

# ANSWERS TO COMMON INCOME TAX QUESTIONS THAT YOU WERE AFRAID TO ASK



Note that this discussion is only about homeowner associations and not housing cooperatives.

**ABOUT THE AUTHOR.** Thomas Franklin appreciates the work that you go through as a board member. Not only has he prepared returns and advised homeowner associations on income tax and other financial issues for over ten years, he has served on three separate boards of homeowner associations of varying sizes, serving terms as President and Treasurer as well. He has been practicing as a Certified Public Accountant for over fifteen years, including experience with the Big Four accounting firms. He received his Masters of Taxation from Northern Illinois University. Additional questions? Call me at 312-310-3171 or see [www.thomashfranklin.com](http://www.thomashfranklin.com) for additional information.

**Q1: Our homeowner association is a not-for-profit organization according to our Secretary of State filing. Are we still required to file a tax return?**

**A1: Yes.** The filing of income tax returns (federal or state) has **nothing to do** with the Illinois Secretary of State's rules of classification of the entity as a not for profit for annual corporate filing requirements. The Illinois Secretary of State generally allows homeowner associations to file as a not for profit organization so they receive a lower annual corporation filing fee. Here is another important point: even if the homeowner association qualifies to file income taxes as a not for profit, the homeowner association generally would still need to file some sort of activity.

**Q2: Our homeowner association makes no money. Do we still need to file tax returns?**

**A2: Unfortunately yes, you still need to file a return.** There are very few entities that are excluded from the requirements to file their activity on an annual tax return. Homeowner associations are **not** an exception.

Note that reserves generally do **not** qualify as a deduction. There are IRS-approved methods to avoid being taxed on the reserves which we could discuss.

**Q3: What are the risks of not filing?**

**A3:** The government is not lenient on taxpayers who fail to file returns when required. The government has tools that can be imposed on officers and boards as well as the homeowner association itself and the government does not allow ignorance as an excuse. Such tools include the penalties, interest, fines, and possibly even imprisonment. Furthermore, the year of the failure to file is never closed, meaning the IRS could examine the unfiled year ten years from now and impose whatever tools at its discretion. A board member may be held liable for not honoring one's fiduciary duty not only to the current homeowners and the government, but also future homeowners. Historically, the government starts increasing its enforcement in times of significant deficits as a way to generate additional revenues. Fortunately, Thomas H Franklin & Associates has success in filing delinquent returns for numerous homeowner associations.

**Q4: What records do we need to provide to have our homeowner association file its tax returns?**

**A4:** I can provide services based upon what information that you can obtain. We can discuss these methods and costs over the phone. Costs are generally based upon a reasonable hourly rate. If you supply me with a general ledger that has been properly reconciled to the bank statement (property management companies generally can supply this information), then I may be able to quote the lowest price. If you are not an accountant or have time and the records are less than adequate, then supplying bank statements with cleared checks and an explanation of which unit paid what amounts will require additional cost to do the accounting work.

Note: you may need to order this information from the bank which could take some time: start ordering this information now!

**Q5: Who should I look for to prepare these tax returns?**

**A5:** I highly recommend hiring someone who specializes in filing tax returns for homeowner associations. Homeowner associations are unlike typical individual or business returns and can be quite complex. For instance, the tax preparer of a homeowner association needs to determine which one of the following five forms is required:

1120	990
1120H	990-N
990EZ	1120S
1065	

Special note for delinquent tax filers: if you have your records ready for tax preparation during our slow season between October and December, we will offer a discount.

**Thomas H Franklin & Associates LLC... We want to make your life less taxing!  
Call us at 312-310-3171 for a free consultation now!**

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