

Profit and Nonprofit Sports Clubs: Financial and Organizational Comparison in Poland

Wojciech B. Cieśliński, Igor Perechuda

Abstract—The paper identifies the features of Polish sports clubs in the particular organizational forms: profit and nonprofit. Identification and description of these features is carried out in terms of financial efficiency of the given organizational form. Under the terms of the efficiency the research allows you to specify the advantages of particular organizational sports club form and the following limitations. Paper considers features of sports clubs in range of Polish conditions as legal regulations. The sources of the functioning efficiency of sports clubs may lie in the organizational forms in which they operate. Each of the available forms can be considered either a for-profit or nonprofit enterprise. Depending on this classification there are different capabilities of increasing organizational and financial efficiency of a given sports club. Authors start with general classification and difference between for-profit and non-profit sport clubs. Next identifies specific financial and organizational conditions of both organizational form and then show examples of mixed activity forms and their efficiency effect.

Keywords—Financial efficiency, for-profit, non-profit, sports club.

I. INTRODUCTION

SPORT clubs has long ago stopped being merely a sport activity. They are business entities which operate in economic conditions. Depending of their size, sports achievements, discipline they can act in different organizational form. All organizational form has to achieve sports and financial goals. Sports clubs cannot achieve sports success without proper financial management. The sources of the functioning efficiency of sports clubs may lie in the organizational forms in which they operate. Financial management in these entities should be compatible with organizational form. Paper tries to identify conditions and factors that affect financial efficiency in two categories of sports clubs: for-profit and non-profit in Poland. Authors use comparison approach in these two ways of functioning which will help to understand capabilities and limitations in efficiency factors. In order to achieve this aim firstly organization form should be compare by main criteria as main goals, types of financing, main source of revenues etc. Further each organizational form should be particularly analyzed from the legal regulation perspective in order to deeply show actual possibilities of financial and organizational functioning.

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II. CLASSIFICATION OF FOR-PROFIT AND NON-PROFIT SPORTS CLUBS

In Poland, the scope of activity of sport clubs is regulated by the Sports Act. The act defines sport itself thus: „Sport is all forms of physical activity, participation in which, whether provisional or organized, helps in elaborating or improving the physical and mental condition, developing social relations or achieving sport results of all levels” [1]. In addition, the act states that, in particular, a sports business is run in the form of sports clubs which have a legal personality. However, from an organizational standpoint, a sports operation may be run in all available organizationally-legal forms (if the given business is not limited to specific forms), which can generally be divided into for-profit and nonprofit models.

Among the criteria distinguishing both forms stated in Table I, the authors specified such organizational criteria as the main goal of the operation, and the dominant form of employment required for accomplishing particular tasks. Regarding financial matters, the established criteria pertain to sources of funding and revenue. These are not all of the criteria which may be used to differentiate between the functioning of for-profit and nonprofit sports clubs, but they are sufficient to justify such a division. For-profit and nonprofit sports organizations have their particular forms of operating, which have been presented in detail below. Organizationally-legal forms determine the sources of funding, sources generating revenue, fiscal efficiency, as well as total financial effectiveness of both types of sports clubs [2]. Moreover comparison of nonprofit and for-profit in sports clubs show the specification of sport companies which is different than non-sports companies [3].

III. FOR-PROFIT TYPE SPORTS CLUBS—ORGANIZATIONAL FORMS AND FISCALLY-FINANCIAL EFFICIENCY

In the for-profit model we will identify all forms of operating regulated by the code of business activities. The following part of the paper will be focused mostly on presenting choice of financial aspects, including reporting, accounting and fiscal aspects related to particular forms of running a sports club enterprise.

Business entities running a business can be divided into three basic groups:

- 1) Natural persons (individual entrepreneurs and partners of civil partnerships),
- 2) Juristic persons (limited liability companies, joint-stock companies, other entities possessing a legal personality),

3) Organizational units without a legal personality (registered partnerships, professional partnerships, limited partnerships, and limited joint-stock partnerships).

TABLE I
 NONPROFIT AND FOR-PROFIT SPORT COMPANIES

Criteria	Nonprofit model	For-profit model
Goals	Social and sports results	Business results
Financing institutions	Public and private	Private
Main sources of revenue	Subsidies, donations, fees	Providing commercial services (sponsoring, merchandising)
Main forms of employment, remuneration	Volunteers, scholarships, civil-law agreements	Employment agreements, civil-law agreements, contracts.

From the perspective of sports clubs, the Sports Act [1] states that a sports club must operate as a juristic person. For this reason, the considered options of forms conducting a business activity are limited liability companies and joint-stock companies. However, in theory even a natural person running a business in the sports industry can be regarded as a sports club (this is allowed under the Freedom of Economic Activity Act [4]). However, such an entity (a natural person conducting a business activity in the form of a sports club) is not entitled to, for instance, receiving grants for sport tasks, which in the model of functioning of Polish sports clubs constitutes significant restrictions regarding sources of funding. In accordance with tax regulations and provisions of the sports act, the permitted form of taxation in legal forms concerning conducting economic activity in Poland is a 19% flat-rate tax. The tax is calculated from the income (the profit) determined on the basis of a revenue and expense ledger or an account book. Regardless of the amount of income, the monthly withholding paid to the tax office is set according to the fixed 19% rate. This means, that regardless what the declared result of a business is, 19% of the result is always paid as income tax. Losses can be considered as costs of income acquisition and accounted for in the next five years.

Companies taxed according to the flat rate are obligated to the following:

- keeping a tax register of revenues and expenses or an account book;
- keeping a register of fixed assets and of intangible assets;
- keeping records of equipment;
- keeping records of sales;
- keeping records of vehicle mileage;
- keeping records of employment and employee income cards.

Capital companies, i.e. limited liability ones and joint-stock companies taxed with the fixed 19% rate pay their tax in accordance with accounting regulations and have to maintain comprehensive accounting, that is to say account books. Entrepreneurs who choose the limited liability company as their form of running a business are motivated by the factor of no personal responsibility for the liabilities of the company. At the same time, an undeniable drawback of this type of company is the "double" taxation of the profit from the

company's activity paid to co-owners. The profit is first taxed with the corporate tax as the company's income and a second time with the natural person's income tax as a dividend paid to associates. It is one of the limitations of running a sports club in this particular form. However, tax regulations permit certain possibilities of exemption from corporate tax for sports businesses. An analysis of these possibilities appears further down in this paper.

The limited liability company is a commonplace type of company, simply perfect for running small and medium-sized enterprises. Its essence is the concentration of capital assets by partners, while limiting their liability to only those assets which they contributed to the company. A limited liability company may be formed by one or more persons for all legally allowed purposes, unless stated otherwise in the act [5]. A special advantage of the limited liability company is the appealing formula of its activity, where the partners profiting from the economic benefits of the company do not take responsibility for its payables, for which the company is solely liable. In the case of football clubs this may prove to be a crucial factor in determining the choice of a legal form. While in non-sports enterprises one can plan long-term revenue from the sales of products and services, and consequently design the asset structure of a company, sport clubs are in this case burdened with an additional risk, which is the possibility of not achieving the presumed sport results. The materialization of this risk may result in severe perturbations connected with the functioning of a club, and can even cause bankruptcy due to loss of liquidity by the lack of timely settlements of liabilities. Football clubs in Poland struggle with this problem every season. Table II illustrates the share of equity capital in the total assets of chosen football clubs in 2010. In a few instances this ratio has negative values. The reason for this is that the clubs are showing negative equity capital. This means that despite receiving additional funding from its owners year after year, financial losses generated in the past, but also currently is so high, that clubs have to constantly struggle against insolvency and search for extra funding. Moreover, the form of a limited liability company has the exceptional benefit of shareholders having a real influence on the company's activity. The position of each partner is determined by the size of his share in the share capital, which is a substantial difference between the partners of a limited liability company and, for instance, the members of an association (i.e. a sports club organized in the nonprofit form). In the latter case the members have equal vote in the matters of objectives and activities of the association merely by virtue of participating in the association, regardless of their personal and financial involvement, and the will of the majority decides against the will of the minority. Sports club operated in the form of limited liability companies may also engage in conducting an economic activity on their own account, aimed to achieve concrete financial benefits, for instance, by organizing sport events, and selling tickets or merchandise. At the end of the financial year the profits gained by the company can be shared among the partners in the form of dividends, which in the case of income acquired by an association would

be forbidden by law. What follows from the above is that under the current legal regulations there exists the possibility of running a sports club in a clear and accessible form, while utilizing relatively low funds, compared to a joint-stock company for example, where the minimum amount of share capital reaches 100,000 PLN (in the case of a limited liability company it amounts to 5,000 PLN). The only flaw of current legislative solutions is the lack of options for immediate conversion of already functioning associations into limited liability companies, which – by applying suitably different regulations - is not an impossible process to undertake.

TABLE II
ANALYSIS OF FINANCIAL STATEMENT DATA OF CHOSEN FOOTBALL CLUBS IN POLAND [6], [11]-[15]

Football Club	Share of intangibles in total assets in 2010	Share of equity capital in total liabilities in 2010
Ruch Chorzów SA	21,45%	-63,59%
Lech Poznań SA	32,34%	51,76%
Legia Warszawa SA	14,10%	-413,66%
Śląsk Wrocław SA	37,97%	41,92%
Wisła Kraków SA	24,29%	-325,29%
Average	26,03%	-141,77%

TABLE III
COMPARISON OF AN ASSOCIATION WITH A FOUNDATION

Registered association	Foundation
Founders and members	
minimum 15 founders (natural persons)	Founder / benefactor – one or many (natural or juristic persons). In terms of financial efficiency it may be advantageous if the foundation is started by a company.
Goals and forms of operation	
any lawful goal is possible nonprofit goal goals specific to the association: -supporting their own members (e.g. a Cricket Fans Association, whose main goal is to support its members and cultivate their interests) -goals may be unreal, impracticable possibility of running a paid and unpaid public benefit activity the target audience can be: -organization members -persons from outside the organization -organization members and persons from outside the organization	the goal must be lawful, and socially or economically beneficial nonprofit goal goal cannot be unreal and cannot involve supporting members and leaders of the foundation possibility of running a paid and unpaid public benefit activity the target audience should be: -persons from outside the organization
management	
general assembly/assembly of members audit committee management board	management board body of internal control (foundation council, supervisory board, audit committee) – not mandatory
assets and sources of finance	
during the creation stage assets are not necessary (the people constitute the "capital") Sources of financing: -central and local administration (e.g. subsidies) -sponsoring organizations -natural and juristic persons (e.g. donations, fund-raisers) -own gainful activity (payable public benefit activity, business) -membership fees	the basis of a foundation's activity are the assets, which are provided by the founder – the so-called founding fund established by the founder, it can be money as well as movables and real-estate a separate economic activity fund of minimum 1,000 PLN Sources of financing: -central and local administration (e.g. subsidies) -sponsoring organizations -natural and juristic persons (e.g. donations, fund-raisers) -own gainful activity (payable public benefit activity, business)
accounting system	
account books necessity of separate accounting of paid and unpaid public benefit activity and business	account books necessity of separate accounting of paid and unpaid public benefit activity and business
taxes, reliefs and exemptions	
obligation to pay corporate income tax possibility of exemption in the event of accomplishing the goals mentioned in the Legal Persons' Income Tax Act	obligation to pay corporate income tax possibility of exemption in the event of accomplishing the goals mentioned in the Legal Persons' Income Tax Act
reporting, control	
the body of internal control and supervision is the starost of the county in which the headquarters of the association are located no obligations to report on the statutory activity (annual report) obligation to provide annual reports to the tax office (financial statement)	The body of internal control and supervision are: -minister in charge of foundation affairs (appointed by the founder in the statute), -starost of the county in which the headquarters of the foundation are located obligation to report on activities to the minister appointed by the founder as the supervising body (annual report) obligation to provide annual reports to the tax office (financial statement)

From Act of law of April 24 th 2003 on Public Benefit and Volunteer Work (O.J. 2014 no 0 pos. 1118) [7], Act of law February 15th 1992 on Legal Persons' Income Tax (O.J. 2014 no 0 pos 851) [8], www.poradnik.ngo.pl [9]

The legal form of a limited liability company or a joint-stock one may also be appealing to the owners of firms sponsoring sports clubs of team games on the level of the 2nd,

3rd or 4th football league. Company owners, who often sympathise with these clubs because of "local patriotism", their own sports past or the interests of their children, are often

discouraged from sponsoring clubs, as while sponsoring them they have no real influence over what their money is spent on. They don't have any influence on club management either – in reality, the formal decisive bodies of associations (general assemblies of members, management boards) are often unable to provide rational club management – calling general assemblies require fulfilling specific procedures, the management boards often include people without the proper competence in the fields of management, finance, law and marketing. In practice, for this reason sports clubs operating in the form of associations have problems with defining their priorities, directions of development and with the most basic efficiency of functioning. Therefore, adopting the limited liability company or joint-stock company form by a sports club, where the shares or stocks are held by local entrepreneurs or even a single entrepreneur, may help in ensuring an ease of management for such a club, while still allowing it to apply for grants from the city budget (by skillfully redacting the company statute or contract).

IV. NONPROFIT SPORTS CLUBS—ORGANIZATIONAL FORMS AND FISCALLY-FINANCIAL EFFICIENCY

Among the legal forms of sports organizations operating on the nonprofit principle one can distinguish associations and foundations. It cannot be determined which one is better, but the differences and similarities between them can be defined. Table III offers a comparison of both organizational forms in terms of goals of activity, funding, and certain income and costs categories. Associations and foundations are the most typical and widespread legal forms for the establishment and operation of non-governmental organizations. Model-wise these two legal forms are fundamentally different, although in reality their operation may be similar.

The following sources of financing and revenue can be distinguished for sports clubs operating in the nonprofit form:

- subscription fees,
- donations (money and physical goods),
- grants from public and private sources,
- sponsoring,
- 1% personal income tax deductions (for organizations having the status of public benefit organizations),
- fund-raisers, campaigns,
- earnings from the organization's assets, capital investments,
- penalty assessments,
- earnings from payable public benefit activity,
- earnings from economic activity,
- inheritances, bequests,
- other sources: credits, loans, etc., which in this model are available in a limited form.

As juristic persons, associations and foundations are taxed with the corporate income tax (CIT) under the provisions of the respective act (Legal Persons' Income Tax Act 2014). The act assumes a fixed catalogue of activities from which the income of a foundation or association will be subject to tax exemption, provided that their statutory goals are within the goals mentioned in the act.

The main regulation regarding corporate income tax exemption is Art.17 Paragraph 1 Subparagraph 4 of the Legal Persons' Income Tax Act [8]. Thus, the entities whose income is exempt from income tax are those, whose statutory goal is:

- scientifically activity,
- scientifically-technical activity,
- educational activity, including the education of students,
- cultural activity,
- physical education and sports activity,
- environmental protection,
- supporting social initiatives for the construction of roads and telecommunications networks in villages and supplying villages with water,
- charity,
- health care and social service,
- occupational and social rehabilitation of the disabled,
- religious activity.

According to the above regulations, activity related to sports, and the activity of sports clubs, can be exempt from tax in certain circumstances. Subparagraph 5a of the aforementioned article states, that corporate income tax exemption applies to „the income of sports clubs, referred to in the sports act of June 25, 2010 (O.J. 2014, pos. 715), intended for and expended in the fiscal year or the year following it on sports training and competition of children and youth in the age categories up to 23 years old” [8]. This exemption also applies to sports clubs in the for-profit form (described earlier).

The statute of the organization in which we conduct our activity must clearly specify its goals. It is only when they strictly comply with the expressions contained in the tax exemption regulations that it will be possible to benefit from them. As part of the considered tax exemptions, the income of foundations and associations may be free of tax also when it is acquired from different types of activities, e.g. a business. However, the exemption does not include income from excise business (i.e. production and trade of goods from the electronics, fuel, tobacco, distilling, winemaking, and brewing industries, as well as articles made from precious metals, among other activities). Furthermore, the exemption does not apply to income gained from lending fixed assets or intangibles for paid use as a tax lease [8].

V. MIXED ACTIVITY FORMS OF SPORTS CLUBS

An example of a peculiar organizational form is a limited liability company who is also a founder of a foundation. If the foundation created by a company fulfills the requirement of a public benefit organization, then we can donate up to 10% of our income to it, and that value will lower the income we have to tax. Moreover, referring to the previous information, the entity taxed with the corporate income tax can be exempt from tax in terms of youth education. As a result of these options, football academies are being created at the main top-league sports clubs. For instance, Legia Warszawa SA is the founder of Football Academy Foundation Legia Warszawa, which additionally has the status of a public benefit organization,

allowing it to gain proceeds from personal income tax write-offs.

What is more, there is a specific manner of treating capital companies as sports clubs. By adequately formulating the contents of a deed of formation (the contract of a limited liability company), that is by removing the possibility of sharing the profits between partners, the company is not deprived of the option of acquiring grants neither as per the sports act, nor the public benefit activity and volunteering act. This is because both of these acts permit, under certain conditions, the subsidizing of clubs operating in the form of nonprofit companies, and the latter act does not even exclude the possibility of the company having a public benefit organization status [1], [7].

TABLE IV
SPORTS CLUBS EFFICIENCY FACTORS - CAPABILITIES AND LIMITATIONS.

Financial and organizational factors affecting the efficiency of a sports club	Non-profit	For-profit
	Financial factors	
Financial and legal responsibility of the founders (owners) of the club for the liabilities	unlimited	limited
Capital investor	impossible	possible
Extended liabilities financing	limited	possible (necessary in particular cases – football competition at the top level)
Public and government financing	possible	limited
Financing on the basis of donations, public charity collections, membership fees, 1% personal income tax deductions, etc.	possible	limited
Dividend	impossible	possible
CIT efficiency due to sports activity	extended	limited
Recognition players as asset	impossible	possible (factor of great importance for football clubs where players cards are recognized as intangible assets [10]-[15], see Table II)
Organizational factors		
Participation in the top level of sports competition	limited	possible
Creating long term business relations	limited	possible
Unanimity management	limited (in association every member has the same rights to decision)	limited (for votes by particular shareholders)
Players hiring	limited	extended possibilities
Creating strong local relation	Extended possibilities	possible
CSR functions	Extended possibilities[16]	Possible[16]

VI. CONCLUSION

The sources of the functioning efficiency of sports clubs may lie in the organizational forms in which they operate. Each of the available forms can be considered either a for-profit or nonprofit enterprise. Depending on this classification there are different capabilities of increasing organizational and financial efficiency of a given sports club. Table IV contains these capabilities which were mentioned and analyzed in the paper. The paper helps to identify and better understanding factors that affect efficiency of particular organizational form.

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