

NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX UPON SALE OF HOME*

A. INTRODUCTION: As a recipient of a Mortgage Credit Certificate OR a mortgage loan from the proceeds of a tax-exempt bond, you may be subject to a recapture tax if you sell your home during the next nine years. The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases more than 5% per year. The recapture tax may also apply if you dispose of your home in some other way. Any references in this notice to the "sale" of your home also include other ways of disposing of your home. For instance, you may owe the recapture tax if you give your home to a relative.

B. MAXIMUM RECAPTURE TAX & CALCULATION OF TAX DUE, if any:

NO RECAPTURE TAX DUE: In the following situations, no recapture tax is due and you do not need to do the calculations listed below:

1. You sell your home more than nine years after settlement.
2. Your home is disposed of as a result of your death.
3. You transfer your home either to your spouse or to your former spouse in connection with a divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code, or
4. You dispose of your home at a loss.

MAXIMUM RECAPTURE TAX: The maximum recapture tax that you may have to pay 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.

The **ACTUAL RECAPTURE TAX**, if any, can 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 below:

1. If home is sold before the 1st anniversary of closing, or on or after the 8th anniversary but before the 9th, your recapture amount will be 1.25% of your original principal mortgage amount.
2. If home is sold on or after 1st anniversary of closing but before the 2nd, or on or after the 7th anniversary but before the 8th, your recapture amount will be 2.5% of your original principal mortgage amount.
3. If home is sold on or after 2nd anniversary of closing but before the 3rd, or on or after the 6th anniversary but before the 7th, your recapture amount will be 3.75% of your original principal mortgage amount.
4. If home is sold on or after 3rd anniversary of closing but before the 4th, or on or after the 5th anniversary but before the 6th, your recapture amount will be 5% of your original principal mortgage amount.
5. If home is sold on or after 4th anniversary of closing but before the 5th your recapture amount will be 6.25% of your original principal mortgage amount. This is the maximum recapture amount.

C. INCOME CALCULATION. You can calculate the income as follows: SUBTRACT the applicable ADJUSTED QUALIFYING INCOME in the taxable year in which you sell your home, as listed on **Page 2** of this form, 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.

Your **adjusted qualifying income** can be obtained from Page 2 of this form. Start by finding the area and county in which your PHFA-financed property is located. If the area is not specified, you would use the income figure from "All Other Counties". You would then choose the family size at the time of sale, whether it be 1 to 2 members or 3 or more. Once you have the correct row selected for the income, you would choose the correct column by selecting the year in which you are selling your home. Use this figure for you ADJUSTED QUALIFYING INCOME.

NOTE: If your income calculation above is zero or less, you owe no recapture tax. If it is \$5000 or more, you will owe 100% of the recapture amount. If it is greater than zero but less than \$5,000, it must be divided by \$5000. 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%.

D. 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 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 interests 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.

*** NOTICE – RECAPTURE TAX REIMBURSEMENT:** If you ever have to pay a recapture tax in connection with the sale of this home, PHFA agrees to reimburse you, as long as you applied for this PHFA loan or Mortgage Credit Certificate on or after January 1, 2004.

I/We have read and acknowledge receipt of pages 1 and 2 of this form.

Borrower's Signature _____ Date _____

Borrower's Signature _____ Date _____

RECAPTURE TAX INCOME LIMITS FOR 2014 (effective for applications on or after 6/14/2016)

Counties	Family Size By Members	Less Than								
		1 Year	1 To 2	2 To 3	3 To 4	4 To 5	5 To 6	6 To 7	7 To 8	8 To 9
ADAMS COUNTY	1 TO 2	75,100	78,855	82,798	86,938	91,285	95,849	100,641	105,673	110,957
	3 OR MORE	86,300	90,615	95,146	99,903	104,898	110,143	115,650	121,433	127,504
ALLENTOWN MSA (Carbon, Lehigh, Northampton)	1 TO 2	85,400	89,670	94,154	98,861	103,804	108,994	114,444	120,166	126,175
	3 OR MORE	99,600	104,580	109,809	115,299	121,064	127,118	133,474	140,147	147,155
ELK, FRANKLIN, INDIANA, LEBANON, MCKEAN, UNION, AND WARREN COUNTIES	1 TO 2	68,500	71,925	75,521	79,297	83,262	87,425	91,797	96,386	101,206
	3 OR MORE	78,700	82,635	86,767	91,105	95,660	100,443	105,466	110,739	116,276
ERIE MSA (Erie)	1 TO 2	68,500	71,925	75,521	79,297	83,262	87,425	91,797	96,386	101,206
	3 OR MORE	78,700	82,635	86,767	91,105	95,660	100,443	105,466	110,739	116,276
FAYETTE and WASHINGTON COUNTIES	1 TO 2	83,600	87,780	92,169	96,777	101,616	106,697	112,032	117,634	123,515
	3 OR MORE	97,500	102,375	107,494	112,868	118,512	124,437	130,659	137,192	144,052
HARRISBURG MSA (Cumberland, Dauphin)	1 TO 2	71,900	75,495	79,270	83,233	87,395	91,765	96,353	101,171	106,229
	3 OR MORE	82,600	86,730	91,067	95,620	100,401	105,421	110,692	116,226	122,038
LANCASTER MSA	1 TO 2	70,000	73,500	77,175	81,034	85,085	89,340	93,807	98,497	103,422
	3 OR MORE	80,500	84,525	88,751	93,189	97,848	102,741	107,878	113,272	118,935
MONROE COUNTY	1 TO 2	70,100	73,605	77,285	81,150	85,207	89,467	93,941	98,638	103,570
	3 OR MORE	80,600	84,630	88,862	93,305	97,970	102,868	108,012	113,412	119,083
NEWBURGH MSA (Pike)	1 TO 2	84,900	89,145	93,602	98,282	103,196	108,356	113,774	119,463	125,436
	3 OR MORE	99,100	104,055	109,258	114,721	120,457	126,480	132,803	139,444	146,416
PERRY COUNTY	1 TO 2	86,200	90,510	95,036	99,787	104,777	110,015	115,516	121,292	127,357
	3 OR MORE	100,600	105,630	110,912	116,457	122,280	128,394	134,814	141,554	148,632
PHILADELPHIA MSA (Bucks, Chester, Delaware, Montgomery)	1 TO 2	87,500	91,875	96,469	101,292	106,357	111,675	117,258	123,121	129,277
	3 OR MORE	100,500	105,525	110,801	116,341	122,158	128,266	134,680	141,414	148,484
PHILADELPHIA COUNTY	1 TO 2	97,300	102,165	107,273	112,637	118,269	124,182	130,391	136,911	143,756
	3 OR MORE	113,500	119,175	125,134	131,390	137,960	144,858	152,101	159,706	167,691
READING MSA (Berks)	1 TO 2	68,500	71,925	75,521	79,297	83,262	87,425	91,797	96,386	101,206
	3 OR MORE	78,700	82,635	86,767	91,105	95,660	100,443	105,466	110,739	116,276
STATE COLLEGE MSA (Centre)	1 TO 2	73,600	77,280	81,144	85,201	89,461	93,934	98,631	103,563	108,741
	3 OR MORE	84,600	88,830	93,272	97,935	102,832	107,973	113,372	119,041	124,993
YORK MSA (YORK)	1 TO 2	70,300	73,815	77,506	81,381	85,450	89,723	94,209	98,919	103,865
	3 OR MORE	80,800	84,840	89,082	93,536	98,213	103,124	108,280	113,694	119,378
ALL OTHER COUNTIES Non Target	1 TO 2	82,200	86,310	90,626	95,157	99,915	104,910	110,156	115,664	121,447
	3 OR MORE	95,900	100,695	105,730	111,016	116,567	122,395	128,515	134,941	141,688