M | T

Melrose Terrace Cooperative
308 E. Republican Street
Seattle, WA. 98102 Phone: 206-325-9630

Living in a Housing Cooperative

Frequently Asked Questions

(From National Association of Housing Cooperatives website)

As a cooperative shareholder, you have certain rights and responsibilities. These are outlined in your cooperative's documents, which typically include the articles of incorporation, bylaws, proprietary lease and house rules. As a shareholder, you have a right to elect board members, to remove board members, and to amend the Bylaws and the Proprietary Lease. You also have the responsibility to pay your monthly charges on time as well as follow all other rules and regulations of the cooperative.

Do I need homeowners insurance?

Yes, you need a special policy (HO-6), which is similar to renter's insurance. Your co-op generally carries a blanket insurance policy that covers damage to the cooperative's property from fire, water, or other disasters. However, this policy generally does not cover any damage to personal belonging inside your unit. Additional insurance is recommended to cover your personal possessions and for your personal liability in the event of an accident in your home.

How do property tax deductions work for cooperative homeowners?

Co-op housing shareholders have the same potential tax benefits as other homeowners, including taking their share of the mortgage interest and real estate taxes as a deduction on Schedule A of their 1040 federal income tax return. The deduction can be substantial, but only if your co-op is able to pass the deduction on to its members and you itemize your deductions on your tax return. If your co-op is able to pass through the deduction, you should receive notification from them of the amount by January 31st of each year. Section 216 is the section of the Internal Revenue Code that allows the pass-though of mortgage interest and real property tax deductions from the cooperative housing corporation to the shareholders.

Am I responsible for capital gains taxes when I sell my membership/shares?

By act of Congress, co-op shareholders are treated the same as single-family homeowners when they sell. If your co-op has been your primary residence for two of the five years prior to selling, the first $250,000 ($500,000 if married) of gain is excluded from federal income tax. You can use the exclusion more than once. Like single-family homeowners, if, for some reason, you do not meet the residency requirement when you sell (such as having to sell in the first two years of ownership), you should consult your tax advisor because you may be liable for taxes on all or a portion of any capital gain that you realize upon sale.

Capital gain is calculated by adding the cost of capital improvements to the original purchase price, and then subtracting that adjusted basis from the selling price. Contributions to capital repair reserves are treated as if they were capital improvements, so keep records of information from the co-op each year. Tax laws change frequently and are re-interpreted by IRS and the courts from time to time, so ask your tax advisor for specifics before buying or selling.

Can I rent out my unit?

Some co-ops are generous in allowing subletting, but most cooperatives severely restrict subletting in order to preserve the owner/occupant character of the community. Co-ops that do allow subletting often have restrictions on the length of time for which you may sublet. Be sure to check what the policy of your co-op is. The policy can usually be found in your proprietary lease. ***Note:** Melrose Terrace does not allow subletting.*

over