

# federal recapture tax



your road home

## what is federal recapture tax?

Borrowers who use CHFA loan programs funded with the proceeds of tax exempt mortgage revenue bonds, or who receive a CHFA Statewide Mortgage Credit Certificate (CHFA MCC) could be subject to the Federal Recapture Tax on those benefits if and when they sell their home. The recapture tax is part of the federal tax code and is collected by the Internal Revenue Service (IRS). It does not directly affect the proceeds from the sale.

## when does this tax apply?

Borrowers pay the recapture tax when they file their tax returns for the year in which they sell their home. All three of the following conditions must be in effect to trigger the recapture tax:

- The home is sold or disposed of in some other way within nine years of the original mortgage loan closing date,
- The borrower has a net gain on the sale of the property, and
- The borrower's annual adjusted gross income exceeds the Federal Threshold Limit as prescribed by the Federal Tax Code and as stated in CHFA Form 407 or CHFA Form MCC-14.

## when does it not apply?

You will not owe the recapture tax if:

- You transfer the home to your spouse or to your former spouse as an agreement of divorce, and no gain or loss is included in your income as a result of the transfer.
- Your home is destroyed by a casualty and you repair it or replace it on its original site within two years after the end of the tax year when the destruction happened.
- The home is disposed of as a result of the borrower's death.

## am I likely to owe this tax?

Not all borrowers will owe a recapture tax. Those more likely to pay are borrowers:

- whose income has a potential for rapid growth.
- who are close to the maximum income limit at the time of mortgage closing.
- whose property is in a high appreciation environment.

## how much might I have to pay?

For answers to specific questions about calculating potential tax liability, please seek assistance from a professional tax advisor or the IRS. You may reach the IRS at 800.829.1040 or you may search their website at [www.irs.gov](http://www.irs.gov).



# federal recapture tax reimbursement

Good news! Once you have paid the recapture tax, you may be eligible for reimbursement for the tax paid through CHFA's Recapture Tax Reimbursement plan.

## what are the guidelines to be eligible for reimbursement?

- Your home was sold after September 5, 2006.
- Your loan was financed with CHFA-qualified mortgage revenue bonds. The reimbursement also applies to CHFA MCC holders who have a CHFA mortgage.
- You filed and paid for any recapture tax owed the year the tax was due.
- You submit CHFA Form 950, Request for Recapture Reimbursement.
- You must submit the request no later than December 31 of the year the recapture tax is paid. For example, if the house is sold in 2010, the tax return is filed in 2011. The reimbursement request must be submitted no later than December 31, 2011.

Please call CHFA for more information about recapture tax reimbursement.

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