Recapture of Federal Mortgage Subsidy

When and Where To File
Attach your Form 8828 to the Form 1040, U.S. Individual Income Tax Return, for the tax year in which you sold or otherwise disposed of your home. File it when the Form 1040 is due (including extensions). If you have to file Form 8828, you must use Form 1040.

Special Rules
Giving away your home. If you gave away your home (other than to your spouse or ex-spouse incident to divorce), you must figure your recapture tax as if you had actually sold your home for its fair market value at the time of the disposition.
Divorce. The transfer of an interest in the home by one spouse (or former spouse) to another does not result in recapture tax to either person (do not file this form) if:
- It is incident to divorce, and
- No gain or loss was included in income.
See Pub. 504, Divorced or Separated Individuals, for situations where gain or loss is included in your income on the transfer incident to divorce.

Destruction by casualty. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if you replace the home (for use as your main home) on its original site within 2 years after the end of the tax year when the destruction happened.

Recapture Tax
If you sold or otherwise disposed of your home during the first 9 years after you received a federally subsidized QMB or MCC loan, you may have to pay back (recapture) all or part of the federal mortgage subsidy you received by increasing your federal income tax for the year in which you sold or disposed of your home. Refinancing of a federally subsidized loan without a sale or disposition of the home does not result in recapture, but a later sale or disposition after the refinancing may result in recapture.

Who Must File
You must file this form if all of the following apply. (For exceptions, see Special Rules on this page.)
- You sold or otherwise disposed of your home (whether or not you realized a gain).
- Your original mortgage loan was provided after December 31, 1990.
- You received a federal mortgage subsidy (see Federal Mortgage Subsidy above).

You must recapture the federal mortgage subsidy. See section 143(k)(4) for details.

Home improvement loan. There is no recapture of the federal mortgage subsidy if instead of a QRL you received a qualified home improvement loan (QHIL) funded by a QMB. A QHIL is limited to $15,000 and is to be used for alterations, repairs, and improvements that protect or improve the basic livability or energy efficiency of your home. See section 143(k)(4) for details.

The QHIL limit is $150,000, instead of $15,000, in the case of a QHIL to repair damage from the 2005 hurricanes Katrina or Rita, or the 2006 hurricane Wilma. See Pub. 4492.

Refinancing your home. Proceeds from a QMB cannot be used to refinance a home mortgage. However, replacement of construction period, bridge, or similar temporary financing used when you first purchased your home is not treated as refinancing.

If, once you have received permanent financing from the proceeds of a QMB, the home is refinanced (with conventional financing), the federal subsidy on your original QMB loan is subject to recapture when you sell or dispose of your home within the 9-year recapture period. If you refinance within the time period after the closing date of the original loan, you have to adjust your holding period percentage (see the worksheet for line 20 on page 3) as if your loan was fully repaid on the date of the refinancing.

An MCC can be reissued in a refinancing if all of the following conditions are met.
1. The issuer reissués an MCC to replace your existing MCC, which can be the original MCC, an MCC issued to a transferee under Regulations section 1.25-3(p), or an MCC reissued under the refinancing provisions.
2. The reissued MCC is effective beginning with the date you refinanced your home (refinancing closing date).
3. The reissued MCC:
   a. Applies to the same property as your existing MCC.
b. Replaces entirely your existing MCC.

c. Specifies a mortgage debt that does not exceed the outstanding debt balance on your existing MCC.

d. Does not increase the certificate credit rate specified on the existing MCC, and

e. Does not increase the allowable credit under your existing certificate for any tax year.

Repayment of the loan. Your holding period percentage (line 20) may be reduced (see the line 20 instructions) if you:

• Repay your loan in full or refinance other than with reissuance of an MCC (as described earlier) within the first 4 years after the closing date of your original loan, and

• Sell or dispose of your home later during the 9-year recapture period.

Other special rules may apply in certain cases. See section 143(m).

Specific Instructions

Note. If your home was financed with a federally subsidized loan, you should have received notification in writing from the bond issuer or the lender at the time your mortgage was provided. The notification should state that your home was financed with a mortgage loan from the proceeds of a tax-exempt bond or that you received a mortgage credit certificate with your mortgage loan. The notification should include information needed to figure your recapture tax and it should advise you to keep it for your records.

Name(s) and social security number. The name(s) and social security number on Form 8828 should be the same as those shown on your Form 1040.

Part I—Description of Home Subject to Federally Subsidized Debt

Line 1. List the address of the property that was subject to the federally subsidized debt, not your current address as shown on your Form 1040.

Line 2. Check the applicable box on line 2 from the information on the notification given to you at the time you took out the loan.

Line 3. Fill in the requested information from the notification discussed above. If you have a problem identifying the issuer, contact your lender and ask for the information.

Line 4. Fill in the name and address of the bank or other lender that provided your original mortgage.

Line 5. Fill in the month, day, and year that your original federally subsidized mortgage loan was provided. This generally is the date of settlement on your home. However, if the loan became federally subsidized debt at a later date, use that date instead.

Line 6. Fill in the applicable month, day, and year. Date of sale generally is the date you settled on the sale of your home.

However, Form 8828 also applies to certain other dispositions of your home. For instance, the date to enter on line 6 may be the date you deeded the property to a relative (see Giving away your home under Special Rules on page 1).

Line 8. Enter the date the original federally subsidized loan was fully repaid. (This may be the same as the date of sale or other disposition on line 6.) A refinanced QMB loan is fully repaid on the date of its refinancing (with conventional financing). However, a refinanced MCC loan that met all the conditions specified earlier under Refinancing your home on page 1 is considered an extension of the original MCC loan. Do not enter the refinancing date for such an MCC on line 8. Enter the refinancing your home and the instructions for line 20.

Part II—Computation of Recapture Tax

Note. You must report all required information for your interest in the home. This does not include less than 100% if someone else also has an interest in the home (see Special Rules on page 1).

Line 9. This item applies to both sales and other dispositions (see Giving away your home under Special Rules on page 1). If your home was disposed of other than by sale, the sales price is the fair market value of the home at the time of the disposition. You should report only the part of the sales price representing your interest in the home (see Two or more owners and Qualifying subordinate mortgage loan (or grant) under Special Rules on page 1).

Line 10. Include sales commissions, advertising, legal fees, etc., allocable to your interest in the home.

Line 12. In general, the adjusted basis of your interest in the home is your share of the cost of the property plus purchase commissions and improvements, minus depreciation. Do not reduce the adjusted basis for any gain that you did not recognize on the sale of a previous home.

If you received your home, or interest in a home, incident to a divorce, your adjusted basis is generally the same as that of your spouse (or former spouse).

For details on how to determine your adjusted basis, get Pub. 551, Basis of Assets.

Line 13. Enter “QMB” on the dotted line to the left of the line 13 entry space if you sold your home at a gain within the 9-year recapture period and paid a share of that gain to the QMB governmental lender. In the amount column for line 13, enter your share of the gain. Attach a worksheet to your Form 8828 to explain how you calculated your share of the gain. Show the date you paid the QMB governmental lender its share of the gain and the amount of that share. See Qualifying subordinate mortgage loan (or grant) on page 1.

Line 15. Figure your modified adjusted gross income as follows:

- Begin with: Your adjusted gross income as shown on your Form 1040.

- Add: Any tax-exempt interest that you received or accrued for the tax year.

- Subtract: Any gain included in your gross income because of the disposition of your home.

Line 16. If your home was financed with a federally subsidized loan, you should have received notification in writing from the bond issuer or the lender at the time your mortgage was provided. The notification contains a table which lists adjusted qualifying income figures. Your adjusted qualifying income is found in the column of the table that corresponds to your family size (number of family members living with you at the time of the sale) on the line that corresponds to the number of full and partial years that you held your home.

Line 19. The federally subsidized amount should be found on the notification you received from the bond issuer or from your lender. It is equal to 6.25% of the highest amount of the loan that was federally subsidized. Enter the figure on line 19.

Line 20. You will find your holding period percentage on the same line of the table from which you obtained your adjusted qualifying income (see line 16 instructions). However, if you fully repaid the federally subsidized loan within 4 years of the closing date of the loan, and before selling or otherwise disposing of your home, you will need to use the worksheet on page 3 to redetermine your holding period percentage for line 20.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.
Worksheet for figuring the holding period percentage if you fully repaid the original federally subsidized loan: (1) before the date of sale or disposition of your home and (2) within the first 4 years after the closing date of the original loan. (Keep for your records.) (Do not use this worksheet if lines 6 and 8 of Form 8828 are the same date.)

| A. Closing date of original loan. Enter the date from Form 8828, line 5. | Month | Day | Year |
| B. Repayment date. Enter the date from Form 8828, line 8. | Month | Day | Year |
| If the repayment date on line B is more than 4 years after the closing date on line A, do not use this worksheet. |
| C. Enter the number of years between the dates on lines A and B. Round up to the nearest whole year. |
| D. If the number of years on line C is: | Enter this percentage: |
| 1 | 20% |
| 2 | 40% |
| 3 | 60% |
| 4 | 80% |
| E. Sale date. Enter the date from Form 8828, line 6. |
| F. Enter the number of years between the dates entered on lines B and E. Round up to the nearest whole year. |
| G. If the number of years on line F is: | Enter this percentage: |
| 1 | 100% |
| 2 | 80% |
| 3 | 60% |
| 4 | 40% |
| 5 | 20% |
| 6 or more | 0% |
| H. Multiply the percentage on line D by the percentage on line G. Round to the nearest whole percentage. This is your adjusted holding period percentage to enter on line 20 of Form 8828. If this percentage is zero, you will have no recapture, but you still must complete and file Form 8828. | % |

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