

IRS Resolution 70-604

IRS resolution 70-604 allows a condominium association to roll over some surpluses they may have in operating, or reserve funds, by filing form 1120 instead of 1120-H

Form 1120 is a corporation tax return.

Form 1120-H was developed for homeowner and condominium Associations

Think of it as 1120 is like the long form 1040 and 1120-H is like the short form 1040A or even 1040EZ. It makes filing easier, but there are things that you cannot take advantage of.

The issue is in 1120-H. Although the filing of the form is a bit easier, Associations are taxed a flat rate of 30% on any funds they have collected during the year that they have left at the end of the year. Remember that associations are a 'not for profit' as opposed to 'non-profit').

Filing 1120 (the corporate 'long' form) allows the accountant to treat excess operating funds (and reserve funds) in a way that the tax burden can be as low as 15%, exclude some long term items in the reserve fund, and even roll over (to some extent) the operating fund excess, so it is not taxable.

Issue is that unless the Association membership (the owners) votes to file the 1120, it must file 1120-H. In lieu of pre-knowing what form is best to file in a given year, the vote is phrased to allow the tax accountant to file the annual taxes under the provisions of IRS 70-604, if it is advantageous for the Association to do so.

This must be done every year. The accountants are well versed, and will file what is best for each Association, provided that it passes a vote every year.