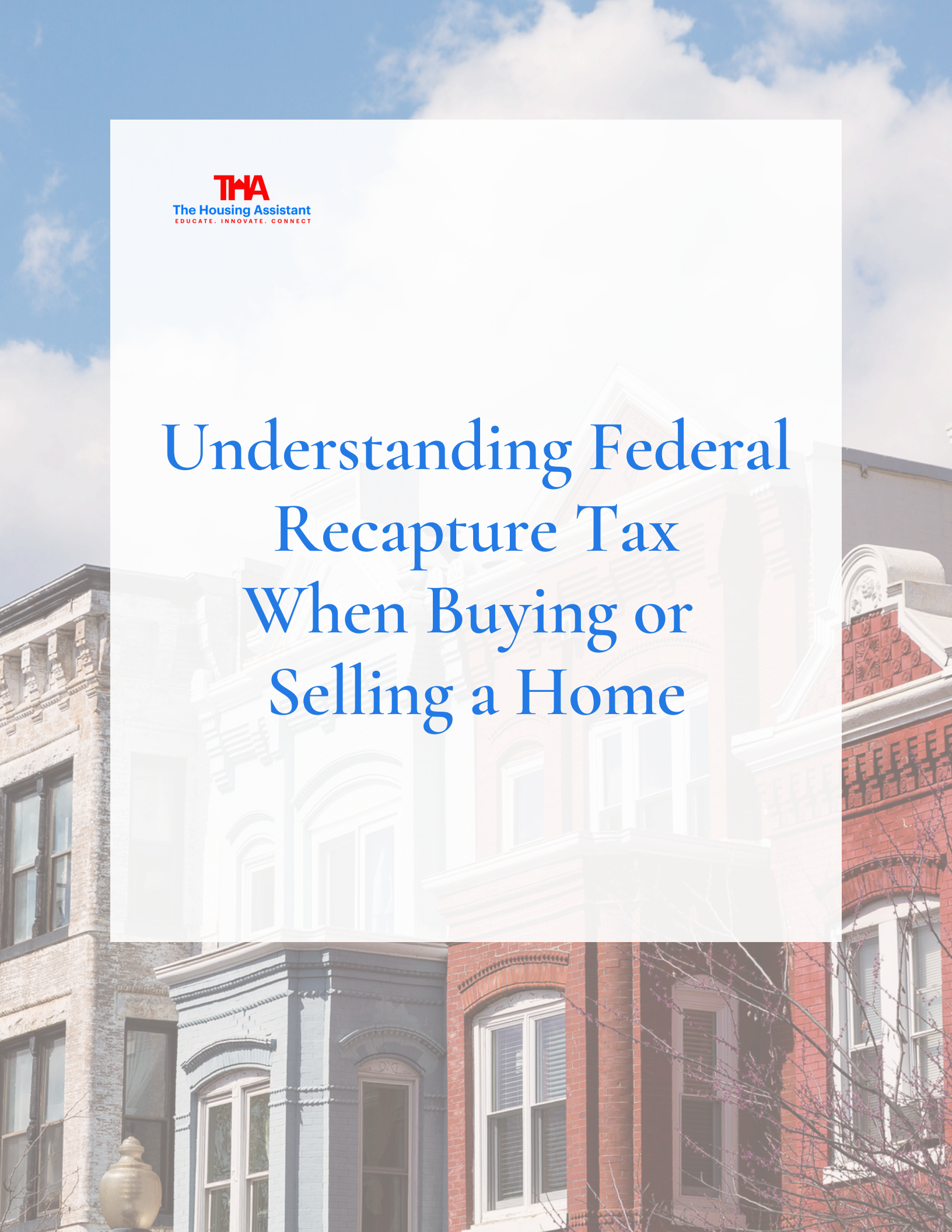


Understanding Federal Recapture Tax When Buying or Selling a Home



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A Comprehensive Guide by The Housing Assistant



Introduction

Federal Recapture Tax is a potential tax owed when selling a home that was originally purchased with the help of a federally subsidized mortgage program. This tax is intended to 'recapture' some of the subsidy if the borrower sells the home at a profit within a certain timeframe. This guide outlines when recapture applies, how to calculate it, and how to report it using IRS Form 8828.

When Does Federal Recapture Apply?

Recapture tax may apply if all three of the following conditions are met:

1. The loan was made using a federally subsidized program (e.g., bond-backed loans such as Mortgage Revenue Bond or MCC loans).
2. The home is sold within 9 years of the original purchase.
3. The homeowner earns more than a specified income limit and realizes a gain from the sale.

Key Elements that Determine Recapture

- Subsidized Loan: Typically a bond-funded mortgage through a Housing Finance Agency (HFA).
- Sale within 9 Years: If sold after 9 years, there is no recapture.
- Income Threshold: Based on family size and area median income (AMI).
- Gain on Sale: The seller must realize a gain (profit) for the tax to apply.

How to Calculate Recapture Tax

The recapture amount is the lesser of the following:

1. Gain on Sale of the Home, OR
2. Original Subsidy Amount, OR

3. Income-Based Formula Amount based on how far above the income limit the borrower is at the time of sale.

The maximum tax is capped at 6.25% of the original loan amount or 50% of gain, whichever is less.

Income Phase-in Table (Example)

Years Since Purchase	Income Limit Multiplier	Income Above Limit (Recapture Applies?)
1-5	100%-140%	YES (Phased)
6-9	140%-160%	YES (Reduced)
9+	Any	NO

Reporting Recapture Tax with IRS Form 8828

- If you're required to pay recapture tax, you must file IRS Form 8828 with your federal tax return for the year the home was sold.
- You must complete the form even if no tax is owed, if the loan qualifies.
- You'll need information from your closing disclosure, original note, and income at the time of sale.

Who Is Exempt from Recapture?

- The home is sold after 9 years.
- The homeowner's income is below the threshold.
- The home is sold at a loss or no net gain.
- The home was destroyed or involuntarily converted.
- The loan was refinanced into a non-subsidized mortgage.

Tips for Borrowers and Lenders

- Review the Recapture Notice provided at closing for bond-backed loans.
- Retain a copy of the original closing documents.
- Monitor income growth if planning to sell within 9 years.
- Consult a tax advisor or accountant if unsure about filing Form 8828.