

The Reality of Recapture

Here is a simple explanation which may help more people who could benefit from our Single Family Mortgage Program.

RECAPTURE'S HISTORY

A federal law commonly known as "recapture tax" applies to borrowers who buy their homes using the Single Family Mortgage Program.

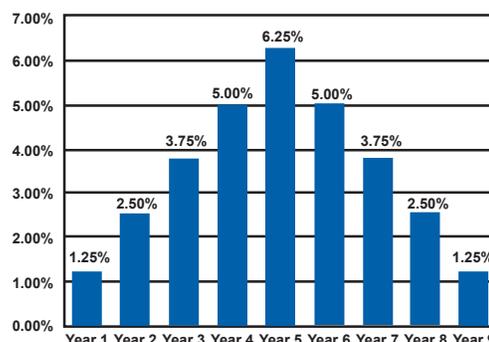
Recapture tax requires some mortgagors to repay the government a portion of their gain upon sale of the home if they financed their home with a Mortgage Revenue Bond (MRB) loan. The Internal Revenue Service (IRS) administers this provision. If any recapture tax is due, the mortgagor pays it to the IRS after selling the home. Within 90 days after the MRB loan closing, you will receive a "Welcome Letter / Recapture Notice" showing the maximum recapture tax which could be due, if any. This information will be needed if you have to calculate the recapture tax. You should keep all information received from New Hampshire Housing about recapture as part of your tax records.

REMOVING THE MYSTERY

Most borrowers will not have to pay any recapture tax. For others, the amount will be minimal. In any case, the tax will never exceed one-half of the gain on the sale of the home, or 6.25% of the original mortgage, whichever is less.

Recapture tax is figured on a scale based on the number of years the homebuyer has lived in the house, with the fifth year being the worst time to sell.

RECAPTURE TAX SCALE



This may sound complicated, but in many cases, no tax is due. For example:

- ◆ If your household income does not rise significantly over the life of the loan (generally more than 5 percent per year), there is no recapture.
- ◆ If you sell your home anytime after nine years, there is no recapture.
- ◆ If you sell your home within nine years but there is no gain, there is no recapture.

In other words, to owe any recapture tax at all you must sell your home within nine years, be earning significantly more income than when you bought the home, and have a gain from the sale. All three of these criteria must be met.

But that's not the end of the story. The tax guidelines are structured to help mortgagors even if they do have to pay.

- ◆ The 5 percent increase in income that makes a mortgagor a candidate for recapture is figured from the maximum income limit for the MRB program at the time of purchase. For example, Jack earned \$40,000 per year when he purchased his home. At the time, the maximum income limit was \$50,000. The 5% increase would be figured from \$50,000, not \$40,000. Jack would actually have to receive in excess of a 5% increase in salary each year to be considered for recapture.
- ◆ Recapture tax may not exceed 50% of the gain the mortgagor realizes upon sale of the home. Even if Jack sold his home in year five, his income increased significantly, and he made \$2,000 off the sale, the maximum recapture tax he could owe is \$1,000. The gain is calculated after items such as real estate commissions, legal and closing fees are subtracted.
- ◆ If the mortgagor's income exceeds the maximum income limit, but not by more than \$5,000, only a percentage of the tax must be paid.

For most people, the financial benefits of home ownership - deductions for mortgage interest and taxes as well as the MRB program's lower interest rates and down payment assistance - far outweigh the risks of recapture.

If you have questions about the details of the recapture tax and whether the tax applies to the sale of your home, you should consult with a competent tax professional.

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behind the federal
recapture tax*



New Hampshire Housing
Bringing You Home