



# FirstHomes TAX CREDIT

Every first home has its rewards

The **FirstHomes Tax Credit** is a great option to help new homebuyers save a little extra money

## What is the FirstHomes Tax Credit Program?

The FirstHomes Tax Credit Program, also known as a “Mortgage Credit Certificate” was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families based on income and eligibility guidelines. As the state’s housing finance agency, Rhode Island Housing is an Issuer of Mortgage Credit Certificates.

The FirstHomes Tax Credit reduces the amount of federal income tax a homeowner pays by providing an annual federal income tax credit, not a tax deduction, that is in effect for the life of the loan, as long as the homeowner occupies the home as their principal residence. The value of the FirstHomes Tax Credit is applied directly to the homeowner’s tax liability.

The FirstHomes Tax Credit is available to homebuyers who meet household income and home purchase price limits established for the program, as well as other federal eligibility regulations.

## How will a FirstHomes Tax Credit assist my home purchase?

The federal government allows each homeowner to claim an itemized federal income tax deduction for the amount of interest paid each year on a mortgage loan. For a homeowner with a FirstHomes Tax Credit, this benefit is even better: 20% of your annual mortgage interest (up to \$2,000) will be a direct federal tax credit, resulting in a dollar-for-dollar reduction of your annual federal income tax liability. The remaining 80% of your annual mortgage interest will continue to qualify as an itemized tax deduction.

The amount of your mortgage credit depends on the amount of interest you pay on your mortgage loan. However, the amount of your mortgage credit cannot exceed the amount of your annual federal income tax liability. Any unused mortgage credit can be carried forward for three years to offset future income tax liability.

## Where can I get a FirstHomes Tax Credit?

You are free to seek financing from any lender. However, the credit is only available through Rhode Island Housing or a FirstHomes Tax Credit Approved Lender (please visit [firsthomestaxcredit.org](http://firsthomestaxcredit.org) for a complete list of lenders).

## How does the FirstHomes Tax Credit work?

Here is an example of how the credit can make buying a home affordable for you:

- You obtain a mortgage loan of \$200,000 at 5.0% for 30 years with monthly principal and interest payments of \$1,074 and a credit rate of 20%.
- In the first year, you pay a total of \$10,000 in interest on your mortgage loan. Because you have a FirstHomes Tax Credit, you could receive a federal income tax credit of \$2,000 (20% of \$10,000). If your income tax liability is \$2,000 or greater, you will receive the full benefit of the tax credit. If the amount of your tax credit exceeds the amount of your tax liability, the unused portion can be carried forward (up to three years) to offset future income tax liability.
- The remaining 80% of mortgage interest, or \$8,000, qualifies as an itemized income tax deduction.
- To receive the immediate benefit of your FirstHomes Tax Credit, you would file a revised W-4 withholding form with your employer to reduce the amount of federal income tax withheld from your wages and increase your take home pay by \$167 per month (\$2,000 divided by 12).



## How long does the FirstHomes Tax Credit last?

The annual credit will remain in effect for the life of your mortgage loan, so long as the home remains your principal residence.

The amount of your annual mortgage credit will be calculated on the basis of 20% of the total interest paid on your mortgage loan for that year.

## What are the requirements?

The FirstHomes Tax Credit requirements include the following:

- First-time Rhode Island homebuyers and non first-time homebuyers in select areas of Central Falls, Pawtucket, Providence and Woonsocket. To be considered a first-time homebuyer, you cannot have an ownership interest in a principal residence at any time in the last three years.
- The mortgage loan must be a new loan. You cannot be issued a FirstHomes Tax Credit for the acquisition, replacement or refinancing of an existing mortgage loan.
- The home you buy must be used as your principal residence after you obtain your mortgage. If it stops being your principal residence, your FirstHomes Tax Credit will be automatically revoked and you will no longer be entitled to claim the mortgage credit.
- The federal government considers the FirstHomesTax Credit to be a subsidy. As such, you may be subject to federal "recapture tax" if (1) you sell your home within nine years, (2) you earn significantly more income than when you bought the home, and (3) you sell your home at a gain. All three of these criteria must be met for you to owe any recapture tax.
- A \$100 Reservation Fee begins the application process. Other processing fees apply; check with your lender for more details. Loans must be closed within 90 days of issuance of a FirstHomes Tax Credit Conditional Commitment.

## What are the income and purchase price limits?

### INCOME LIMITS:

Annual household income must be less than \$87,360 (for a 1-2 person household) or \$101,920 (for a 3+ person household).

### PURCHASE PRICE LIMITS:

The FirstHomes Tax Credit can be used for homes with a maximum purchase price of \$392,823 for a one-to four-family home or eligible condominium.

***Please contact Rhode Island Housing or a FirstHomes Tax Credit Approved Lender to learn more about program requirements.***



*Rhode Island Housing strives to ensure that all people who live or work in Rhode Island can afford a healthy, attractive home that meets their needs. A good home provides the foundation upon which individuals and families thrive, children learn and grow and communities prosper.*



**Rhode Island Housing**

