

Illinois Department of Revenue
101 West Jefferson Street
Springfield, Illinois 62708

INFORMATIONAL BULLETIN FY86-47

TO: Tax Practitioners

SUBJECT: Filing Requirements for Political Organizations and
Homeowners Associations

The 1985 IL-1120 instructions state under "Who Must File" that political organizations (as defined in Section 527 of the Internal Revenue Code) and homeowners associations (as defined in Section 528 of the Internal Revenue Code) which are located in Illinois and which report federal taxable income on a U.S. 1120 POL or 1120 H must also file Form IL-1120 and pay Illinois income tax on the organization's taxable income. Because this is a change in the Department's position, we thought that a bulletin explaining the change was appropriate.

The federal Internal Revenue Service requires that a political organization must file U.S. Form 1120 POL if it has any taxable income. A political organization is a party, committee, association, fund, or other organization that is organized or operated primarily for the purpose of accepting contributions or making expenditures or both, to influence the selection, nomination, election, or appointment of an individual to public office or office in a political organization of the election of Presidential or Vice Presidential electors. Taxable income does not include contributions of money or property, dues, fees, or assessments from members of the organization or proceeds of political fund-raisers or entertainment events if the proceeds are devoted to the legitimate political purposes of the organization. However, investment income derived from investing currently unused assets of a political organization is a taxable income.

Similarly, a homeowners association (including condominium management associations and residential real estate management associations) must file U.S. Form 1129 H if it has taxable income. In general, taxable income does not include membership dues, fees, or assessments derived from owners of residential units or lots in their capacity as members of the homeowners associations. Homeowners associations are taxed on net income from investments and business with non-members of the association.

The Illinois Department of Revenue has in the past considered political organizations and homeowners associations as exempt from Illinois income tax. However, a recent review of applicable federal and state statutes requires that we change our position in this regard. Since Illinois Income Tax Act (IITA) Section 203(e)(1) defines Illinois taxable income as "taxable income properly reportable for federal income tax purposes for the taxable year under the provisions of the

Internal Revenue Code" and IRC Sections 527 and 528 consider specific types of income of such organizations as taxable income, each political organization and homeowners association located in Illinois and reporting federal taxable income on an 1120 POL or 1120 H must also file Form IL-1120 and pay Illinois income tax on the organization's taxable income. (The State does not have a separate IL-1120 POL or H form.) The Department will be applying this change in position on a prospective basis only (i.e., for tax years ending on or after December 31, 1985).

J. Thomas Johnson
Director of Revenue

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