

IRS Revenue Ruling 70-604 Election

I've seen many questions on what the IRS Revenue Ruling 70-604 Election means. While many of you know what this means and might have voted for it in the past, I would like to have seen the board provide an explanation of this measure on the ballot to make the purpose of the vote clear to the membership. Since they did not do this, here is brief explanation.

IRS Revenue Ruling 70-604 Election is a tax ruling that allows HOAs to conduct a vote of the membership to determine how to handle any inadvertent excess of membership revenues over expenses in order to avoid paying taxes on the excess. The ruling provides for two choices, return the excess to the members or, and this the more common, apply the excess to future assessments. First, the administrative cost of returning a relatively small amount of money to all members would likely exceed the amount to be distributed. Second, since the ballot only provides for one choice, applying the excess to future assessments, a no vote on the measure would submit any excess revenue to taxation. Third, as of October 30, 2021 the ORMA operating account balance showed a loss of some \$18K due to the extraordinary losses from the February 15th tornado. There is not likely to be an excess revenue to deal with for the fiscal year 2021.

Even if we were to experience a surplus of revenues this year, applying the excess to future assessments is a fiscally responsible decision. As I recall, following an affirmative vote on this measure last year, the excess revenue was applied to the board discretionary fund. This, along with budget adjustments, allowed the board to manage through the more than \$400K of tornado losses without calling for a special assessment. This should be a cause for celebration.

A "YES" vote for this measure is the fiscally responsible thing to do, regardless of how you may feel about the past actions of the board. I recommend voting "YES" on this measure.