Riverside County Economic Development Agency
Mortgage Credit Certificate Program
5555 Arlington Avenue, Riverside, CA 92504
Phone: 951-343-5469
www.rivcoeda.org

Name of Issuer: RIVERSIDE COUNTY
MCC Number: ____________
Name of Applicant(s): ________________________
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NOTICE TO MORTGAGOR OF MAXIMUM RECAPTURE TAX

Note:	Lender should ensure the form is completely filled in, properly signed at or as close to close of escrow as possible and submitted to the County within 5 working days of the close of escrow. Forms signed in advance of closing date are subject to rejection.

Because you are receiving a Mortgage Credit Certificate with your mortgage loan, you are receiving the benefit of a credit against your federal income taxes. If you sell or otherwise dispose of your home during the next nine years, this benefit may be "recaptured". 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 above specified levels. You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time 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). The following information will assist you in determining the amount, if any, of "recapture tax":

A. Loan Information

1. Name of Mortgagor(s): ________________________________
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2. Location of Home: ________________________________
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3. Principal amount of Home Mortgage on date of Mortgage Closing: $___________

4. Is the Home in an IRS Targeted Area: ☐ Yes ☐ No

5. Adjusted Qualifying annual Income as of date of mortgage $__________

6. Household size as of date of mortgage _____

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B. General Recapture Information

When you sell your home, you may have to pay a recapture tax. The recapture tax may also apply if you dispose of your home in some other way. Any reference in this notice to the “sale” of your home also includes other ways of disposing of your home. For example, if you give away your home (other than to your spouse or ex-spouse incident to divorce), you are considered to have “sold” it. You figure the recapture tax as if you had sold your home for its fair market value on the date that you gave it away. The sale or other disposition of your home includes an exchange, involuntary conversion, or any other disposition.

When the recapture does not apply. The recapture does not apply if any of the following situations apply to you:

- The home is disposed of as a result of your death,
- You dispose of the home more than 9 years after the date you closed your mortgage loan,
- You transfer the home to your spouse, or to your former spouse incident to a divorce, where no gain is included in your income,
- You dispose of the home at a loss,
- Your home is destroyed by a casualty, and you replace it on its original site within 2 years after the end of the tax year when the destruction happened (within 5 years if the home was in the Hurricane Katrina disaster area and was destroyed by reason of the hurricane after August 24, 2005), or
- You refinance your mortgage loan (unless you later meet the conditions listed “when the recapture applies”).

When the recapture applies. The recapture of the federal mortgage subsidy applies only if you meet all of the following conditions:

- You sell or otherwise dispose of your home at a gain, and
- The sale is made within the first 9 years after the date you close your mortgage loan, and
- Your modified adjusted gross income for the year of disposition is more than the following Table 1 or 1A Adjusted Qualified income for your family size for that year.

TABLE 1 - OUTSIDE TARGET AREA

Date that you sell your home:	ADJUSTED QUALIFYING INCOME Number of family members living in your home at the time of sale:	
	2 or less Median x 100%*	3 or more Median x 115%*
Less than 1 year after Mortgage Closing	$70,400	$80,960
1 or more years, but less than 2 years after mortgage closing	$73,920	$85,008
2 or more years, but less than 3 years after mortgage closing	$77,616	$89,258
3 or more years, but less than 4 years after mortgage closing	$81,496	$93,721
4 or more years, but less than 5 years after mortgage closing	$85,571	$98,407
5 or more years, but less than 6 years after mortgage closing	$89,850	$103,327
6 or more years, but less than 7 years after mortgage closing	$94,342	$108,494
7 or more years, but less than 8 years after mortgage closing	$99,059	$113,918
8 or more years, but less than 9 years after mortgage closing	$104,012	$119,614

* Or high housing cost adjustment, if applicable. The entries in the first row are the highest qualifying incomes as of the date of loan closing. The entries in each subsequent row equal the entries in the immediately preceding row times 1.05.

TABLE 1A - INSIDE TARGET AREA

Date that you sell your home:	ADJUSTED QUALIFYING INCOME Number of family members living in your home at the time of sale:	
	2 or less Median x 100%*	3 or more Median x 115%*
Less than 1 year after Mortgage Closing	$84,480	$98,560
1 or more years, but less than 2 years after mortgage closing	$88,704	$103,488
2 or more years, but less than 3 years after mortgage closing	$93,139	$108,662
3 or more years, but less than 4 years after mortgage closing	$97,796	$114,095
4 or more years, but less than 5 years after mortgage closing	$102,685	$119,800
5 or more years, but less than 6 years after mortgage closing	$107,820	$125,790
6 or more years, but less than 7 years after mortgage closing	$113,211	$132,079
7 or more years, but less than 8 years after mortgage closing	$118,871	$138,683
8 or more years, but less than 9 years after mortgage closing	$124,815	$145,618

* Or high housing cost adjustment, if applicable. The entries in the first row are the highest qualifying incomes as of the date of loan closing. The entries in each subsequent row equal the entries in the immediately preceding row times 1.05.

Your Modified Adjusted Gross Income means your "adjusted gross income" shown on your federal tax return for the taxable year in which you sell your home increased by any tax exempt bond interest income you receive or accrue in such taxable year that is excluded from your gross income (under Section 103 of the Internal Revenue Code) and decreased by the amount of any gain included in your gross income by reason of the sale of your home.

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C. Maximum Recapture Tax

If you meet all conditions for recapture, then you will be subject to the recapture tax. The maximum potential recapture tax that you may be required to pay as an addition to your federal income tax 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 only be determined when you sell your home, and is **the lesser** of (I) 50% of your gain on the sale of the home, regardless of whether you have to include that gain in your income for federal income tax purposes, or (ii) your recapture amount, determined in Steps 1 and 2 below.

D. Actual Recapture Tax

Step 1 - Calculate the maximum potential recapture tax in the year of sale shown below. ***Please use recapture tax calculator on website to insure figures are exact.***

TABLE 2 - MAXIMUM POTENTIAL RECAPTURE TAX

Column A Date of Sale or Transfer of Home (or Prepayment of Mortgage, if Earlier)	**Column B** Holding Period Percentage	**Col C** % of Original Mortgage*	**Column D** Dollar Amount, Based on Original Mortgage of $______________
Before: 1 year after Mortgage Closing	20%	1.25%	$______**_______
1 or more years, but less than 2 years after mortgage closing	40%	2.50%	$______________
2 or more years, but less than 3 years after mortgage closing	60%	3.75%	$______________
3 or more years, but less than 4 years after mortgage closing	80%	5.00%	$______________
4 or more years, but less than 5 years after mortgage closing	100%	6.25%	$______________
5 or more years, but less than 6 years after mortgage closing	80%	5.00%	$______________
6 or more years, but less than 7 years after mortgage closing	60%	3.75%	$______________
7 or more years, but less than 8 years after mortgage closing	40%	2.50%	$______________
8 or more years, but less than 9 years after mortgage closing	20%	1.25%	$______________

* Percentage of original mortgage is calculated by multiplying holding period percentage (column B) to the maximum recapture tax percentage amount of 6.25%.
** Column d = column c * original mortgage amount

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Example 1: If the home was sold between 1 and 2 years after Mortgage Closing, use 2.50% of original mortgage. Thus, if original mortgage was $100,000, the maximum potential recapture tax would be $2,500 ($100,000 **x** 2.50%).

Step 2 - Possible Reduction

Determine whether your Modified Adjusted Gross Income, in the taxable year in which you sell your home, exceeds the Adjusted Qualifying Income shown in Table 1 or Table 1A, as applicable, and if it does, whether such excess is more or less than $5,000 above the Adjusted Qualifying Income shown in Table 1 or Table 1A, as applicable.

Example 2: If you have a two person household and your Modified Adjusted Gross Income is $53,000, and the Adjusted Qualifying Income in Table 1 or Table 1A, as applicable, for that year is $50,000, your "excess income" is $3,000:

Actual Household Income	$53,000
- Income Limit (from Table 1 or 1A)	$50,000
Excess Income above Adjusted Qualifying Income	$ 3,000

You will be in one of three situations:

(I) Your Modified Adjusted Gross Income does not exceed the Adjusted Qualifying Income: You are not subject to any recapture tax at all.

(ii) Your Modified Adjusted Gross Income is $5,000 or more above the Adjusted Qualifying Income: There is no reduction in the maximum potential recapture tax calculated in Step 1.

(iii) Your Modified Adjusted Gross Income is less than $5,000 above the Adjusted Qualifying Income: Your maximum potential recapture tax will be reduced pro rata, as shown below:

If your excess Modified Adjusted Gross Income is less than $5,000 above the Adjusted Qualifying Income, the revised maximum potential recapture tax would be:

$$\text{Revised Maximum Potential Recapture Tax} = \frac{\text{Excess Income (from Step 2)}}{\$5{,}000} \times \text{Maximum Potential Recapture Tax (from Table 2)}$$

Example 3: Actual Income less Adjusted Qualifying Income **=** $3,000 (as calculated in Example 2 above) Revised Max. Potential Recapture Tax = $3,000/$5,000 = 60% times $2,500* = $1,500 Revised Max.

* Maximum Potential Recapture Tax from table 2 as calculated in Example 1.
Thus, the maximum potential recapture tax of $2,500 determined in Step 1 would be reduced to $1,500 due to the calculation in Step 2.

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E. Gain on Sale of Home

Finally, compare the revised maximum potential recapture tax (from Step 2) to one-half of your actual gain from the sale of the home. (Your "Gain" is generally defined by the IRS to be the resale price less (I) sale costs, (ii) your original purchase price, and (iii) your cost of capital improvements. This is true whether or not you rollover the gain). Whichever is less is the amount of recapture tax liability.

Example 4: Revised Maximum Potential Recapture Tax = $1,500

Gain from Sale of Home:

Sale Price	$150,000	
Closing Costs	- 8,000	
	$142,000	
Basis in Home	$140,000	($130,000 initial price plus $10,000 cost of improvements)
Gain	$ 2,000	
Times one-half(½)	$ 1,000	

Lesser of $1,500 and $1,000 is $1,000; so $1,000 is the recapture tax liability.

Other Factors Affecting the Recapture Tax

All references to the "sale" or "transfer" of the home include any change in your interest in the Home, whether by sale, exchange, gift or some other disposition.

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.

If any person other than you or your spouse is also a mortgagor, each person's Recapture Tax will be determined separately in accordance with his or her interest in the house.

The Recapture Tax may also be somewhat reduced if you repay your loan in full (e.g. refinance) during the nine-year recapture period and you sell your home during this period under a special rule in Section 143(m)(4)(c)(ii) of the Internal Revenue Code.

Other special rules may apply in particular circumstances.

This Recapture Notice is provided by the County of Riverside pursuant to Section 143(m)(7) of the Internal Revenue Code. You may wish to consult a tax advisor or IRS at the time you sell your home to determine the amount, if any, of your actual recapture tax.

For more information please obtain “Publication 523 – Selling Your Home” from the local IRS at (800) 829-1040 or visit www.irs.gov

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I acknowledge that I have received and read this Recapture Notice by signing in the space(s) provided below.

ACKNOWLEDGED:

Mortgagor	Date
Mortgagor	Date
Mortgagor	Date
Mortgagor	Date

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