

# IRS Federal Recapture Tax

## What is an IRS Recapture Tax?

Since NIFA loans are generally financed through the sale of tax-exempt bonds, borrowers are subject to a potential IRS recapture tax during the first 9 years of the loan. The IRS recapture tax will not occur in every situation. NIFA understands you may be concerned with having to pay a potential recapture tax and because of this, we provide recapture tax reimbursement.



## What events trigger the IRS Recapture Tax?

All of the following events must occur to be subject to an IRS recapture tax:

- You sell your home before the end of 9 years **AND**
- You realize a gain from the sale **AND**
- Your adjusted gross income reported on your federal tax return at the time of sale exceeds the IRS limit

For example, if you sell your home five years after closing for a gain but your adjusted gross income is below the IRS maximum limit, there is no recapture tax due. Additionally, if you sell your home eight years after closing at a loss and your adjusted gross income does exceed the IRS maximum limit, there is no recapture tax.

## What is the process to determine if an IRS Recapture Tax is due?

You should seek assistance from a professional tax advisor or the IRS for answers to questions about calculating a recapture tax. Any recapture amount due is included when filing your federal tax return for the year in which the sale occurred.

Your Participating Lender will provide you with a Notice of Recapture Tax at loan application and a final Notice of Recapture Tax at closing. The final Notice provides information to help you complete IRS Form 8828, Recapture of Federal Mortgage Subsidy. The completed IRS Form 8828 and recapture tax amount, if any, is included with your federal tax return.



**We work for you!**

## How do I qualify for reimbursement from NIFA?

You must submit a request for reimbursement and supporting documentation no later than July 15<sup>th</sup> of the calendar year following the year in which you sell your home. NIFA will review your request and will order a copy of your federal tax return from the IRS. If all qualifications are satisfied, you can expect reimbursement within 90-120 days.

For more information, refer to NIFA's website or call our office and ask for a Homeownership Team Specialist.

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