

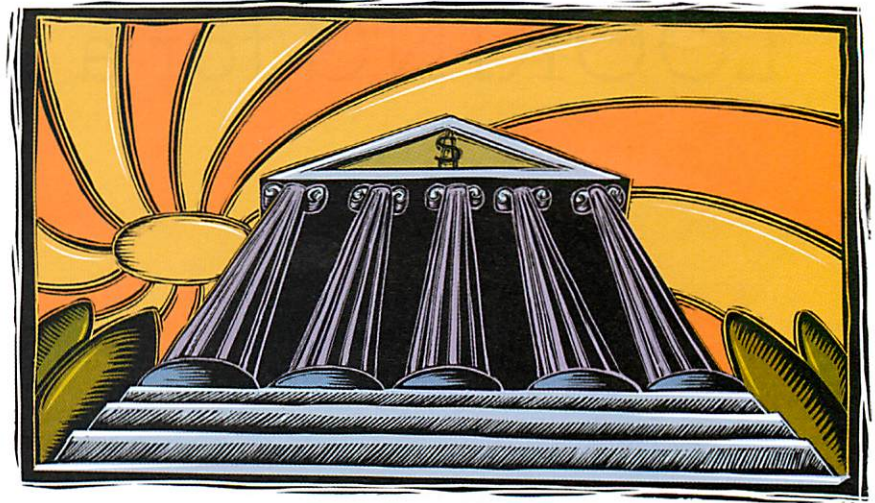
C&C Note: There was a major change to the tax deadlines effective for taxable years starting after December 31, 2015. See our FAQ

"When are tax returns and payments due to the IRS?"

Tax Time

Associations must file

By Julie Warren



While the end of the year traditionally means a congested calendar and a lengthy to-do list for most people, managers also face another important year-end activity: preparing to file federal—and, in some cases, state—tax forms for the associations they manage.

WHEN TO FILE

Associations are considered corporations and, as such—whether or not they have income—“must file taxes,” says Gayle L. Cagianut, CPA, owner of Cagianut & Company, a Washington state accounting firm that specializes in homeowners associations. She adds that an association must file federal taxes within 75 days of the end of its fiscal year and reminds managers that for an association that closes its fiscal year with the calendar year, that means a March 15—not an April 15—filing deadline. “Sometimes new managers don’t know that,” Cagianut says.

PREPARATION

“Association finances—especially taxes—are very unique,” Cagianut says. “So it’s important to find (a tax preparer) who’s familiar with association taxation.” While most boards will rely on their managers to find an appropriate accountant, she warns “there’s not a whole lot of information out there to teach managers about this.”

Julie Kline, CPA, says finding an appropriate tax preparer is similar to identifying other vendors for a client association: Look for individuals or firms that have the specific experience needed and get three proposals to offer the board.

Kline, who is a partner with Flagel, Huber, Flagel & Co. CPAs in Cincinnati, which has done work for dozens of associations, says that a good resource for managers who are seeking an accountant experienced in homeowners association finances is their local CAI chapter. Since attorneys often partner with accountants, Kline also recommends asking the association’s lawyer for a reference.

CHOICE OF FORMS

A homeowners association can file either of two federal tax forms. While IRS Form 1120, the form for most corporations, is longer, more complex and has a higher risk for audit, it results in a 15 percent tax rate on the first \$50,000 of taxable income. IRS Form 1120-H is shorter and simpler, but the tax rate doubles to 30 percent. “The vast majority of homeowners associations file the shorter form for various reasons,” says Cagianut.

An association that chooses to use Form 1120-H must meet certain requirements: At least 60 percent of its annual revenue must be from assessments, fees and interest on those fees; and 90 percent of the association’s expenditures must be for management, maintenance, and acquisition and construction of association property.

Cagianut also says that a homeowners association is the only entity that can alternate which form it uses from one year to the next.

However, a manager of any association with significant taxable income needs to be especially sure the board consults a tax preparer who is familiar with the differences between the 1120 form and the 1120-H form and who knows which will be more beneficial.

WHAT’S TAXABLE?

Cagianut, whose firm has more than 500 association clients, says the number one question her company gets is, “Does the association have taxable income?”

And the number one error she sees is associations and managers “not knowing what income is taxable.” Assessments are not considered taxable income.

Investment income or interest over \$100 and income from nonmembers who rent the association’s facilities, such as pools, clubhouses and parking areas, is taxable.

Cagianut says that many people aren’t aware that income from per-use or per-month fees, which can include the incidental rental of the association’s facilities, paid by members of the association, also are taxable. Fees that members are charged annually are not taxable. And, of course, only net income is taxed.

“It’s a complicated subject,” says Cagianut, so managers and associations should always consult a qualified tax preparer for details and answers to their questions. **CM**