

# Notice to Applicants

## FEDERAL RECAPTURE TAX REQUIREMENTS

### Application Disclosure

#### *Important information to be provided to Applicant at time of application*

You have applied for a mortgage loan ("Mortgage Loan") (including both the first mortgage loan and second mortgage loan, if any) in connection with the purchase of your home ("Home"). If you are approved for the Mortgage Loan, such Mortgage Loan will be financed with proceeds of certain tax-exempt bonds issued by the District of Columbia Housing Finance Agency ("DCHFA"), and you will receive the benefit of a lower interest rate than is customarily charged on other mortgage loans.

Because you are receiving a Mortgage Loan from the proceeds of a tax-exempt bond, you may, under certain circumstances, be subject to a recapture tax designed to recover some amount of the subsidy reflected in your below market interest rate. This notice contains a brief description of this recapture tax and how it may affect you. DCHFA recommends, however, that you consult a tax advisor if you have questions about the recapture tax and that you consult a tax advisor at the time you sell or otherwise dispose of your Home.

There is no recapture tax if you own your home for more than nine years from the date you close your Mortgage Loan. If you do sell or otherwise dispose of your home within nine years from the date you close your Mortgage Loan, you may be subject to the recapture tax and must determine whether you need to pay any recapture tax to the federal government. The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home.

Several factors determine whether you must pay any recapture tax. These factors include your original loan amount, the length of time you own your home financed with the Mortgage Loan, your income and family size at the time of sale, and the gain that you realize on the sale of your home. Since your income and family size may change during the time you own your home and since gain cannot be determined until an actual sale occurs, there is no way to predict whether you will have to pay recapture tax. Regardless of these factors, any recapture tax you may have to pay is limited to the lesser of (i) your original Mortgage Loan amount times 6.25 or (ii) 50% of the actual gain from the sale or other disposition of your home financed with the Mortgage Loan. **NOTE: A Notice to Borrower(s) of Potential Recapture Tax and DCHFA Reimbursement of Recapture Tax with information specific to you and your Mortgage Loan will be sent to you by DCHFA within 90 days after the closing of your Mortgage Loan. Keep that Notice for your records.**

If you sell your home to a buyer eligible to assume the Mortgage Loan, you must still determine whether you owe recapture tax. The buyer is also subject to the recapture tax for nine years beginning on the date your sale to the buyer is closed.

The recapture tax applies to any disposition of your home financed with the Mortgage Loan, whether by sale, exchange, involuntary conversion, or any other transfer of any interest. If you refinance your Mortgage Loan (without selling your home), no recapture tax is due at the time of refinancing, however, you may still owe recapture tax if you sell your house after the refinancing and the sale occurs within nine years from the date you closed your Mortgage Loan.

If your home is damaged or destroyed by fire, storm, or other casualty, you may not owe recapture tax, if within two years, you rebuild your principal residence on the same site. Generally, you may not owe recapture tax if you transfer your home to a spouse, or a former spouse as a result of a divorce, or if your home is transferred as a result of your death.

The undersigned acknowledges that I/we have read and understand the above disclosure.

Applicant: \_\_\_\_\_ Date: \_\_

Applicant: \_\_\_\_\_ Date: \_\_

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### **Recapture Tax Reimbursement**

As outlined above, Federal law provides for a possible Recapture Tax when homeowners sell their home within the first nine years, income exceeds the IRS established limits and a net profit was made on the sale of the home after receiving a Mortgage Loan through DCHFA. In order to remove the confusion and complexity of paying a recapture tax when the home is sold, DCHFA will reimburse any DCHFA homebuyer who purchases their home on or after May 11, 2026, the amount of recapture tax the homebuyer pays to the IRS in connection with the sale of the home.

DCHFA will not calculate the recapture amount. Upon sale or disposition of your home, you must consult a tax advisor or the IRS. IRS Form 8828 must be filed. DCHFA must be provided a signed 4506 covering the tax year the residence was sold, along

with an executed Closing Disclosure from the sale or disposition of the property. DCHFA will process the request for reimbursement once copies of the borrower(s) tax returns are received from the IRS. DCHFA will only reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

**EXAMPLE**

Mortgage numbers, income numbers and tax numbers used in this example are for illustrative purposes only. Actual numbers, figures and calculations will vary based upon each person's individual circumstances. Please consult your tax advisor.

**NOTICE TO BORROWER(S) OF  
POTENTIAL RECAPTURE TAX AND  
DCHFA REIMBURSEMENT OF RECAPTURE TAX**

I.

**BORROWER(S) INFORMATION**

Borrower Name(s): John A. & Tammy D. Homebuyer  
Non-Borrowing Spouse Name: \_\_\_\_\_  
Mortgage Loan Closing Date: May 1, 2026  
First Mortgage Loan Amount: \$150,000.00  
Second Mortgage Loan Amount (if applicable): \$7,500.00  
Total Mortgage Loan Amount: \$157,500.00  
Federally Subsidized Amount (6.25% of the Total Mortgage Loan Amount): \$9,843.75  
Targeted or Non-Targeted Area: Non-Targeted  
Home Address: 123 First Street, Washington, District of Columbia

Home Sold During Year*	Holding Period %	NON-TARGETED AREA		TARGETED AREA	
		Number of Family Members Living in Your Home at the Time of Sale		Number of Family Members Living in Your Home at the Time of Sale	
		<i>2 or less</i>	<i>3 or more</i>	<i>2 or less</i>	<i>3 or more</i>
1	20%				
2	40%				
3	60%				
4	80%				
5	100%				
6	80%				
7	60%				
8	40%				
9	20%				

\*Prior to the anniversary of the Closing Date. For instance, a home sold during Year 4 means on or after the third anniversary of the Closing Date, but before the fourth anniversary of the Closing Date.

## II.

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Because you are receiving a first mortgage loan in connection with your acquisition of the above-described Home and, if applicable, a second mortgage loan to finance down payment and closing costs relating to such acquisition (collectively, the "Mortgage Loan"), from the proceeds of DCHFA's tax-exempt bonds, 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 (9) years, this benefit may be "recaptured" Internal Revenue Service (the "IRS").

The IRS recaptures this benefit by increasing your federal income tax for the year in which you sell your Home by the amount calculated pursuant to provisions of this Notice (the "Recapture Tax"). However, you must pay the Recapture Tax only if you sell your Home at a gain and if your income increases above the levels specified in this Notice.

You may wish to consult a tax advisor or the local office of the IRS at the time you sell your Home to determine the amount, if any, of the Recapture Tax. In this Notice you are being given additional information that will be needed to calculate the Recapture Tax.

**AS DISCUSSED IN PART IV BELOW, IF YOU ARE REQUIRED TO PAY ANY RECAPTURE TAX UPON THE SALE OR DISPOSITION OF YOUR HOME, DCHFA WILL REIMBURSE YOU FOR THE ACTUAL AMOUNT OF ANY RECAPTURE TAX YOU PAY TO THE IRS.**

## III.

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### **NOTICE TO BORROWER(S) OF MAXIMUM RECAPTURE TAX AND OF 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. Any references in this Notice to the "sale" of your Home also includes 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 each the following situations, no Recapture Tax is due, and you do not need to calculate any potential Recapture Tax:
  - (a) You dispose of your Home later than nine (9) 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 of 1986, as amended (the "Code"); or
  - (d) You dispose of your Home with no gain.

**B. Maximum Recapture Tax.** The maximum recapture tax that you may be required to pay as additional federal income tax is six and one-quarter percent (6.25%) of the highest principal amount of your Mortgage Loan (including both the first mortgage loan and any related second mortgage loan, if applicable) and is your "Federally Subsidized Amount" with respect to your Mortgage Loan.

### C. Actual Recapture Tax

1. The actual Recapture Tax, if any, can be determined only at the time you sell your Home, and will be the lesser of (a) 50% of your gain from the sale of your Home, regardless of whether you have to include that gain in your income for federal income tax purposes, or (b) the amount determined by multiplying the following three numbers:
  - (i) The **Federally Subsidized Amount**, as set forth above,
  - (ii) The holding period percentage, as listed in Column 1 in the Table, and
  - (iii) The income percentage, as described in paragraph D below, for the District of Columbia.

### D. Income Percentage. You calculate the income percentage as follows:

1. Subtract the applicable adjusted qualifying income in the taxable year in which you sell your Home, as listed in Column 2 in the Table for the District of Columbia, from your modified adjusted gross income in the taxable year in which you sell your Home. Use the adjusted qualifying income for a targeted Area or Non-Targeted Area depending on where your Home is located. (See Section I above.)

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 two 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 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 (i) 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. Limitations and Special Rules on Recapture Tax

1. 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.
2. If your Home is destroyed by fire, storm, flood, or other casualty, there generally is no Recapture Tax if, within two (2) years of such casualty, you purchase additional property for use as your principal residence on the site of the Home financed with your original subsidized Mortgage Loan.
3. In general, if two (2) 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 Home.
4. If you repay your loan in full during the (9) 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 Code.
5. Other special rules may apply in particular circumstances. For example, special rules may apply to the calculation of "gain" on the sale of your Home and special rules apply if you transfer your Home to your spouse or ex-spouse incident to divorce. 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 Code generally.

**THIS NOTICE GIVES CERTAIN BASIC INFORMATION ABOUT THE RECAPTURE TAX, BUT IS NOT INTENDED TO BE A COMPLETE GUIDE TO THE RECAPTURE PROVISIONS OF THE CODE. YOU SHOULD CONSULT YOUR TAX ADVISOR AT THE TIME YOU SELL YOUR HOME TO DETERMINE THE AMOUNT, IF ANY, OF SUCH RECAPTURE TAX.**

#### IV.

#### **NOTICE TO BORROWER(S) THAT DCHFA WILL REIMBURSE FOR ANY FEDERAL RECAPTURE TAX ACTUALLY PAID BY BORROWER(S)**

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**A. General.** DCHFA agrees that if you are required to pay to the IRS a Recapture Tax calculated according to the provisions of Part III above, DCHFA will reimburse you for the actual amount of the Recapture Tax paid by you to the IRS.

**B. Reimbursement Procedures and Conditions.**

1. In order to be reimbursed for your Recapture Tax payment, you must send your written request to DCHFA no later than July 15 of the calendar year immediately following the calendar year in which you sold or otherwise disposed of your Home. For example, if you sell your Home on December 31, 2026, DCHFA must receive your written request for reimbursement no later than July 15, 2027.

Your written request for reimbursement must include the following:

- (a) DCHFA's Request for Recapture Tax Reimbursement form (available from DCHFA's offices) completed and signed by each Borrower and a spouse of the Borrower;
- (b) IRS Form 4506 (or its equivalent) completed and signed by each Borrower and spouse of a Borrower, permitting DCHFA to obtain a copy of each Borrower's or spouse's federal tax return, including IRS Form 8828 (or its equivalent); DCHFA will pay any fees associated with obtaining your tax returns from the IRS; and
- (c) Any other documentation DCHFA may need to approve your reimbursement.

Each of these items must be signed by each Borrower and spouse of a Borrower and must have original signatures. DCHFA will not accept copies or facsimiles of these items.

In addition to receiving the items described above, DCHFA's approval of your Recapture Tax reimbursement is subject to the following terms and conditions:

- (a) Your Mortgage Loan must be outstanding at the time you sell your Home (i.e. DCHFA will not reimburse you for any Recapture Tax if the Mortgage Loan has been refinanced).
- (b) DCHFA will reimburse you for the actual amount of the Recapture Tax you paid to the IRS, not simply the amount you may owe. DCHFA will not advance funds for the payment of any Recapture Tax. DCHFA will not reimburse for any fees, interest, expenses or penalties incurred, including, but not limited to, fees of any accountant or other tax advisor to calculate the Recapture Tax amount.

- (c) DCHFA will not calculate the amount of any Recapture Tax you may owe upon the sale or disposition of your Home; if you need assistance, you should consult a personal accountant or tax advisor or the IRS.
  - (d) You may submit only one request for reimbursement; DCHFA will not reimburse you for any additional Recapture Tax you may owe under an amended tax return.
3. DCHFA's reimbursement of your Recapture Tax may constitute income to you for federal and/or District of Columbia income tax purposes. You may owe taxes on this additional income. DCHFA will not provide you with additional moneys to pay such taxes. If you have questions regarding the treatment of the reimbursement of the Recapture Tax for tax purposes, you should consult with your personal accountant or tax advisor or the IRS.

This Notice is provided by the District of Columbia Housing Finance Agency pursuant to Section 143(m)(7) of the Code.

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