



MCC BORROWER PROGRAM INFORMATION

Why is the Mortgage Interest Credit Valuable to Me?

Generally, a homeowner is allowed to claim 100% of their mortgage interest as a federal income tax deduction. Deductions are recorded on IRS Schedule A and transferred to the Form 1040 to reduce the amount of income used to calculate federal taxes. For example:

<i>Income</i>	<i>\$52,200</i>
<i>Mortgage Interest deduction</i>	<i><u>- 5,500</u></i>
<i>Income used to calculate taxes</i>	<i>\$46,700</i>
<i>Taxes owed (10% tax rate)</i>	<i>\$ 3,000</i>

With a 30% credit, 30% of the \$5,500 or \$1,650 is taken as a credit, while the remaining 70%, or \$3,850 is a deduction.

For example:

<i>Income</i>	<i>\$52,200</i>
<i>Mortgage interest deduction</i>	<i><u>- 3,850</u></i>
<i>Income used to calculate taxes</i>	<i>\$48,350</i>
<i>Taxes owed (22% tax rate)</i>	<i>\$ 10,637</i>
<i>Apply 30% credit</i>	<i><u>- 1,650</u></i>
<i>Actual taxes</i>	<i>\$8,987</i>

The example shows that the 30% credit will lower taxes by \$1,287.

The MCC credit is available as long as the borrower has the mortgage *and* occupies the home as a principal residence.

How Do I "Claim" the Credit?

By filing a revised W-4 Withholding Allowance Certificate, you will change your monthly tax withholding and you may receive the MCC credit amount on a monthly basis rather than "claiming" it at the end of the year. You can request your employer to deduct less taxes from your paycheck over the year so that you can use the additional money to help pay your monthly house payment.

In either case, you must file IRS form 8396 each year with your federal taxes. IRS form 8396 calculates the actual benefit allowable under the program based on your tax liability, up to the maximum of \$2,000. Not all borrowers will realize the full \$2,000 benefit.

Whether you change your monthly withholding through your employer or wait until the end of each year, you will get the total amount of credit you are eligible for based on your tax liability.

In some instances, your lender may require that you revise your monthly tax withholding so that you will have sufficient funds with which to make your mortgage payment. To do this, the lender may ask you to revise your W-4 and submit it prior to loan closing.

What will the Lender Do?

1. The lender must provide the following information to the borrower:
 - a. A completed NCHFA Tax Credit Worksheet that provides an estimate of the first year's tax credit;
 - b. An MCC Borrower Information packet which includes:
 - MCC Borrower Program Information
 - Recent IRS W-4, Withholding Allowance Certificate
 - Recent IRS Form 8396, Mortgage Interest Credit
 - c. A copy of the Conditional Commitment from NCHFA which verifies that the borrower has conditionally been approved for an MCC.
2. The lender must advise the borrower if they are required to revise the W-4 prior to closing, or if it is optional.

What Must I (Borrower) Do?

1. If required, the borrower must complete the W-4 according to directions in the "How Do I Change My Withholding?" section.
2. The borrower must give the original W-4 to their employer.
3. At the end of the tax year the borrower must complete IRS Form 8396. The form must be completed and the credit amount from Form 8396 must be entered in Form 1040. See the NCHFA Tax Credit Worksheet for your tax credit rate (may be 30% or 50%). The borrower may also enter the remainder (70% or 50%) of the annual mortgage interest on Schedule A as an itemized deduction.
4. The Mortgage Credit Certificate is mailed to the mortgagor(s) once NCHFA has received an acceptable closing package delivered by the lender. **The Mortgage Credit Certificate form must be kept in a safe place. It will be proof that the borrower is entitled to receive the credit each year for the life of the loan, while the borrower occupies the home.**

How Do I Change My Withholding?

This material is to help you understand the effect of the Mortgage Credit Certificate on your income taxes. Tax law is complicated and this is not a full explanation. These examples and the descriptions of how to revise withholding certificates are to show you how tax law works under certain circumstances. This is not a complete discussion and you should contact a tax advisor to help you with the tax forms and to properly adjust your tax withholding.

You should not rely on this material to ensure compliance with tax law; this is not tax advice but an illustration of forms and procedures to help you understand your Mortgage Credit Certificate.



NCHFA TAX CREDIT WORKSHEET

Section A: Lender completes this section for borrowers eligible for 30% (or 50%) credit.

1. Mortgage loan amount \$ _____
2. Interest rate _____ %
3. Establish first year's interest by amortizing the loan for one year \$ _____
4. Mortgage credit rate (50% if new, never occupied) _____ 30%
5. Tax credit equals 30% (or 50% if applicable) of the first year's interest \$ _____
6. The monthly benefit is calculated by dividing the tax credit 12 months \$ _____

Section B: Example for completing Section A.

1. Mortgage loan amount \$ 127,400
 2. Interest rate 5.00%
 3. First year's interest amortized ($\$127,400 \times 5.00\%$) \$ 6,370(e)
 4. Mortgage credit rate 30%
 5. Tax credit ($\$6370 \times 30\%$) \$ 1,911(e)
 6. Monthly benefit ($\$1911 \div 12$) \$ 159
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