

**U.S. Income Tax Return  
 for Homeowners Associations**

**1983**

▶ **Page 2 is blank. A balance sheet and net worth analysis are no longer required.**  
 ▶ **For Paperwork Reduction Act Notice, see instructions on page 3.**

For calendar year 1983 or tax year beginning \_\_\_\_\_, 1983 and ending \_\_\_\_\_, 19

|   |                                  |   |
|---|----------------------------------|---|
| <b>Use IRS label. Otherwise 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) . . . . .  | <b>1</b> |  |  |
| 2 Interest . . . . .   | <b>2</b> |  |  |
| 3 Gross rents . . . . .  | <b>3</b> |  |  |
| 4 Gross royalties . . . . .  | <b>4</b> |  |  |
| 5 Capital gain net income from Schedule D (Form 1120), line 11 (attach separate Schedule D (Form 1120)). . . . . | <b>5</b> |  |  |
| 6 Net gain or (loss) from Form 4797, line 14(a) (attach Form 4797) . . . . .                                     | <b>6</b> |  |  |
| 7 Other income (excluding exempt function income) (attach schedule) . . . . .                                    | <b>7</b> |  |  |
| 8 Gross income (excluding exempt function income) (add lines 1 through 7) . . . . .                              | <b>8</b> |  |  |

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

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

**Tax**

|   |           |  |  |
|---|-----------|--|--|
| 20 30% of line 19 . . . . .   | <b>20</b> |  |  |
| 21 Foreign tax credit (attach Form 1118). . . . .   | <b>21</b> |  |  |
| 22 Total Tax—Subtract line 21 from line 20 . . . . .  | <b>22</b> |  |  |
| 23 Credits: (a) Tax deposited with Form 7004 . . . . .  | <b>23</b> |  |  |
| (b) Credit from regulated investment companies (attach Form 2439) . . . . .                               |           |  |  |
| (c) Federal tax on special fuels and oils (attach Form 4136) . . . . .                                    | <b>23</b> |  |  |
| 24 Tax due (subtract line 23 from line 22). See instruction D4 for depositary method of payment . . . . . | <b>24</b> |  |  |
| 25 Overpayment (subtract line 22 from line 23) . . . . .  | <b>25</b> |  |  |

**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.

|                                 |  |      |   |                                |
|---------------------------------|--|------|---|--------------------------------|
| <b>Paid Preparer's Use Only</b> | Preparer's signature                                 | Date | Check if self-employed <input type="checkbox"/> | 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 (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.

**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. The alternative tax computation for capital gains was eliminated. Form 1120-H filers who report sales or exchanges of capital assets will use Schedule D (Form 1120). This schedule can be obtained from most Internal Revenue Offices.*

**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**, 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; 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.

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:

- The association holds;
- the association's members hold in common;
- the association's members hold privately within the association; and
- 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:

- gross income for the tax year, excluding exempt function income, over:
- 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:

- Pay principal, interest, and real estate taxes on association property.
- Maintain association property.
- Clean snow from public areas and remove trash.

**Examples of income which are not exempt function income.**—

- Amounts that are not includible in the organization's gross income other than under section 528 (for example, tax-exempt interest).
- Payments from nonmembers.
- Payments from members for special use of the organization's facilities, apart from the uses generally available to all members.
- Interest on amounts in a sinking fund.
- Payments for work done on nonassociation property.
- Member's 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, 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 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.

**Extension.**—File Form 7004 to request an automatic 6-month extension of time to file Form 1120-H.

**Period Covered.**—File the 1983 return for calendar year 1983 and fiscal years that begin in 1983 and end in 1984. 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 (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.—

**Forms 5712 and 5735.**—These forms are used for the possessions tax credit. If your association elects to claim the possessions tax credit (**Form 5712**, Election to be Treated as a Possessions Corporation Under Section 936), figure the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Allowed Under Section 936, and include it in the total for line 21.

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

**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. Other Credits.**—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.

The association may qualify for research credit, alcohol fuel credit, and credit for fuel produced from a nonconventional source. See **Form 6765**, Credit for Increasing Research Activities, **Form 6478**, Credit for Alcohol Used As Fuel, and section 44D, respectively.

**4. Depository 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 Payment 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 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 contained in the coupon book for more information. There will no longer be periodic mailouts of FTD deposit forms. To get more deposit forms, use the reorder form (**Form 8109A**) provided in the coupon book.

Do not submit deposits directly to an IRS office, otherwise the association will be subject to a 5% FTD penalty.

**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 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 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.)

**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.**—The association may show the money items 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 at 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 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 in Item C, whether or not used to figure taxable income on line 17, page 1. Use the association's accounting method to figure the entry for Item C.