

5/2017

PHFA Form 4

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 acknowledged receipt of pages 1 and 2 of this form.

Borrower's Signature \_\_\_\_\_ Date \_\_\_\_\_

Borrower's Signature \_\_\_\_\_ Date \_\_\_\_\_

**RECAPTURE TAX INCOME LIMITS FOR 2017 (effective for reservations on or after 5/15/17)**

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	73,900	77595	81475	85548	89826	94317	99033	103985	109184
	3 OR MORE	84,900	89145	93602	98282	103196	108356	113774	119463	125436
ALLENTOWN MSA (Carbon, Lehigh, Northampton)	1 TO 2	82,600	86730	91067	95620	100401	105421	110692	116226	122038
	3 OR MORE	95,000	99750	104738	109974	115473	121247	127309	133675	140358
ELK, FRANKLIN, INDIANA, LEBANON, MCKEAN, UNION, AND WARREN COUNTIES	1 TO 2	70,000	73500	77175	81034	85085	89340	93807	98497	103422
	3 OR MORE	80,500	84525	88751	93189	97848	102741	107878	113272	118935
ERIE MSA (Erie)	1 TO 2	70,000	73500	77175	81034	85085	89340	93807	98497	103422
	3 OR MORE	80,500	84525	88751	93189	97848	102741	107878	113272	118935
FAYETTE and WASHINGTON COUNTIES	1 TO 2	87,100	91455	96028	100829	105871	111164	116722	122558	128686
	3 OR MORE	101,600	106680	112014	117615	123495	129670	136154	142961	150109
HARRISBURG MSA (Cumberland, Dauphin)	1 TO 2	74,700	78435	82357	86475	90798	95338	100105	105110	110366
	3 OR MORE	85,900	90195	94705	99440	104412	109633	115114	120870	126913
LANCASTER MSA (Lancaster)	1 TO 2	71,100	74655	78388	82307	86422	90744	95281	100045	105047
	3 OR MORE	81,700	85785	90074	94578	99307	104272	109486	114960	120708
MONROE COUNTY	1 TO 2	74,900	78645	82577	86706	91041	95593	100373	105392	110661
	3 OR MORE	86,100	90405	94925	99672	104655	109888	115382	121151	127209
NEWBURGH MSA (Pike)	1 TO 2	84,300	88515	92941	97588	102467	107591	112970	118619	124549
	3 OR MORE	98,400	103320	108486	113910	119606	125586	131865	138459	145382
PERRY COUNTY	1 TO 2	89,600	94080	98784	103723	108909	114355	120073	126076	132380
	3 OR MORE	104,500	109725	115211	120972	127020	133371	140040	147042	154394
PITTSBURGH MSA (Allegheny, Beaver, Butler, Westmoreland)	1 TO 2	72,600	76230	80042	84044	88246	92658	97291	102155	107263
	3 OR MORE	83,400	87570	91949	96546	101373	106442	111764	117352	123220
PHILADELPHIA MSA (Bucks, Chester, Delaware, Montgomery)	1 TO 2	83,200	87360	91728	96314	101130	106187	111496	117071	122924
	3 OR MORE	95,600	100380	105399	110669	116202	122013	128113	134519	141245
PHILADELPHIA COUNTY	1 TO 2	99,800	104790	110030	115531	121308	127373	133742	140429	147450
	3 OR MORE	116,400	122220	128331	134748	141485	148559	155987	163786	171976
READING MSA (Berks)	1 TO 2	70,000	73500	77175	81034	85085	89340	93807	98497	103422
	3 OR MORE	80,500	84525	88751	93189	97848	102741	107878	113272	118935
STATE COLLEGE MSA (Centre)	1 TO 2	75,000	78750	82688	86822	91163	95721	100507	105533	110809
	3 OR MORE	86,200	90510	95036	99787	104777	110015	115516	121292	127357
YORK MSA (York)	1 TO 2	70,800	74340	78057	81960	86058	90361	94879	99623	104604
	3 OR MORE	81,400	85470	89744	94231	98942	103889	109084	114538	120265
ALL OTHER COUNTIES Non Target	1 TO 2	84,000	88200	92610	97241	102103	107208	112568	118196	124106
	3 OR MORE	98,000	102900	108045	113447	119120	125076	131329	137896	144791