

CDA Recapture Tax Notice Maryland Mortgage Program (MMP)

Lender—Please give this top sheet to borrowers whose MMP mortgage will be purchased by CDA or its master servicer, US Bank.

Federal law provides for a possible Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage financed by proceeds of tax-exempt bonds issued by CDA through its Maryland Mortgage Program (MMP). In order to alleviate the confusion and worry about having to pay a recapture tax when the home is sold, CDA agrees to reimburse any CDA homebuyer who settles on their home on or after July 1, 2005, the amount of any recapture tax that the CDA homebuyer pays in connection with the sale of the home, if the mortgage was financed by CDA with tax-exempt bonds issued through the MMP.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the borrower(s) must consult a personal tax advisor or the IRS. Please contact CDA at singlefamilyhousing.dhcd@maryland.gov if you think you owe recapture tax, to confirm this Notice is applicable to your loan.

- If the borrower(s) has already paid recapture tax, they must send a written request for reimbursement to CDA, by July 15th of the calendar year after the residence is sold, accompanied by the following:

a copy of the signed Final Closing Disclosure from the sale or disposition of the property;
a completed IRS Form W-9 ([IRS Form W-9](#))
the address to which the reimbursement should be mailed; and,
Copies of the borrower(s) filed tax returns or tax transcripts validating payment of the Recapture Tax
any other documentation CDA may need to approve the reimbursement

Submit requests for reimbursement to:
Maryland DHCD
Attn: CDA Single Family - Recapture Tax Reimbursement
7800 Harkins Road, 3rd Floor
Lanham, MD 20706

- CDA will not act on the request for reimbursement until all of the listed items above are received.

CDA will reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

In order to comply with Federal tax reporting requirements, the State of Maryland may issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the borrower can be reported to the IRS as income.

NOTICE TO BORROWER WITH INFORMATION FOR CALCULATING POTENTIAL RECAPTURE TAX begins on the next page.

NOTICE TO BORROWER WITH INFORMATION FOR CALCULATING POTENTIAL RECAPTURE TAX

Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefit of a lower interest rate than is customarily charged on other mortgage loans. If you sell or otherwise dispose of your home during the next nine years, this benefit may be “recaptured.” The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases above specified levels. The recapture tax payment must be accompanied by a signed Internal Revenue Service Form 8828 (Recapture of Federal Mortgage Subsidy) which is to be attached to your Form 1040 for the year in which you sell your home. See the Form 1040 and Form 8828 Instructions.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. Along with this notice, you are being given additional information that will be needed to calculate the recapture tax.

I. METHOD TO COMPUTE RECAPTURE TAX ON SALE OF HOME

A. Introduction.

1. **General.** When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any references in this notice to the “sale” of your home also include other ways of disposing of your home. For instance, you may owe the recapture tax if you give your home to a relative.

2. **Exceptions.** In the following situations, no recapture tax is due and you do not need to do the calculations:

- a. You dispose of your home later than nine years after you close your mortgage loan;
- b. Your home is disposed of as a result of your death;
- c. You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code;
- d. You dispose of your home at a loss; or.
- e. Your modified adjusted gross income at the time of the disposition does not exceed the adjusted qualifying income limit (increased by 5% per year as indicated in the following Tables). This rule is implemented by an “Income Percentage” calculation described below.

B. Maximum Recapture Tax. The maximum recapture tax that you may be required to pay as an addition to your federal income tax is an amount equal to 6.25% of (.0625 multiplied by) the highest principal amount of your mortgage loan, which generally is the amount of the mortgage loan on the date of settlement. This is your federally subsidized amount with respect to the loan.

C. **Actual Recapture Tax.** The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of: (1) 50% of your gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income tax purposes; or (2) your recapture amount determined by multiplying the following three numbers.

1. The maximum recapture tax, as described in paragraph B above;
2. The holding period percentage, as listed in Column 1 in the Table found in Section II of this document; and
3. The income percentage, as described in paragraph D below.

D. **Income Percentage.** First locate the Table that applies to your loan and then calculate the income percentage as follows:

1. Subtract the adjusted qualifying income applicable in the taxable year in which you sell your home, as listed in Column 2 in the Table identified above, from your modified adjusted gross income in the taxable year in which you sell your home.

Your modified adjusted gross income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

2. If the amount calculated in (1) above, is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is \$5,000 or more, your income percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1,000/\$5,000, your income percentage is 20%.

E. **Targeted Jurisdictions:** the following list is a summary of the Targeted Jurisdictions. All other areas not included in the below list are Non-Targeted Jurisdictions.

TARGETED JURISDICTIONS:

Qualified Census Tracts:

Anne Arundel County: Census Tracts - 7302.05, 7302.06, 7305.11, 7305.14
 Baltimore County: Census Tracts - 4011.02, 4013.02, 4015.07, 4024.09, 4085.06, 4203.01, 4203.02, 4303.00, 4505.04, 4523.00, 4914.01, 4927.00 (ALSO see economic distress below)
 Frederick County: Census Tract - 77722.00
 Harford County: Census Tract - 3016.01, 3029.01
 Montgomery County: Census Tracts - 7007.13, 7007.21, 7007.24, 7007.25, 7007.31, 7014.22, 7015.08, 7020.00, 7025.02, 7032.13
 Prince George's County: Census Tracts - 8002.09, 8017.07, 8024.04, 8025.01, 8035.09, 8043.00, 8052.01, 8055.00, 8056.01, 8056.02, 8059.06, 8059.07, 8059.08
 Talbot County: Census Tract - 9603.00
 Washington County: Census Tracts - 0003.02, 0004.00, 0005.00, 0007.00, 0008.00, 0009.00 (ALSO see economic distress below)
 Wicomico County: Census Tracts - 0003.00, 0005.00, 0102.00, 0105.04, 0106.04, 0107.03
 Worcester County, Census Tracts - 9513.00, 9515.00

ALSO the following are included as areas of chronic economic distress:

Allegany County

Baltimore City

Caroline County

Dorchester County

Garrett County

Kent County

Somerset County

The following areas of Baltimore County:

East Towson

Oella

West Catonsville

North Brentwood

Seat Pleasant

The following areas of Washington County:

Hagerstown

The following areas of Wicomico County:

QCT 0003

QCT 0102

The following areas of Prince George's County:

Brentwood

Capitol Heights

Colmar Manor

Fairmont Heights

Mount Rainier

II. TABLES OF ADJUSTED QUALIFYING INCOME

TABLE 1

Targeted Jurisdictions Excluding Washington, D.C. HMFA

(Using State Median Income)

For the list of Targeted Jurisdictions please refer to Paragraph E on Page 2 above.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income (\$)	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	149,400*	174,300*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	156,870	183,015
On or after the second anniversary of closing but before the third anniversary of closing	60%	164,714	192,166
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	172,949	201,774
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	181,597	211,863
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	190,676	222,456
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	200,210	233,579
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	210,221	245,258
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	220,732	257,520

*State median income of \$124,500 times 120% and 140%.

TABLE 2
 Non-Targeted Jurisdictions Excluding Washington, D.C. HMFA
 (Using State Median Income)

For the list of Non-Targeted Jurisdictions please refer to Paragraph E on Page 2 above.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income (\$)	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	124,500*	143,175*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	130,725	150,334
On or after the second anniversary of closing but before the third anniversary of closing	60%	137,261	157,850
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	144,124	165,743
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	151,331	174,030
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	158,897	182,732
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	166,842	191,868
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	175,184	201,462
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	183,943	211,535

*State median income of \$124,500 times 100% and 115%.

TABLE 3

Targeted Jurisdictions in Washington, DC HMFA

(Using High Housing Cost Area Adjustment)

For the list of Targeted Jurisdictions please refer to Paragraph E on Page 2 above.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income (\$)	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	182,520*	212,940*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	191,646	223,587
On or after the second anniversary of closing but before the third anniversary of closing	60%	201,228	234,766
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	211,290	246,505
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	221,854	258,830
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	232,947	271,771
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	244,594	285,360
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	256,824	299,628
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	269,665	314,609

* Washington, D.C. HMFA median income of \$152,100 times 120% and 140%.

TABLE 4

Non-Targeted Jurisdictions in Washington, D.C. HMFA

(Using High Housing Cost Area Adjustment)

For the list of Non-Targeted Jurisdictions please refer to Paragraph E on Page 2 above.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income (\$)	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	182,520*	212,940*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	191,646	223,587
On or after the second anniversary of closing but before the third anniversary of closing	60%	201,228	234,766
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	211,290	246,505
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	221,854	258,830
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	232,947	271,771
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	244,594	285,360
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	256,824	299,628
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	269,665	314,609

* Washington, D.C. HMFA median income of \$152,100 times 120% and 140%.

TABLE 5
Non-Targeted Jurisdictions in St. Mary’s County
(Using St. Mary’s County Median Income)

For the list of Non-Targeted Jurisdictions please refer to Paragraph E on Page 2 above.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	143,900*	165,485*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	151,095	173,759
On or after the second anniversary of closing but before the third anniversary of closing	60%	158,650	182,447
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	166,582	191,570
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	174,911	201,148
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	183,657	211,205
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	192,840	221,766
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	202,482	232,854
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	212,606	244,497

*St. Mary’s median income of \$143,900 times 100% and 115%.

III. LIMITATIONS AND SPECIAL RULES ON RECAPTURE TAX

A. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

B. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if within two years you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

C. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for them based on their interests in the loan.

D. If you repay your loan in full during the nine year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in section 143(m)(4)(C)(ii) of the Internal Revenue Code.

E. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See section 143(m) of the Internal Revenue Code generally.

Received and acknowledged this ____ day of _____, 20__.

Borrower

Borrower