



FirstHome Loans

Understanding Recapture

What is Recapture?

In 1988, a federal law was passed that provides for a potential recapture tax on the gain from a borrower's disposition of a residence financed with a Mortgage Revenue Bond (MRB) during the first 9 years following close of the mortgage loan. This provision is administered by the Internal Revenue Service (IRS).

Why are only FirstHome Loans Subject to Recapture?

Only Utah Housing Corporation's (UHC) FirstHome Loans are financed with an MRB, resulting in a possible lower interest rate. The law, not UHC, mandates a recapture tax because of the program benefits.

Recapture is a Term Often Misunderstood.

UHC has eliminated the worry of recapture tax. For borrowers who may owe recapture tax, UHC may reimburse them for the tax paid, or for the reduction in their tax refund due to recapture taxes (recapture amount).

When is a Recapture Tax Owed?

A potential recapture tax is owed only when a borrower disposes of her/his residence during the first 9 years following close of the mortgage loan. If a borrower disposes of her/his residence during the first years following residence acquisition:

- The borrower and/or her/his tax preparer must compute the potential recapture tax on IRS Form 8828 and make payment to the IRS.
- The IRS requires recapture to be submitted with the individual tax return for the year the property is sold.
 - i.e., IRS Form 8828 would be submitted in 2026 for a property sold in 2025.
- UHC encourages borrowers to consult the services of a tax preparer on or before the year the recapture tax is required.
- After payment (or reduction in tax refund) is made, the borrower submits an application for reimbursement to UHC (see "Recapture Reimbursement" below).

UHC does not monitor or calculate recapture tax.

Recapture Tax Exceptions.

The borrower may not be subject to the recapture tax if:

- The property is destroyed by fire, storm, flood, or another casualty, and within two years after the close of the taxable year, the borrower builds or rehabs on the site of the original MRB mortgage for use as their principal residence.
 - i.e., a fire occurred in August 2024 the rehab would need to be completed by December 31, 2026

- The property is sold, given away, or disposed of after nine full years after the close of the mortgage loan.
- The property is disposed of because of death.
- The property is transferred to a spouse, or former spouse as an agreement of divorce and there is no gain or loss in income because of the transfer.

Amount of Recapture Tax.

The maximum amount of potential recapture tax is not to exceed one-half of the gain on the sale of the property or 6.25% of the original mortgage (loan amount), whichever is the lesser. Refer to the Recapture Notice (UHC Form 048, effective the date of closing.)

- The amount of potential recapture tax could further be reduced by deducting such items as realtor, legal, and closing fees accrued in connection with the sale of the property. These items are deducted from the gain on the sale before computing the 50% of the gain limitation.
- The Recapture Notice Forms for the past nine years can be located on UHC website, homeowners, homeowner forms, Recapture Notice History

Liable for Recapture Tax?

For a borrower to be subject to recapture tax ALL THREE of the following criteria must be met:

1. The MRB-financed property is sold within nine years of the close of the mortgage loan.
 - If the property is sold AFTER nine years, no recapture tax is due.
2. The borrower's income does not exceed qualifying income limits explained in the Calculating Recapture Requirements no recapture is due. example below.
3. There is no gain from the sale, no recapture is due.

Calculating Recapture Requirements

The first recapture criteria is determined by the date the residence is sold. If the MRB-financed property is sold within nine years, the recapture amount is calculated by multiplying the maximum recapture amount by the holding period % for the years the property was owned.

- The holding period % is found on the Recapture Notice (UHC Form 048), borrower(s) signed at closing.

If the residence is sold more than nine years after the close of the mortgage loan the borrower is not required to pay recapture tax.

The second recapture criteria is determined by income, family size, and property location at the time of sale.

Step One:

- Determine the annual factor for the years the borrower owned the home, the annual factor is found on the Recapture Notice (UHC form 048).

- No recapture will be due if the borrower's "Modified Adjusted Gross Income *** is less than the applicable Adjusted Qualifying Income.

Step Two:

- Multiply the income on the tax return to be filed with the IRS by the annual factor of the Recapture Notice, the total equals adjusted qualifying income. **

Step Three

- Compare the adjusted qualifying income with the income listed on the Income Table on the Recapture Notice (UHC Form 048) received at closing.

If the adjusted qualifying income** does not exceed the income on their tax returns the year the home is sold, the borrower will not be required to pay recapture tax.

- Example: If the adjusted qualifying income of the borrower was \$130,000 and the table limit is \$130,800, the borrower will not be required to pay recapture tax.

*** "Modified Adjusted Gross Income" is the adjusted gross income shown on your Federal Tax Return(s) for the year in which you sell the Residence plus any interest received or accrued on obligations which is excluded from gross income during that year, minus the amount of your gain (generally, the sale price minus your adjusted tax basis for the Residence) from the sale of the Residence included in gross income on your Federal Tax Return(s) for that year.

The third recapture criteria depends on the gain from the sale of the residence.

- The recapture amount will never exceed one-half of the gain (profit) or 6.25% of the original mortgage (loan amount), whichever is lesser, upon the sale of the residence.
- If there is no gain on an arms-length sale of the residence, the borrower will not be required to pay recapture tax.

Reminder

If any of the three recapture criteria do not exceed the recapture calculations and the loan is a UHC FirstHome loan, the borrower may not be subject to recapture.

If all three recapture criteria exceed the recapture calculations or the reduction, and the loan is a UHC FirstHome loan, the borrower may be subject to recapture.

UHC has eliminated the worry of recapture tax for those borrowers who may owe recapture tax by reimbursing them for the tax paid, or for the reduction in their tax refund.

UHC encourages borrowers to consult the services of a tax preparer for the year the recapture tax is required.

Recapture Reimbursement

UHC will reimburse recapture payments for borrowers following the requirements outlined in the UHC Application Disclosure (UHC Form 045), signed by the borrower. The UHC loan must be outstanding at the time of sale. If the loan has been refinanced, no reimbursement will be made.

- UHC will only reimburse the recapture amount. No fees, interest, other expenses, or penalties are reimbursed.
- UHC will not calculate the recapture amount upon sale or disposition of the residence.
- UHC must receive the request (required documents) by July 15th of the calendar year after the residence is sold.
- The UHC loan must be outstanding at the time of sale.
- If the loan has been refinanced, no reimbursement will be made.

Required Documents in the year the recapture is due.

For reimbursement of recapture UHC requires the following documents:

- Recapture Notice ([UHC Form 048](#)) signed at closing.
- Loan Application Disclosure ([UHC Form 045](#)) signed at application (copy should have been given to the borrower at application or closing).
- First Mortgage Note
- Closing Disclosure on the sale of the home.
- Filed tax returns, including IRS Recapture Form 8828.

If unable to locate the Recapture Notice, Loan Application Disclosure, and Mortgage Note, the borrower may be able to request copies of these documents from UHC. Contact UHC Servicing Customer Service at 801-902-8200.

FirstHome Loan Assumptions

If a UHC FirstHome loan is assumed, the new buyer signs an agreement to assume the mortgage loan obligation. Calculation of the requirements of the recapture for the current owner and the new buyer should be discussed with the tax preparer. UHC does not give instruction or advice on the recapture tax.

The person(s) assuming the loan must meet the FirstHome requirements. The new buyer must also meet all FHA assumption requirements.

Frequently Asked Questions:

Can UHC tell me what my recapture tax will be?

- No. It is strongly recommended that the services of a tax preparer be obtained during or before the tax year when the recapture tax is required.

When is the recapture tax paid?

- Recapture tax is submitted with the individual tax return for the year the property was sold.
- For example, if the property was sold in 2025, the recapture tax is due with the IRS tax forms filed in 2026.

How does the IRS track the amount of recapture due?

- The borrower files an IRS form 8828 with their Federal Income Tax return for the year the residence is sold or transferred.

Does a refinance activate the recapture tax?

- No. However, it does not eliminate the recapture tax either. If the mortgage is refinanced within nine years of purchase, recapture tax may be due at the time of sale.

More Information

For more information:

Contact the IRS at www.irs.gov

- in the Forms and Publications search box, type “8828”.

Contact your tax advisor.

See FirstHome Recapture Notice.

UHC cannot provide recapture tax assistance, advice, recommendations, or calculations.