

## 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 or you may be eligible for reimbursement from CHFA.

- 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.

Please review the “Recapture Tax Threshold Income Limits” chart (CHFA Form 048-0405) located at [www.chfa.org](http://www.chfa.org) 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>Home Sold</u>	<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%

**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” (CHFA Form #048-0405) 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.

**Please Note:** You may be eligible to receive reimbursement from CHFA if you are required to make the Federal Recapture Tax payment. See “Request for Federal Recapture Tax Reimbursement” (CHFA Form 049-0313).

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 loan officer or reference the Internal Revenue Service (IRS) guidelines.

Lender: \_\_\_\_\_  
 NMLS ID: \_\_\_\_\_  
 Loan Originator: \_\_\_\_\_  
 NMLS ID: \_\_\_\_\_