

**NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL
FEDERAL SUBSIDY RECAPTURE TAX
EXAMPLE**

Mortgage numbers, income numbers and tax numbers used in this sample are only an example. Actual numbers, figures and calculations will vary significantly based on your individual situation. Please consult your tax advisor.

Name of Issuer: Bond Loan #: **123456**
 WASHINGTON STATE Applicant: **Lawrence & Lucy Byers**
 HOUSING FINANCE COMMISSION SS#: **555-12-3456**

THIS FORM WILL BE COMPLETED WITH ACTUAL FIGURES AND MAILED TO THE MORTGAGOR WITHIN 90 DAYS OF CLOSE OF ESCROW, AFTER THE LOAN HAS BEEN PURCHASED BY THE PROGRAM ADMINISTRATOR / MASTER SERVICER (FOR ALL LOANS CLOSING ON OR AFTER JANUARY 1, 1991).

Because you have received a Single-Family Bond Loan, pursuant to Section 143 (m) of the Internal Revenue Code of 1986 (the "Code"), you may, at the time you sell the residence for which you have received a Single-Family Bond Loan, be subject to a special recapture tax for federal income tax purposes. You should consult your tax advisor at the time you sell the residence to determine the amount, if any, of such *Federal Subsidy Recapture Tax*. The following information will assist you in determining the amount, if any, of the *Federal Subsidy Recapture Tax*:

1. *Name of Mortgagor(s):* **Lawrence T. Byers
Lucy Q. Byers**
2. *Home Mortgage Closing Date:* **April 1, 2001**
3. *Address of Home:* **12345 - 36th NE
Seattle, WA 98125**
4. *Principal Amount of Home Mortgage on date of closing:* **\$ 200,000.00**
(MRB Mortgage Amount)
5. *Federally-Subsidized Amount:* **\$ 12,500.00**

(MRB Mortgage Amount from item 4 above x .0625)

6. Adjusted Qualifying Income Table: Number of members of the Mortgagor's household at time of sale:

	<u>1 or 2 persons</u>	<u>3 or more persons</u>
Maximum Annual Family Income Limit at Bond issuance:	\$ 60,000	\$70,000

Adjustment if home is sold before: 4/1/2010 (108 months (9 years) from date of mortgage closing)

1 - 12 months after mortgage closing:	\$ 72,200	\$ 83,030
13 - 24 months after mortgage closing:	\$ 75,810	\$ 87,181
25 - 36 months after mortgage closing:	\$ 79,600	\$ 91,540
37 - 48 months after mortgage closing:	\$ 83,580	\$ 96,117
49 - 60 months after mortgage closing:	\$ 87,759	\$ 100,923
61 - 72 months after mortgage closing:	\$ 92,147	\$ 105,969
73 - 84 months after mortgage closing:	\$ 96,754	\$ 111,268
85 - 96 months after mortgage closing:	\$ 101,592	\$ 116,831
97 - 108 months after mortgage closing:	\$ 106,672	\$ 122,673

Date form given or sent to mortgagor: June 15, 2001

**WASHINGTON STATE HOUSING FINANCE COMMISSION
SINGLE -FAMILY PROGRAMS
FEDERAL SUBSIDY RECAPTURE TAX
WORKSHEET**

I.) WILL YOU BE SUBJECT TO PAYMENT OF RECAPTURE TAX?

You will be subject to a *federal subsidy recapture tax* in the tax year you sell your home **only if you meet all three of the following conditions:**

- A.) You sell your home on or before: **4/1/2010** 108 months from the date of mortgage closing), **and**
- B.) You sell your home at a gain (determined by the IRS Form 2119, relating to gain from sale of residence, whether or not you decide to rollover the gain), **and**
- C.) Your household's Modified Adjusted Gross Income (determined as described below) for the year of sale exceeds your household's Adjusted Qualifying Income (determined from the table in item 6 of the Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax*) for the year of sale. In applying the table, determine your family size in the year of sale.

You are not subject to the *recapture tax* if your income is equal to or less than your Adjusted Qualifying Income in the year of sale. You are also not subject to the *recapture tax* if disposition of the residence is by reason of death.

Your Modified Adjusted Gross Income is determined by taking your adjusted gross income (line 31 of IRS Form 1040) and adding to that amount your tax-exempt interest (line 8b of IRS Form 1040) and subtracting the amount of gain that is included in adjusted gross income as a result of the sale of the residence.

II.) HOW MUCH *FEDERAL SUBSIDY RECAPTURE TAX* COULD YOU OWE?

- A.) If you meet **all three** of the above conditions, then you will be subject to the *recapture tax*.
- B.) Your *recapture tax* will be the lesser of:

The Recapture Amount, **or**
The Maximum Recapture.
- C.) Computation of Recapture Amount
 - 1. Determine your Federally-Subsidized Amount (item 5 from the Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax*): **\$ 12,500.00**

2. Determine the Holding Period Percentage from the following table:

<u>Month of Sale</u>	<u>Percentage</u>
1 - 12	20%
13 - 24	40%
25 - 36	60%
37 - 48	80%
49 - 60	100%
61 - 72	80%
73 - 84	60%
85 - 96	40%
97 - 108	20%

Holding Period Percentage: **75 months = 60%**

3. Determine your Income Percentage for the sale year as follows:

- (a) Determine your Modified Adjusted Gross Income for the sale year by taking your adjusted gross income (from IRS Form 1040) for that year and adding to that amount your tax-exempt interest (from IRS Form 1040) and subtracting the amount of gain that is included in adjusted gross income as a result of the sale of the residence:

$$\underline{\$111,000.00 + \$10,150.00 = \$121,150.00 - \$20,000 = \$ 101,150.00}$$

- (b) Determine your Adjusted Qualifying Income for the sale year (table in item 6 of Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax*):

$$\underline{\$ 96,754}$$

- (c) Your Income Percentage for the sale year is your Modified Adjusted Gross Income (a) less your Adjusted Qualifying Income for the sale year (b) divided by 5,000:

$$\underline{\$101,150.00 - \$96,754 = \$4,396 \text{ divided by } 5000 = .8792 \text{ (87\%)}$$

* Note that if you determine that your Income Percentage is a negative number (for example -2.89), your Income Percentage is zero (0). If you determine that your Income Percentage is 1 or more (for example 1.8), your Income Percentage is 100%.

4. Your Recapture Amount is determined by multiplying your Federally-Subsidized Amount (item 1, above) by your Holding Period Percentage (item 2, above) and multiplying that amount by your Income Percentage (item 3(c), above).

$$\underline{(\$12,500.00 \times 60\%) \times 87\% = \$6,525.00}$$

D.) Maximum Recapture

The Maximum Recapture amount is one-half of the gain realized from the sale of the residence.

1. Example:

Your MRB loan amount was \$200,000 (item 4 of the Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax*) and you sold your residence after owning it for 75 months realizing a gain of \$20,000. Your Federally-Subsidized Amount is \$12,500 (item 5 of the Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax*).

For the month of sale, you determine from your IRS Form 1040 and by applying the rules set out in item 3(a) above, that your Modified Adjusted Gross Income is \$101,150.00. In addition, you determine from the table in item 2, above, that the Holding Period Percentage for month 75 is 60% and you determine from the table in item 6 of the Notice to Mortgagor of Information Regarding Potential *Federal Subsidy Recapture Tax* that your adjusted Qualifying Income for the sale year is \$96,754.

Following the rules of item (3 above, you determine your Income Percentage for the sale year as follows:

Modified Adjusted Gross Income - Adjusted Qualifying Income

5,000

\$101,150.00 - \$96,754

5,000

Your Income Percentage is .87 (round to the nearest whole percent).

Your Recapture Amount is determined as follows:

Federally-Subsidized Amount x Holding Period Percentage x Income Percentage

$$\underline{\underline{\$12,500 \times .60 \times .87 = \$6,525.00}}$$

Since the Recapture Amount (\$6,525) is less than one-half of the gain from the sale of your residence (\$20,000), the *Federal Subsidy Recapture Tax* is \$6,525.