

Mortgage Interest Credit
(For Holders of Qualified Mortgage Credit Certificates Issued by
State or Local Governmental Units or Agencies.)

▶ Attach to Form 1040.

Name(s) shown on Form 1040

Your social security number

Enter the address of your main home to which the qualified mortgage certificate relates if it is different from the address shown on Form 1040.

Part I Mortgage Interest Credit

1	Interest paid on the certified indebtedness amount. If someone else (other than your spouse if filing jointly) also held an interest in the home, enter only your share of the interest paid.	1		
2	Enter the certificate credit rate shown on your mortgage credit certificate	2		%
3	If line 2 is 20% or less, multiply line 1 by line 2. If line 2 is more than 20%, or if you refinanced your mortgage and received a reissued certificate, see instructions for amount to enter. You must reduce your mortgage interest deduction on Schedule A (Form 1040) by the line 3 amount	3		
4	Enter any credit carryforward from 1995 (line 18 of your 1997 Form 8396)	4		
5	Enter any credit carryforward from 1996 (line 16 of your 1997 Form 8396)	5		
6	Enter any credit carryforward from 1997 (line 19 of your 1997 Form 8396)	6		
7	Add lines 3 through 6.	7		
8	Enter the amount from Form 1040, line 40.	8		
9	Add the amounts from Form 1040, lines 41 through 44, and enter the total.	9		
10	Subtract line 9 from line 8. If zero or less, enter -0-.	10		
11	Mortgage Interest Credit. Enter the smaller of line 7 or line 10 here. Also include this amount in the total on Form 1040, line 47. Be sure to check box b on that line	11		

Part II Mortgage Interest Credit Carryforward to 1999. (Complete **only** if line 11 is less than line 7.)

12	Add lines 3 and 4	12		
13	Enter the amount from line 7	13		
14	Enter the larger of line 11 or line 12.	14		
15	Subtract line 14 from line 13	15		
16	1997 credit carryforward to 1999. Enter the smaller of line 6 or line 15	16		
17	Subtract line 16 from line 15	17		
18	1996 credit carryforward to 1999. Enter the smaller of line 5 or line 17	18		
19	1998 credit carryforward to 1999. Subtract line 11 from line 3. If zero or less, enter -0-	19		

General Instructions

Purpose of Form

Use Form 8396 to figure the mortgage interest credit for 1998 and any carryforward to 1999.

Who May Claim the Credit

You may claim the credit only if you were issued a qualified Mortgage Credit Certificate (MCC) by a state or local governmental unit or agency under a qualified mortgage credit certificate program.

Caution: Certificates issued by the Federal Housing Administration, Department of Veterans Affairs, and Farmers Home Administration, and Homestead Staff Exemption Certificates **do not** qualify for the credit.

The home to which the certificate relates must be your **main home** and must also be **located in the jurisdiction** of the governmental unit that issued the certificate.

If the interest on the mortgage was paid to a **related person**, you **cannot** claim the credit.

Refinanced Mortgage Credit Certificates

You can refinance your mortgage without losing this Federal subsidy if your existing MCC is reissued and the reissued certificate meets the following conditions.

1. It must be issued to the holder(s) of the existing certificate for the same property,
2. It must entirely replace the existing certificate. The holder cannot retain any portion of the outstanding balance of the existing certificate,
3. The certified indebtedness specified on the reissued certificate cannot exceed the outstanding balance shown on the existing certificate,
4. The credit rate (line 2) of the reissued certificate cannot exceed the credit rate of the existing certificate, and
5. The reissued certificate cannot result in a larger line 3 credit than would otherwise have been allowable under the existing certificate for any tax year.

For each tax year you must determine the amount of credit that you would have been allowed using your old MCC by multiplying the interest that was scheduled to be paid on your original mortgage times the certificate rate on your original MCC. That figure may limit your line 3 credit allowed when you have a reissued MCC, even if your new loan has a lower interest rate.

If, in the year you refinanced, the certificate credit rates are different, attach a statement showing the separate calculations for lines 1, 2, and 3 for the applicable parts of the year when the original MCC and the reissued MCC were in effect. Combine the amounts of each line 3, enter the total on line 3 of the form, and write "see attached" on the dotted line.

For more details, see **Form 8828**, Recapture of Federal Mortgage Subsidy, and read the special rules for refinancing your home, or see Regulations section 1.25-3(p).

Recapture of Credit

If you bought a home after 1990 using an MCC, and sell that home within 9 years, you may have to recapture (repay) some of the credit. See **Pub. 523**, Selling Your Home, and Form 8828.

Specific Instructions

Note: If you refinanced during the year, see **Refinanced Mortgage Credit Certificates** above.

Line 1. Enter the interest you paid during the year on the loan amount shown on your mortgage credit certificate. In most cases, this will be the amount shown on **Form 1098**, Mortgage Interest Statement, in box 1, or on a similar statement that you received from your mortgage holder. The loan amount (certified indebtedness amount) shown on your MCC may be less than your total mortgage loan. If so, you must allocate the interest to determine what part relates to the amount of the loan covered by the MCC. See **Pub. 530**, Tax Information for First-Time Homeowners, for an example of how to make this allocation.

Line 3. If the certificate credit rate shown on line 2 is more than 20%, do not enter more than \$2,000 on line 3. If you refinanced, see **Refinanced Mortgage Credit Certificates** earlier.

If you and someone else (other than your spouse if you file jointly) held an interest in the home, the \$2,000 limit must be allocated to each owner in proportion to the interest held. See Pub. 530 for an example of how to make the allocation.

Reduction of Home Mortgage Interest on Schedule A (Form 1040). If you itemize your deductions on **Schedule A (Form 1040)**, you must subtract the amount shown on line 3 of Form 8396 from the total deductible interest you paid on your home mortgage, even if part of the amount on line 3 is carried forward to 1999.

Lines 12 through 19. If the amount on line 11 is less than the amount on line 7, you may have an unused credit to carry forward to the next 3 tax years or until used, whichever comes first. Because the unused credit can only be carried forward for 3 years, you will have to keep track of each year's unused credit. The current year credit is used first and then the prior year credits, beginning with the earliest prior year.

If you have any unused credit to carry forward to 1999, be sure you keep a copy of this form to figure your credit for 1999.

Note: If you are subject to the \$2,000 credit limitation because your certificate credit rate is more than 20%, no amount over the \$2,000 for any tax year (or your prorated share of the \$2,000 if you must allocate the credit) may be carried forward for use in a later year.

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 46 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; and **Copying, assembling, and sending the form to the IRS**, 14 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040.

