

RECAPTURE TAX

What you need to know.



If you purchased a home using MFA's FIRSTHome program, you could be required to pay the IRS a portion of the profit you make when you sell your home. Known as the "recapture tax", you must pay the tax only if you meet these criteria:

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

If you are required to pay the recapture tax, federal regulations are designed to minimize the amount that is owed:

- The amount owed will never exceed one-half of the net profit you make on the sale or 6.25 percent of the original mortgage, whichever is less.
- Net profit is calculated after items such as real estate agent, legal and closing fees are subtracted.
- The 5 percent increase in your household income that would make you a candidate for recapture tax is not calculated from your household income at the time of purchase. It is figured from the maximum income limit for the FIRSTHome program that was in effect when you bought your home. In other words, if the FIRSTHome income limit was \$60,000 when you bought your home and your household income was \$40,000, the 5 percent income increase is figured from \$60,000, not \$40,000.
- If your income exceeds the income limit for the FIRSTHome program by no more than \$5,000 at the time of the sale, only a percentage of the recapture tax must be paid.

The recapture tax may not need to be paid when:

- There is no profit made on the sale of the home.
- The home is refinanced, 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 other natural disasters and is rebuilt on the same site within two years of receiving insurance proceeds.

MFA is required to report to the IRS the name, social security number and address of all borrowers who purchase a home through the FIRSTHome program. When the home is sold, the borrower must file IRS form #8828 with their federal income tax return in that tax year.

MFA recommends that potential homebuyers seek advice from a qualified tax professional regarding the recapture tax. The information provided here is general and should not be substituted for guidance from a tax professional.

Quick Facts

- Borrowers using the FIRSTHome program may be subject to recapture tax
- Recapture tax must be paid if the home is sold at a net profit within the first nine years of ownership **and** if the homeowner's income has increased by more than 5 percent per year throughout the duration of owning the home
- Income increase is figured from FIRSTHome income limits in effect at the time of purchase, not from the homeowner's actual income at the time of purchase
- No recapture tax is due if the home is not sold for a net profit
- The recapture tax will never exceed 50 percent of the net gain from the sale of the home or 6.25% of the original mortgage, whichever is less
- If the home is refinanced, no recapture tax is due



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