Missouri Housing Development Commission

LENDER TRAINING: Understanding Recapture Tax

EQUAL HOUSING OPPORTUNITY

MHDC.com

First Place MRB

Mortgage Credit Certificate

WHAT HAPPENS WHEN THE HOUSE IS SOLD?

- **Title to the home transfers as in any other transaction.**
- **If the home is sold within the first nine years of homeownership, Recapture Tax may be triggered.**
- **The repayment of a DPA is separate from this.**

Missouri Housing Development Commission
MHDC

WHAT IS RECAPTURE TAX?

- If a homebuyer sells his or her home in the first nine years of ownership AND,
- If they make a profit AND,
- If income is over maximum,

only then additional tax may be owed.

Missouri Housing Development Commission MHDC

First Place MRB

Mortgage Credit Certificate

HOW IS RECAPTURE TAX CALCULATED

- Uses IRS Form 8828 as a worksheet.
- Calculated from time of purchase to time of sale.
- Uses purchase price plus improvements as base price.
- Deducts cost of sale.
- Uses sales-year Adjusted Gross Income as determinant if Recapture Tax owed.

Missouri Housing Development Commission MHDC

First Place MRB

Mortgage Credit Certificate

THINGS TO CONSIDER EVEN WITH POTENTIAL RECAPTURE TAX

- **Borrower using DPA loan gets 4% assistance making homeownership possible.**
- **Borrower saves on interest rate while the home is owned.**
- **Borrower has tax advantage while occupying his home.**
- **Benefits will usually outweigh the possibility of Recapture Tax.**

Missouri Housing Development Commission

MHDC

CONCLUSION

- Borrower using DPA loan gets 4% assistance making homeownership possible.
- Borrower saves on interest rate while the home is owned.
- Borrower has tax advantage while occupying his home.
- Benefits will usually outweigh the possibility of Recapture Tax.

Missouri Housing Development Commission
MHDC