

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 new 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 does not apply to Mortgage Credit Certificate (MCC) holders.
- ▼ 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 Federal Recapture Tax is paid. For example, if the house is sold in 2006, the tax return is filed in 2007. The reimbursement request must be submitted no later than December 31, 2007.

does this mean I don't have to pay the Federal Recapture Tax?

No. You are still responsible for accurately paying any and all taxes to the IRS. CHFA will reimburse you for the actual amount you owe and paid in Recapture Tax.

how do I apply for reimbursement?

It's easy. Simply fill out *CHFA Form 950, Request for Recapture Tax Reimbursement*, and provide the following documents:

- ▼ Copy of signed and filed Federal Tax return showing Recapture Tax;
- ▼ Completed and signed *IRS Form 4506, Request for Copy of Tax Return*;
- ▼ *IRS Form 8828, Recapture of Federal Mortgage Subsidy*;
- ▼ *HUD-1 Settlement Statement* showing disposition of home;
- ▼ Proof those taxes were paid, such as a copy of a cancelled check or bank statement.

Mail the above documents to:

Colorado Housing and Finance Authority
Home Finance Division
Attn: Recapture Tax Reimbursement
1981 Blake Street
Denver, CO 80202

frequently asked questions

- q:** *Can I sell my home at any time?*
- a:** Yes, you may sell your home at any time. You may be subject to paying a recapture tax if you sell your home within nine years of the original mortgage loan closing date.
- q:** *Can I refinance my loan without paying the Recapture Tax?*
- a:** Yes, you may refinance your loan at any time. Refinancing your loan will not activate the Recapture Tax, nor will it cancel the Recapture Tax provision should you later sell your home within nine years of the original CHFA mortgage loan closing date.
- q:** *If I cannot locate my original CHFA Form 407 or CHFA Form MCC-14, where can I get another copy?*
- a:** You may request duplicates of *CHFA Form 407* or *CHFA Form MCC-14* by calling CHFA at 800.877.2432, extension 376. Or, you may download these forms from CHFA's website at www.chfainfo.com. If you are requesting hard copies of these forms, please allow two to four weeks for mail delivery.

For additional information, please visit our website or contact us at the number below. We will be happy to discuss this exciting plan with you.

CHFA Home Finance

1981 Blake Street
Denver, Colorado 80202

888.320.3688
303.297.7305 tdd

348 Main Street
Grand Junction, Colorado 81501

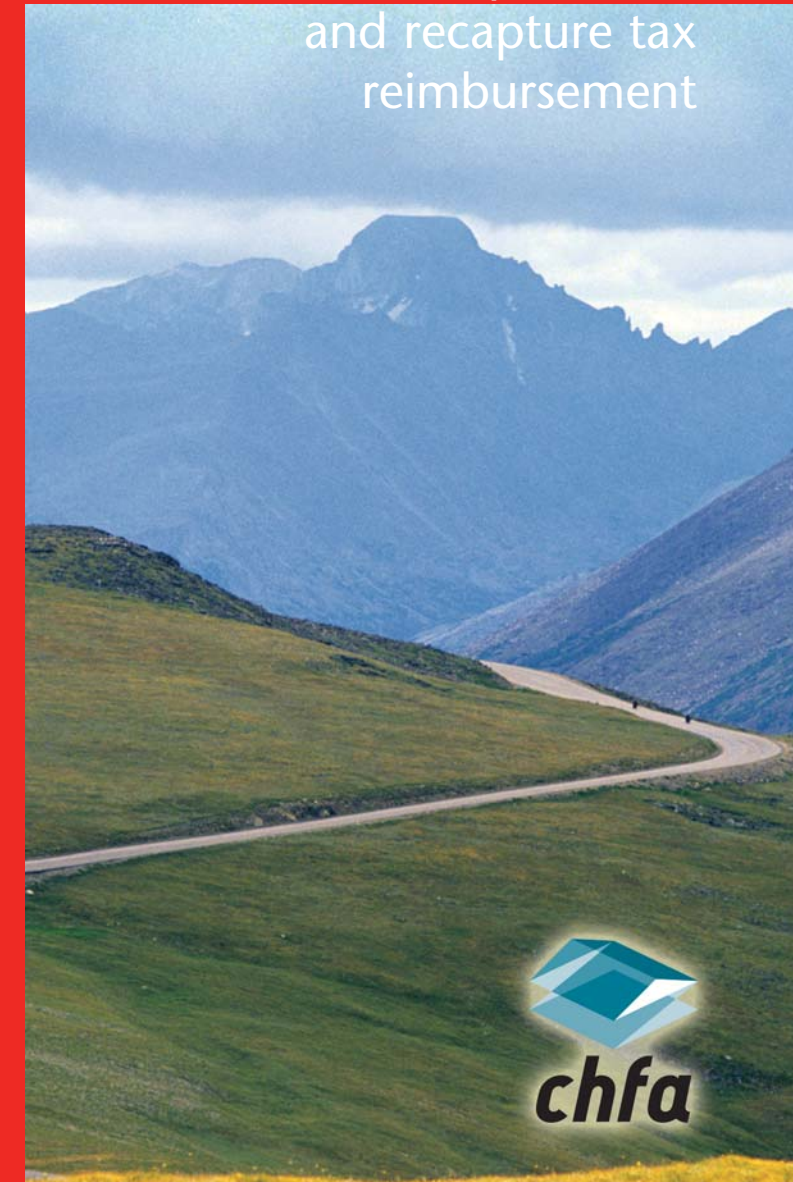
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www.chfainfo.com



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people live and work*

the Federal Recapture Tax and recapture tax reimbursement





what is a recapture tax?

Borrowers who use CHFA loan programs funded with the proceeds of tax-exempt Mortgage Revenue Bonds, or who receive a credit against their federal income taxes through a Mortgage Credit Certificate (MCC), could be subject to the Federal Recapture Tax on those benefits if and when they sell their home.

The Recapture Tax provision may apply to the MRB First Stepsm, HomeAccesssm, HomeAccess Plussm and Mortgage Credit Certificate loan programs.

The Recapture Tax is part of the federal tax code and is collected by the Internal Revenue Service (IRS); it is not paid to CHFA. The Recapture Tax is part of the federal income tax liability for the year in which the home is sold. It does not directly affect the proceeds from the sale.

The Recapture Tax is based on the original first mortgage loan amount. Other funds provided by CHFA, including a second mortgage loan, when applicable, are not subject to the Recapture Tax provision, nor do they increase your likelihood of owing the tax.

when does this tax apply?

The potential for paying a recapture tax applies only when borrowers sell their home. Borrowers pay the Recapture Tax when they file their tax returns for the year in which they sell their home and pay off their mortgage loan with CHFA.

The Recapture Tax is not activated when the borrower refinances the property; however, refinancing does not cancel the Recapture Tax provision.

All three of the following conditions must be in effect to activate the Recapture Tax:

- 1 The home is sold or disposed of in some other way within nine years of the original mortgage loan closing date,
- 2 The borrower has a net gain on the sale of the property, and
- 3 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* and *CHFA Form MCC-14*.

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
- ▼ who are not reporting all income
- ▼ who are in a high inflation environment

Special rules may apply in certain circumstances including divorce, destruction of the property, or if the borrower gives away the property.

You will not owe a 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.

how do I pay this tax?

Whether borrowers owe a recapture tax or not, they must complete *IRS Form 8828* and file it with their Federal Tax Return for the year the home is sold. This form will calculate the correct amount due, if any, to the IRS.

how much might I have to pay?

Refer to your copy of *CHFA Form 407* or *CHFA Form MCC-14* for exact dollar amounts of the figures mentioned in this section.

The tax is limited to the lesser of one of the following:

- ▼ 50 percent of the net gain on the sale of the property
- ▼ 6.25 percent of the original mortgage loan amount, known as the Federally Subsidized Amount (FSA)

Typically, if a borrower is subject to the Recapture Tax, only a percentage of the FSA is owed. For each year the home is owned, the corresponding percentage of the FSA changes. For example, if you sold your home in the third year, you could potentially owe 60 percent of the FSA.

should I seek additional advice?

CHFA cannot offer tax advice; however, please feel free to call us with general questions. 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.