

6/2018

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 2018 (effective for reservations on or after 6/15/18)**

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	74,900	78645	82577	86706	91041	95593	100373	105392	110661
	3 OR MORE	86,100	90405	94925	99672	104655	109888	115382	121151	127209
ALLENTOWN MSA (Carbon, Lehigh, Northampton)	1 TO 2	79,800	83790	87980	92378	96997	101847	106940	112287	117091
	3 OR MORE	91,700	96285	101099	106154	111462	117035	122887	129031	135483
ELK, FRANKLIN, INDIANA, LEBANON, MCKEAN, UNION, AND WARREN COUNTIES	1 TO 2	74,000	77700	81585	85664	89947	94445	99167	104125	109332
	3 OR MORE	85,100	89355	93823	98514	103440	108612	114042	119744	125731
ERIE MSA (Erie)	1 TO 2	74,000	77700	81585	85664	89947	94445	99167	104125	109332
	3 OR MORE	85,100	89355	93823	98514	103440	108612	114042	119744	125731
FAYETTE and WASHINGTON COUNTIES	1 TO 2	91,200	95760	100548	105575	110854	116397	122217	128328	134744
	3 OR MORE	106,400	111720	117306	123171	129330	135796	142586	149715	157201
HARRISBURG MSA (Cumberland, Dauphin)	1 TO 2	75,200	78960	82908	87053	91406	95976	100775	105814	111105
	3 OR MORE	86,400	90720	95256	100019	105020	110271	115784	121573	127652
LANCASTER MSA (Lancaster)	1 TO 2	74,000	77700	81585	85664	89947	94445	99167	104125	109332
	3 OR MORE	85,100	89355	93823	98514	103440	108612	114042	119744	125731
MONROE COUNTY	1 TO 2	74,100	77805	81695	85780	90069	94572	99301	104266	109479
	3 OR MORE	85,200	89460	93933	98630	103561	108739	114176	119885	125879
NEWBURGH MSA (Pike)	1 TO 2	88,300	92715	97351	102218	107329	112696	118330	124247	130459
	3 OR MORE	103,000	108150	113558	119235	125197	131457	138030	144931	152178
PERRY COUNTY	1 TO 2	90,200	94710	99446	104418	109639	115121	120877	126920	133266
	3 OR MORE	105,200	110460	115983	121782	127871	134265	140978	148027	155428
PITTSBURGH MSA (Allegheny, Beaver, Butler, Westmoreland)	1 TO 2	76,000	79800	83790	87980	92378	96997	101847	106940	112287
	3 OR MORE	87,400	91770	96359	101176	106235	111547	117124	122981	129130
PHILADELPHIA MSA (Bucks, Chester, Delaware, Montgomery)	1 TO 2	87,400	91770	96359	101176	106235	111547	117124	122981	129130
	3 OR MORE	100,500	105525	110801	116341	122158	128266	134680	141414	148484
PHILADELPHIA COUNTY	1 TO 2	104,800	110040	115542	121319	127385	133754	140442	147464	154837
	3 OR MORE	122,300	128415	134836	141578	148656	156089	163894	172088	180693
READING MSA (Berks)	1 TO 2	74,000	77700	81585	85664	89947	94445	99167	104125	109332
	3 OR MORE	85,100	89355	93823	98514	103440	108612	114042	119744	125731
STATE COLLEGE MSA (Centre)	1 TO 2	82,400	86520	90846	95388	100158	105166	110424	115945	121742
	3 OR MORE	94,700	99435	104407	109627	115108	120864	126907	133252	139915
YORK MSA (York)	1 TO 2	74,300	78015	81916	86012	90312	94828	99569	104548	109775
	3 OR MORE	85,400	89670	94154	98861	103804	108994	114444	120166	126175
ALL OTHER COUNTIES Non Target	1 TO 2	88,800	93240	97902	102797	107937	113334	119000	124951	131198
	3 OR MORE	103,600	108780	114219	119930	125926	132223	138834	145776	153064