



The Homeownership Department

Recapture Guide

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Introduction:

IHDA's recapture guide is designed to help you understand the Federal recapture tax that may be associated with IHDA's programs, including any loan funded using proceeds of tax-exempt bonds or any loan utilizing the MCC program ("eligible loan").

This guide represents IHDA's current understanding of the recapture provision of the internal revenue code. This guide is not intended to be a complete statement of the recapture provision, and IHDA cannot be certain that it will be consistent with any regulation that may occur under the internal revenue code.

If you want complete details of the recapture provision consult your tax advisor or www.irs.gov.

Recapture Parameters

IHDA's loan programs may use the proceeds of tax-exempt bonds to provide financing benefits for first-time homebuyers. At time of close you may have signed documents pertaining to MRB Recapture (or MCC Recapture, if applicable). If so, the documents will give further detail to your loan's specific situation.

If the home, indicated as an "eligible loan" above, is sold or otherwise disposed of within *nine (9) years of purchase*, this benefit may be "recaptured" in the form of a recapture tax.

The recapture tax is part of the Federal tax code. It is collected by the Internal Revenue Service and not paid to IHDA. The recapture tax is due for the year in which the home is sold.

The recapture tax is only assessed if the following three scenarios occur:

1. The buyer(s) must sell within the first nine years of ownership.
2. The buyer(s) must make a capital gain on the sale.
3. The buyer(s) income must be over the recapture income limit for the year in which they sold the property.

Please note that **all three scenarios must occur** at the time of sale in order for recapture to be assessed.

[Examples Below]

Recapture example:

John and Jane Doe purchase a home on April 12, 2011, in Champaign County Illinois

- Purchase Price is \$100,000
- Household income is \$50,000 (average income for an IHDA first time homebuyer)

In June of 2015 they sell the home

- Sales Price is \$110,000
- They now make \$75,000

Are they subject to recapture?

- Did they sell within the first nine years of ownership? **Yes. They have met condition one**
- Did they make a capital gain? **Yes. They met condition two. However, if there was no capital gain, then recapture is not owed**
- Are they over the recapture income limits for the year they sold the home? **Let's see.**

NON-TARGETED
Effective June 24, 2010

IHDA RECAPTURE WORKSHEET #1
INCOME LIMITS*

APPLICANT'S INCOME _____

| COUNTY IN WHICH THE RESIDENCE IS LOCATED | MAXIMUM HOUSEHOLD INCOME LIMITS | | | | | | | | | |
|---|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 | YEAR 7 | YEAR 8 | YEAR 9 | |
| Cook, DuPage, Kane, Lake, McHenry, Will | 1 OR 2 | \$75,100.00 | \$78,855.00 | \$82,797.75 | \$86,937.64 | \$91,284.52 | \$95,848.75 | \$100,641.18 | \$105,673.24 | \$110,956.90 |
| | 3 OR MORE | \$86,365.00 | \$90,683.25 | \$95,217.41 | \$99,978.28 | \$104,977.20 | \$110,226.06 | \$115,737.36 | \$121,524.23 | \$127,600.44 |
| DeKalb | 1 OR 2 | \$74,200.00 | \$77,910.00 | \$81,805.50 | \$85,895.78 | \$90,190.56 | \$94,700.09 | \$99,435.10 | \$104,406.85 | \$109,627.19 |
| | 3 OR MORE | \$85,330.00 | \$89,596.50 | \$94,076.33 | \$98,780.14 | \$103,719.15 | \$108,905.11 | \$114,350.36 | \$120,067.88 | \$126,071.27 |
| Grundy | 1 OR 2 | \$76,300.00 | \$80,115.00 | \$84,120.75 | \$88,326.79 | \$92,743.13 | \$97,380.28 | \$102,249.30 | \$107,361.76 | \$112,729.85 |
| | 3 OR MORE | \$87,745.00 | \$92,132.25 | \$96,738.86 | \$101,575.81 | \$106,654.60 | \$111,987.33 | \$117,586.69 | \$123,466.03 | \$129,639.33 |
| Kendall | 1 OR 2 | \$87,700.00 | \$92,085.00 | \$96,689.25 | \$101,523.71 | \$106,599.90 | \$111,929.89 | \$117,526.39 | \$123,402.71 | \$129,572.84 |
| | 3 OR MORE | \$100,855.00 | \$105,897.75 | \$111,192.64 | \$116,752.27 | \$122,589.88 | \$128,719.38 | \$135,155.35 | \$141,913.11 | \$149,008.77 |
| McLean | 1 OR 2 | \$76,600.00 | \$80,430.00 | \$84,451.50 | \$88,674.08 | \$93,107.78 | \$97,763.17 | \$102,651.33 | \$107,783.89 | \$113,173.09 |
| | 3 OR MORE | \$88,090.00 | \$92,494.50 | \$97,119.23 | \$101,975.19 | \$107,073.95 | \$112,427.64 | \$118,049.02 | \$123,951.48 | \$130,149.05 |
| St. Clair, Clinton, Jersey, Madison, Monroe, Bond | 1 OR 2 | \$69,600.00 | \$73,080.00 | \$76,734.00 | \$80,570.70 | \$84,599.24 | \$88,829.20 | \$93,270.66 | \$97,934.19 | \$102,830.90 |
| | 3 OR MORE | \$80,040.00 | \$84,042.00 | \$88,244.10 | \$92,656.31 | \$97,289.12 | \$102,153.58 | \$107,261.26 | \$112,624.32 | \$118,255.53 |
| Boone, Winnebago | 1 OR 2 | \$69,300.00 | \$72,765.00 | \$76,403.25 | \$80,223.41 | \$84,234.58 | \$88,446.31 | \$92,868.63 | \$97,512.06 | \$102,387.66 |
| | 3 OR MORE | \$80,040.00 | \$84,042.00 | \$88,244.10 | \$92,656.31 | \$97,289.12 | \$102,153.58 | \$107,261.26 | \$112,624.32 | \$118,255.53 |
| All Other Counties | 1 OR 2 | \$69,600.00 | \$73,080.00 | \$76,734.00 | \$80,570.70 | \$84,599.24 | \$88,829.20 | \$93,270.66 | \$97,934.19 | \$102,830.90 |
| | 3 OR MORE | \$80,040.00 | \$84,042.00 | \$88,244.10 | \$92,656.31 | \$97,289.12 | \$102,153.58 | \$107,261.26 | \$112,624.32 | \$118,255.53 |

*If household income is less than that shown in corresponding cell, NO recapture tax is due.

Every year IHDA publishes recapture worksheets online to notify buyers of the recapture income limits. The above worksheet applied when John and Mary closed in April 2011. * Champaign County limits fall under "All Other Counties" category.

**The worksheets found on IHDA's website are applicable to those who are currently purchasing a home. For those who closed prior to the effective date found on the online recapture worksheets, a personalized recapture worksheet was included in your closing documentation package. Those limits provided should be used. If a duplicate copy of the recapture notice is needed, please email us at Mortgage@ihda.org or call (877) 456-2656 and ask to speak to someone in the homeownership department regarding your recapture notice.*

Recapture Income Limits All Other Counties

| Household size | 1-2 | 3 or More |
|----------------|-----------------|-------------------|
| Yr. 1 | \$69,600 | \$80,040 |
| Yr. 2 | \$73,080 | \$84,042 |
| Yr. 3 | \$76,734 | \$88,244 |
| Yr. 4 | \$80,570 | \$92,656 |
| Yr. 5 | \$84,599 | \$97,289 ← |
| Yr. 6 | \$88,829 | \$102,153 |
| Yr. 7 | \$93,270 | \$107,261 |
| Yr. 8 | \$97,934 | \$112,624 |
| Yr. 9 | \$102,830 | \$118,255 |

John and Mary's sale in June 2015 puts them in the fifth year of ownership. Even though their income has increased \$25,000 from the time of purchase they are still below the recapture income trigger of \$84,599.

If they had children during this period, then their income trigger would be the three or more limit of \$97,289.

The above example shows why most people will never pay recapture; the recapture income limit is not exceeded when they sell.

What happens if someone is subject to recapture?

Buyers who utilize an "eligible loan" product and meet all three recapture scenarios when they sell should go to www.irs.gov and locate IRS form 8828. There are several things to note about paying recapture:

- The recapture tax is paid with the individual tax return for the year in which the property was sold. For example, if your home sold in 2011 and you were subject to the recapture tax, it is paid in 2012 when you completed your 2011 tax returns.
- The recapture tax cannot exceed one half of the capital gain.
- If the borrower income exceeds the recapture income limit but by less than \$5,000, only a percentage of the recapture tax is paid.
- IHDA's recapture reimbursement policy.

IHDA's recapture reimbursement policy

IHDA believes that very few, if any, individuals will ever become subject to this tax. To encourage homeowners to finance their residences under the IHDA Program, IHDA agrees to reimburse homebuyers if they can provide IRS transcripts showing that the recapture tax was paid. The reimbursement policy is effective for any loan reserved through IHDA after June 15, 2005.

Note - The reimbursement policy does not apply to Mortgage Credit Certificate (MCC) programs.

Refinancing and recapture

Refinancing an IHDA MCC or loan product does not trigger recapture. If a buyer refinances during the first four years of utilizing an IHDA product, recapture will be shorter than the typical nine-year timeframe.

If a buyer sells their home after refinancing out of an IHDA product, they should refer to IRS form 8828 for more details.

We hope you have found this information helpful in understanding the Federal Recapture Tax. If you have any questions, please discuss them with your originating mortgage loan officer and/or tax advisor.