



# Neighborhood Insider

APRIL 2008 VOLUME III ISSUE IV

AN AAM PUBLICATION

## Answers from Amanda: **Taxes**



**Q: I thought community associations were non-profit corporations. Why do we have to file Federal and State tax returns?**

**A:** Community Associations are subject to income tax regardless of non-profit corporation status, as there is usually some form of income such as interest income earned that is considered taxable income. Most Associations are subject to Federal income tax under Internal Revenue Code 528 – Homeowners Associations, and will file form 1120H. However, Associations can file under Internal Revenue Code 277 as long as the Association is (1) incorporated or (2) unincorporated, but taxed as a separate corporation. There are advantages and disadvantages for filing either form. An Association does have the ability to elect to file either form each fiscal year.

One of the greatest benefits of electing to file form 1120H is that the income from member or homeowner assessments is generally tax exempt. The biggest disadvantage is that an Association's taxable income in excess of \$100 is taxed at a flat rate of 30 percent. In order to qualify as an IRC 528 Community Association, the Association must meet the following conditions:

(1) must be organized and operated to acquire, construct, manage and maintain the Association's property, (2) 60 percent of an Association's gross

revenue consists of dues, fees or assessments from residential owners, (3) 85 percent of square footage of a condominium must be residential or 85 percent of lots of a planned unit development (HOA) must be residential, (4) 90 percent of expenditures must be made to acquire, manage, maintain or care for Association property, (5) no expenditure may inure to the benefit of any individual, (6) the Association must elect annually to file an 1120 H return.

When choosing to file form 1120, the greatest advantage is the tax rate. If the Association files form 1120, the tax rate can start as low as 15 percent. However, under IRC 277, member or homeowner assessments are not exempt. The CPA firms we work with to prepare your community's tax returns can calculate taxes due, if any, using both forms to determine which alternative is most favorable for the Association.

Community Associations in Arizona are also subject to State income tax. Arizona taxable income is equal to federal taxable income adjusted for federal deductions that are not allowed at the state level. In most cases, the adjustment to federal taxable income is simply adding back the federal deduction taken for state taxes paid and the \$100 specific deduction for Community Associations. The adjusted federal taxable income is then taxed on Arizona form 120A at 6.968 percent or \$50 - whichever is greater.



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## **DID YOU KNOW:** April Board Training

Mark your calendars now and plan to attend one or both of our insightful training sessions for seasoned veterans and new board members, alike!

**The Advantages of Tax Consolidation (With a Local Attorney) and The Differences Between Audits, Compilations and Reviews.**

6 p.m. - 8 p.m., Tuesday, April 8  
Held at AAM's Corporate Office

**New Board Member Training**

6 p.m. - 8 p.m., Tuesday, April 22  
Held concurrently at AAM's Corporate, East Valley and West Valley offices

**AAM Corporate Office:** 7740 N. 16th St., Ste. 300, Phoenix

**East Valley Office:** 1311 W. Chandler Blvd., Ste. 130, Chandler

**West Valley Office:** 14780 W Mountain View Blvd, Ste. 111, Surprise

*Snacks will be served at all meetings.*

**To reserve your seat, please contact Tanya Salerno at [tsalerno@AAMAZ.com](mailto:tsalerno@AAMAZ.com) or (602) 288-2694.**



# SERVICE SPOTLIGHT: IT Department Special Services

If you're looking for a way to bring your community into the 21st Century, look no further than the AAM Internet Technology Department.

The department, which features six IT specialists and 3 records specialists, is the go-to source for all things computer-related at AAM. But even more important for Boards of Directors is the fact that this busy department is hard at work to make sure the communities AAM manages have a strong and healthy presence on the World Wide Web.

One of the most useful services available to Boards is the creation and management of community websites, which not only are a terrific communication and marketing tool, but also allow homeowners to access their ledgers; view community documents, including CC&Rs, design guidelines and meeting minutes;

participate in discussion groups; and submit community forms, such as classified ads and architectural submittals, all online. AAM also offers training to Board members on how to post articles to the websites.

For onsite communities with more than two computers, AAM's IT Department offers PC system updates, laptop system updates, user troubleshooting, documentation updates, user management, installation/move/add/change, server system updates, quarterly network review, anti-virus solutions and software updates. The company also provides consulting on computer networks, security gates, point of sale and telephone systems.

To reach an IT specialist or to discuss which special services are right for your community, contact your Community Manager.

## NEWS YOU CAN USE: Hold Landscaper Accountable

You're driving around your community and the common area landscape just doesn't look quite right. There's a little trash in one of the retentions. You see some weeds starting to pop up at one of the entrance monuments. The grass looks a little off color (last year the grass looked great); this year something is not the same. Common sense tells you that something is not right.

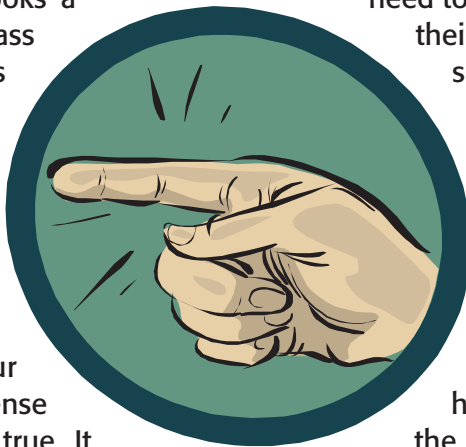
### COMMON SENSE

Even if you are not an expert when it comes to landscaping, you can sense that you're not getting the value you expect from your landscape contractor. If common sense is telling you that, chances are it's true. It doesn't take an expert to see unwanted weeds, yellow Rye grass or overgrown shrubs. Your common area landscape is a huge asset; it's worth a lot of money and you pay a lot of money to keep it maintained. As a Homeowner Board Member, you have every right to hold your landscaper accountable. Ask your Community Manager to tell you what's happening out there. Is there a plan to deal with the weeds or green up the grass? Ask him or her. Chances are your Community Manager has the answers and has proactively addressed the issues with the landscaper, but several sets of eyes in the community gives better coverage and insurance that expectations are being met.

### TURF TRANSITION TIME

Believe it or not, we're getting close to turf transition. In April and May, the Bermuda grass wakes up and starts to compete with the Rye grass. The process of transitioning from Rye back to Bermuda is not complicated, yet requires planning. The appearance and health of your Bermuda throughout the summer has everything to do with what your contractor does

in April and May. In other words, if your Bermuda struggles to come back strong in June, it's too late. Why is this important? It's important because you should not have to manage your landscaper. They need to tell you and the Community Manager their plan...in advance. You should not be surprised when June rolls around and your retentions are full of ugly brown spots as a result of poor planning.



### PUT IT OUT FOR BID

Accept reasons, not excuses. There are legitimate horticultural reasons why certain things happen. If you get nothing but excuses, it's time to have your Community Manager put the landscape contract out for bid. Ask your Manager to find someone who has a plan for your community and can communicate that plan clearly. The whole idea is for a professional company to maintain and enhance your common area landscape, which in turn protects property values. If your landscaper is not making that a priority...we all need to hold them accountable.

**Source: DLC Resources Inc. Landscape Management**

## PLEASE NOTE: Emergency Number Change

**Attention! AAM's 24-hour emergency phone number has changed. The new number is 602-647-3034 or 1-866-553-8290. Please make note!**