



## **Mortgage Credit Certificates** **A little-known tax credit for first-time home buyers**

The MCC program may enable first-time home buyers convert a portion of their annual mortgage interest into a direct dollar for dollar tax credit on this U.S. individual income tax returns.

An MCC is NOT a mortgage. This is a tax credit.

### **How it works:**

An MCC holder is able to claim up to 20% of annual mortgage interest paid as a federal income tax credit. The remaining mortgage interest (80%) continues to qualify as an itemized deduction. For example, a borrower with a \$150,000 loan at 4% will pay \$6,000 mortgage interest the first year. Twenty percent of this, or \$1,200, can be a dollar-for-dollar reduction of federal income taxes! This tax credit continues at 20% of mortgage interest paid each year, as long as the home is owner-occupied. The MCC may even be re-issued, in the event the home is refinanced.

Federal eligibility requirements are **identical to the MBOH loan program**, and include:

**Income limits:** 2017 limits range from \$62,600 to \$99,680 based on household size and location.

**Spending limits:** Current spending limits range from \$253,809 to \$401,177 based on location. **First-time home buyer:** Someone who has not owned their home for past three years.

Exceptions: Some veterans; prior ownership of mobile home on a rented lot; and purchasing a home in certain targeted areas.

**Owner occupancy:** The MCC is valid for the life of the loan, if owner-occupied.

**Business Use Limits:** Trade or business use of a residence can not exceed 15 percent.

**Recapture Tax:** A federal recapture tax may apply only if all three of the following occur:

\*\* The home is sold in the first nine years; **and**

\*\* There is a substantial gain on the sale; **and**

\*\* The family has a significant increase in household income by the year of sale.

**Purchase-money mortgage:** An MCC can only be issued with a purchase transaction.

### **Important things to note:**

#1 – MCC is a non-refundable federal income tax credit, limited to \$2,000 per year.

Tax professionals should be consulted for specific guidance.

#2 – MCC cannot be combined with an MBOH loan. It is attached to a lender loan held in their portfolio, or sold to other investors.

#3 – Participating lenders process MCC applications on behalf of eligible borrowers.

#4 – The MCC requires a one-time fee paid at closing.

More information: <http://housing.mt.gov/HBMCC> or call 406-841-2840

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