

Homeowner's Association Taxes

Overview of taxation of homeowners associations

There are two basic options for most associations for federal income tax purposes; 1) elect to file Form 1120-H, or 2) file Form 1120. According to recent IRS statistics, the majority of associations and practitioners have taken the easy way out; approximately 70% of associations filed Form 1120-H, with the remainder filing Form 1120.

The guidance for filing Form 1120-H is reasonably well laid out in IRC Section 528 and the related regulations. There is little guidance, however, for filing Form 1120 for a homeowners association. This lack of guidance is the main reason so many practitioners elect to use Form 1120-H rather than Form 1120. The attached article discusses in detail the existing guidance and compares the two filing methods.

At issue is the fact that when filing Form 1120-H, the flat tax rate is 30%, whereas the association, in most instances, would pay only a 15% tax rate on substantially the same income when filing Form 1120, on taxable income up to \$50,000.