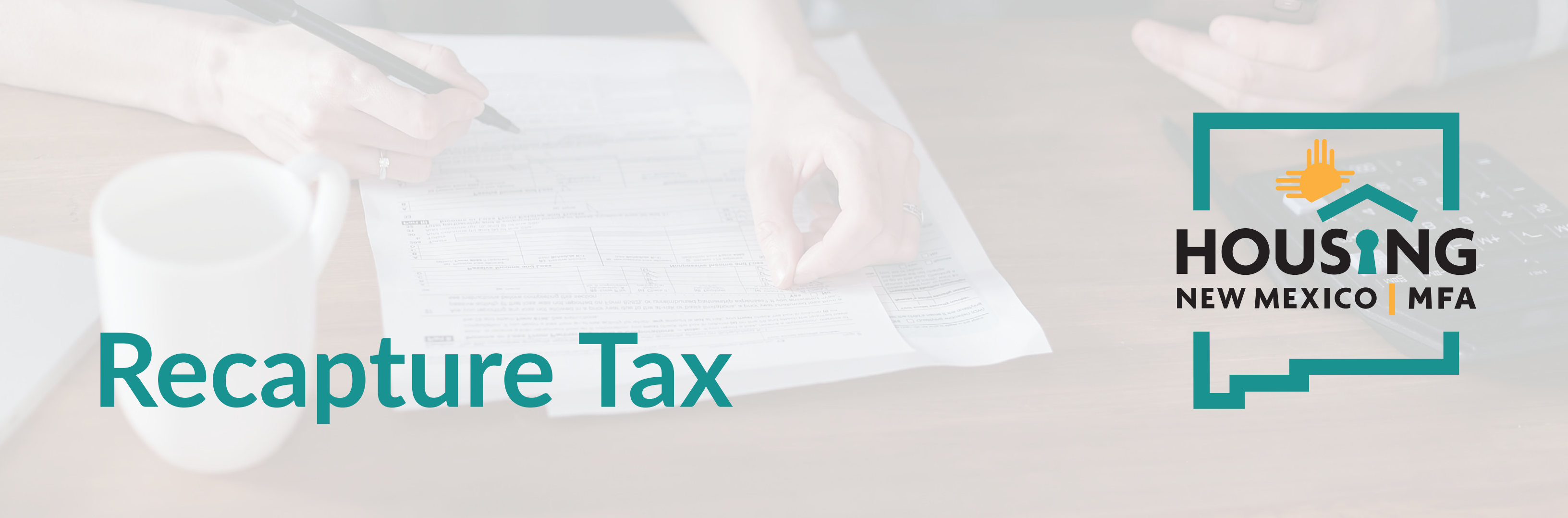

Recapture Tax

What You Need to Know

If you purchased a home through Housing New Mexico's First*Home* program, you may be required to pay the IRS a portion of the profit from the sale of your home. This is known as the recapture tax and applies only if **all** of the following conditions are met:

- You sell your home at a net profit.
- You sell your home within the first nine years of ownership.
- Your household income has increased by more than 5 percent per year while you owned the home.

If you are required to pay the recapture tax, federal regulations limit the amount you owe:

- The amount owed will never exceed **50 percent of your net profit** from the sale or **6.25 percent of the original mortgage amount**, whichever is less.
- Net profit is calculated after expenses such as real estate agent commissions, legal fees and closing costs are deducted.
- The 5 percent annual household income increase is based on the First*Home* program income limit in effect when you purchased your home—not your actual household income at the time of purchase. For example, if the First*Home* income limit was $60,000 when you purchased your home and your household income was $40,000, the income increase is measured from $60,000—not $40,000.
- If your household income exceeds the applicable First*Home* income limit by no more than $5,000 at the time of the sale, you may be required to pay only a portion of the recapture tax.

You Generally Will Not Owe Recapture If:

- You do not make a net profit from the sale of your home.

Quick Facts

- First*Home* borrowers may be subject to recapture tax.
- Recapture tax may apply if:
  - the home is sold at a net profit,
  - the sale occurs within the first nine years of ownership, and
  - the homeowner's household income has increased by more than 5 percent per year.
- Household income increases are measured using the First*Home* income limit in effect at the time of purchase—not the homeowner's actual household income at that time.
- No recapture tax is due if the home is not sold at a net profit.
- The recapture tax will never exceed 50 percent of the net profit from the sale of the home or 6.25 percent of the original mortgage amount, whichever is less.
- Refinancing your home alone does not trigger recapture tax.

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- You refinance your home, provided it is not sold within the first nine years of ownership.
- The borrower dies within the first nine years of owning the home.
- The home is destroyed by fire, flood or another natural disaster and is rebuilt on the same site within two years of receiving the insurance proceeds.

Housing New Mexico is required to report the names, Social Security numbers and addresses of all First*Home* borrowers to the IRS. When the home is sold, borrowers must file **IRS Form 8828** with their federal income tax return for that tax year.

At the time of closing, the borrower will receive recapture disclosure documents which will specify the applicable income limits.

Housing New Mexico recommends consulting a qualified tax professional regarding the recapture tax. The information provided here is intended as a general overview and should not replace professional tax advice.

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