

Understanding Recapture Tax

Congratulations on choosing the Connecticut Housing Finance Authority's Homebuyer Program to finance the purchase of your home. Because the purchase of your home is being financed with tax exempt bond proceeds, you may be subject to a recapture tax at the time you sell your home. However, you will not be required to pay this recapture tax if any one of the following applies:

- Your income is below the designated Federal income limit at the time you sell or otherwise dispose of your home.
- You sell your home more than nine (9) years after you buy it.
- You do not realize a gain on the sale of your home.

Attached please find a chart entitled "Recapture Tax Threshold Income Limits". Please refer to this chart if you sell your home within nine (9) years of purchase to determine if your income exceeds the listed limits in the year you sell or otherwise dispose of your property.

If your income exceeds the Federal income limit for the year in which you sell your home, you will then need to determine the recapture percentage for the corresponding year you sell your home, as noted below, in order to calculate the recapture tax:

<u>Recapture Percentage</u>	
Year 1	1.25%
Year 2	2.50%
Year 3	3.75%
Year 4	5.00%
Year 5	6.25%
Year 6	5.00%
Year 7	3.75%
Year 8	2.50%
Year 9	1.25%

Please refer to the next page to determine the actual amount that may be due.

Below are the steps required to determine the recapture tax for the year in which you sell your home.

1. INCOME LIMIT

Determine your modified adjusted gross income below:

Adjusted Gross Income from IRS 1040		\$	_____
Tax exempt income earned for the year	+		_____
Gain on sale of the home		-	_____
Modified Adjusted Gross Income=		\$	_____

Then determine if this income exceeds the “Recapture Tax Threshold Income Limits” (attached hereto) for your family size and home location, based on the year you are selling your home. If you exceed the limit, continue; if not, no recapture tax is due.

2. INCOME PERCENTAGE

Subtract the Federal threshold income in the chart from your Modified Adjusted Gross Income (1. above). Then, divide that amount by \$5,000 in order to get the income percentage. (However, if the result is over 100%, use 100%).

3. RECAPTURE PERCENTAGE

Determine the recapture percentage due based on the year you are selling your home.

4. CALCULATING RECAPTURE TAX

Multiply your original amount borrowed times the recapture percentage times the income percentage in 2. above. This amount, or 50% of the gain on the sale of your home, whichever is less, is the recapture tax for the year in which you sell your home.

We hope you have found this information helpful in understanding the Federal Recapture Tax. If you have any questions, please discuss them with your mortgage officer.