

# Keep Your Investment Club Going Strong! (And If All Else Fails, Here Are Tips for Disbanding)

MYICLUB INVESTMENT CLUB WEBINAR SERIES

Presented by myICLUB Team  
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## Your Hosts



**Douglas Gerlach**  
*President,*  
ICLUBcentral Inc.



**Russell Malley**  
*Club Accounting Advisor,*  
myICLUB



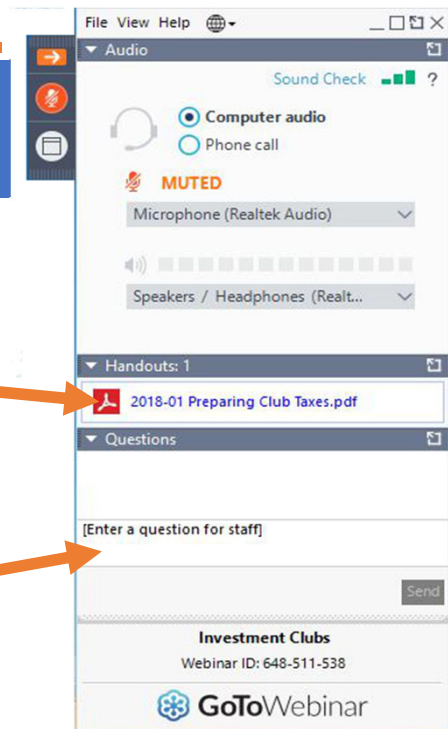
**Sean Pulrang**  
*Senior Support*  
*Representative,*  
myICLUB

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## Handout & Questions

Handout in PDF  
format is available  
in Handouts tab.

Type questions in  
Questions box.



## Purpose of This Webinar



- Help if you need it to continue your club's operations.
- Tips for efficiently winding down your club.
- Strategies for paying off members.
- Important tax considerations.
- Protecting your club data.



## TIPS TO KEEP YOUR INVESTMENT CLUB GOING STRONG

DON'T DISBAND UNTIL YOU TRY THESE!

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## Don't Overcomplicate Your Accounting



- Treasurer burnout is often big factor in club dissolution.
- Keep treasurer's job easy so anyone can take over.
- myICLUB has best tools for club accounting, club operations, & support.
- Check File Storage in your myICLUB club website for resources on getting started & club accounting/operations.

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## Keep Accounting Simple (Part 1)



- DO NOT use dividend reinvestment.
  - Reinvested security lots complicate tax preparation when sold.
  - Automatic reinvestments can trigger wash sales after stocks sold at loss.
- DO NOT levy late fees.
  - Members who miss or pay late only hurt themselves over time.
- DO NOT print monthly reports for members.
  - Members access reports themselves in myICLUB.com.

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## Keep Accounting Simple (Part 2)



- AVOID problem securities.
  - ETFs, Mutual Funds, REITS, MLPs, Royalty Trusts, Commodities, Precious Metals all create issues with taxes & accounting.
- SIMPLIFY/REDUCE expenses.
  - For expenses like BI membership, keep them “off the books” (treasurer collects checks from members & mails to BI instead of writing check from club account).
- SELL stocks soon after non-cash mergers/acquisitions are announced instead of waiting for closing.
  - Eliminates need for complicated accounting entries.

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## Keep Portfolio & Books in Shape



- DO NOT own too many stocks.
  - 20-25 is plenty for most clubs to achieve good diversification.
  - No stock should be less than 3%—concentrate holdings into meaningful positions.
- DO RECONCILE books monthly.
  - Small errors can compound quickly & become more difficult to diagnose.
- DO AUDIT books annually.
  - Club members on committee help find problems & become acquainted with accounting methods.
- DO FILE club taxes annually.

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## Maintain Focus on Portfolio Fundamentals



- History shows that clubs with best discipline earn best returns.
- Long-term target should be to outperform broad market.
  - Use myICLUB Benchmark Performance Report to review real long-term performance.
- Scattershot approach to portfolio-building with random collection of securities is less effective than using defined strategy to earn long-term capital appreciation.
  - Avoid parking cash, trying to time market, buying lots of dividend/income stocks, investing in securities other than common stocks.
  - Club portfolio should be managed similar to equity mutual fund, NOT as personal portfolio.

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## Streamline Club Operations



- If meeting monthly is too frequent (especially for clubs with mature portfolios), meet every other month or quarterly.
- Use online or hybrid/online meeting model.
- Distribute portfolio management & stock research work to committees instead of involving every member in every activity.

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## For More Help



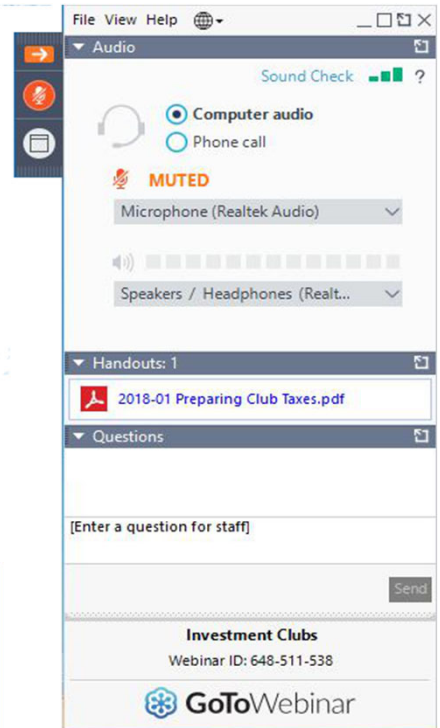
- Our YouTube Investment Club channel has plenty of helpful videos:
  - [www.YouTube.com/ICLUBcentral](http://www.YouTube.com/ICLUBcentral)
- Our Investment Club Forum helps you connect with other club members:
  - [www.myiclub.com/forum/](http://www.myiclub.com/forum/)
- Contact myICLUB support for questions:
  - [www.myiclub.com/support](http://www.myiclub.com/support)

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## QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLET



## HOW TO DISBAND YOUR INVESTMENT CLUB

IF ALL ELSE FAILS, HERE'S HOW TO DISSOLVE YOUR CLUB

## How to Dissolve an Investment Club



- Any vote to disband should be conducted in accordance with club's partnership agreement.
- Make sure to comply with all local, state, & federal reporting & tax requirements.
- See myICLUB FAQ #50 for complete instructions:
  - [www.myiclub.com/faq/article.aspx?id=50](http://www.myiclub.com/faq/article.aspx?id=50)

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## Choose Your Closing Date



- Can dissolve partnership at any time of year, **however**:
- Disbanding can take several months to complete (much longer than you might expect).
  - Rushing to complete at year-end may not work.
- **DO NOT** wait to file final IRS & state tax returns: IRS deadline is 15th day of 3rd month following date operations ceased.
  - Disbanding in Q4 (after October) may require paper filing pursuant to IRS rules.
  - May be easier to wait & disband in Q1.

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## Be Mindful of Pending Dividends



- **AVOID** receiving dividends/reinvested shares because club sold security after record date.
- Review upcoming security ex-div & payment dates in myICLUB Calendar.
  - Check Portfolio box to see upcoming ex-dividend & payment dates for holdings— sell shares prior to record date.
- **TURN OFF** dividend reinvestment.
  - Much easier & less expensive to deal with cash than additional fractional shares.
- If necessary, record expected dividends in myICLUB in advance of actual receipt so that final withdrawals will include them.
  - **DO NOT** let members cash any checks before money is in account.

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## Turn Off Automatic Transactions



- **TURN OFF** any automatic money transfers (such as from bank to broker) or automatic expense payments as club decides on dissolution.
- **REMIND** members to turn off automatic member e-payments to club as well.

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## Be Mindful of Pending Expenses



- DO ACCOUNT for all expenses related to termination:
  - myICLUB renewal.
  - Printing & mailing costs
  - Final Club Tax Federal.
  - Final Club Tax State
  - myICLUB Data Archive & Protection Plan.
- *Pre-pay all expenses if needed*
  - Or advance funds to treasurer/officer who will make purchase at appropriate time.

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## DETERMINING FINAL MEMBER PAYOUTS

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## Decide on Member Payout Methods



- Club dissolution includes making final withdrawals of all members.
- As with final member withdrawals, members can receive cash or cash+stock.
- When disbanding, final withdrawals paid out in stock do have similar benefits to final withdrawals paid out during club's regular operations.

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## Paying Members in Cash



- Selling all shares & paying out members in cash is usually **quickest & easiest**.
- However, this will trigger **immediately-realized** capital gains/losses on all securities sold.
  - These are passed through to members, who will report on next personal tax returns.
- These realized gains/loss are shown on Withdrawal Reports.

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## Paying Members in Cash & Shares



- Transferring shares to members is more complicated, but may bestow **tax benefits to receiving members**.
- At time of payout, members with **same cost basis** in club will have **same gains/losses** on paper whether they take cash or shares of **any** security.
- For members receiving cash, gains/losses are **realized** at time of payout.
- For members receiving securities, gains/losses are realized only when those securities are **sold** at some point down the road.
- **NOTE:** Beginning in 2024, individuals must file IRS Form 7217 “Partner’s Report of Property Distributed by a Partnership” with their personal tax returns.

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## Paying Out Cash & Shares



- Usually best to **sell securities held at loss** (members receive immediate benefit of capital losses).
- Sell securities that **no member wants**.
- Determine which shares members **would like** to receive.
  - **Note:** Club’s unrealized gain/loss in any particular shares are **irrelevant** to member receiving those shares.
  - Basis of shares is **adjusted** upon transfer (more on this later).
  - In other words, past gains/losses in security should **not affect** members’ decisions to accept particular shares.

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## Check Withdrawal Scenarios



- myICLUB Withdrawal Scenario Calculator can be useful tool.
  - Go to **Accounting > Members > Withdrawal Scenario Calculator**.
  - Choose any member & click Calculate button.
  - myICLUB will show stocks suggested for transfer to members, & stocks which would generate capital loss.

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## Which Shares to Transfer? Method #1



- Give shares of each company to each member based on % ownership.
- Likely to be massive headache for treasurer
  - In 15-member club with portfolio of 15 securities, giving each member a few shares of each of 15 securities means treasurer will have to make 225 separate transfers at brokerage.

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## Which Shares to Transfer? Method #2



- I. Have members select securities they are interested in receiving.
  - Sell shares of securities no one wants.
  - Have members rank their choices. If only one member expresses interest, designate it for them.
  - If multiple members express interest in same stock, determine who has priority, perhaps by lottery or negotiation.

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## Confirm Brokerage Policy For Share Transfers



- Some brokerages may transfer only to members with personal accounts.
  - Members can easily open accounts.
- Brokerage may charge transfer fees which are borne by receiving partner.
  - IF all members are receiving shares & there are no cash-only payouts, enter club expense transaction to account for this fee before entering any withdrawals.
  - IF one or more members are receiving cash-only withdrawals, fees can be entered separately as part of each member's withdrawal.
- **NOTE:** Brokerage may only transfer whole shares, not fractions.
  - If so, sell fractional shares before processing member withdrawals.

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## Entering Final Member Withdrawals



- Enter withdrawals as close together as possible:
  - Multiple cash-only withdrawals can share same date in myICLUB.
  - Cash+Stock withdrawals must be dated one per day.
- CREATE final **Securities Valuation** after all income/expense transactions are entered & club is certain that no other transactions will be recorded.
- Begin entering any Cash + Stock Withdrawals (one per day). Use same date for Announcement/Transaction date & Payout Date.
- On next day after last Cash + Stock Withdrawal, enter all Cash-Only Withdrawals.

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## Final Withdrawal Pitfalls & Warnings



- Sometimes, clubs make preliminary partial withdrawals to all members, then make final withdrawals to close out.
  - If you use this strategy, only distribute cash in 1<sup>st</sup> withdrawal & NEVER distribute stock.
- Sometimes, clubs will withdraw all members but one (treasurer), then process final withdrawal for that one member.
  - If you use this strategy, DO NOT span new tax year.

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## Steps If No Securities Are Transferred



1. Sell all securities & enter transactions into myICLUB.
2. Record all final transactions, including dividends, income, expenses, etc.
  - **Check dividend schedule so do not receive dividend after withdrawals paid.**
3. Create Securities Valuation for day *after* all transactions have been entered.
4. Print/Share **Member Status Report** on last valuation date.
5. Withdraw all members one day *after* last valuation date.
  - Do NOT charge withdrawal fees. Make Payout date same as Announcement/Transaction date.
6. Print/Share **Withdrawal Distribution Reports** for all members.

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## Calculating Capital Gains for Transferred Shares



- If member receives securities, **cost basis of lots transferred to member is adjusted according to member's basis in club.**
  - Club's basis in those shares is not used. Club's holding period (long-term vs. short-term) stays with transferred shares, however.
  - Member is liable for taxes on capital gains only if/when those shares are sold.
  - See <https://www.myiclub.com/faq/article.aspx?id=414> for more.
- **NOTE:** Brokerages may not be familiar with partnership regulations.
  - Be sure to remind members that **adjusted basis of transferred shares is shown on Member Withdrawal Reports.**
  - Members will use that information after selling those shares to report capital gains liability, **not what brokerage may report.**

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## If Money Received After Withdrawals Entered



- 3 choices for handling money after withdrawals have been entered:
  1. Delete all final member withdrawals, enter transaction(s), create new valuation, re-do all member withdrawals.
  2. OR handle as “Treasurer’s Bonus,” deleting & re-doing only their final withdrawal as above.
  3. OR handle as charitable donation.
- Clearly document how club handles these monies.
- See FAQ 473 at: [www.myiclub.com/faq/article.aspx?id=473](http://www.myiclub.com/faq/article.aspx?id=473)

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## FILING FINAL CLUB TAX RETURNS

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## Useful Reports for Disbanding & Tax Prep



- **Withdrawal Distribution Report** for all members.
- **Valuation Statement** used to disband club.
- **Income & Expense Report & Balance Sheet.**
- **Transaction Report** for entire year to date.
- Each member's entire **Individual Valuation Units Ledger.**
- **Security Transactions History** or **Individual Security Ledger** for each stock sold or distributed to members.

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## IRS Final Filing Requirements



- IRS requires filing final form 1065, K-1, & all related schedules by **15th day of 3rd month following date operations ceased.**
- **Final Club Tax Federal (& Final Club Tax State** for some states) is used to generate final “short year” return.
- **Do not wait** until next year's return deadline, unless above deadline falls at end of year & final Form 1065 & related schedules for current tax year have been released by IRS (generally September – December).
  - In that case, you must use those forms to file final return, which may require filing on paper.

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## Prior to Preparing Tax Return



- Withdraw all members.
- Make sure all account balances are zero.
- Perform **Allocation of Income & Expenses** for **current** year.
  - myICLUB > Accounting > Utilities > Allocate Income & Expenses.

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## Producing Final Tax Return in myICLUB



- Purchase **Final Club Tax** (Federal and/or State) from myICLUB.
- Go to **Taxes** tab, & click **Go** button for **Final Federal** or **Final State**.
- Select “Short-year return.”
- Follow prompts to generate return.

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## Cost Basis of Sold Securities



- Form 1099 won't be available to reconcile brokerage basis of sold securities to IRS.
  - If brokerage can provide information that would normally appear on Form 1099 at year-end, use that information.
  - If not, fill in cost basis figures calculated by myICLUB as shown on Individual Securities Ledger.
- **NOTE:** Check 'Basis not reported' & 'No 1099 received' options **ONLY** if brokerage can verify what will not appear or not be reported on 1099.
- If any doubt, use cost basis information from myICLUB in preparing tax return.

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## Finalize Return



- After tax forms have been generated, you will be returned to page that shows up after clicking **Go** button.
- Forms will look same as full-year return except:
  - Will only include information from January 1<sup>st</sup> to date of club dissolution (when last member check was written).
  - Confirm that "Final Return" box on Form 1065 & on each partner's K-1 form is checked.

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## File IRS Return



- To e-File, scroll down & click **e-File Short Return** button.
  - Information sent to IRS includes dates club was active from 1<sup>st</sup> of current year until date of final withdrawal.
- To print & mail forms:
  - Fill in date fields at top of 1065, K-1 & other forms to reflect that club was in operation from January 1<sup>st</sup> until date withdrawal checks were cut for members.
  - Use mailing method that provides proof of mailing.

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## Prepare & File State Final Returns



- Requirements for state final partnership returns vary.
- Process of generating is similar to Federal tax filing.
- See [www.myiclub.com/state\\_warning.aspx](http://www.myiclub.com/state_warning.aspx) for exceptions (primarily for states that do not support e-Filing of short year final returns).
- *Do not neglect complying with your state's regulations.*

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## Terminate State/Local Registration



- If club is registered with state or filed DBA business certificate with local authority, notify them of club's termination.

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## PROTECT & ARCHIVE YOUR CLUB DATA

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## myICLUB Data Archive & Protection Plan



- Even though club is disbanded & club's myICLUB account has been disbanded, there are many reasons that club data, reports, tax returns would have to be revisited:
  - IRS has 7 years to initiate audit.
  - Passing of former member may prompt inquiries from estate.
  - Divorce proceedings involving former member could require documentation.
  - Changes or errors in past tax returns could require re-filing.

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## Features of Data Archive Plan



- **Data Archive & Protection Plan** securely stores club data for 7 years after club termination.
- Allows as-needed, limited one-month access to club accounting data & tax returns to regenerate reports or returns during term of Plan.
- Does not provide for full use of myICLUB for ongoing club operations.

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## Without the Data Archive Plan



- If club needs access to data & tax returns, AND has valid export file, **MUST** re-subscribe to myICLUB for one-year term.
  - \$160/year for non-BI member clubs.
- Can then reimport data from export file & perform necessary work.
- Managing data file can be problematic over course of 7 years (treasurer passes away or can't be found, export file is lost, etc.)

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## What to Keep after Club Closes



- Treasurer/other officer should keep:
  - Tax-related records for 7 years (& in no case fewer than 3 years).
  - For any years when club did **not** file 1065, keep those records **forever**.
  - Copies of tax returns kept forever.
- IRS rules for recordkeeping:
  - [www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Recordkeeping](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Recordkeeping)

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## Closing Out myICLUB Website



- If Data Archive Plan is not purchase, myICLUB club & data will be removed from myICLUB servers after subscription expires.
  - Once data is purged, no one can access website or data, not even myICLUB technical support.
- For club's permanent records, save the following:
  - Download all files in File Storage using File Takeout feature (all files are compressed in \*.ZIP file).
  - Export data file after all transactions entered (from Accounting > Utilities).

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## Summary of Closing Costs



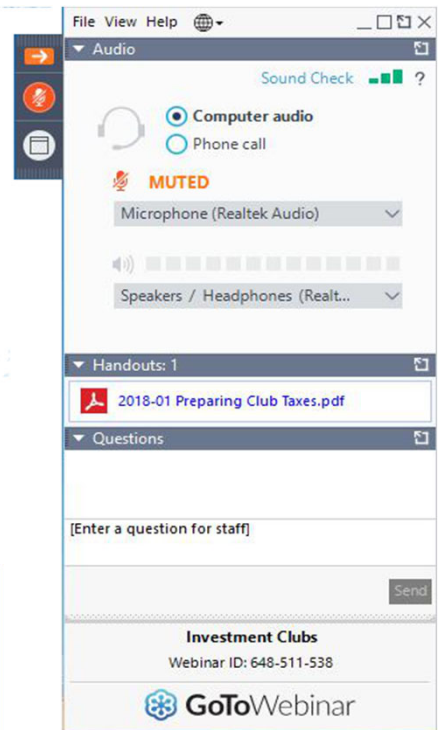
- Final Club Tax Federal \$99.99 (+ \$40 for large clubs)
- Final Club Tax State \$99.99 (+ \$40 for large clubs)
- Data Archive & Protection Plan \$150.00
- Printing & Mailing Tax Returns ~\$18.00 (if not e-Filing, each for Fed & State)
- **Be sure to expense these before closing books.**

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## QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLET



# Thank You!



Doug  
Gerlach



Russell  
Malley



Sean  
Pulrang

