

Mortgage Interest Credit

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

2008

Attachment
 Sequence No. **138**

▶ **Attach to Form 1040 or 1040NR.** ▶ **See instructions on back.**

Name(s) shown on your tax return	Your social security number
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Enter the address of your main home to which the qualified mortgage certificate relates if it is different from the address shown on your tax return.

Name of Issuer of Mortgage Credit Certificate	Mortgage Credit Certificate Number	Issue Date
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Part I Current Year 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 . Do not enter the interest rate on your home mortgage	2		%
3 If line 2 is 20% or less, multiply line 1 by line 2. If line 2 is more than 20%, or you refinanced your mortgage and received a reissued certificate, see the instructions for the amount to enter. You must reduce your deduction for home mortgage interest on Schedule A (Form 1040) by the amount on line 3.	3		
4 Enter any 2005 credit carryforward from line 18 of your 2007 Form 8396	4		
5 Enter any 2006 credit carryforward from line 16 of your 2007 Form 8396	5		
6 Enter any 2007 credit carryforward from line 19 of your 2007 Form 8396	6		
7 Add lines 3 through 6	7		
8 Enter the amount from Form 1040, line 44, or Form 1040NR, line 41	8		
9 1040 filers: Enter the total of the amounts from Form 1040, lines 47 through 49 1040NR filers: Enter the amount from Form 1040NR, line 44	9		
10 Subtract line 9 from line 8. If zero or less, enter -0- here and on line 13 and go to Part II	10		
11 Enter the amount from Form 6251, line 31 (see instructions)	11		
12 Subtract line 11 from line 10. If zero or less, enter -0- here and on line 13 and go to Part II	12		
13 Current year mortgage interest credit. Enter the smaller of line 7 or line 12. Also include this amount in the total on Form 1040, line 53, or Form 1040NR, line 48, and check box a on that line	13		

Part II Mortgage Interest Credit Carryforward to 2009. (Complete **only** if line 13 is less than line 7.)

14 Add lines 3 and 4	14		
15 Enter the amount from line 7	15		
16 Enter the larger of line 13 or line 14	16		
17 Subtract line 16 from line 15	17		
18 2007 credit carryforward to 2009. Enter the smaller of line 6 or line 17	18		
19 Subtract line 18 from line 17	19		
20 2006 credit carryforward to 2009. Enter the smaller of line 5 or line 19	20		
21 2008 credit carryforward to 2009. Subtract line 13 from line 3. If zero or less, enter -0-	21		

General Instructions

Purpose of Form

Use Form 8396 to figure the mortgage interest credit for 2008 and any credit carryforward to 2009.

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.



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 also must 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

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

- It must be issued to the holder(s) of the existing certificate for the same property.
- It must entirely replace the existing certificate. The holder cannot retain any portion of the outstanding balance of the existing certificate.
- The certified indebtedness on the reissued certificate cannot exceed the outstanding balance shown on the existing certificate.
- The credit rate of the reissued certificate cannot exceed the credit rate of the existing certificate.
- The reissued certificate cannot result in a larger amount on line 3 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 original MCC. To do this, multiply the interest that was scheduled to be paid on your original mortgage by the certificate rate on your original MCC. The result may limit your line 3 credit allowed when you have a reissued MCC, even if your new loan has a lower interest rate.

If the certificate credit rates are different in the year you refinanced, attach a statement showing 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 from both calculations for line 3. Enter that total on line 3 of the form and enter "see attached" on the dotted line next to line 2.

For more details, see Regulations section 1.25-3(p).

Recapture of Credit

If you buy a home using an MCC and sell it within 9 years, you may have to recapture (repay) some of the credit. See Pub. 523, Selling Your Home, and Form 8828, Recapture of Federal Mortgage Subsidy.

Additional Information

See Pub. 530, Tax Information for First-Time Homeowners, for more details.

Specific Instructions

Part I—Current Year Mortgage Interest Credit

Line 1

Enter the interest you paid during the year on the loan amount (certified indebtedness amount) shown on your MCC. In most cases, this will be the amount in box 1 on Form 1098, Mortgage Interest Statement, or on a similar statement you received from your mortgage holder. If the loan amount on your MCC is less than your total mortgage loan, you must allocate the interest to determine the part that relates to the loan covered by the MCC. See Pub. 530 for an example of how to allocate the interest.

Line 2

The certificate credit rate cannot be less than 10% or more than 50%.

Line 3

If you refinanced, see *Refinanced Mortgage* on this page.

If the certificate credit rate shown on line 2 is more than 20%, multiply line 1 by line 2, but do not enter more than \$2,000 on line 3. If you and someone else (other than your spouse if filing jointly) held an interest in the home, the \$2,000 limit must be allocated to each owner in proportion to the interest held. See *Dividing the Credit* in Pub. 530 for an example of how to make the allocation.

Reduction of home mortgage interest deduction on Schedule A (Form 1040).

If you itemize your deductions on Schedule A, you must reduce the amount

of home mortgage interest you would otherwise deduct on Schedule A by the amount on Form 8396, line 3, and report the reduced amount on Schedule A. You must do this even if part of the amount on line 3 is carried forward to 2009.

Line 11

Complete Form 6251, Alternative Minimum Tax-Individuals, through line 31. Enter the amount from Form 6251, line 31 on line 11.

Part II—Mortgage Interest Credit Carryforward to 2009

If the amount on line 13 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. 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 2009, keep a copy of this form to figure your credit for 2009.



If you are subject to the \$2,000 credit limit because your certificate credit rate is more than 20%, no amount over the \$2,000 limit (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 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.

