in which services are performed for individual members. Nevertheless, your committee believes that spreading dues income of these clubs in this manner will more clearly approximate the period in which the services are rendered than reporting the income for the year of the receipt of the membership dues.

To more accurately reflect generally accepted accounting principles in this case, therefore, your committee has concluded that in the case of membership dues it is desirable to provide in the code (sec. 456) that this income, subject to certain restrictions, may at the election of the taxpayer be reported on a pro rata basis over the period to which the income relates; that is, over the period in which the services to which the dues relate are required to be performed.

Your committee recognizes that to permit the delay in reporting the income in this manner would have an initial impact upon revenues, although because of the limited nature of this provision this impact of necessity must be small. To further mitigate this revenue loss your committee's bill provides a device which in effect spreads over a 5-year period the initial tax benefit from deferring the reporting of each of the first 3 years' prepaid income.

III. GENERAL EXPLANATION OF THE BILL

Your committee's bill provides that the prepaid dues income to which this bill relates is to be included in income for tax purposes ratably over the period during which the liability to render the services exists. Prepaid dues income means amounts received by a membership organization which are attributable to liabilities to render services. However, the liability involved must extend beyond the end of the current taxable year, but not beyond a period of more than 36 months.

Membership organizations are the only taxpayers eligible for this treatment. They are organizations, such as automobile clubs, without capital stock no part of the net earnings of which may be distributed to any member.

The tax deferral for this prepaid income is available only if elected by the taxpayer. However, no election may be made for a trade or business where the taxpayer is using the cash basis method of accounting. Also, if this treatment is elected generally it must apply to all of the taxpayer's prepaid dues income from any single trade or business. An exception to this latter rule is provided for prepaid dues income where the liability to perform the services, although extending beyond the end of the current taxable year, nevertheless is for less than 12 months. Such dues income (to the extent permitted by regulations) does not have to be included under any deferral election. Also, prepaid dues income received in years before this provision became effective, even though attributable to the current or future years, is not (except as affected by the transitional rule) included under the deferral provision.

The election to apply this provision may be made at any time with the consent of Treasury Department or it may be made for the first year beginning after December 31, 1960, in which the taxpayer receives prepaid dues income in a particular trade or business. Once an election becomes effective for a taxable year it applies not only for that year but for all subsequent years as well unless the taxpayer obtains the consent of the Treasury Department to the revocation of the election.

Where the liability to perform services for which the dues were prepaid for any reason ceases, any income remaining unreported at the time that event occurs is to be included in income for tax purposes in the year in which the liability ceases. This would apply, for example, in the case of a cancellation of a membership. Also, where the membership organization itself ceases to exist, the bill provides that any income not previously included in income for tax purposes is to be so included for the year in which the cessation of existence occurs.

As indicated previously, the bill provides a transitional rule to minimize the initial revenue impact of the new provision. This revenue impact, if there were no special transitional rule, would arise because most of the income which under present law would have been reported in the transitional period, under the new provision is to be reported in subsequent years as the liability to which it relates arises. Thus, without a transitional rule there would be an immediate revenue loss in the first 3 years in which the new provision is in operation.

The transitional rules provided by the bill have the effect of spreading over a 5-year period the loss which would otherwise occur in each of the first 3 years. This is accomplished by providing that a taxpayer who has elected this provision is to include in its income for tax purposes a special additional amount equal to the prepaid dues received in the 3 years immediately prior to electing this provision, to the extent that these dues would have been included in the income of any of the first 3 transitional years had the election been made 3 years earlier. Where a taxpayer has income which is prepaid for 3 years, this means that "additional amounts" are included in the taxpayer's income for the first 3 years the new provision applies to him. If the prepayment of income is for 2 years or 1 year, additional amounts are included for only the first 2 years, or first year. Under the bill, these additional amounts included in income in this manner are then deducted ratably over the current year and 4 succeeding taxable years.

This transitional rule is illustrated in table 1 by the example of a club receiving $30 each year, representing a 3-year prepayment of a single membership. Assume also that the members involved joined in the middle of the year so that 6 months of these dues payments are attributable to the current year. Assume further that the club involved elected the new provision for the calendar year 1961.

Thus, as is indicated in part II of the table, the $30 of receipts in the year 1961 are, under the bill, to the extent not attributable to the current year ($5 is attributable to the current year in this case or one-half of 1 year's dues) spread over the succeeding years during which the liability exists Thus, $10 of this income is attributed to 1962, $10 to 1963, and the remaining $5 to the first 6 months of 1964. Part II of the table shows a similar spread of income for the years 1962 through 1968.

Part I of the table indicates the additional amounts which are required to be included in income as a result of the application of the transitional rule. Thus, for the first year of the election, 1961, $5 of receipts from 1958 would be included, plus $10 of receipts for both of the years 1959 and 1960. In 1962 only receipts from the years 1959 and 1960 are included since 1962 is more than 3 years beyond 1958 and liabilities under the bill may not extend beyond that length of time. Similarly, in 1963, only receipts of 1960 are taken into account and in 1964 no additional amounts are included, in income. As is indicated, the inclusion of these additional amounts, together with the inclusions regularly required in the year of liability for those electing the prepaid income provision, results in a uniform $30 of income throughout the entire period, the same amount which would have been reported as the income without the adoption of the new provision.

Part III of the table indicates over what period the additional amounts included in income (the amounts shown in pt. I of the table) are deducted. As is indicated the additional amounts included in income in each of the 3 transitional years are deducted on a pro rata basis over the particular transitional year in question and the succeeding 4 years. Thus the $25 of income (attributable to 1958, 1959, and 1960 receipts) which, as shown in part I of the table, is included in income in 1961, is deducted ratably at $5 a year in the years 1961 through 1965. Similarly, the $15 of income (attributable to 1959 and 1960 receipts), included in income in 1962, is deducted at the rate of $3 a year in the years 1962 through 1966. Finally the $5 of income (attributable only to 1960 receipts), included in income in 1963, is deducted at the rate of $1 a year in the years 1963 through 1967. Thus, the total deductions in 1961 are $5, or one-fifth of the additional amount included in income in that year. Similarly, in 1962 the total deductions taken into account represent another similar $5 deduction plus $3 representing one-fifth of the additional income of $15 in 1962, etc.

TABLE 1.—*Illustration of application of transitional rule under bill*

[Based upon receipt each year of $30, representing a 3-year prepayment of dues]

Year of receipt or to which deduction is attributable	Total receipts or deductions	Year of reporting income or taking deduction							
		1961 [1]	1962	1963	1964	1965	1966	1967	1968
	Part I—Additional amounts to be taken into account from receipts in years prior to election								
1958	$30	$5							
1959	30	10	$5						
1960	30	10	10	$5					
Total amount included in income a second time		25	15	5					
	Part II—Operation of new provision in years after election								
1961	$30	$5	$10	$10	$5				
1962	30		5	10	10	$5			
1963	30			5	10	10	$5		
1964	30				5	10	10	$5	
1965	30					5	10	10	$5
1966	30						5	10	10
1967	30							5	10
1968	30								5
Total gross income		30	30	30	30	30	30	30	30
	Part III—Special deductions provided by transitional rule								
1961	[2] $25	$5	$5	$5	$5	$5			
1962	[3] 15		3	3	3	3	$3		
1963	[4] 5			1	1	1	1	$1	
Total special deduction		5	8	9	9	9	4	1	
Income after special deduction		25	22	21	21	21	26	29	$30

[1] Year of election.
[2] The $25 is attributable to including in income for a 2d time (in 1961) $5 of 1958 receipts, $10 of 1959 receipts, and $10 of 1960 receipts.
[3] The $15 is attributable to including in income for a 2d time (in 1962) $5 of 1959 receipts and $10 of 1960 receipts.
[4] The $5 is attributable to including in income a 2d time (in 1963) $5 of 1960 receipts.

The net effect of this transitional rule in this example is to provide that instead of the income in 1961 being reduced to $5, the reduction in 1961 is only from $30 to $25, or is $5. The remaining $20 reduction is spread evenly over the next 4 years. Similarly the reductions which otherwise would have occurred in 1962 and 1963 are spread evenly over those years and the succeeding 4 years. The same aggregate revenue reduction occurs as would be the case if there were no transitional rule. However, it is spread over a 7-year period instead of a 3-year period.

This bill applies to taxable years beginning after December 31, 1960.

IV. TECHNICAL EXPLANATION OF THE BILL

H.R. 929 adds a new section 456 to the Internal Revenue Code of 1954 relating to the treatment of prepaid dues income. Under subsection (a) of new section 456 qualifying taxpayers shall, at their election, include prepaid dues income to which that section applies in gross income for the taxable years during which the liability exists to render services or make available membership privileges, provided, however, that the period of time over which the liability exists extends beyond the taxable year of receipt but does not exceed 36 months.

Subsection (b) of new section 456 provides that where a taxpayer goes out of existence or where, for any other reason, the liability with respect to any prepaid dues income ends, the payments not previously reported as income become includible in gross income during the year in which such event occurs. Since a taxpayer may elect to report the income under the method provided by this section as to each separate trade or business, merely liquidating the trade or business as to which the election was made does not cause this provision to apply, unless in so doing the taxpayer's liability to render services is terminated. The liability described in this subsection may end, for example, by reason of the cancellation of a membership.

Subsection (c) of new section 456 contains the rules under which a taxpayer may elect to apply the provisions of that section. The election may be made only with respect to a trade or business the income from which is not reported on the cash receipts and disbursements method. If the taxpayer is engaged in two or more trades or businesses, it may elect to defer all items of prepaid dues income received in respect of any one or more trades or businesses. The election once made is generally applicable to all items of prepaid dues income attributable to such trade or business. An exception is provided, however, in the case of prepaid dues income in respect of which the liability is to end beyond the end of the taxable year but within 12 months after the date of receipt, in which case the entire amount received from the trade or business may be included in gross income when received to the extent permitted by regulations prescribed by the Secretary or his delegate. The election is effective for the taxable year with respect to which it is first made and for all subsequent taxable years. Computation of taxable income under an election shall be treated as a method of accounting. Except to the extent provided under the transitional rules in subsection (d), the election to defer prepaid dues income will not apply to amounts received before the first taxable year for which the election is made.

The taxpayer may make the election to defer prepaid dues income without consent of the Secretary or his delegate for the first taxable year beginning after December 31, 1960, in which it receives such prepaid income in connection with the particular trade or business. The election must be made not later than the time prescribed by law for the filing of the return for such taxable year (including extensions). If the taxpayer wishes to make an election at a later time, the consent of the Secretary or his delegate must be obtained.

Paragraph (1) of subsection (d) of new section 456 provides transitional rules which require a taxpayer making an election under this section to include in gross income for each taxable year to which such election applies, not only that portion of prepaid dues income which is includible in gross income for each such taxable year under subsection (a), (b), and (c), but also an additional amount equal to the amount of prepaid dues income received in the 3 taxable years preceding the first taxable year to which such election applies which would have been included in gross income in the taxable year had the election been effective 3 years earlier. Under paragraph (2) of subsection (d), a taxpayer who has made the election with respect to prepaid dues income, and who includes in gross income for any taxable year an additional amount described in paragraph (1) shall be permitted to deduct, for such taxable year and for each of the 4 succeeding taxable years, an amount equal to one-fifth of such additional amount. Such deduction shall only be allowed if such amount was actually included in the taxpayer's gross income during any of the 3 taxable years preceding the first taxable year to which such election applies. However, section 481 of the 1954 Code shall have no application to the additional amounts described in this subsection. The provisions of this subsection are illustrated by the example shown in the general explanation of this bill.

Paragraph (1) of subsection (e) of new section 456 defines prepaid dues income as any amount (includible in gross income) which is received by a membership organization in connection with, and which is directly attributable to, a liability to render services or make available membership privileges over a period of time which extends beyond the close of the taxable year in which such amount is received. Such services or privileges may include, for example, such services as road service, touring information, and map service. A membership organization (defined in paragraph (3) of subsection (e)) is a corporation, association, federation, or other type of organization which is organized without capital stock of any kind and no part of the net earnings of which is distributable either directly or indirectly to any member.

The term "liability" is defined in paragraph (2) of subsection (e) as a liability to render services or make available membership privileges over a period of time which does not exceed 36 months. Such liability shall be deemed to exist ratably over the period of time that such services are required to be rendered, or over the period that such membership privileges are required to be made available. Accordingly, prepaid dues income shall be included in income ratably over the period that the liability exists. Any amount received in connection with a liability to furnish services or membership privileges over a period in excess of 36 months or which does not extend beyond the taxable year of receipt shall be included in income without regard to the enactment of this provision.

Paragraph (4) of subsection (e) provides that prepaid dues income shall be treated as received during the year it is includible in gross income without regard to section 456.

Subsection (b) of the bill contains a technical conforming amendment. The amendments made by this bill shall apply with respect to taxable years beginning after December 31, 1960.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

Subchapter E. Accounting Periods and Methods of Accounting

* * * * * * *

PART II—METHODS OF ACCOUNTING

* * * * * * *

Subpart B—Taxable Year for Which Items of Gross Income Included

SEC. 451. GENERAL RULE FOR TAXABLE YEAR OF INCLUSION.

(a) GENERAL RULE.—The amount of any item of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under the method of accounting used in computing taxable income, such amounts is to be properly accounted for as of a different period.

Source: Sec. 42(a), 1939 Code, substantially unchanged.

(b) SPECIAL RULE IN CASE OF DEATH.—In the case of the death of a taxpayer whose taxable income is computed under an accrual method of accounting, any amount accrued only by reason of the death of the taxpayer shall not be included in computing taxable income for the period in which falls the date of the taxpayer's death.

* * * * * * *

SEC. 455. PREPAID SUBSCRIPTION INCOME.

(a) YEAR IN WHICH INCLUDED.—Prepaid subscription income to which this section applies shall be included in gross income for the taxable years during which the liability described in subsection (d)(2) exists.

(b) WHERE TAXPAYER'S LIABILITY CEASES.—In the case of any prepaid subscription income to which this section applies—

(1) If the liability described in subsection (d)(2) ends, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which the liability ends.

(2) If the taxpayer dies or ceases to exist, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which such death, or such cessation of existence, occurs.

(c) PREPAID SUBSCRIPTION INCOME TO WHICH THIS SECTION APPLIES.—

(1) ELECTION OF BENEFITS.—This section shall apply to prepaid subscription income if and only if the taxpayer makes an election under this section with respect to the trade or business in connection with which such income is received. The election shall be made in such manner as the Secretary or his delegate may by regulations prescribe. No election may be made with respect to a trade or business if in computing taxable income the cash receipts and disbursements method of accounting is used with respect to such trade or business.

(2) SCOPE OF ELECTION.—An election made under this section shall apply to all prepaid subscription income received in connection with the trade or business with respect to which the taxpayer has made the election; except that the taxpayer may, to the extent permitted under regulations prescribed by the Secretary or his delegate, include in gross income for the taxable year of receipt the entire amount of any prepaid subscription income if the liability from which it arose is to end within 12 months after the date of receipt. An election made under this section shall not apply to any prepaid subscription income received before the first taxable year for which the election is made.

(3) WHEN ELECTION MAY BE MADE.—

(A) WITH CONSENT.—A taxpayer may, with the consent of the Secretary or his delegate, make an election under this section at any time.

(B) WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, make an election under this section for his first taxable year (i) which begins after December 31, 1957, and (ii) in which he receives prepaid subscription income in the trade or business. Such election shall be made not later than the time prescribed by law for filing the return for the taxable year (including extensions thereof) with respect to which such election is made.

(4) PERIOD TO WHICH ELECTION APPLIES.—An election under this section shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary or his delegate to the revocation of such election. For purposes of this title, the computation of taxable income under an election made under this section shall be treated as a method of accounting.

(d) DEFINITIONS.—For purposes of this section—

(1) PREPAID SUBSCRIPTION INCOME.—The term "prepaid subscription income" means any amount (includible in gross income) which is received in connection with, and is directly attributable to, a liability which extends beyond the close of the taxable year in which such amount is received, and which is income from a subscription to a newspaper, magazine, or other periodical.

(2) LIABILITY.—The term "liability" means a liability to furnish or deliver a newspaper, magazine, or other periodical.

(3) RECEIPT OF PREPAID SUBSCRIPTION INCOME.—Prepaid subscription income shall be treated as received during the taxable year for which it is includible in gross income under section 451 (without regard to this section).

(e) DEFERRAL OF INCOME UNDER ESTABLISHED ACCOUNTING PROCEDURES.—Notwithstanding the provisions of this section, any taxpayer who has, for taxable years prior to the first taxable year to which this section applies, reported his income under an established and consistent method or practice of accounting for prepaid subscription income (to which this section would apply if an election were made) may continue to report his income for taxable years to which this title applies in accordance with such method or practice.

SEC. 456. PREPAID DUES INCOME OF CERTAIN MEMBERSHIP ORGANIZATIONS.

(a) YEAR IN WHICH INCLUDED.—Prepaid dues income to which this section applies shall be included in gross income for the taxable years during which the liability described in subsection (e) (2) exists.

(b) WHERE TAXPAYER'S LIABILITY CEASES.—In the case of any prepaid dues income to which this section applies—

(1) If the liability described in subsection (e) (2) ends, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which the liability ends.

(2) If the taxpayer ceases to exist, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which such cessation of existence occurs.

(c) PREPAID DUES INCOME TO WHICH THIS SECTION APPLIES.—

(1) ELECTION OF BENEFITS.—This section shall apply to prepaid dues income if and only if the taxpayer makes an election under this section with respect to the trade or business in connection with which such income is received. The election shall be made in such manner as the Secretary or his delegate may by regulations prescribe. No election may be made with respect to a trade or business if in computing taxable income the cash receipts and disbursements method of accounting is used with respect to such trade or business.

(2) SCOPE OF ELECTION.—An election made under this section shall apply to all prepaid dues income received in connection with the trade or business with respect to which the taxpayer has made the election; except that the taxpayer may, to the extent permitted under regulations prescribed by the Secretary or his delegate, include in gross income for the taxable year of receipt the entire amount of any prepaid dues income if the liability from which it arose is to end within 12 months after the date of receipt. Except as provided in subsection (d), an election made under this section shall not apply

to any prepaid dues income received before the first taxable year for which the election is made.

(3) *WHEN ELECTION MAY BE MADE.—*

(A) *WITH CONSENT.—A taxpayer may, with the consent of the Secretary or his delegate, make an election under this section at any time.*

(B) *WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, make an election under this section for its first taxable year (i) which begins after December 31, 1960, and (ii) in which it receives prepaid dues income in the trade or business. Such election shall be made not later than the time prescribed by law for filing the return for the taxable year (including extensions thereof) with respect to which such election is made.*

(4) *PERIOD TO WHICH ELECTION APPLIES.—An election under this section shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary or his delegate to the revocation of such election. For purposes of this title, the computation of taxable income under an election made under this section shall be treated as a method of accounting.*

(d) *TRANSITIONAL RULE*

(1) *AMOUNT INCLUDIBLE IN GROSS INCOME FOR ELECTION YEARS.—If a taxpayer makes an election under this section with respect to prepaid dues income, such taxpayer shall include in gross income, for each taxable year to which such election applies, not only that portion of prepaid dues income received in such year otherwise includible in gross income for such year under this section, but shall also include in gross income for such year an additional amount equal to the amount of prepaid dues income received in the 3 taxable years preceding the first taxable year to which such election applies which would have been included in gross income in the taxable year had the election been effective 3 years earlier.*

(2) *DEDUCTIONS OF AMOUNTS INCLUDED IN INCOME MORE THAN ONCE.—A taxpayer who makes an election with respect to prepaid dues income, and who includes in gross income for any taxable year to which the election applies an additional amount computed under paragraph (1), shall be permitted to deduct, for such taxable year and for each of the 4 succeeding taxable years, an amount equal to one-fifth of such additional amount, but only to the extent that such additional amount was also included in the taxpayer's gross income during any of the 3 taxable years preceding the first taxable year to which such election applies.*

(e) *DEFINITIONS.—For purposes of this section—*

(1) *PREPAID DUES INCOME.—The term "prepaid dues income" means any amount (includible in gross income) which is received by a membership organization in connection with, and is directly attributable to, a liability to render services or make available membership privileges over a period of time which extends beyond the close of the taxable year in which such amount is received.*

(2) *LIABILITY.—The term "liability" means a liability to render services or make available membership privileges over a period of time which does not exceed 36 months, which liability shall be deemed to exist ratably over the period of time that such services are*

required to be rendered, or that such membership privileges are required to be made available.

(3) MEMBERSHIP ORGANIZATION.—The term "membership organization" means a corporation, association, federation, or other organization—

(A) organized without capital stock of any kind, and

(B) no part of the net earnings of which is distributable to any member.

(4) RECEIPT OF PREPAID DUES INCOME.—Prepaid dues income shall be treated as received during the taxable year for which it is includible in gross income under section 451 (without regard to this section).