

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

Loan #: \_\_\_\_\_

Borrower/s Name: \_\_\_\_\_

**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.

<b>TABLE</b>			
How long did you own the Home	(Column 1) Holding	(Column 2) <u>Adjusted Qualifying Income</u>	
	Period Percentage	Household size (2 or Less)	Household size (3 or more)
Less than 1 year	20		
Greater than 1 yr, Less than 2 yrs	40		
Greater than 2 yrs, Less than 3 yrs	60	<i>Lender provides borrower(s) a system generated, completed version of this form, with applicable income figures in effect at time of loan closing.</i>	
Greater than 3 yrs, Less than 4 yrs	80		
Greater than 4 yrs, Less than 5 yrs	100		
Greater than 5 yrs, Less than 6 yrs	80		
Greater than 6 yrs, Less than 7 yrs	60		
Greater than 7 yrs, Less than 8 yrs	40		
Greater than 8 yrs, Less than 9 yrs	20		

*Note: CHFA Recapture Tax Threshold Income Limits for current year are available at CHFA.org / Lender Forms section (Form 048-0405)*

- F. 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 31<sup>st</sup> of the calendar year in which the federal recapture tax is owed and paid, along with the following documents:
1. A copy of the signed TRID – Closing Disclosure (*formerly HUD-1 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;
  2. 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
  3. Evidence of payment of the recapture tax.

**Please mail the completed recapture tax request package to:** Connecticut Housing Finance Authority  
 Finance Dept.- 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.*

Lender: \_\_\_\_\_  
 NMLS ID: \_\_\_\_\_ (Borrower) \_\_\_\_\_ (Date)  
 Loan Originator: \_\_\_\_\_  
 NMLS ID: \_\_\_\_\_ (Borrower) \_\_\_\_\_ (Date)