

Recapture of Credit for Purchase or Construction of New Principal Residence

1977

▶ Attach to Form 1040.

Name(s) as shown on Form 1040

Your social security number

- 1 Amount of credit claimed on residence sold. If you had an involuntary disposition as described in instruction D, do not fill in remainder of this form, check here and explain ▶

- 2 Date you acquired residence on which you claimed credit. (If self-constructed, date you first occupied the residence.)
- 3 Date you sold residence. (If the date on line 3 is not within 36 months of the date on line 2, omit lines 4 through 8 and enter zero on line 9, you do not have to recapture any of the credit on line 1.)
- 4 Date replacement residence acquired. (If self-constructed, check here and give date construction began and date you occupied the residence. If residence was not replaced within the replacement period, omit lines 5 through 8 and enter on line 9 the amount on line 1.)
- 5 Enter adjusted sales price of residence sold, from Form 2119, line 10.
- 6 Cost (basis) of replacement residence, from Form 2119 (If line 6 is equal to or is more than line 5, omit lines 7 and 8 and enter zero on line 9, there is no recapture.) (If line 6 is less than line 5 complete lines 7 through 9.)
- 7 Balance. (Subtract line 6 from line 5, if below zero enter zero.)
- 8 Divide amount on line 7 by amount on line 5 and enter the percentage here.
- 9 **Credit to be recaptured.** (Multiply amount on line 1 by the percentage on line 8.) Enter here and include the amount of the recapture in the total for line 36 on your 1977 Form 1040.

1
2
3
4
5
6
7
8
9

%

Instructions

A. General rule.—If you sell or otherwise dispose of your new principal residence (on which a credit was allowed on the purchase) within 36 months after acquiring it, and do not properly replace the residence or come under one of the other exceptions listed later, the full amount of the credit must be added back to your Federal income tax. This 36-month period begins on the day after the date on which you receive legal title or possession under a purchase contract or, if you build the home yourself, the date on which you first occupy it as your principal residence.

B. When to repay the credit.—The amount of the credit to be repaid is added to your tax for the taxable year in which your replacement period (as discussed in the next paragraph) ends, if you do not replace the residence within that period. However, if you purchase or begin construction of a new replacement residence within the replacement period, but do not reinvest the full proceeds of the original disposition in the replacement, the portion of the credit to be repaid is added to your tax for the taxable year following that of the disposition.

C. Replacement residence.—If you dispose of the original residence, on which the purchase credit was allowed, within 36 months of its acquisition, but replace it with a new residence (the original usage of which begins with you)

within 18 months of the disposition, you need not repay any part of the credit if you reinvest the full proceeds in the replacement residence. (If you build your own replacement residence, you have 24 months to construct it, provided construction begins within 18 months of the disposition of the original home.) In other words, to avoid repayment of any of the credit, your cost of purchasing the new replacement residence must at least equal the adjusted sales price realized from the original residence.

Example. On August 4, 1975, you purchased a new principal residence for \$40,000. The property qualified for the new home purchase credit and you claimed a \$2,000 credit on your 1975 return. On October 10, 1976, you sold your residence for an adjusted sales price of \$50,000 and on December 16, 1976, you purchased a new principal residence at a cost of \$60,000. Since you reinvested the entire proceeds from the sale in the replacement residence, you need not repay any of the credit claimed.

If the replacement residence costs less than the proceeds realized on the disposition of the original residence, you will have to repay a portion of the credit allowed on the purchase of the original residence. In such a case, you must add back to your tax the part of the total credit which is proportionate to the part of the adjusted sales price realized on the disposition of the original residence not reinvested in the new replacement.

Example. If, in the preceding example, your new principal residence only cost \$40,000, you will have to repay a portion of the credit allowed on the purchase of the original residence. The amount is determined by the following steps. First, reduce the adjusted sales price of your original residence by the cost of your new residence (\$50,000 - \$40,000 = \$10,000). Second, divide the amount determined in step one by the adjusted sales price of your original residence (\$10,000 ÷ \$50,000 = .20). Third, multiply the credit claimed by the figure computed in step two (\$2,000 × .20 = \$400). This amount, \$400, is the amount to be added to the tax on your 1977 tax return.

D. Exceptions.—You need not repay any portion of the credit if the residence on which the credit was allowed is disposed of under any of these conditions:

- (1) On account of the death of any person having a legal or equitable interest in the property;
- (2) After a complete or substantial destruction by a casualty (fire, storm, earthquake, etc.);
- (3) After an involuntary conversion such as a condemnation; or
- (4) In a divorce settlement or legal separation proceeding if one spouse retains the home as principal residence.