HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
SINGLE FAMILY MORTGAGE REVENUE BONDS
ABOUT RECAPTURE TAX
PRE-CLOSING NOTICE

When a homebuyer receives financing through Mortgage Revenue Bonds (MRBs), they benefit from a federal subsidy in the form of a reduced mortgage interest rate which is made possible by tax-exempt MRB proceeds. Federal law governing MRBs mandates a "Recapture Tax" of some of the benefit of the program if homebuyers meet certain criteria.

To owe Recapture Tax, a homebuyer must sell their home within the first nine years, make a net profit on the sale of the home **AND** have a significant increase in income. A significant increase in income occurs when income exceeds program income limits in the first year and increases by an additional 5% or more over the previous year, every year thereafter. All three criteria must be met for Recapture Tax to be due. If Recapture Tax is owed, it is computed and paid to the IRS for the tax year in which the home is sold.

The most Recapture Tax a homebuyer may be required to pay is the lesser of one-half (½ or 50%) of the gain on the sale of the home or 6.25% of the highest principal amount of the Mortgage Loan and DPA Loan, if applicable, during the life of the loan. (I.e., if the highest principal amount of the loan was $500,000 (including both the Mortgage Loan and DPA Loan, if applicable) and the home is sold within 49-60 months of ownership, then $500,000 would be multiplied by .0625 for a maximum amount of Recapture Tax of $31,250.) This amount is considered the federally subsidized amount.

When a homebuyer sells their home is just as important as the amount received for the sale of the home and the household income at the time of sale. The actual Recapture Tax, if any, can only be determined when the home is sold.

Remember

- If the home is sold *after* nine years, there is no Recapture Tax due.
- If there is no gain (net profit) on the sale of the home, there is no Recapture Tax due.
- If the homebuyer's household adjusted gross income does not increase significantly over the first nine years, there is no Recapture Tax due.

Recapture Tax may not be due if

- The home is destroyed by fire, storm, flood or another casualty, and is rebuilt or rehabilitated within two years for use as the homebuyer's principal residence on the site of the home financed with the original federally subsidized Mortgage Loan.
- The home is sold, given away, or disposed of more than 9 full years after the mortgage loan is closed.
- The home is disposed of because of death.
- The home is transferred to a homebuyer's spouse or former spouse as an agreement of divorce, and there is no gain or loss included in the homebuyer's income from the transfer.

INFORMATION NEEDED IN THE FUTURE

At the time of closing the Mortgage Loan (and DPA Loan, if applicable), homebuyers will receive a Notice from the Program Administrator or lender. This notice should be kept with the homebuyer's Mortgage Loan documents. The notice contains extremely important, detailed information that will be needed to determine if Recapture Tax may be owed.

The notice contains information that will be needed to complete IRS Form 8828 such as:

- The loan amount (the highest principal amount of the loan),
- Closing Date,
- Name of the Issuer of the Bonds,
- Name of the original lender that made the loan, and
- Chart that details data necessary to complete IRS Form 8828.

FOR MORE INFORMATION

Contact the IRS to request IRS Form 8828 and instructions (both available on the **IRS Website:** https://www.irs.gov/**forms-instructions**. In the Forms, Instructions and Publications Search field, type "8828" and press enter). Review the form and instructions now. In the year the home is sold, homebuyers are required to complete and file IRS Form 8828 with their federal income tax return (even after the full 9 years). The homebuyer's household income that will be considered in the year of sale will be the modified adjusted gross income from their federal income tax return. Homebuyers should consult a

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tax advisor with questions.

Borrower Signature	_____	**Date**	_____
Co-Borrower Signature	_____	Date	_____
Non-Purchasing Spouse Signature	_____	Date	_____

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