

6/2021

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. For recapture tax inquiries, please contact PHFA at 855-827-3466 or askphfa@phfa.org.

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 2021 (effective for reservations on or after 6/1/2021)

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	85,800	90090	94595	99324	104290	109505	114980	120729	126766
	3 OR MORE	98,600	103530	108707	114142	119849	125841	132133	138740	145677
ALLENTOWN MSA (Carbon, Lehigh, Northampton)	1 TO 2	81,900	85995	90295	94809	99550	104527	109754	115242	121004
	3 OR MORE	94,100	98805	103745	108933	114379	120098	126103	132408	139029
ELK, FRANKLIN, INDIANA, LEBANON, MCKEAN, UNION, AND WARREN COUNTIES	1 TO 2	81,000	85050	89303	93768	98456	103379	108548	113975	119674
	3 OR MORE	93,100	97755	102643	107775	113164	118822	124763	131001	137551
ERIE MSA (Erie)	1 TO 2	81,000	85050	89303	93768	98456	103379	108548	113975	119674
	3 OR MORE	93,100	97755	102643	107775	113164	118822	124763	131001	137551
FAYETTE and WASHINGTON COUNTIES	1 TO 2	101,700	106785	112124	117730	123617	129798	136288	143102	150257
	3 OR MORE	118,700	124635	130867	137410	144281	151495	159069	167023	175374
HARRISBURG MSA (Cumberland, Dauphin)	1 TO 2	85,000	89250	93713	98398	103318	108484	113908	119604	125584
	3 OR MORE	97,700	102585	107714	113100	118755	124693	130927	137474	144347
LANCASTER MSA (Lancaster)	1 TO 2	83,000	87150	91508	96083	100887	105931	111228	116789	122629
	3 OR MORE	95,400	100170	105179	110437	115959	121757	127845	134237	140949
MONROE COUNTY	1 TO 2	81,500	85575	89854	94346	99064	104017	109218	114679	120413
	3 OR MORE	93,700	98385	103304	108469	113893	119588	125567	131845	138438
NEWBURGH MSA (Pike)	1 TO 2	94,900	99645	104627	109859	115352	121119	127175	133534	140211
	3 OR MORE	110,700	116235	122047	128149	134557	141284	148349	155766	163554
PERRY COUNTY	1 TO 2	102,000	107100	112455	118078	123982	130181	136690	143524	150700
	3 OR MORE	119,000	124950	131198	137757	144645	151878	159471	167445	175817
PITTSBURGH MSA (Allegheny, Beaver, Butler, Westmoreland)	1 TO 2	84,800	89040	93492	98167	103075	108229	113640	119322	125288
	3 OR MORE	97,500	102375	107494	112868	118512	124437	130659	137192	144052
PHILADELPHIA MSA (Bucks, Chester, Delaware, Montgomery)	1 TO 2	96,600	101430	106502	111827	117418	123289	129453	135926	142722
	3 OR MORE	111,000	116550	122378	128496	134921	141667	148751	156188	163998
PHILADELPHIA COUNTY	1 TO 2	115,900	121695	127780	134169	140877	147921	155317	163083	171237
	3 OR MORE	135,200	141960	149058	156511	164336	172553	181181	190240	199752
READING MSA (Berks)	1 TO 2	82,200	86310	90626	95157	99915	104910	110156	115664	121447
	3 OR MORE	94,500	99225	104186	109396	114865	120609	126639	132971	139620
STATE COLLEGE MSA (Centre)	1 TO 2	88,700	93135	97792	102681	107815	113206	118866	124810	131050
	3 OR MORE	102,000	107100	112455	118078	123982	130181	136690	143524	150700
YORK MSA (York)	1 TO 2	82,200	86310	90626	95157	99915	104910	110156	115664	121447
	3 OR MORE	94,500	99225	104186	109396	114865	120609	126639	132971	139620
ALL OTHER COUNTIES Non Target	1 TO 2	97,200	102060	107163	112521	118147	124055	130257	136770	143609
	3 OR MORE	113,400	119070	125024	131275	137838	144730	151967	159565	167543