

# U.S. Income Tax Return for Homeowners Associations

# 1981

▶ For Paperwork Reduction Act Notice, see page 3 of instructions.

For calendar year 1981 or other tax year beginning \_\_\_\_\_, 1981 and ending \_\_\_\_\_, 19\_\_.

<b>Use IRS label. Other- wise please print or type.</b>	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) . . . . .	<b>A</b>	
B. Total expenditures made for purposes described in 90% expenditure test (see instructions) . . . . .	<b>B</b>	
C. Association's total expenditures for the tax year (see instructions) . . . . .	<b>C</b>	

### Gross Income (excluding exempt function income)

1 Dividends (attach schedule) . . . . .	1	
2 Interest on obligations of the United States and U.S. instrumentalities . . . . .	2	
3 Other interest . . . . .	3	
4 Gross rents . . . . .	4	
5 Gross royalties . . . . .	5	
6 (a) Capital gain net income from Schedule D (Form 1120), line 11 (attach separate Schedule D (Form 1120)) . . . . .	6(a)	
(b) Net gain or (loss) from Form 4797, line 11(a), Part II (attach Form 4797) . . . . .	6(b)	
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 (a) Salaries and wages . . . . . 9(b) Less WIN credit from Form 4874, line 12 . . . . . Balance ▶	9(c)	
10 Repairs . . . . .	10	
11 Rents . . . . .	11	
12 Taxes . . . . .	12	
13 Interest . . . . .	13	
14 Depreciation from Form 4562 (attach Form 4562) . . . . ., less depreciation claimed elsewhere on the return . . . . . Balance ▶	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 Less specific deduction of \$100 . . . . .	18	
19 Taxable income (subtract line 18 from line 17) . . . . .	19	

### Tax

20 30% of line 19 . . . . .	20	
21 (a) Work incentive (WIN) credit (attach Form 4874) . . . . .		
(b) Foreign tax credit (attach Form 1118) . . . . .		
22 Total—Add lines 21(a) and (b) . . . . .	22	
23 Total Tax—Subtract line 22 from line 20 . . . . .	23	
24 Credits: (a) Tax deposited: Form 7004 . . . . . Form 7005 (attach) . . . . . Total ▶		
(b) Credit from regulated investment companies (attach Form 2439) . . . . .		
(c) Federal tax on special fuels and oils (attach Form 4136) . . . . .	24	
25 Tax due (subtract line 24 from line 23). See instruction D4 for depository method of payment . . . . .	25	
26 Overpayment (subtract line 23 from line 24) . . . . .	26	

**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.

	Date	Title	
<b>Paid Preparer's Use Only</b>	Preparer's signature	Date	Preparer's social security no.
	Firm's name (or yours, if self-employed) and address	E.I. No.	
		ZIP code	

**Schedule L.—Balance Sheets**

	Beginning of Tax Year		End of Tax Year	
	(A)	(B)	(C)	(D)
<b>Assets</b>				
<b>1</b> Cash: <b>(a)</b> Savings and interest-bearing accounts . . . . .				
<b>(b)</b> Other . . . . .				
<b>2</b> Accounts receivable net . . . . .				
<b>3</b> Notes receivable net (attach schedule) . . . . .				
<b>4</b> Inventories . . . . .				
<b>5</b> Government obligations: <b>(a)</b> U.S. and instrumentalities . . . . .				
<b>(b)</b> State, subdivisions thereof, etc. . . . .				
<b>6</b> Investments in nongovernment bonds, etc. (attach schedule) . . . . .				
<b>7</b> Investments in corporate stocks (attach schedule) . . . . .				
<b>8</b> Loans:				
<b>(a)</b> Mortgage loans (number of loans ▶ _____) . . . . .				
<b>(b)</b> Other loans (attach schedule) . . . . .				
<b>9</b> Other investments (attach schedule) . . . . .				
<b>10</b> Depreciable (depletable) assets (attach schedule) . . . . .				
<b>(a)</b> Less accumulated depreciation . . . . .				
<b>11</b> Land . . . . .				
<b>12</b> Other assets (attach schedule) . . . . .				
<b>13</b> Total assets . . . . .				
<b>Liabilities</b>				
<b>14</b> Accounts payable . . . . .				
<b>15</b> Mortgages and notes payable (attach schedule) . . . . .				
<b>16</b> Other liabilities (attach schedule) . . . . .				
<b>17</b> Total liabilities . . . . .				
<b>Net Worth (Fund Balances)</b>				
<b>18</b> Capital stock or principal fund . . . . .				
<b>19</b> Paid-in or capital surplus . . . . .				
<b>20</b> Retained earnings or income fund . . . . .				
<b>21</b> Total Net Worth (Fund Balances) (add lines 18, 19, and 20) . . . . .				
<b>22</b> Total Liabilities and Net Worth (line 17 plus line 21) . . . . .				

**Schedule M.—Analysis of Changes in Net Worth**

<b>1</b> Enter total net worth at beginning of year—(from Schedule L, Line 21, column (B)) . . . . .	<b>1</b>	
<b>2</b> Enter amount from line 17, page 1 . . . . .	<b>2</b>	
<b>3</b> Nontaxable income (including exempt function income) . . . . .	<b>3</b>	
<b>4</b> Other increases not included above (itemize) ▶ _____	<b>4</b>	
<b>5</b> Total (add lines 1 through 4). . . . .	<b>5</b>	
<b>6</b> Expenses attributable to nontaxable income (including exempt function income) . . . . .	<b>6</b>	
<b>7</b> Other decreases not included above (itemize) ▶ _____	<b>7</b>	
<b>8</b> Total of lines 6 and 7 . . . . .	<b>8</b>	
<b>9</b> Total net worth at end of year (subtract line 8 from line 5)—This equals Schedule L, line 21, column (D)	<b>9</b>	

# General Instructions

(References are to the Internal Revenue Code.)

A homeowners association that is a corporation may want to file Form 1120, U.S. Corporation 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.

## Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you 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.

**Note:** For tax years beginning after December 31, 1980, 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. The alternative tax computation for capital gains was eliminated. Form 1120-H filers who report sales or exchanges of capital assets must now use Schedule D (Form 1120). This schedule can be obtained from most Internal Revenue Offices.

**A. Purpose.**—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, Condominiums, Cooperative Apartments, and 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.

(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.

Regulation 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. This is the 60% gross income test referred to in 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. This is the 90% expenditures test referred to in 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 is property that:

- (a) The association holds.
- (b) The association's members hold in common.
- (c) The association's members hold privately within the association.
- (d) Is owned by a governmental unit and is used to benefit the unit's residents. Regulation 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 non-exempt purposes, see Regulation 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 non-association property.
- (f) Members' payments for transportation.

For more information, see Regulation 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, file the applicable income tax return (Form 1120, etc.).

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

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

File Form 7004 to request an automatic 3-month extension of time to file Form 1120-H.

File Form 7005 to request an additional extension after obtaining an automatic 3-month extension by filing Form 7004.

**a. Period Covered.**—File the 1981 return for calendar year 1981 and fiscal years that begin in 1981 and end in 1982. For a fiscal year, fill in the tax year space at the top of the form.

**b. Change in Accounting Period.**—Before you can change an accounting period, you must get the Commissioner's approval (Regulation 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, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Michigan, Ohio	Cincinnati, OH 45999
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
California, Hawaii	Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West 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.—

**a. Forms 5712 and 5735.**—Used for the possessions tax credit. If your association elects to claim the possessions tax credit (Form 5712), figure the credit on Form 5735 and include it in the total for line 22.

In the margin next to the entry, write the amount of this credit and identify it as a section 936 credit.

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

**c. Attachments.**—If you need more space 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 organization.

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. (This list is not all inclusive.)

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.

If you have questions about whether a preparer is required to sign Form 1120-H, please contact an IRS office.

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**, Accounting Periods and Methods.

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

**3. Residential Energy Credit.**—Members of a condominium management association may be eligible to take a credit based

on their share of the association's expenditures for energy-saving items. For more information, see **Publication 903**, Energy Credits for Individuals.

**4. Depository Method of Tax Payment.**—The association must pay the tax due either 1. in full when the return is filed or 2. in two equal installments. The installments are due by the 15th day of the 3d month and the 15th day of the 6th month after the end of the tax year.

Deposit association income tax payments with a preinscribed Federal Tax Deposit (FTD) Form 503. Make these tax deposits with either a financial institution qualified as a depository for Federal taxes or the Federal Reserve Bank or Branch (FRB) servicing the geographic area where the association is located. Records of deposits will be sent to IRS for crediting to the association's account. See the instructions on the back of Form 503 for more information and exceptions.

Preinscribed FTD Forms 503 will be mailed to the association on a regular basis depending on the association's tax year. You may apply for these forms from the Internal Revenue Service Center where the association files its return. If you do not have these forms when a deposit is due, mail your payment to the Internal Revenue Service Center where the association files its return. When applying for FTD Form 503 (and also when making a deposit without FTD Form 503), include the association's name, employer identification number, address, and the tax year to which the deposits relate.

**Penalty for Overstated Tax Deposits.**—If you overstate your deposits, you may be subject to a penalty. See section 6656(b).

#### **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 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, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.)

- A homeowners association that fails to pay the tax when due may be subject to a penalty of 1/2% 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.)

## **Specific Instructions**

**Rounding Off.**—You may show money items as whole-dollar amounts by dropping amounts under 50 cents and increasing amounts from 50 to 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. You can get this form at any IRS or Social Security Administration office. Send Form SS-4 to the same Internal Revenue Service Center to which you send Form 1120-H. If you have not received the EIN by the filing time for 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 explained above 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 explained 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 whether or not you used them to figure taxable income on line 17, page 1. Use the association's accounting method to figure the entry for item C.