



To: CHFA Participating Lendersⁱ

Bulletin #50
April 23, 2013

From: CHFA Single Family Underwriting

Subject CHFA To Pay Recapture Tax For Eligible Homeowners

The Residential Mortgage Program offered by the Connecticut Housing Finance Authority (CHFA) is among the Authority's most successful programs that help CHFA meet our mission to alleviate the shortage of housing for low-and moderate-income families and persons in the state.

CHFA is working to increase awareness of our mortgage loan programs and to find ways to streamline the process for approval. This approach includes identifying and eliminating requirements that may be perceived as deterrents to selecting CHFA for mortgage loan financing.

CHFA is excited to announce our decision to **reimburse recapture tax** for any borrower that purchases a home with a CHFA mortgage loan product that is subject to recapture tax payment and was closed on or after March 18, 2013.

The following forms have been revised to include the CHFA recapture tax payment provision and are available on the CHFA website at www.chfa.org for immediate use:

Form #051-0597 - Connecticut Housing Finance Authority Notice of Potential Recapture Tax
Form #052-1195 – Notice to Mortgagor of Maximum Recapture Tax and Method to Compute Recapture Tax on Sale of Home

(Copies of the Forms are included with this Bulletin)

NOTE: The CHFA Recapture Tax Threshold Income Limits document has been updated to reflect the new CHFA income limits in effect and is available on the website.

All questions regarding this notice should be directed to Valencia Taft-Jackson at 860-571-4224 Valencia.Taft-Jackson@chfa.org.

ⁱ *This Bulletin Notice was sent to Correspondent Lenders that completed and returned the CHFA Contact Information form, however, Participating Lender Sponsors are still responsible for communicating the information in this Bulletin to all Correspondent Lenders affiliated directly with your organization that originate CHFA Loans.*

CONNECTICUT HOUSING FINANCE AUTHORITY

NOTICE OF POTENTIAL RECAPTURE

TAX ON SALE OF HOME

Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefit of a lower interest rate than is customarily charged on other mortgage loans. If you sell or otherwise dispose of your home, within nine years of purchase, this benefit may be "recaptured." The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases above specified levels.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. At the closing of the purchase of your home, you will be given additional information that will be needed to calculate the potential recapture tax.

You may be eligible to receive reimbursement from CHFA if you are required to make a recapture tax payment. To request reimbursement, you must submit a written request to CHFA no later than December 31st of the year the federal recapture tax is owed and paid. For example, if your home is sold in 2013 and the tax return is filed in 2014, the request for reimbursement must be filed no later than December 31, 2014.

Please see the document provided to you at the loan closing entitled Notice to Mortgagor of Maximum Recapture Tax and Method to Compute Recapture Tax on Sales of Home for further information

The undersigned acknowledges receipt of a copy of this Notice. I/We have read and understood the above disclosure. If I/we sell or transfer the home being financed with this mortgage loan during the first nine years after the date of closing, I/we have the responsibility of computing and paying the recapture amount, if any, due the federal government.

Date

Applicant

Date

Co-Applicant

CONNECTICUT HOUSING FINANCE AUTHORITY

NOTICE TO MORTGAGOR OF MAXIMUM RECAPTURE TAX AND METHOD TO COMPUTE RECAPTURE TAX ON SALE OF HOME

A. Introduction

1. **General.** Your home is being financed in whole or in part with tax-exempt bond proceeds issued by the Connecticut Housing Finance Authority (CHFA), therefore, when you sell your home you may have to pay a recapture tax as calculated below. In addition, the recapture tax may also apply if you dispose of your home in some other way. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home. For instance, you may owe the recapture tax if you give your home to a relative.
2. **Exceptions.** In the following situations, no recapture tax is due and you do not need to do the calculations:
 - (a) You dispose of your home later than nine years after you close your mortgage loan;
 - (b) Your home is disposed of as a result of your death;
 - (c) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code; or
 - (d) You dispose of your home at a loss.

B. Maximum Recapture Tax. The maximum recapture tax that you may be required to pay as an addition to your federal income tax is \$ _____. This amount is 6.25% of the highest principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

C. Actual Recapture Tax. The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of (1) 50% of your gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your *recapture amount* determined by multiplying the following three numbers:

- (i) \$ _____ (the *Maximum Recapture Tax*, as described in paragraph B above),
- (ii) The *Holding Period Percentage*, as listed in column 1 in the Table, and
- (iii) The *Income Percentage*, as described in paragraph D below.

D. Income Percentage. You calculate the income percentage as follows:

- (i) *Subtract* the applicable *Adjusted Qualifying Income* in the taxable year in which you sell your home, as listed in Column 2 in the Table, *from your modified adjusted gross income* in the taxable year in which you sell your home.

Your *modified adjusted gross income* means your *adjusted gross income* shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be *increased* by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be *decreased* by the amount of any gain included in your gross income by reason of the sale of your home.

- (ii) If the amount calculated in (i) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is \$5,000 or more, your income percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1,000/\$5,000, your income percentage is 20%.

E. Limitations and Special Rules on Recapture Tax.

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.
2. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

3. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for them based on their interest in the home.
4. If you repay your loan in full during the nine year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in section 143(m)(4)(C)(ii) of the Internal Revenue Code.
5. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See section 143(m) of the Internal Revenue Code generally.

TABLE

If Dates of the Sale is Within the:	(Column 1) Holding Period Percentage (2 or Less)	(Column 2) Adjusted Qualifying Income (3 or more)
1st year*	20	
2nd year*	40	
3rd year*	60	
4th year*	80	
5th year*	100	
6th year*	80	
7th year*	60	
8th year*	40	
9th year*	20	

* After closing, but before the anniversary date of the closing date for your loan

6. **CHFA Reimbursement Request.** You may be eligible to receive reimbursement from CHFA if you are required to make the federal recapture tax payment. In order to request reimbursement, please submit a written request to CHFA no later than December 31st of the calendar year in which the federal recapture tax is owed and paid, along with the following documents:
 - a. A copy of the HUD-I Settlement Statement (proof of sale of the property) or, in the instance where the home is disposed of by a method other than sale, documentation evidencing the transfer of title and the recapture tax assessment;
 - b. A copy of your filed federal tax return, along with all schedules including IRS Form 8828, for the year in which the recapture tax was assessed and paid; and
 - c. Evidence of payment of the recapture tax.

Please mail the completed recapture tax request package to:
 Connecticut Housing Finance Authority
 Residential Mortgage Programs
 Recapture Tax Reimbursement
 999 West Street
 Rocky Hill, CT 06067

Please note that CHFA may require additional information and/or documentation in order to approve a request for reimbursement and such approval shall be granted at the sole discretion of CHFA, subject to funding constraints and applicable statutory and procedural requirements.

I HAVE READ THE ABOVE RECAPTURE REQUIREMENT AND ACKNOWLEDGE THAT I HAVE RECEIVED INFORMATION AS TO THE FEDERAL SUBSIDIZED LOAN AMOUNT AND THE INCOME LIMITS FOR FAMILY SIZE FOR EACH OF THE NINE YEARS THE RECAPTURE TAX MAY APPLY. I ALSO ACKNOWLEDGE AND UNDERSTAND THAT I AM RESPONSIBLE FOR COMPUTING AND PAYING ANY RECAPTURE TAX WHICH I MAY OWE AND THAT I WILL NOT RECEIVE ANY ADDITIONAL INFORMATION FROM CHFA.

Date

Borrower

Date

Co-Borrower