

Reserve Loans and Interest Deductions

By Gary Porter

Reserve loan interest could become deductible under the right circumstances.

In recent years, loans have become more popular with homeowners' associations as a means of smoothing out reserve funding plans for several reasons: (1) they avoid a huge, one-time special assessment that many members may not be able to afford; (2) they allow the Association to perform larger projects all at once when needed rather than spreading them out over years because of cash flow limitations; (3) they keep property values higher; (4) most importantly, they make more sense because newly-developed specialty industry banking services have created structured loan packages for homeowners' associations. Unless a bank understands the industry, it probably wouldn't know how to structure a loan within its own lending guidelines, simply because the HOA industry is so different from the commercial real estate market.

I receive frequent inquiries from board members asking how the interest expense on such loans is treated for income tax purposes on the Association's tax return. Most people understand that real estate-related loan interest is deductible for individuals, and many know that it is also deductible for partnerships and corporations. So the question is, is HOA loan interest treated differently just because this corporation happens to be a homeowners' association? And the answer is, maybe.

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HOA Pulse has more full text cases than other site in the industry.

New cases this week include:

[**Diamond Heights Village Association v. Financial Freedom Senior Funding Corp.—California**](#)

[**River Oaks Condominium Association v. Donovan—Missouri**](#)

[**Robohm v. Wheeler Roofing, Inc.—Mississippi**](#)



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Article Title	Article Summary	State
The \$100,000 cleaning bill: A Condo board's long fight with a hoarder	A condominium association had an apartment cleaned after a couple, who were hoarders, paid \$100,000 to have the unsanitary conditions taken care of. The couple is now expected to pay the \$100,000 bill.	New York
Glen Oaks homeowners want to take ownership of their neighborhood	A local pastor and his community have been concerned with the state of their neighborhood so he started a homeowners association.	Louisiana
Rules against trick-or-treating and playing prompt Blackhawk family to sue	A couple with three young children, is suing their homeowners association because their children are not allowed to trick-or-treat, play in common areas or be outside.	California
Embezzled HOA funds are repaid, but man still faces charges	A man who stole almost \$44,000 from his homeowners association after he became Treasurer, paid the money back that he is accused of stealing. He is still facing charges for unauthorized use of funds.	Georgia
Website calls out HOA	A website listed a homeowners association in their top three examples of poor HOA's. They did not allow a young boy to keep his therapy playhouse in the front yard and threatened to charge \$50 per day that it was not moved.	Kentucky
Ford's Colony HOA votes to take ownership of Ford's Colony Drive	An HOA is trying to take over a road that was declared a reserved area and not a common area by the developer. It is in great need of repaving and the developer is unable to afford upkeep on the road.	Virginia
Is condo President getting a sweetheart deal?	In this Q & A, the writer asks if the board president can move in to and make a deal on a foreclosed property.	California
LOVE: The rules of being water-wise	A woman who thought she was doing the right thing by planting native, drought tolerant landscaping, is being fined by her HOA for not keeping within the consistency of the neighbors.	California
Tenants win in Sandalwood rent suit	An arbitrator has ruled in favor of a resident in a case that challenges the owner of a mobile home park and the city's rent stabilization ordinance.	California
LEX 18 Investigates: Small debt costs Lexington woman her home	A woman had her house sold out from under her, without her knowledge, did not know she was to pay years of fees as she was losing her home.	Kentucky

