

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

1990

Department of the Treasury
Internal Revenue Service

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

For calendar year 1990 or tax year beginning _____, 1990, and ending _____, 19

Use IRS label. Otherwise, please print or type.	Name	Employer identification number (see Instructions)
	Number, street, and room or suite no. (If a P.O. box, see page 4 of Instructions.)	
	City or town, state, and ZIP code	Date association formed

Check applicable boxes: (1) Final return (2) Change in address (3) Amended return

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	
D Tax-exempt interest received or accrued during the tax year	D	

Gross Income (excluding exempt function income)

1 Dividends	1	
2 Taxable 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 Form 4797, Part II, line 18 (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 and Payments

20 Enter 30% of line 19	20	
21 Credits (see Instructions)	21	
22 Total tax —Subtract line 21 from line 20. See Instruction D7 for recapture of low-income housing credit	22	
23 Payments: a 1989 overpayment credited to 1990	23a	
b 1990 estimated tax payments	23b	
c Total ▶	23c	
d Tax deposited with Form 7004	23d	
e Credit from regulated investment companies (attach Form 2439)	23e	
f Credit for Federal tax on fuels (attach Form 4136)	23f	
g Add lines 23c through 23f.	23g	
24 Tax due (subtract line 23g from line 22). See Instruction D3 for depository method of tax payment	24	
25 Overpayment (subtract line 22 from line 23g)	25	
26 Enter amount of line 25 you want: Credited to 1991 estimated tax ▶	26	Refunded ▶

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.

Please Sign Here

Signature of officer _____ Date _____ Title _____

Paid Preparer's Use Only

Preparer's signature _____ Date _____ Check if self-employed Preparer's social security number _____

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 the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. 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.

The time needed to complete and file this form will vary depending on individual circumstances. The average estimated time is:

Recordkeeping. 11 hrs., 14 min.

Learning about the law or the form. 5 hrs., 2 min.

Preparing the form. 12 hrs., 53 min.

Copying, assembling, and sending the form to IRS. 2 hrs., 9 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0127), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the Instructions on page 3 for information on where to file.

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.

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.

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.

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. In addition:

- At least 60% of the association's gross income for the tax year must consist of exempt function income. See General Instruction B4 below.
- At least 90% of the association's expenses for the tax year must consist of expenses 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 must file Form 1120-H to elect under section 528 to be treated as a homeowners association.

2. Association Property.—Association property includes real and personal 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.

For more information, see Regulations section 1.528-3.

3. Taxable Income.—Taxable income is the excess, if any, 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).
- Deductions under Part VIII of subchapter B (special deductions for corporations).

If facilities are used (or personnel are employed) for both 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) Clear snow from public areas and remove trash.

Examples of income that 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) Members' 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 a properly completed Form 1120-H, the association elects to take advantage of the tax benefits provided by section 528. Such election must be made not later than the time, including extensions, for filing an income tax return for the year in which the election is to apply. 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 does not elect to use Form 1120-H, it must 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.—Generally, 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.

Period Covered.—File the 1990 return for calendar year 1990 and fiscal years that begin in 1990 and end in 1991. For a fiscal year, fill in the tax year space at the top of the form.

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 (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
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, 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, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

Associations having their principal place of business outside the United States 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, Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage interest in the course of the association's trade or business during any calendar year

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

For more information, see **Pub. 937, Business Reporting.**

Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than \$10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Attachments. Attach **Form 4136, Credit for Federal Tax on Fuels**, after page 1. Attach schedules in alphabetical order and other forms in numerical order after the **Form 4136.**

If more space is needed on forms or schedules, attach separate sheets to the back of **Form 1120-H.** Be sure to put the association'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 association 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 a clerk, secretary, etc. should not 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 association in addition to the copy filed with IRS.

D. Figuring and Paying the Tax**1. Accounting**

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 **Pub. 538, Accounting Periods and Methods.**

Change in accounting period.—Generally, before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128, Application To Adopt, Change or Retain a Tax Year.** Also see **Pub. 538.**

2. 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.

3. Depository Method of Tax Payment.—The association must pay the tax due in full when the return is filed but no later than the 15th day of the 3rd month after the end of the tax year.

Deposit association income tax payments with a Federal Tax Deposit Coupon (**Form 8109**). Be sure to darken the '1120' box on the coupon. Make these tax deposits with either a financial institution qualified as a depository 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 may 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 (**Form 8109**) for more information.

To help ensure proper crediting to your account, write your employer identification number, "Form 1120-H," and the tax period to which the deposit applies on your check or money order.

To get more deposit coupons, use the reorder form (**Form 8109A**) provided in the coupon book. A penalty may be imposed for failure to deposit the required amount of tax. See section 6656.

For more information concerning deposits, see **Pub. 583, Taxpayers Starting a Business.**

4. Backup Withholding.—If the association has had income tax withheld from any payments it received because, for example, it failed to give the payer its correct employer identification number, it may claim a credit on **Form 1120-H** for the total amount withheld. This type of withholding is called "backup withholding." Show the amount withheld in the blank space in the right hand column between lines 22 and 23g, page 1, **Form 1120-H**, and label the amount as "backup withholding." Also include the amount in the total for line 23g.

5. Estimated Tax, Alternative Minimum Tax, Environmental Tax, Investment Credit, and Jobs Credit.—These items do not apply to homeowners associations electing to file **Form 1120-H.** However, a homeowners association that does not elect to file **Form 1120-H** may be required to make payments of estimated tax. Because the election is not made until the return is filed, **Form 1120-H** provides lines for estimated tax payments and the crediting of overpayments against estimated tax in case such payments or overpayments apply.

6. 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.

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

Credit for increasing research activities. See Form 6765, Credit for Increasing Research Activities, and section 41

Low-income housing credit. See Form 8586, Low-Income Housing Credit, and section 42

Disabled access credit. See Form 8826, Disabled Access Credit, and section 44.

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

7. Recapture of Low-income Housing Credit.

—If the association must recapture part of the low-income housing credit, enter the amount of the recapture to the left of the entry space for line 22, and also include the amount of the recapture in the Total tax for that line. See Form 8611, Recapture of Low-income Housing Credit.

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.)

- In addition to losing the right to elect to have section 528 apply for the tax year, a homeowners association that fails to file its tax return when due (including 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 of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid.

Note: If you do not file your return on time, the Service may charge both the late filing penalty and the late payment penalty. See section 6651 for more information.

Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

Specific Instructions

Address.—Include the suite, room, or other unit number after the street address. If a pre-addressed label is used, please include this information on the label

If the Post Office does not deliver mail to the street address and the association has a P O box, show the P O box number instead of the street address.

Employer Identification Number.—All homeowners associations must use an employer identification number (EIN). If the EIN on the label is wrong or if the association did not receive a label, enter the correct number at the top of the return.

An association that does not have an EIN should apply for one on Form SS-4, Application for Employer Identification Number. This form may be obtained 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 filing time for Form 1120-H, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Pub. 583.

Final return, change of address, and amended return.—If this is the association's final return because it is ceasing to exist, check the "Final return" box at the top of the form.

Indicate a change in address by checking the appropriate box. Form 8822, Change of Address, can be filed to notify IRS of a change of address that occurs after the return is filed.

To amend a previously filed Form 1120-H, file a corrected Form 1120-H and check the box for Amended return.

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 discussed in General Instruction B1 on page 2.

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 discussed in General Instruction B1 on page 2. Use the association's accounting method to figure the total.

Include:

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

Do not include expenditures for property that is not 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, even if the roof is association property.

Item C.—Enter the association's total expenditures for the tax year in Item C, whether or not used to figure taxable income discussed on page 2. Use the association's accounting method to figure the entry for Item C.