

## **Background information on Revenue Ruling 70-604**

Revenue Ruling 70-604 was published by the IRS (Internal Revenue Service) in 1970 in response to tax practitioners' requests for some sort of relief from the inherent inequities of homeowners associations filing Form 1120, at that time the only tax filing option for non-exempt homeowners associations. This ruling is viewed as an elective, beneficial, ruling. Elective, because it does not automatically apply, and beneficial because there is no downside risk to making an election under Revenue Ruling 70-604.

The purpose of Revenue Ruling 70-604 is to allow a homeowners association to avoid taxation on its excess membership income by either refunding it to members, or carrying over the excess to the following tax year.

The IRS is required to follow revenue rulings it has issued, but only where a taxpayer's situation is substantially similar to the ruling issued (this is an important point in understanding the limitations of Revenue Ruling 70-604).