Form 1120-H U.S. Income Tax Return for Homeowners Associations

Department of the Treasury
Internal Revenue Service

▶ For Paperwork Reduction Act Notice, see instructions on page 2.

OMB No. 1545-0127

1986

For calendar year 1986 or tax year beginning , 1986, and ending , 19

Use IRS label. Otherwise please print or type.		
	Name	Employer identification number (see instructions)
	Number and street	
	City or town, state, and ZIP code	Date association formed

A	Total exempt function income. Must meet 60% gross income test (see instructions)	A	
B	Total expenditures made for purposes described in 90% expenditure test (see instructions)	B	
C	Association's total expenditures for the tax year (see instructions)	C	

Gross Income (excluding exempt function income)

1	Dividends (attach schedule)	1	
2	Interest	2	
3	Gross rents	3	
4	Gross royalties	4	
5	Capital gain net income (attach Schedule D (Form 1120))	5	
6	Net gain or (loss) from Part II, Form 4797 (attach Form 4797)	6	
7	Other income (excluding exempt function income) (attach schedule)	7	
8	Gross income (excluding exempt function income) (add lines 1 through 7)	8	

Deductions (directly connected to the production of gross income, excluding exempt function income)

9	Salaries and wages	9	
10	Repairs	10	
11	Rents	11	
12	Taxes	12	
13	Interest	13	
14	Depreciation (attach Form 4562)	14	
15	Other deductions (attach schedule)	15	
16	Total deductions (add lines 9 through 15)	16	
17	Taxable income before specific deduction of $100 (subtract line 16 from line 8)	17	
18	Specific deduction of $100	18	$100
19	Taxable income (subtract line 18 from line 17)	19	

Tax

20	30% of line 19		20	
21	Credits—(see instructions)		21	
22	Total Tax—Subtract line 21 from line 20		22	
23	Credits: a Tax deposited with Form 7004			
	b Credit from regulated investment companies (attach Form 2439)			
	c Credit for Federal tax on gasoline and special fuels (attach Form 4136)			
	d Add lines 23a, 23b, and 23c		23d	
24	Tax due (subtract line 23d from line 22). See instruction D4 for depositary method of payment		24	
25	Overpayment (subtract line 22 from line 23d)		25	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A homeowners association that is a corporation may want to file **Form 1120,** U.S. Corporation Income Tax Return, or **Form 1120-A,** U.S. Corporation Short-Form Income Tax Return (using the instructions for Form 1120), because the tax may be less on that form in comparison to the tax figured on Form 1120-H.

See the Instructions for Form 1120 and Form 1120-A for highlights of changes brought about by the Tax Reform Act of 1986.

Note: *The taxable income of a homeowners association is taxed at a flat rate of 30%. This rate applies to both ordinary income and capital gains.*

For those associations claiming a deduction for automobiles and other "listed property," complete Part III of **Form 4562,** Depreciation and Amortization, regardless of when the property was placed in service. If the association provides taxable fringe benefits to its employees, such as the personal use of autos, do not deduct as wages the amount allocated for depreciation and other expenses that you claim on your return.

A. Purpose of Form.—A homeowners association files Form 1120-H as its income tax return in order to take advantage of certain tax benefits. These benefits, in effect, allow the association to exclude exempt function income from its gross income.

For more information, see **Publication 588,** Tax Information for Homeowners Associations.

B. Definitions.—

1. Homeowners Association.—There are two kinds of homeowners associations:

(a) A condominium management association organized and operated to acquire, build, manage, and care for the property in a condominium project, substantially all of whose units are homes for individuals; and

(b) A residential real estate management association organized and operated to acquire, build, manage, and care for a subdivision, development, or similar area, substantially all of whose lots or buildings are homes for individuals.

Regulations section 1.528-4 explains the "substantially all" test.

Furthermore:

- At least 60% of the association's gross income for the tax year must consist of exempt function income. See Item A under Specific Instructions.
- At least 90% of the association's expenses for the tax year are to acquire, build, manage, and care for its property. See Item B under Specific Instructions.
- No private shareholder or individual can profit from the association's net earnings except by acquiring, building, managing, or caring for association property or by a rebate of excess membership dues or other fees.
- The association files Form 1120-H to elect under section 528 to be treated as a homeowners association.

2. Association Property.—Association property includes property that:

(a) the association holds;

(b) the association's members hold in common;

(c) the association's members hold privately within the association; and

(d) is owned by a governmental unit and is used to benefit the unit's residents.

Regulations section 1.528-3 gives details.

3. Taxable Income.—Taxable income is the excess of:

(a) gross income for the tax year, excluding exempt function income, over

(b) allowed deductions directly connected with producing any gross income except exempt function income. Allowed deductions include a specific $100 deduction. The following are not allowed:

- Net operating loss deduction (section 172).
- Deduction under Part VIII of Subchapter B (special deductions for corporations).

If facilities are used (or personnel are employed) both for exempt and nonexempt purposes, see Regulations section 1.528-10.

4. Exempt Function Income.—Exempt function income consists of membership dues or other fees the homeowners association received from those who own the association's residential units or lots. This income must come from members as owners, not as customers of the association's services. Assessments or fees for a common activity qualify, but charges for providing services do not qualify.

Examples.—In general, exempt function income includes assessments made to:

(a) Pay principal, interest, and real estate taxes on association property.

(b) Maintain association property.

(c) Clean snow from public areas and remove trash.

Examples of income which are not exempt function income.—

(a) Amounts that are not includible in the organization's gross income other than under section 528 (for example, tax-exempt interest).

(b) Payments from nonmembers.

(c) Payments from members for special use of the organization's facilities, apart from the uses generally available to all members.

(d) Interest on amounts in a sinking fund.

(e) Payments for work done on nonassociation property.

(f) Member's payments for transportation.

For more information, see Regulations section 1.528-9.

C. Filing the Return.—

1. Electing To File Form 1120-H.—By filing Form 1120-H, the association elects to take advantage of the tax benefits provided by section 528. The association makes the election separately for each tax year. Once Form 1120-H is filed, the association cannot revoke its election for that year unless the Commissioner consents.

If the homeowners association elects not to use Form 1120-H, it is to file the applicable income tax return (Form 1120, etc.).

If the association is tax-exempt under section 501, it is not to file Form 1120-H. See section 6033 and related sections. If the association loses its exempt status, see Regulations section 1.528-8(e).

2. When To File.—In general, an association must file Form 1120-H by the 15th day of the 3rd month after the end of the tax year.

Extension.—File **Form 7004,** Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file Form 1120-H.

Period Covered.—File the 1986 return for calendar year 1986 and fiscal years that begin in 1986 and end in 1987. For a fiscal year, fill in the tax year space at the top of the form.

Change in Accounting Period.—Before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128**, Application for Change in Accounting Period. Also see **Publication 538**, Accounting Periods and Methods.

3. Where To File

If the homeowners association's main office is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101

Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

Associations having their principal place of business outside the United States or claiming a credit under section 936 (relating to possessions tax credit) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

4. Other Forms and Statements That May Be Required.—
The association may have to file any of the following:

Forms W-2 and **W-3**. Wage and Tax Statement; and Transmittal of Income and Tax Statements.

Form W-2P. Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 1096. Annual Summary and Transmittal of U.S. Information Returns.

Form 1098. If the association receives $600 or more of mortgage interest from any one payor during any calendar year, it may be required to file **Form 1098**, Mortgage Interest Statement.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, and **R.** Information returns for reporting certain abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, certain dividends and distributions, interest income, medical and health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916,** Information Returns.

Form 8300. If the association received over $10,000 in cash or foreign currency in one transaction (or a series of related transactions), file **Form 8300**, Report of Cash Payments Over $10,000 Received in a Trade or Business.

Amended return. To amend a previously filed Form 1120-H, file a corrected Form 1120-H marked "Amended" at the top.

Attachments. If more space is needed on forms or schedules, attach separate sheets to the back of Form 1120-H. Attach schedules in alphabetical order and forms in numerical order. Be sure to put the taxpayer's name and employer identification number (EIN) on each sheet.

5. Signature.—The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of an association.

If your association officer filled in Form 1120-H, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 1120-H and does not charge the association, that person should not sign the return. Certain others who prepare Form 1120-H should not sign. For example, a regular full-time employee of the association such as clerk, secretary, etc., does not have to sign.

Generally, anyone who is paid to prepare Form 1120-H must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 1120-H to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should be familiar with their responsibilities. See **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

D. Figuring and Paying the Tax.—

1. Accounting Methods.—Taxable income must be computed using the method of accounting regularly used in keeping the association's books and records. In all cases, the method adopted must clearly reflect taxable income. (See section 446.)

Unless the law specifically permits otherwise, the association may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115,** Application for Change in Accounting Method. Also see Publication 538.

2. Estimated Tax, Minimum Tax, Employee Stock Ownership Credit, Investment Credit, and Jobs Credit.—
These items do not apply to homeowners associations electing to file Form 1120-H.

3. Credits.—The association may qualify for the following credits:

Foreign tax credit. See **Form 1118,** Computation of Foreign Tax Credit—Corporations.

Credit for fuel produced from a nonconventional source. See section 29 for a definition of qualified fuels, provisions for figuring the credit, and other special rules.

Credit for increasing research activities.

The credit has been extended for qualified expenditures through December 31, 1988, and the method of computing it has changed. See **Form 6765,** Credit for Increasing Research Activities.

Alcohol fuel credit. See **Form 6478,** Credit for Alcohol Used as Fuel, and section 40.

Enter the total amount of credits on line 21, and attach the appropriate form(s).

Condominium management associations may wish to notify their members that they are no longer eligible to take a credit based on their share of the association's expenditures for energy-saving items. This applies to expenditures after 1985. However, they may be able to carry over an unused credit from a prior year.

4. Depositary Method of Tax Payment.—The association must pay the tax due in full within 2½ months after the end of the tax year.

Deposit association income tax payments with a Federal Tax Deposit Coupon (**Form 8109**). If you do not receive these coupons, please contact your IRS district office. Make these tax deposits with either a financial institution qualified as a depositary for Federal taxes or the Federal Reserve bank or branch servicing the geographic area where the association is located. Do not submit deposits directly to an IRS office; otherwise, the association will be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the association's account. See the instructions contained in the coupon book for more information.

To get more deposit coupons, use the reorder form (**Form 8109A**) provided in the coupon book.

E. Penalties.—Avoid penalties and interest by correctly filing and paying the tax when due. The association may have to pay the following penalties unless it can show that failure to file or to pay was due to reasonable cause and not willful neglect. (These penalties are in addition to the interest charge on unpaid tax at a rate determined under section 6621.)

- A homeowners association that fails to file its tax return when due (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

- A homeowners association that fails to pay the tax when due generally may be subject to a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. (The penalty is imposed on the net amount due.)

Note: *If you do not file your return on time, the Service may charge both the late filing penalty and the late payment penalty, since the late payment penalty will no longer be reduced by the late filing penalty. See sec. 6651 for more information.*

Penalty for Overstated Tax Deposits. If deposits are overstated, the association may be subject to a penalty. See section 6656(b).

Specific Instructions

Rounding Off to Whole-Dollar Amounts.—Money items may be shown on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Employer Identification Number.—All homeowners associations must use an employer identification number (EIN). If the EIN is wrong on the label or if a label was not received, show the correct number on the return.

An association that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. Obtain this form from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120-H is mailed. If the EIN has not been received by the time for filing Form 1120-H, write "Applied for" in the space for the EIN.

Item A.—Enter the association's exempt function income for the tax year, figured by the association's accounting method. This income must meet the 60% test mentioned in General Instruction B.

Item B.—Enter the association's expenditures for the tax year to acquire, build, manage, and care for association property. Include current and capital expenditures. These expenditures must meet the 90% test mentioned in General Instruction B. Use the association's accounting method to figure the total.

Include:

- Salary for an association manager or secretary and expenses of running a newsletter.
- Expenses for gardening, paving, street signs, security guards, and property taxes assessed on association property.
- Current operating expenses of tennis courts, swimming pools, recreation halls, etc.
- Replacement costs for heating, air conditioning, elevators, etc., in common buildings.

Do not include expenditures for private property—as opposed to common property—except to repair exterior walls and roofs that qualify as association property. Also, do not include investments or transfers of funds held to meet future costs. An example would be transfers to a sinking fund to replace a roof.

Item C.—Enter the association's **total** expenditures for the tax year in Item C, whether or not used to figure taxable income on page 1. Use the association's accounting method to figure the entry for Item C.

Note: *The Tax Reform Act of 1986 made many changes that affect corporations. Some of the changes affect calendar year 1986 taxpayers and fiscal year 1986-87 taxpayers. See* **Publication 553,** *Highlights of 1986 Tax Changes, for more information.*