



CARNEY, ROY AND GERROL, P.C.

*Certified Public Accountants*

## "Condo Tax Talk"

**Presenter: Joe Rodgers, CPA - Carney, Roy and Gerrol, P.C.**

Tax return basics that should be followed by all condominiums

- **Every condominium must file a federal and state tax return.**
- **Filing due dates are the 15th day of the 3rd month after the tax year end for the federal tax return and the first day of the 4th month after the tax year end for the Connecticut return.** Since condominiums are corporations they must meet corporate tax filing deadlines. Extensions of time to file are available if the returns cannot be completed by the deadlines. The appropriate forms requesting an extension must be filed by the original due date and the tax authorities will automatically give the association an additional six months to complete and file its tax returns.
- **We recommend that a board member sign the tax returns.** We also recommend that the managing agent does not sign the returns since the agent is not a member of the board, probably does not have a power of attorney, and the management contract probably does not explicitly state that they can sign returns.
- **The tax returns are considered permanent records of the association and should be transferred if the association changes its management company.** We suggest that the Treasurer keep a copy of the tax records and pass them along when a new treasurer takes office.

## The necessary requirements to file Federal Form 1120-H

A residential condominium normally has the two options when filing tax returns. The association can file as a homeowners association utilizing Federal Form 1120-H, or as a regular corporation on Federal Form 1120.

There are three requirements that an association must meet to file Federal Form 1120-H.

- **The association must meet the substantial residence test. 85% of the total square footage of all units must be used as a residence.**
- **A residential condominium must receive more than 60% of its total income from unit owners rather than outside sources in any tax year.**

Examples of outside source income are: Interest income, laundry income, garage rentals, parking rentals, unit rentals, and Cell Tower rental income.

- **Similarly, it must spend more than 90% of its total annual expenditures on items and services related to its exempt purpose.**

If the association meets all three tests to file Form 1120-H then it can determine which filing option is more beneficial for the current tax year. The decision can be made after year end; however, some of the advantages of this choice will be lost if not properly planned before the end of the tax year.

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

Department of the Treasury  
Internal Revenue Service

Information about Form 1120-H and its separate instructions is at [www.irs.gov/form1120h](http://www.irs.gov/form1120h).

**2015**

For calendar year 2015 or tax year beginning \_\_\_\_\_, 2015, and ending \_\_\_\_\_, 20\_\_\_\_

<b>TYPE OR PRINT</b>	Name	Employer identification number
	Number, street, and room or suite no. If a P.O. box, see instructions.	Date association formed
	City or town, state or province, country, and ZIP or foreign postal code	

Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return

**A** Check type of homeowners association:  Condominium management association  Residential real estate association  Timeshare association

<b>B</b> Total exempt function income. Must meet 60% gross income test (see instructions)	<b>B</b>		
<b>C</b> Total expenditures made for purposes described in 90% expenditure test (see instructions)	<b>C</b>		
<b>D</b> Association's total expenditures for the tax year (see instructions)	<b>D</b>		
<b>E</b> Tax-exempt interest received or accrued during the tax year	<b>E</b>		

**Gross Income** (excluding exempt function income)

<b>1</b> Dividends	<b>1</b>		
<b>2</b> Taxable interest	<b>2</b>		
<b>3</b> Gross rents	<b>3</b>		
<b>4</b> Gross royalties	<b>4</b>		
<b>5</b> Capital gain net income (attach Schedule D (Form 1120))	<b>5</b>		
<b>6</b> Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>6</b>		
<b>7</b> Other income (excluding exempt function income) (attach statement)	<b>7</b>		
<b>8</b> <b>Gross income</b> (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)

<b>9</b> Salaries and wages	<b>9</b>		
<b>10</b> Repairs and maintenance	<b>10</b>		
<b>11</b> Rents	<b>11</b>		
<b>12</b> Taxes and licenses	<b>12</b>		
<b>13</b> Interest	<b>13</b>		
<b>14</b> Depreciation (attach Form 4562)	<b>14</b>		
<b>15</b> Other deductions (attach statement)	<b>15</b>		
<b>16</b> <b>Total deductions.</b> Add lines 9 through 15	<b>16</b>		
<b>17</b> Taxable income before specific deduction of \$100. Subtract line 16 from line 8	<b>17</b>		
<b>18</b> Specific deduction of \$100	<b>18</b>		

**Tax and Payments**

<b>19</b> <b>Taxable income.</b> Subtract line 18 from line 17	<b>19</b>		
<b>20</b> Enter 30% of line 19. (Timeshare associations, enter 32% of line 19.)	<b>20</b>		
<b>21</b> Tax credits (see instructions)	<b>21</b>		
<b>22</b> <b>Total tax.</b> Subtract line 21 from line 20. See instructions for recapture of certain credits	<b>22</b>		
<b>23</b> <b>a</b> 2014 overpayment credited to 2015 <b>23a</b>			
<b>b</b> 2015 estimated tax payments <b>23b</b>		<b>c Total</b>	<b>23c</b>
<b>d</b> Tax deposited with Form 7004 <b>23d</b>			
<b>e</b> Credit for tax paid on undistributed capital gains (attach Form 2439) <b>23e</b>			
<b>f</b> Credit for federal tax paid on fuels (attach Form 4136) <b>23f</b>			
<b>g</b> Add lines 23c through 23f <b>23g</b>			
<b>24</b> <b>Amount owed.</b> Subtract line 23g from line 22 (see instructions)	<b>24</b>		
<b>25</b> <b>Overpayment.</b> Subtract line 22 from line 23g	<b>25</b>		
<b>26</b> Enter amount of line 25 you want: <b>Credited to 2016 estimated tax</b> <b>Refunded</b>	<b>26</b>		

**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.

Signature of officer \_\_\_\_\_ Date \_\_\_\_\_ Title \_\_\_\_\_

May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No
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<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name				Firm's EIN
	Firm's address				Phone no.

## Federal Form 1120-H vs. Form 1120

### **FORM 1120-H**

#### **ADVANTAGES:**

1. This is a one page form and easier to complete than the full corporate tax form.
2. Generally, income from unit owner sources is not taxable.
3. No Connecticut tax is due.

#### **DISADVANTAGES:**

1. Taxable income is taxed at a fixed rate of 30% rather than the graduated corporate tax rates which start at 15%.
2. Operating losses from other tax years cannot be carried over to profitable years.

### **FORM 1120**

#### **ADVANTAGES:**

1. Taxable income is taxed at the regular corporate rates starting at 15% of the first \$50,000 of taxable income.
2. More tax planning opportunities exist.

#### **DISADVANTAGES:**

1. The tax form is much longer and complex than Form 1120-H, and the additional cost of its preparation may offset some of the tax savings.
2. The Connecticut association will be subject to state corporate tax rates (currently 7.5% with a \$250 minimum).
3. Payment of quarterly estimated taxes may be required.

## Current condominium accounting and tax issues

- Electronic filing of Connecticut income tax returns is required (1 Board Member needed to process the electronic file)
- Income from commissions or sale of access rights
- Sales tax charged by vendors - Cert 103
- Acquiring a unit through foreclosure and then selling that unit
- Associations are allowed to change their tax year end month
- Long term special assessments with various payment options