

DELAWARE STATE HOUSING AUTHORITY
NOTICE OF POTENTIAL MORTGAGE SUBSIDY
RECAPTURE TAX AND ITS COMPUTATION

**THIS NOTICE IS ONLY FOR BUYERS WHO ARE OBTAINING A DELAWARE
FIRST-TIME HOMEBUYER TAX CREDIT CERTIFICATE. SUCH BUYERS ARE
REQUIRED TO ACKNOWLEDGE THIS NOTICE BY SIGNATURE BELOW.**

I. Summary

As a recipient of a Delaware First-Time Homebuyer Tax Credit (a “DE Tax Credit”) certificate, you may under certain circumstances be required to pay a “mortgage subsidy recapture tax” as described under Section 143(m) of the Internal Revenue Code. Such tax, if applicable would be due upon the sale, transfer or other disposition of your home within the first nine years after settlement of your mortgage loan. The maximum recapture tax is the lesser of (a) 50% of the gain realized on sale, transfer or other disposition of your home, and (2) 6.25% of your maximum mortgage loan amount. The tax may be less based on the actual calculation which is summarized below. You will owe no tax if the transfer is more than nine years after loan settlement or if the transfer occurs as a result of death.

Please note that your recapture tax, if any, cannot be computed at this time since it is based on when you sell or transfer your home, your gain from the disposition, and an income and family size calculation made at the time of disposition. A more detailed summary of the recapture tax computation is set forth below. You are encouraged to contact your tax advisor or the IRS for further information.

II. Recapture Tax Computation

A. Definitions

The following definitions are provided to assist you in determining the amount of recapture tax, if any, you may be liable for:

Adjusted Qualifying Income - the maximum income limit at the time of settlement based on the borrower’s family size at the time the house is transferred, plus 5% of the maximum income limit compounded for every full year the mortgage loan (relating to your DE Tax Credit) is outstanding. The applicable adjusted qualifying incomes are set forth in Column 2 of the Table below.

Modified Adjusted Gross Income - adjusted gross income on federal income tax form in the year the house is transferred or sold, plus any tax-exempt income received or accrued, decreased by the gain, if any, included in gross income as a result of the transfer of the house.

Gain-On-Sale - purchase price plus cost of improvements plus allowable closing costs, subtracted from selling price less allowable selling expenses.

B. Maximum Recapture Tax

The maximum recapture tax is the lesser of (a) 50% of the gain realized on sale, transfer or other disposition of your home, and (2) 6.25% of your maximum mortgage loan amount.

C. No Recapture Tax Due in Certain Situations

In the following situations, **no** recapture tax is due and you do not need to do the calculations:

- (1) You dispose of your home more than nine years after you close your mortgage loan;
- (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 incident to 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.

D. Actual Recapture Tax

The actual recapture tax, if any, will only 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), and (2) your **recapture amount** determined by multiplying the following three numbers:

- (i) **The product of 6.25% multiplied by the highest principal amount of the mortgage loan.**
- (ii) The **holding period percentage**, as listed in Column 1 in the Table below, attached to this Notice, and
- (iii) The **income percentage**, as calculated in accordance with E. below.

E. Income Percentage Calculation

The income percentage is calculated as follows:

- (i) Subtract the applicable **adjusted qualifying income** in the taxable year in which you sell your home, as listed in Column 2 in the Table below, 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.

- (ii) If the amount calculated in (i) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is \$5,000 or more, your income

percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. 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%.

F. 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 the 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 mortgage loan in full during the 9-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 Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. Section 143(m) of the Internal Revenue Code sets forth the applicable rules.

Each of the undersigned acknowledges receipt of, and has reviewed, this Notice of Potential Mortgage Subsidy Recapture Tax and its Computation, including the Table of Holding Periods and Adjusted Qualifying Incomes.

_____ Date

_____ Date

**RECAPTURE TAX TABLE
NEW CASTLE COUNTY**

(COLUMN 2)

Adjusted Qualifying Income

**NUMBER OF FAMILY MEMBERS
LIVING IN YOUR HOME
AT THE TIME OF SALE**

<u>DATE THAT YOU SELL YOUR HOME</u>	(COLUMN 1)	(NON-TARGETED AREA)		(TARGETED AREA)	
	<u>HOLDING PERIOD PERCENTAGE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>
Before the first anniversary of closing (See note below)	20%	\$ 96,600	\$ 111,090	\$ 115,920	\$ 135,240
On or after the first anniversary of closing, but before the second anniversary of closing.	40%	\$ 101,430	\$ 116,645	\$ 121,716	\$ 142,002
On or after the second anniversary of closing, but before the third anniversary of closing.	60%	\$ 106,502	\$ 122,477	\$ 127,802	\$ 149,102
On or after the third anniversary of closing, but before the fourth anniversary of closing.	80%	\$ 111,827	\$ 128,601	\$ 134,192	\$ 156,557
On or after the fourth anniversary of closing, but before the fifth anniversary of closing.	100%	\$ 117,418	\$ 135,031	\$ 140,901	\$ 164,385

Note: Closing means the closing date for your loan.

<u>DATE THAT YOU SELL YOUR HOME</u>	(COLUMN 1)	(NON-TARGETED AREA)		(TARGETED AREA)	
	<u>HOLDING PERIOD PERCENTAGE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>
On or after the fifth anniversary of closing, but before the sixth anniversary of closing.	80%	\$ 123,289	\$ 141,782	\$ 147,947	\$ 172,604
On or after the sixth anniversary of closing, but before the seventh anniversary of closing.	60%	\$ 129,453	\$ 148,871	\$ 155,344	\$ 181,235
On or after the seventh anniversary of closing, but before the eighth anniversary of closing.	40%	\$ 135,926	\$ 156,315	\$ 163,111	\$ 190,296
On or after the eighth anniversary of closing, but before the ninth anniversary of closing.	20%	\$ 142,722	\$ 164,131	\$ 171,267	\$ 199,811

**RECAPTURE TAX TABLE
KENT & SUSSEX COUNTIES**

**(COLUMN 2)
Adjusted Qualifying Income
NUMBER OF FAMILY MEMBERS
LIVING IN YOUR HOME
AT THE TIME OF SALE**

<u>DATE THAT YOU SELL YOUR HOME</u>	(COLUMN 1)	(NON-TARGETED AREA)		(TARGETED AREA)	
	<u>HOLDING PERIOD PERCENTAGE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>
Before the first anniversary of closing (See note below)	20%	\$ 81,900	\$ 94,185	\$ 98,280	\$ 114,660
On or after the first anniversary of closing, but before the second anniversary of closing.	40%	\$ 85,995	\$ 98,894	\$ 103,194	\$ 120,393
On or after the second anniversary of closing, but before the third anniversary of closing.	60%	\$ 90,295	\$ 103,839	\$ 108,354	\$ 126,413
On or after the third anniversary of closing, but before the fourth anniversary of closing.	80%	\$ 94,809	\$ 109,031	\$ 113,771	\$ 132,733
On or after the fourth anniversary of closing, but before the fifth anniversary of closing.	100%	\$ 99,550	\$ 114,482	\$ 119,460	\$ 139,370

Note: Closing means the closing date for your loan.

<u>DATE THAT YOU SELL YOUR HOME</u>	(COLUMN 1)	(NON-TARGETED AREA)		(TARGETED AREA)	
	<u>HOLDING PERIOD PERCENTAGE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>	<u>2 OR LESS</u>	<u>3 OR MORE</u>
On or after the fifth anniversary of closing, but before the sixth anniversary of closing.	80%	\$ 104,527	\$ 120,207	\$ 125,433	\$ 146,338
On or after the sixth anniversary of closing, but before the seventh anniversary of closing.	60%	\$ 109,754	\$ 126,217	\$ 131,705	\$ 153,655
On or after the seventh anniversary of closing, but before the eighth anniversary of closing.	40%	\$ 115,242	\$ 132,528	\$ 138,290	\$ 161,338
On or after the eighth anniversary of closing, but before the ninth anniversary of closing.	20%	\$ 121,004	\$ 139,154	\$ 145,204	\$ 169,405