



Arizona Is Home Federal Recapture Tax

Arizona IDA
Arizona Is Home Lender Training

Questions?

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Arizona Is Home – Federal Recapture Tax

DISCLOSURE:

THE FOLLOWING DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND EACH MORTGAGOR IS ADVISED TO CONSULT WITH A TAX SPECIALIST TO DETERMINE WHETHER HE OR SHE IS RESPONSIBLE FOR PAYING THE FEDERAL RECAPTURE TAX.



ABOUT RECAPTURE TAX

When a borrower receives a first-time homebuyer loan with the Arizona Is Home Program, they are receiving the benefit of a lower mortgage interest rate than is customarily available on other mortgage loans.

The Arizona Industrial Development Authority (Arizona IDA) has sold tax-exempt mortgage revenue bonds to a private investor who receives a lower interest rate on their investment than is customarily available on other investments.

The investor buys the bonds because the interest earned is tax-exempt. Because the investor does not pay tax on the interest earned on the bonds, the federal government considers this lost tax revenue. Tax-exempt means that the IRS (Internal Revenue Service) Code governs the program.



ABOUT RECAPTURE TAX

Congress enacted legislation in 1988, subsequently amended in October 1990, to recapture, under certain circumstances, some or the entire subsidy from homebuyers who receive qualified mortgage bond assistance after January 1, 1991 (the “Federal Recapture Tax”).

The law mandates a “recapture” of some of the benefit of the program if a Mortgagor **meets all three (3)** of the following criteria:

- 1) the property ceases to be the principal residence in the first full nine (9) years after the date that the mortgage loan is closed;
- 2) there is a profit on the sale of the home, and
- 3) the household income is more than that year’s adjusted qualifying income for Mortgagor’s family size that year.

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MAXIMUM RECAPTURE TAX

The most that a borrower will ever be required to pay when you sell your home in the first 108 months is the lesser of 6.25% of the highest principal amount of the mortgage loan, including any second lien mortgage loan, during the life of the loan or one-half (1/2) of the gain on the sale of the home.

If Federal Recapture Tax is owed, it is computed and paid to the IRS for the tax year in which the Subject Property is sold.



ACTUAL RECAPTURE TAX

The actual recapture tax, if any, can only be determined when the borrower sells their home.

Arizona Is Home borrowers will receive an About Recapture Tax disclosure and execute a Notice of Potential Recapture document at closing. The Notice of Potential Recapture document provides detail on the actual recapture tax calculations which incorporate holding period percentages, income percentages, and limitations.

ARIZONA IDA RECAPTURE TAX REIMBURSEMENT POLICY

Arizona IDA will reimburse any borrower who sells his or her home and is required to pay the federal recapture tax. The reimbursement from Arizona IDA will be limited to the actual amount of the recapture tax. Arizona IDA will not reimburse for any fees, interest, expenses or penalties incurred. Arizona IDA will not calculate the amount of the recapture tax owed by the borrower upon the sale or disposition of the home. Arizona IDA will pay for fees associated with the IRS Form 4506 that is required as part of the Request for Recapture Tax Reimbursement.

A borrower seeking to reimbursement for recapture tax will need to apply to Arizona IDA by July 15 of the calendar year immediately following the calendar year in which the home was sold. Arizona IDA will reimburse the borrower for payment of any recapture tax only if the Arizona IDA-financed first mortgage loan was outstanding at the time of sale (i.e., Arizona IDA will not reimburse the borrower if the Arizona IDA-financed first mortgage loan was refinanced before the sale of the home).





END

