RECAPTURE TAX

What is it? When does it apply?

Borrowers with loans funded by tax-exempt bonds 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. West Virginia Housing Development Fund (WVHDF) 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 using WVHDF's low interest rate Homeownership Program.
When tax-exempt mortgage bonds are used for financing, the borrower receives a benefit. (Generally, the lower than market interest rate).

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.

What are the income limits and where are they found?

After closing, you will receive a letter with information on the limits.

When is recapture paid?

Recapture tax is paid at the time income tax returns are filed.

Recapture tax may not need to be paid when:

- There is no profit made on the sale of the home.
- The home is refinanced.
- The borrower dies within the first nine years of owning the home.
- The home is destroyed by fire, flood or other natural disasters and is rebuilt on the same site within two years of receiving insurance proceeds.

What 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.

How is the income increase calculated and what is is the federal allowable limit?

An increase of more than five (5) percent per year during ownership of the home may make you a candidate for recapture.

However, this income increase is not determined from your actual compliance income as calculated at the time of purchase; rather, it is determined by using the applicable *maximum* compliance limit at the time of your purchase. In other words, if the applicable maximum compliance income limit was $75,000 when you bought your home and your actual compliance income was $50,000, the five (5) percent income increase limit is calculated from $75,000, not $50,000.

West Virginia Housing Development Fund

5710 MacCorkle Avenue, SE, Charleston, WV 25304
304-391-8600 ● 1-800-933-9843
NMLS 198038 ● www.wvhdf.com

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