

2014 YEAR-END FINANCIAL AND TAX NOTES

By: Michael J. Gartzke, CPA

Get Balances on Certificates of Deposit Now!: Approximately 70-75% of associations have a calendar year-end (December 31) for income tax purposes. As part of the tax preparation and/or financial statement development for the year end, bank balances need to be verified and interest (such as it is) posted. Most banks have stopped issuing monthly or quarterly statements for their CDs. Some will allow you to access information online, if you are set up for it. Your accountant will need this year-end bank statement for CDs to review/audit your financial statements and/or prepare your tax returns. The first half of January is a great time to contact the banks and have them fax or email account statements and interest information to you. 1099s issued by banks do not show account balance information, only interest earnings during the year.

CPA Review Required when Revenues exceed \$75,000 annually – if an association receives \$75,000 or more in revenue (assessments, interest, laundry, etc.) during the year, California Civil Code Section 5305 requires that the Association have its financial statements reviewed in accordance with generally accepted accounting principles by an independent certified public accountant.

FDIC Limit of \$250,000 is now Permanent – The increased FDIC limit of \$250,000 per “depositor” (not account) has been made permanent. You will have FDIC insurance on all bank accounts which aggregate \$250,000 or less at one financial institution. Please note that some brokerage money markets (e.g. Fidelity, Schwab) are not insured by the FDIC. Also, some of these money market accounts have been paying minimal interest (0.01%). While banks aren’t paying much, they usually are paying more than 0.01%.

Federal Tax Deposit Coupons Discontinued – While there is a small balance exemption for payroll taxes, the exemption does not apply to small Federal income tax balances. Estimated tax payments are subject to this requirement. Associations will have to enroll in the IRS EFTPS program, if you have not already done so. Go to www.eftps.gov to enroll. Customer service is available at 1-888-434-7338. You will need a personal ID # (PIN), your tax ID #, bank account information and a primary contact phone number to enroll.

1099 Filing Requirement – Homeowner Associations continue to have a filing requirement with the IRS for payments made to service providers during calendar year 2014. Requirements for filing 1099s for these payments are:

Total Paid \$600 or more during the year

The service provider was not a corporation

Paid for services such as landscaping, maintenance, repairs, professional services, etc.

You will need the provider’s name, address, tax ID # or social security number. If a social security number is used, then the 1099 is issued in the person’s name, not the name of the business. If you have financial management or bookkeeping services, then your professional should prepare the 1099. In some cases, your tax preparer can prepare them but only if you ask them to. This is not part of tax preparation services.

Forms are due to the service providers by January 31. If you are responsible for preparing the forms, forms can be ordered (not downloaded) from the IRS at www.irs.gov or available for pick up at a local IRS office. Some tax preparers will stock the forms.

California Nonprofit Corporation Reporting Requirement – The Franchise Tax Board has established a new reporting requirement for small nonprofit corporations with revenues less than \$50,000 per year. This new requirement can affect small homeowner associations with assessments and other income below \$50,000. It does not change anything for associations with more than \$50,000 in revenue. Previously, if an association had nonmembership income (like interest) of less than \$100 and revenues of less than \$50,000, it did not have a tax filing requirement with the Franchise Tax Board. Now, these small nonprofits must complete an online form 199N with the FTB (www.ftb.ca.gov) or submit Exempt Organization form 199 as a tax return like exempt organizations with receipts greater than \$50,000. Information needed to file 199N:

- California Corporation Number
- Entity name of the organization
- Federal employer identification number
- Account period beginning and ending (also known as your tax period / tax year)
- Entity's mailing address
- Any other names the organization uses
- Name and address of a principal officer
- Entity's amount of total receipts (the gross receipts must be \$25,000 or less)
- If the organization terminated or went out of business, if applicable
- If the entity started business within the current account period
- Contact person's name and telephone number

NEW FOR 2015 – CALIFORNIA NONPROFIT TAX RETURNS MUST BE ELECTRONICALLY FILED – In August 2014, the California Legislature passed a new law which was signed by the Governor which requires all business entities' tax returns to be filed electronically if prepared using tax preparation software and is effective for years ending December 31, 2014 (now). The requirement applies to original or amended franchise and income tax returns required to be filed by corporations, S corporations, partnerships, limited liability companies, and exempt organizations. This means that homeowner associations must electronically file their state returns (Forms 100 and 199) for the upcoming year unless done with the use of tax software. Penalties will be imposed on the business entity (association) if these returns are not electronically filed. Returns are electronically filed by your preparer after an officer of the association has reviewed the returns and signed and returned an authorization to the preparer to submit the return electronically. The preparer will receive a notification when the return is accepted. There is currently no Federal requirement to electronically file returns.