

The Federal Recapture Tax applies to households that purchase a home using mortgage revenue bond financed programs like the NDHFA's FirstHome™ program.

Loans Closed on or after October 1, 2006:

For borrowers with loans closed on or after October 1, 2006, NDHFA will reimburse the household for the actual amount of any recapture tax paid to the Internal Revenue Service (IRS).

For more information on recapture tax reimbursement, contact NDHFA's Servicing Department. To apply for reimbursement, complete a Recapture Tax Reimbursement form.

Loans Closed Before October 1, 2006:

NDHFA borrowers who purchased a home prior to October 1, 2006, are solely responsible for repayment of any recapture tax owed when their home is sold. They are not eligible for the reimbursement program.

How Does Recapture Tax Work:

The maximum amount of recapture increases during the first five years you own your home and decreases the next four years. During these nine years, several factors determine the actual amount of recapture, if any, that may apply to you. In fact you will owe no recapture if you meet any of the following conditions:

- If your household income, at the time you sell your home, does not exceed the federal income limits there is no recapture. (The limits, provided to you at loan closing, increase five percent per year.)
- If you sell your home after nine years there is no recapture.
- If you sell your home within the first nine years, but do not have a capital gain, there is no recapture.

Calculating Recapture Tax:

If you determine that you owe a recapture tax, the amount you owe is based on when you sell your home and how much of a gain you realize on the sale. The amount you owe varies according to the number of years after the date you purchased the home that you are selling it. The amount is calculated as a percentage of your original loan amount. The percentages, which increase in years 1-5 and decrease in years 6-9, are:

Years after Purchase of Home	Percentage
First	1.25
Second	2.50
Third	3.75
Fourth	5.00
Fifth	6.25
Sixth	5.00
Seventh	3.75
Eighth	2.50
Ninth	1.25

Examples of Calculations

The examples below show the maximum recapture amount for certain years. The examples assume a \$100,000 original loan amount, the home was sold for \$110,000, household income for the year the home was sold exceeded the federal limit, and a capital gain was realized.

Home sold in year two, recapture is \$2,500 = \$100,000 X .0250

Home sold in year five, recapture is \$6,250* = \$100,000 X .0625

Home sold in year nine, recapture is \$1,250 = \$100,000 X .0125

*If the home is sold in year five, the recapture would be reduced so as not to exceed 50 percent of the capital gain realized. Recapture will never exceed the lesser of 6.25 percent of the original mortgage amount or 50 percent of the gain on the sale of your home.

The IRS tracks recapture through Social Security numbers as reported on 1099 forms issued by title companies in the sale year. If you are required to pay a recapture amount, file IRS Form 8828 with your federal tax return for the year in which you sold your home.

Questions Regarding Recapture:

If you have questions regarding the recapture tax, we urge you to consult either an attorney, a tax advisor, or the Taxpayer Assistance Department of the Internal Revenue Service, www.irs.gov.