

## The Facts about Federal Recapture Tax

What is it? When does it apply?

Borrowers with Tax-Exempt loans may have to pay a "recapture" tax to the federal government following the sale of their home. This fact sheet is provided for informational purposes. AHFC recommends consulting a tax professional to determine if the recapture tax applies.

### *What is recapture?*

Recapture tax is paying back the federal government for the benefit of a lower interest mortgage loan. When tax-exempt mortgage bonds are used for financing, the borrower receives a benefit.

### *When does recapture apply?*

Recapture applies when and if:

1. The borrower sells the home within the first nine full years of ownership.
2. The borrower realizes a capital gain on the sale of the home.
3. The borrower's income increases above the federal allowable limits at the time of the sale.

No recapture tax is due unless all three occur.

### *How is the tax calculated?*

Borrowers calculate recapture tax using IRS Form 8828. Tax-Exempt borrowers receive a copy of this form at loan closing. For assistance see also, IRS Publication 523 "Selling Your Home," available on the IRS website at: [www.irs.gov](http://www.irs.gov).

### *What are the income limits and where are they found?*

A copy of the income limits for Alaska is provided at the closing of a Tax-Exempt loan. The income chart is attached to AHFC Form PRG-46, Notice of Recapture Requirement. The income limits are listed for each year of ownership in which the recapture tax may be due.

### *When is recapture tax paid?*

Whether or not recapture tax is due, borrowers must file IRS Form 8828 with their federal income tax returns for the year in which their home is sold. For example, if a home is sold in 2006, IRS Form 8828 must be filed with the homeowner's 2006 income tax returns in 2007. Recapture tax is paid at the time income tax returns are filed.

### *What happens if the loan is assumed?*

If the sale or transfer occurs before year 10 of homeownership, the original borrower pays any recapture tax that may be due, and a new nine-year period begins for the assuming borrower.

### *What happens when a borrower dies within the nine-year period?*

No recapture tax is due when a home is disposed of (sold) due to the death of the homeowner.

### *Find out more.....*

#### Sample Forms

Available in PDF at: [www.ahfc.us](http://www.ahfc.us)

- [PRG-46, Notice of Recapture Non-Targeted Areas](#)
- [PRG-46T, Notice of Recapture Targeted Areas](#)
- [IRS Form 8828](#)

IRS information/forms online at: [www.irs.gov](http://www.irs.gov)