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What's New?

Legislative Changes

Allowing the department to discuss your return with your spouse – If taxpayers file as "married filing separately on the same form," the department may now speak to each spouse about any information reported on the form, including subsequent adjustments or amendments.

Deductions now allowed for other state college savings plans – The Family Education Savings Account exemption has been expanded to now include deposits made to out-of-state accounts. For additional information about this exemption, please see the instructions for Schedule II, line 20 on page 21.

Changes to the Charitable Endowment credit – As of April 26, 2013, how Montana law defines "permanent, irrevocable fund" changed. Montana law now defines the fund as one managed in accordance with the Uniform Prudent Management of Institutional Funds Act. As of that same date, for a deferred charitable gift annuity to be considered a planned gift, the annuity rate to be paid must be 5% or more. Please see Form QEC for more information

"Agriculture in Montana Schools" check-off renamed – The Agriculture in Montana Schools program has been renamed "Agriculture Literacy in Montana Schools." This is simply a name change to avoid confusion with an organization with a similar name. The money raised by this check-off continues to provide funding for developing and presenting an education program that provides young people with a better understanding of agriculture in our state and how it relates to the rest of the world.

Federal Changes

Itemized deduction limitation – The American Taxpayer Relief Act of 2012 reinstated what's commonly known as the "Pease Limitation"—the limitation on itemized deductions for individuals with incomes above certain thresholds. Please refer to Schedule III and its instructions on page 27 and Worksheet VI-IDL on page 46 for more information on whether the limitation applies to you and to calculate the limitation.

Medical expense deduction – The Patient Protection and Affordable Care Act of 2010 affects some filers' itemized deductions for medical expenses. Beginning with the 2013 tax year, individuals under age 65 at the end of the tax year can only deduct medical expenses that exceed 10% of their Montana adjusted gross income. Previously, these individuals could deduct medical expenses exceeding 7.5% of their income. Individuals 65 and older at the end of the tax year are still allowed to deduct expenses exceeding 7.5% of their income. Please refer to the instructions on page 24 for more information.

Updated Forms and Instructions

Married filing separately disclosure authorization – We have removed the box used on previous forms by married couples filing separate returns on the same form to indicate that the department may discuss any information on the form with either spouse. The legislative change described above makes the box unnecessary.

Nonresident and Part-Year Resident Schedule – We have slightly revised Schedule IV (Nonresident/Part-Year Resident Tax). The changes ensure an accurate ratio calculation when a nonresident or part-year resident's income includes a net operating loss carryover.

New form for enrolled tribal members – We replaced Form IND (Tribal Member Certification) with Form ETM (Enrolled Tribal Member Exempt Income Certification/ Return). As explained on the new form, tribal members no longer have to file Form 2 if all their income is exempt from Montana income tax. Form ETM now serves as their return. For more information, see Form ETM.

North Dakota reciprocal agreement – We discontinued Form NR-1 (North Dakota Reciprocal Affidavit) and Form NR-2 (Employee Certificate of North Dakota Residence). Beginning with the 2013 tax year, North Dakota residents covered by the reciprocal agreement who want to obtain a refund of any Montana tax withheld will now simply file a Montana Form 2. Form MT-R (Reciprocity Exemption from Withholding) replaces the NR-2 as the form employees submit to their employer to be exempt from Montana withholding under the reciprocal agreement.

Step 1. Personal Information

► **Are you ready?**

- Gather any updated personal information.
- Determine which filing status is best for you.

This form is Montana's "long form," which has to be used by taxpayers who cannot file one of the shorter forms (2EZ or 2M). Part-year residents and nonresidents of Montana must file Montana Form 2.

Part-Year Resident and Nonresident

If you are a part-year resident or a nonresident, you will complete lines 7 through 48 as if you were a resident using the instructions for Montana Form 2. After you have completed your return through line 48, you will then determine your "part-year resident or nonresident tax after capital gains tax credit" by completing Form 2, Schedule IV.

When you file your part-year resident or nonresident Form 2, you will have to include with your Montana tax return the following items:

- Form(s) W-2 issued for all wages reported on Form 2, line 7. This includes your Form(s) W-2 for wages earned in Montana and for wages earned outside of Montana.
- Montana Form 2, Schedule IV.
- Other Montana schedules, as applicable.
- A copy of your federal tax return including all federal forms and schedules.

Heading

Print your name, mailing address and social security number in the spaces provided. If you are married filing a joint return or married filing separately on the same form, enter your spouse's name and social security number. If your filing status is married filing separately on separate forms or married filing separately and your spouse is not filing a return, do not include your spouse's information in the heading. You will need to include your spouse's social security number when you select your filing status.

If either the primary taxpayer or the spouse died prior to filing this return, enter the date of death in the field next to his or her name. Please include a copy of the federal Form 1310 unless filing status 2 (married filing jointly) or 3a (married filing separately on the same form) is used on this return.

Filing Status – (Mark only one box)

Montana law does not require you to claim the same filing status that you claimed on your federal tax return. For example, if you are married and you filed your federal income tax return jointly, you and your spouse have the option to file your Montana tax return either jointly or separately. See the following explanation about the filing statuses available to you on your Montana tax return.

Box 1 – Single

You can claim this filing status if on December 31, 2013, you:

- were single,
- were legally separated according to your state law under a decree of divorce or separate maintenance, or
- were widowed before January 1, 2013, and you did not remarry in 2013.

If your filing status is single, report your income and deductions in column A only.

Box 2 – Married Filing Jointly

You can claim this filing status if:

- you were married as of December 31, 2013, even if you did not live with your spouse at the end of 2013; or
- your spouse died in 2013 and you did not remarry in 2013; or
- you were married as of December 31, 2013, and your spouse died in 2014 before filing a 2013 return.

You and your spouse can file a joint return even though one of you has no income or deductions, but please note that both spouses have to sign the return. If you filed your federal tax return jointly with your spouse, you are not required to file your Montana tax return jointly with your spouse. Generally, if you both have taxable income, you can benefit by filing your return separately using filing status 3a or 3b.

If your filing status is married filing jointly, report your combined income and deductions in column A.

Box 3a – Married Filing Separately on the Same Form

If both you and your spouse have income, you can file your Montana tax returns separately, even if you filed your federal income tax return jointly. But, if you and your spouse file separately, you will each need to report your own adjusted gross income. You cannot arbitrarily assign income between the two of you.

Your income from salaries, wages, bonuses, commissions and other income from providing personal services either as an employee or as an independent contractor should be reported by the spouse who earned it. Any other income that you earned from rents, royalties, dividends, etc., from property that is owned by only one spouse, has to be reported by that spouse. If any income is earned from property that is jointly owned by both spouses, that income should be split equally, unless you and your spouse can show a different proportional ownership. When you file separately, both spouses must either claim the standard deduction or itemize their deductions. You cannot file separately on the same form when one spouse is a resident and the other spouse is a nonresident. In this case, you should use either filing status 3b or 3c.

When you file separately on the same form, you should report your income and deductions for one spouse in column A and the other spouse in column B.

Important Although submitted on the same form, married taxpayers electing to file using this status are submitting two tax returns. If both taxpayers are entitled to refunds, two separate checks or direct deposits will be issued. In the event both spouses owe additional tax, penalties or interest, we will mail separate Statements of Account. However, if you are entitled to a refund and your spouse owes, and you file separate returns on the same form, we treat your election to file separately on the same form as your direction to us to apply your refund to the amount owed by your spouse. If you do not want your refund to be offset against any tax due from your spouse, you and your spouse must file on separate forms. If we discover a math or other computational error when processing the form, we will adjust it to correct the error and this may result in our applying one spouse's refund to the other spouse's increased tax. If you do not wish for this to occur, you will need to file your own separate return.

NEW! Beginning with the 2013 tax year, Montana law now permits department employees to discuss all information on the form with either spouse when the couple elects to file with this status. The department may also discuss any subsequent adjustments with either spouse. If you do not want to permit this, you and your spouse should file on separate forms. However, the new law does not permit you to make decisions for your spouse or to receive information about an amount your spouse may owe.

Box 3b – Married Filing Separately on Separate Forms

You and your spouse should use filing status 3b if both of you have Montana source income and one spouse is a resident of Montana and the other spouse is a nonresident. You should also use this filing status if you do not want your refund to be offset by any tax due from your spouse. When you select this filing status, you will have to include your spouse's social security number in the space provided on Montana Form 2. The rules for the assignment of income and expenses (as explained in Box 3a) also apply when you use filing status 3b.

When you file separately on separate forms, you should report your income and deductions in column A.

Box 3c – Married Filing Separately and Spouse Not Filing

You can use filing status 3c when:

- both you and your spouse are nonresidents and one spouse has no Montana source income,
- you are a resident and your spouse is a nonresident who has no Montana source income, or
- another taxpayer claims your spouse as a dependent.

When you select this filing status, you have to include your spouse's social security number in the space provided on Montana Form 2. Please note that when you use this filing status, you cannot claim your spouse as an exemption on your return.

When you file separate returns and your spouse does not file, you should report your income and deductions in column A.

Box 4 – Head of Household

You qualify to file as head of household on your Montana tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, include your federal Form 1040 or 1040A, pages 1 and 2, with your Montana tax return.

When you file as head of household, report your income and deductions in column A.

Boxes 5a through 5c – Residency Status

Mark the appropriate box that describes your residency status. To determine your residency status, refer to FAQ 3 on page 39. If you are married and one of you is a resident of Montana and the other is a nonresident of Montana, you cannot claim two residency statuses on the same return. You will have to file separate Montana tax returns and use filing status 3b or 3c described above.

North Dakota Reciprocity

Mark the box only if you are a North Dakota resident who is, as a result of reciprocity, filing this return solely to claim a refund of Montana income tax.

Montana has an income tax reciprocity agreement with the state of North Dakota. If certain conditions in the agreements are met, a resident of Montana does not have to pay North Dakota income tax on compensation received for work performed in North Dakota, and a resident of North Dakota does not have to pay Montana income tax on compensation received for work performed in Montana.

North Dakota Residents

If you are a resident of North Dakota, wages you receive for work performed in Montana are not taxable by Montana.

If you received wages covered by reciprocity, and your employer withheld Montana income tax from them, you must file a Montana individual income tax return at the end of the tax year to obtain a refund of the amount withheld. If this applies to you and you do not have any other gross income from Montana sources, complete Form 2 as follows:

1. Complete the applicable items at the top of Form 2, page 1 (through line 5c), as instructed.
2. Mark the box for "North Dakota Reciprocity" at the top of Form 2, page 1.
3. Leave the dependents section and lines 6a through 38 and 39 through 54 blank. Enter the federal adjusted gross income shown on your federal Form 1040, 1040A or 1040EZ on line 38a.
4. Fill in the amount of the Montana income tax withheld on lines 55, 63, 65, 72 and 74.
5. File Form 2 with a copy of your federal return and Form(s) W-2 showing Montana income tax withholding.

If your wages are covered by reciprocity and you do not want your employer to withhold Montana income tax from them, you must complete Form MT-R and give it to your employer. Ask your employer for this form or you can obtain it at *revenue.mt.gov*.

✓ **Did you…?**

- Use blue or black ink if you are filing on paper.
- Ensure that the correct social security number is entered and matches the number on your W-2(s).
- List your mailing address.
- Mark a filing status box.
- Mark the correct residency status.
- If filing electronically, save the tax information that you have entered.

Step 2. Exemptions (Lines 6a-6d)

► **Are you ready?**

- Gather the social security number(s) of your dependent(s).

Line 6a – Yourself

Since you are allowed one exemption for yourself, we have placed an "X" in the first box on line 6a for you. Even if you are claimed as a dependent on another person's tax return, you are still entitled to your one personal exemption. You

are also entitled to an additional exemption if you are age 65 or older at the end of the tax year, and an additional exemption if you are blind.

Line 6b – Spouse

If you are married and are filing jointly with your spouse, or if you file separately on the same form, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year, and an additional exemption if he or she is blind. You are not entitled to your spouse's exemption if you file separately on separate forms or if you file separately and your spouse does not file a Montana tax return.

Line 6c – Dependents

You can claim a dependent exemption for each person who qualifies as your dependent. Please complete the table for dependents located above line 6a on Form 2. List each dependent's first name, last name, social security number and his or her relationship to you. If you have more than four dependents, you will need to include a separate list of these additional dependents and then include these additional dependents in the total on line 6c, columns A or B.

A person who meets the following requirements is considered your dependent for Montana income tax purposes. Since some of Montana's dependency requirements are different from the federal dependency requirements, you will need to meet all of the following requirements in order to claim a dependent on your Montana tax return.

Your dependent is an individual:

- for whom you have provided more than half his or her support during the tax year; and
- who does not have gross income of more than $2,280,
  - unless the dependent is a "qualifying child" according to the federal rules; and
- who is not filing a joint tax return with his or her spouse during the same tax year.

In addition to the requirements mentioned previously, your dependent has to be:

- a relative to you (or your spouse if you are filing a joint return) in one of the following ways:

Child	Mother	Aunt
Stepchild	Grandparent	Son-in-law
Grandchild	Stepfather	Daughter-in-law
Brother	Stepmother	Father-in-law
Sister	Nephew	Mother-in-law
Stepbrother	Niece	Brother-in-law
Stepsister	Uncle	Sister-in-law
Father		

or

- an individual who for the tax year has shared your home as his or her principal home, and has been considered a member of your household; or
- a cousin (or other descendant of your uncle or aunt) who is receiving institutional care as a result of a physical or mental disability, and was a member of your household before receiving the institutional care.

Note: When the terms nephew, niece, uncle or aunt are used, they mean a direct relative of yours. For example, you cannot claim your spouse's uncle (mother or father's brother) as a dependent, only your spouse can. Similarly, your spouse cannot claim his or her uncle's spouse.

A child who is under age 19 at the end of the year (or age 24 and a full-time student) and lived with you for more than half the year can be considered a dependent even if they have more income than is otherwise allowed.

Disabled Dependent Child Exemption

In addition to the dependent exemption, you are entitled to another exemption for a child who is disabled. If your child is disabled and you qualify for this additional exemption, place an "X" in the "Mark if Disabled" column in the same row you listed your disabled child, and add an additional exemption to your total on line 6c, columns A or B.

You are allowed this disabled child exemption if all of the following requirements are met:

- You provide more than half the disabled child's support.
- Your home is the disabled child's principal home.
- The disabled child has a permanent disability constituting a disability to 50% or more of the body as a whole. Deafness and blindness do not meet this requirement.
- A licensed physician has certified the child's disability.

If this is the first year that you are claiming the additional exemption for this child, you will need to include a physician's certification of this qualifying disability with your tax return.

This physician's certification filed with us during the first year of eligibility remains in effect in subsequent years, and we do not require you to file it again until the circumstances of your disabled child change.

Line 6d

Add lines 6a through 6c and enter the total on this line. If you are married filing separately on the same form, use columns A and B. If you are claiming dependent exemptions, you can allocate these exemptions to either spouse. If your child is disabled and you are claiming an additional exemption for this disabled child, the spouse claiming that dependent will also have to claim the additional exemption.

Step 3. Federal Income and Federal Adjusted Gross Income (Lines 7-38)

► **Are you ready?**

- Fill out your 2013 federal tax return.

Lines 7 through 38a

Your income on your Montana tax return begins with your federal adjusted gross income. On lines 7 through 38, enter the amount corresponding to your federal tax return Form 1040, 1040A, or 1040EZ. If you are married and have filed your federal tax return jointly with your spouse but are now filing a separate Montana tax return, please apply the following rules as you allocate the income and deductions between you and your spouse:

- If you are married and filing separately with your spouse on the same form or on separate forms, you should each report your own adjusted gross income. You cannot arbitrarily assign income from one spouse to another.
- Income from wages, salaries, bonuses, commissions and other income that is earned from providing personal services as an employee or as an independent contractor should be reported by the spouse who earned it.
- Income such as rents, royalties, dividends and interest should be reported by the spouse who owns the property from which the income was earned. If you and your spouse jointly hold the property, you should split the income equally between both spouses unless you and your spouse can show a different proportional ownership.
- Income from your or your spouse's ownership in a sole proprietorship (federal Schedules C or F), partnership, S corporation or trust should be reported by the spouse who is the owner.

If you were required to complete and include a federal schedule for any of the items on these lines, you should also include those schedules when you submit your Montana tax return.

Detailed instructions for lines 7 through 38a are not provided for all lines. You will need to refer to your federal income tax instructions for detailed information about how to complete these lines. Selected lines have been identified in these instructions to provide additional information about specific Montana tax details.

Line 9 – Ordinary Dividends

Enter the total ordinary dividends that you reported on your federal Form 1040, line 9a or Form 1040A, line 9a. Montana taxes all dividends as ordinary dividends and does not have a specific qualified dividend tax rate.

Line 10 – Taxable Refunds, Credits or Offsets of State and Local Income Taxes

Enter the same amount that you reported on your federal tax return. You will need to include your state tax refund here and then report it as a subtraction from income on Form 2, Schedule II, line 6, to calculate your Montana adjusted gross income.

Line 12 – Business Income or (Loss)

Enter in the box labeled "NAICS," your North American Industry Classification System principal business or professional activity code. This code is located in Box B on your federal Schedule C or C-EZ. If you are reporting your income or loss from more than one Schedule C or C-EZ on line 12, enter the NAICS code for the business that recorded the greatest amount of gross income from sales. For further information, please visit *www.naics.com*.

Line 13 – Capital Gain or (Loss)

Enter the same amount of your capital gain or loss that you reported on your federal income tax return. For married taxpayers filing separate Montana tax returns, allocate the amount of gain or loss shown on the joint return between the spouses. The amount of capital gain or loss is reported by the spouse who owned the property that resulted in the gain or loss. If the property is jointly owned by both spouses, that gain or loss should be split equally, unless you and your spouse have a different proportional ownership.

Lines 15a and 15b – IRA Distribution

Enter the same amount of your IRA distribution that you reported on your federal tax return. If your Montana basis for your IRA is different from your federal basis, you should adjust your taxable amount on Form 2, Schedule I, line 16 or Form 2, Schedule II, line 34. A portion may be exempt from Montana tax. Complete Form 2, Worksheet IV, found on page 45 of this booklet, to determine if you are entitled to a partial exemption.

Lines 16a and 16b – Pensions and Annuities

Enter the same amount of your pension and annuity income that you reported on your federal tax return. However, a portion may be exempt from Montana tax. Complete Worksheet IV, found on page 45 of this booklet, to determine if you are entitled to a partial exemption.

Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts

Enter the same amount of your income or loss that you reported on your federal Schedule E. For married taxpayers filing separate Montana returns, the amount of gain or loss is reported by the spouse to whom it is attributable. If the gain or loss is not clearly attributable to one spouse, the amount is split equally.

Line 19 – Unemployment Compensation

Enter the same amount of the unemployment compensation that you reported on your federal tax return.

Unemployment compensation is exempt from Montana tax. You should exclude this same amount by reporting it on Form 2, Schedule II, line 3.

Line 20b – Taxable Social Security Benefits

Enter the amount of the taxable social security benefits that you reported on your federal tax return. You will need to complete Form 2, Worksheet VIII, found on page 48 of this booklet, in order to determine your Montana taxable social security benefits. If your taxable benefits are higher or lower than your federal taxable benefits, you should either include or exclude the difference on Form 2, Schedule I, line 5, or Form 2, Schedule II, line 22.

Line 26 – Health Savings Account Deduction

Enter the same amount of federal health savings account contributions that you reported on your federal tax return. Be careful not to confuse this deduction with the Montana Medical Care Savings Account exemption that you might report on Form 2, Schedule II, line 18.

Line 33 – IRA Deduction

Enter the same IRA deduction that you reported on your federal tax return. You are not required to recompute the allowable deduction if you filed a joint federal tax return but are filing separate Montana tax returns.

Line 34 – Student Loan Interest Deduction

Enter the same amount of the student loan interest deduction that you reported on your federal tax return. You are allowed this deduction even if you filed a joint federal return but are filing separate Montana tax returns.

Line 37

Add lines 24 through 36 and enter the result on this line. Include in your total any write-in adjustments that you made on your federal income tax return. Refer to your federal instructions for a description of the allowable federal write-in adjustments.

Federal Write-Ins Checkbox

Mark this box if either spouse included federal write-in adjustments in the total on line 37.

Line 38a – Federal Adjusted Gross Income

If you are filing single (filing status 1), married filing jointly (filing status 2), or head of household (filing status 4), enter the amount from line 38 in line 38a. If you are using the same filing status on your federal tax return, this amount should correspond to the amount of the federal adjusted gross income that you reported on your federal tax return Form 1040, 1040A, or 1040EZ.

If you are filing married filing separately on separate forms (filing status 3b), or married filing separately and spouse is not filing (filing status 3c), enter the amount from line 38, column A on line 38a. Depending on what filing status you elected on your federal tax return, this amount may correspond to the amount of federal adjusted gross income that you reported on your federal tax return. In any circumstance, your federal adjusted gross income reported on your Montana tax return plus your spouse's federal adjusted gross income reported on a separate Montana tax return, or that is not reported, should correspond to the amount of your combined federal adjusted gross income that you reported for federal income tax purposes.

If you are filing married filing separately on the same form (filing status 3a), combine the amounts on line 38, columns A and B, and enter the result on line 38a. This combined amount should correspond to the amount of federal adjusted gross income that you reported on your federal tax return Form 1040, 1040A, or 1040EZ.

✓ **Did you…?**

- Fill in lines 15a, 16a, and 20a if they apply.
- Include all of your federal income, even if you are a nonresident or part-year resident.
- Report your 1099 information in the correct column if your filing status is married filing separately on the same form.
- If filing electronically, save the tax information that you have entered.

Step 4. Montana Adjusted Gross Income and Taxable Income (Lines 39-45)

► **Are you ready?**

- Fill out Schedule I if you have Montana additions.
- Fill out Schedule II if you have Montana subtractions.
- Fill out Schedule III if you will be itemizing your deductions.

Line 39 – Montana Additions to Federal Adjusted Gross Income

You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule I, to determine the amount of additions to enter on this line. Refer to page 14 for a detailed explanation of these additions.

Line 40 – Montana Subtractions from Federal Adjusted Gross Income

You may be eligible to subtract items of income from your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule II to determine the amount of your subtractions that you need to enter on this line. Refer to page 17 for a detailed explanation of these subtractions.

Line 41 – Montana Adjusted Gross Income

Add lines 38 and 39, then subtract line 40; enter the result on this line. This is your Montana adjusted gross income.

Caution: Do not include in your calculation the amount that you reported on line 38a.

Line 42 – Standard or Itemized Deductions

In most cases, your state income tax will be less if you take the larger of either your itemized deductions or the standard deduction.

When you claim your standard deduction or itemized deductions, remember to mark the box on line 42 that identifies which method you are using. If you do not mark the appropriate box, this will delay the processing of your return.

When you and your spouse file separately on the same form or on separate forms, you will both have to use the standard deduction or itemize your deductions. You cannot use two different methods.

- **Standard Deduction**

  To calculate your standard deduction, complete Form 2, Worksheet V on page 46.

- **Itemized Deductions**

  To figure your itemized deductions, complete Form 2, Schedule III. You can find the instructions for Form 2, Schedule III, on page 23 of this instruction booklet.

Line 44 – Exemption

You are entitled to at least one exemption (your own). Multiply $2,280 times the number of exemptions that you have claimed on Form 2, line 6d and enter the result on this line.

Line 45 – Taxable Income

To compute your taxable income, subtract line 44 from line 43 and enter the result on this line.

✓ **Did you…?**

- Mark the correct box on line 42 to claim either the "standard deduction" or "itemized deductions".
- If filing electronically, save the tax information that you have entered.

Step 5. Tax, Nonrefundable Credits and Recapture (Lines 46-54)

► **Are you ready?**

- Fill out Schedule IV if you are a nonresident or part-year resident.
- Fill out Schedule V if you are entitled to any nonrefundable credits.

Line 46

Compute your tax using the following tax table. The tax table is also on Form 2, page 4.

2013 Montana Individual Income Tax Table				
If Your Taxable Income Is More Than	But Not More Than	Multiply Your Taxable Income By	And Subtract	This Is Your Tax
$0	$2,800	1% (0.010)	$0	
$2,800	$4,900	2% (0.020)	$28	
$4,900	$7,400	3% (0.030)	$77	
$7,400	$10,100	4% (0.040)	$151	
$10,100	$13,000	5% (0.050)	$252	
$13,000	$16,700	6% (0.060)	$382	
More Than $16,700		6.9% (0.069)	$532	

Line 47 – Capital Gains Tax Credit

You can claim a capital gains tax credit against your Montana income tax of up to 2% of your net capital gains. Your net capital gains is the amount you reported on Form 2, line 13 less any amounts reported on Schedule II, line 25, line 28 or any capital gains included in the amount on line 34. This credit is nonrefundable--it is applied directly against your income tax liability and it cannot reduce this liability below zero. This credit is applied before any other credits and cannot be carried back or carried forward.

If you are a nonresident or a part-year resident, you must apply this credit to your Montana income tax that you computed on line 46 as though you were a resident.

If you are married and you and your spouse are filing separately on the same form or on separate forms, you each will need to calculate your capital gains tax credit.

Line 48 – Resident Tax After Capital Gains Tax Credit

Complete line 48 if you are a resident, nonresident or a part-year resident.

If you are a resident, this is your resident tax after capital gains tax credit. Skip line 48a and go to line 49.

If you are a nonresident or a part-year resident, go to line 48a.

Line 48a – Nonresident, Part-Year Resident Tax After Capital Gains Tax Credit

If you are a nonresident or a part-year resident, you will need to go to Form 2, Schedule IV, to calculate your nonresident, part-year resident tax after capital gains credit. Enter the result of this calculation on this line. See the instructions for Form 2, Schedule IV on page 27.

Line 49 – Tax on Lump-Sum Distributions

If you qualify on your federal return for special averaging of your lump-sum distribution and have not included it as ordinary pension income in federal adjusted gross income, you must pay Montana income tax on this distribution. Your Montana tax liability on the lump-sum distribution is 10% of the federal tax calculated on federal Form 4972. Part-year residents must calculate the tax on all lump sum

distributions received while residing in Montana. Include a copy of federal Form 4972.

Line 50 – Total Tax

If you are a resident, add lines 48 and 49; enter the result on this line. If you are a nonresident or part-year resident, add lines 48a and 49; enter the result here.

Line 51 – Total Nonrefundable Credits

Enter the amount from Schedule V, line 23, but do not enter an amount larger than the amount on line 50. This is your total nonrefundable credits.

Line 52 – Recapture Taxes

Some statutes that allow deductions and tax credits have provisions requiring a recapture of the tax benefit you received in an earlier tax year (if you do not meet certain requirements in subsequent tax years). If you are required to report a recapture, report the appropriate two-letter code and amount on this line. The four possible recapture taxes are the following:

- **BD – Biodiesel/Biolubricant Production Facility, Biodiesel Blending and Storage, and Oilseed Crushing Credit Recapture Tax**

  If you previously claimed any of the tax credits for biodiesel or biolubricant production, biodiesel blending and storage, or oilseed crushing, and have ceased operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. On this line, enter the amount of your biodiesel/biolubricant production facility, biodiesel blending and storage, or oilseed crushing credit recapture tax; and enter the code 'BD' in the space indicated.

- **EC – Endowment Credit Recapture Tax**

  If you previously claimed an endowment credit for a gift that you contributed to a qualified endowment and you now have received the gift back, you are required to recapture that previous credit to the extent it reduced your income tax liability in a previous year and to include in your income any amounts that were previously deducted as an itemized deduction.

  On this line, enter the amount of your endowment credit recapture tax and enter the code 'EC' in the space indicated. If, in addition to your recapture tax, part of the amount that is recaptured was claimed as a charitable contribution in a prior year, you will have to include in your income on Form 2, Schedule I, line 4 any recoveries of this prior year deduction that reduced your tax liability in the year of that deduction. Complete Worksheet IX to determine if you will have to recapture any amount of your prior year deduction. You can get Worksheet IX from our website at *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

- **FE – Family Education Savings Account Recapture Tax**

  If you have a recapturable withdrawal from your family education savings account, you will have to pay a 6.9% recapture tax on this withdrawal instead of including this withdrawal in your Montana adjusted gross income.

  A recapturable withdrawal is a withdrawal that is not used to pay for qualified higher education expenses or for a withdrawal from your family education savings account within three years from the date you opened the account.

  Multiply your recapturable withdrawal by 6.9%, enter the result on this line, and enter the code 'FE' in the space indicated. This is your family education savings account recapture tax.

- **RP – Rural Physician's Credit Recapture Tax**

  If you previously claimed the rural physician's tax credit and have subsequently ended your practice in this rural area, within four years following the year that you claimed the credit, you are required to pay back your previous credit(s) claimed.

  For example, if you claimed four consecutive $5,000 rural physician's credits for a total of $20,000 in years 2007, 2008, 2009, and 2010, and then in 2013 you ended your practice in the rural area that qualified you for that credit, you are required to pay back $10,000 of your previous credits that you claimed in 2009 and 2010. You are entitled to the 2007 and 2008 credits since you maintained your practice in the rural area for at least four additional years after becoming eligible for this credit.

  On this line, enter the amount of your rural physician's credit recapture tax and enter the code 'RP' in the space indicated.

If you are married filing separately on the same form and each spouse has a recapture, enter the amount and code in the appropriate column. If you are reporting more than one recapture in one column, enter the total recapture amount for both and the code for the higher recapture.

Step 6. Payments and Refundable Credits (Lines 55-65)

► **Are you ready? You will need–**

- Information about payments you made for this tax year.
- To gather any W-2s, 1099s and/or Montana K-1s you received that show any tax withheld.
- To have Schedule V filled out if you are entitled to any refundable credits.

Line 55 – Montana Income Tax Withheld

Enter the amount of the Montana income tax withheld from your compensation and reported in Box 17 of your federal Form W-2, or in Box 12 of your federal Form 1099-R. When

you claim Montana income tax withheld, you are required to include a copy of your withholding statement(s) (federal Form(s) W-2 or 1099-R) with your return.

Income tax withheld as a result of an ownership interest in a pass-through entity or mineral royalty payments received cannot be reported on this line.

Line 56 – Montana Mineral Royalty Tax Withheld

Enter the amount of the Montana mineral royalty tax withheld from royalty payments received during the year. This is generally reported on federal Form 1099-MISC. Royalty payments made to owners of Montana mineral rights are subject to state tax withholding if certain thresholds are met. This amount is no more than 6% of your Montana royalty payments and should not be confused with the production taxes that are also subtracted from your royalty payments. If the mineral rights are held by a partnership, S corporation, estate or trust in which you have an ownership interest or from which you receive a distribution, enter the amount reported to you as your share of the withholding. Include a schedule detailing the calculation of your portion of the withholding and any supporting documents such as the Montana Schedule K-1 (issued to you by the entity) or a copy of the Form 1099 issued to the partnership, S corporation, estate or trust. For more information, please visit "Mineral Royalty Withholding" at *revenue.mt.gov*.

Line 57 – Montana Pass-Through Entity Withholding

If you had an ownership interest in an S corporation, partnership or disregarded entity that had Montana source income and withheld Montana income tax, enter the amount here. This amount is reported to you on the Montana Schedule K-1 issued by the entity and should not be confused with any Montana mineral royalty tax withheld passed through to you by the S corporation, partnership or disregarded entity.

Line 58 – Estimated Tax Payments

If you have made estimated income tax payments for tax year 2013, enter the amount of these estimated tax payments. Include in this amount the 2012 refund that you requested us to apply to your 2013 estimated income tax payments. Do not include in this total any income taxes paid for a previous year since these are not estimated taxes paid for tax year 2013. You can view your payment history on Taxpayer Access Point (TAP), available online at *revenue.mt.gov*.

Important If you are married filing separately on the same form and have made estimated payments, you might consider allocating the payments claimed by each spouse so that one spouse does not owe tax and the other is due a refund. You may wish to contact the department before filing your return to verify that estimated payments are applied to the intended spouse. Only estimated payments can be allocated. Withholding must be reported by the spouse whose name appears on the federal Form(s) W-2 or 1099.

Line 59 – Extension Payment

If you paid an extension payment on or before April 15, 2014, in order to qualify for an automatic six-month extension to file your income tax return, enter that amount on this line. To determine whether you need to make an extension payment, complete the Extension Payment Worksheet, Montana Form EXT-13.

Line 60 – Refundable Credits

Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

You may be eligible for one or more of the five refundable credits that are available on Montana tax forms. Complete Form 2, Schedule V, lines 24 through 29 to determine the amount of the refundable credits to enter on this line. Refer to the section of instructions on Montana tax credits found on page 31 for a detailed explanation of these refundable credits.

Amended Return

Use lines 61 and 62 only when filing an amended tax return. If you are filing an original tax return, proceed to line 63.

Line 61 – Payments with Original Return

Enter any payments made when you filed your original return and any subsequent payments that were applied to your 2013 tax liability. You can view your payment history on Taxpayer Access Point (TAP), available online at *revenue.mt.gov*.

Line 62 – Previously Issued Refunds

Enter any refunds previously issued to you. This includes refunds that may have been applied to another debt such as a prior tax year or child support debt. Do not include the overpayment amount you requested to be applied to your 2014 estimated tax payments.

Line 63 – Total Payments and Refundable Credits

Add lines 55 through 61, and then subtract line 62. Enter the result here. This is your total payments and refundable credits.

Line 64 – Tax Due

If line 54 is greater than line 63, subtract line 63 from line 54. This is your tax due.

Line 65 – Tax Overpaid

If line 63 is greater than line 54, subtract line 54 from line 63. This is your tax overpaid.

Important For married taxpayers filing separately, when both taxpayers have an overpayment, the amount of each overpayment will be reported to the Internal Revenue Service. When one spouse owes and the other has an

overpayment, the amount reported to the Internal Revenue Service will be the gross overpayment amount for the spouse with the overpayment before netting the two columns. For example, if spouse A has an overpayment of $600 and spouse B owes $200, the amount reported for spouse A on federal Form 1099-G will be $600 even though the net refund check issued is $400.

Many taxpayers will not find this result acceptable because it may affect their federal taxable income for the following year. Please see the instructions for line 58 for suggestions about reallocating estimated payments.

✓ **Did you…?**

- Include any mineral royalty tax withheld on line 56; not line 55.
- If filing electronically, save the tax information that you have entered.

Step 7. Penalties, Interest and Contributions (Lines 66-70)

► **Are you ready? You will need–**

- Information about payments you made for this tax year.

Line 66 – Interest on Underpayment of Estimated Taxes

You are required to pay your income tax liability throughout the year. You can make your payments through employer withholding, installment payments of estimated taxes, or a combination of both.

If you did not pay in advance at least 90% of your 2013 income tax liability (after applying your credits) or 100% of your 2012 income tax liability (after applying your credits), you may have to pay interest on the underpayment of your estimated tax.

You are not required to make estimated tax payments if at least 2/3 of your gross income is derived from farming or ranching operations. Please mark the “2/3 farming gross income” box if this applies to you. Please mark the “estimated payments were made using the annualization method” box if you used the annualization method to make your estimated tax payments for 2013.

To calculate your interest, please complete either Worksheet VII on page 47 or Form EST-I, 2013 Underpayment of Estimated Tax by Individuals, Estates and Trusts. You can access this form by visiting our website at *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

Line 67 – Late File Penalty, Late Payment Penalty and Interest

Important If you and your spouse are filing on separate returns, penalties and interest are based on the amount that each spouse owes. In order to simplify calculations for Form 2, married taxpayers filing separately on the same form will compute penalties and interest on the combined tax due. If both spouses owe additional tax, penalties or interest, they will receive individual Statements of Account for the amount they owe. When one spouse owes tax but the other is overpaid, penalties and interest are based on the unpaid tax after applying the overpayment from the other spouse.

- **Late File Penalty**

  If you file your return after April 15, 2014—or October 15, 2014, with a valid extension—you will need to pay a late file penalty if there is tax due on line 64. The penalty is equal to the lesser of $50 or the amount of tax you owe. You do not have to pay a late file penalty if you are filing your return late and you are due a refund. To calculate your late file penalty, compare the amount on line 64 to $50. Your late file penalty is the lesser of these amounts. If you and your spouse elect the filing status “married filing separately on the same form” and both of you owe tax and do not have a valid extension, the late file penalty will be assessed to both of you.

- **Late Payment Penalty**

  Unless your tax liability is $200 or less, an extension to file your return does not give you an extension to pay your tax. Therefore, if you have not paid all of your income tax liability by April 15, 2014—or October 15, 2014, if your tax liability is $200 or less—you will need to pay a late payment penalty. The late payment penalty is equal to 1.2% per month or part of a calendar month on the unpaid balance from April 15, 2014, until it is paid. For example, if you do not pay your tax due until May 10, 2014, your late payment penalty will be 2.4% (two parts of a month x 1.2%) of the unpaid tax. To calculate your late payment penalty, multiply the amount on line 64 by 1.2% per month or part of a calendar month that your payment is late. Your late payment penalty will never exceed 12% (10 months x 1.2%) of the unpaid tax.

  Note: If your tax liability is $200 or less, and you have not filed your return and paid your tax due on or before October 15, 2014, Montana law requires that we assess a penalty on the amount you owe from the original due date of the return, which is April 15, 2014.

- **Interest**

  Unless your tax liability is $200 or less, an extension to file your return does not give you an extension to pay your tax. Therefore, if you have not paid 100% of your income tax liability by April 15, 2014—or October 15, 2014, if your tax liability is $200 or less—you will have to pay 8% annual interest, computed daily, on the amount you still owe. To calculate your interest, multiply the amount on line 64 by 0.02192% (0.0002192) times the number of days after April 15, 2014, that your tax is paid. Interest accrues from the original due date of your return.

  Note: If your tax liability is $200 or less, and you have not filed your return and paid your tax due on or before October 15, 2014, Montana law requires that

we assess interest on the amount you owe from the original due date of the return, which is April 15, 2014.

If you owe more than one of the items listed above, enter each amount you owe onto the following worksheet:

Type	Amount
Late file penalty	
Late payment penalty	
Interest	
Total	

Enter the total on line 67. (You may wish to keep this information as part of your records for future reference.)

Line 68 – Other Penalties

Include on this line any of the following other penalties if they apply to your situation. You can get a copy of any of these forms by visiting our website at *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

- **First-Time Home Buyer Savings Account 10% Penalty**

  If you withdrew funds from your first-time home buyer savings account for purposes other than to pay for eligible costs for the purchase of a single-family residence, you are required to pay a 10% penalty on this withdrawal unless the withdrawal is on the last business day in December. Complete the penalty calculation on Montana Form FTB, 2013 First-Time Home Buyers Savings Account. Enter the amount of the penalty on this line and include a copy of Form FTB with your tax return.

- **Medical Care Savings Account 10% Penalty**

  If you withdrew funds from your medical care savings account for purposes other than to pay for eligible medical costs, you are required to pay a 10% penalty on this withdrawal unless you made this withdrawal on the last business day in December. Complete the penalty calculation on Montana Form MSA, 2013 Medical Care Savings Account. Enter the amount of the penalty on this line and include a copy of Form MSA with your tax return.

- **Farm and Ranch Risk Management Account 10% Penalty**

  If you have not distributed your deposits and income from your farm and ranch risk management account within five years, they are considered distributed. You are required to pay a 10% penalty on the amount of tax due on this amount that is considered distributed. On this line, enter the amount of your farm and ranch risk management account 10% penalty.

  If you are required to pay more than one of the penalties listed above, enter on line 68 the sum of your other penalties.

Line 69 – Montana Voluntary Check-Off Contribution Programs

Montana law provides you with the opportunity to contribute, via your income tax return, to the following programs. You can contribute any amount to any of these four programs. Your contribution will increase the amount you owe or reduce the amount of your refund.

Line 69a – Nongame Wildlife Program

Your contributions to this program are used to ensure the well-being of Montana's watchable wildlife species, such as eagles, herons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.

Line 69b – Child Abuse Prevention Program

Your contributions to this program fund services and activities related to the prevention of child abuse and neglect. In addition, if you enclose a separate check with your timely filed return, you are allowed to take an itemized deduction for the amount of the contribution on the tax return you are filing with this contribution.

Line 69c – Agriculture Literacy in Montana Schools Program

As mentioned in the "What's New?" section, only the name of this program has changed. Your contributions to this program fund the development and presentation of educational programs. This program ensures Montana's young people have a better understanding of agriculture in our state and how it relates to the rest of the world.

Line 69d – Montana Military Family Relief Fund

Your contributions to this program help provide funding for grants that aid Montana families in defraying the costs of food, housing, utilities, medical services, and other expenses when a wage earner has been called to active military duty.

Line 70 – Total Penalties, Interest and Contributions

Add lines 66 through 69 and enter the result on this line. This is your total penalties, interest and check-off program contributions.

✓ **Did you…?**

- Check the instructions about extensions to see if you owe a late file penalty.
- If filing electronically, save the tax information that you have entered.

Step 8. Amount You Owe or Your Refund (Lines 71-74)

► **Are you ready?**

- Gather the routing and account number for your checking or savings account if you will be receiving a refund and would like the money to be direct deposited.

Line 71 – Amount You Owe

If you have tax due (amount on line 64), add lines 64 and 70 OR, if you have a tax overpayment (amount on line 65) and it is less than line 70, subtract line 65 from line 70. Enter the result here.

Married taxpayers filing separately on the same form should determine the amount to report on this line as follows:

- If both taxpayers have tax due (line 64)
  - Add both spouses' tax due amounts to the total on line 70, and enter the result on this line.
- If one taxpayer has tax due (line 64) and the other has a tax overpayment (line 65)
  - Compare the two amounts and:
    - If the tax due is greater than the tax overpaid, subtract line 65 from line 64, add the result to the amount on line 70, and enter the total on this line.
    - If the tax overpaid is greater than the tax due, subtract line 64 from line 65 and compare the result to the amount on line 70. If the remaining overpayment is less than the amount on line 70, subtract the overpayment from line 70 and enter the result on this line. Otherwise, proceed to line 72.
- If both taxpayers have a tax overpayment (line 65)
  - Add both spouses' tax overpayment amounts and compare the total to line 70.
    - If the combined overpayment of tax is less than the amount on line 70, subtract the overpayment from line 70 and enter the result on this line.
    - If the combined tax overpayment is greater than the amount on line 70, proceed to line 72.

You can pay the amount you owe by:

- Electronic funds withdrawal when e-filing your joint federal/state tax return. You can schedule your withdrawal for a later date.
- E-check or credit/debit card—please visit our website at *revenue.mt.gov* and click on Taxpayer Access Point (TAP) or Income Tax Express (ITE) e-payment services.
- Personal check, money order, or cashier's check—please use the voucher that we have provided with this income tax booklet. Make your check payable to the Montana Department of Revenue. Please sign your check, and write your social security number and "Tax Year 2013" on the memo line.

Interest and late payment penalties will be assessed on any amount not paid when due.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as possible. By filing and paying as much as you can by April 15, 2014, you may not have to pay a late file penalty and you can reduce the amount of your late payment penalty and interest. If you need to establish a payment plan, please call us toll free at (866) 859-2254 (in Helena, 444-6900) as soon as possible to discuss your payment options and make arrangements.

Line 72 – Your Overpayment

If you have a tax overpayment (amount on line 65) and it is greater than line 70, subtract line 70 from line 65 and enter the result on this line.

Married couples filing separately may have a combined overpayment. This results when either both spouses report a tax overpayment (line 65), or one spouse reports a tax overpayment (line 65) that is greater than the other spouse's tax due (line 64). If this is true for you, and the combined overpayment is greater than the amount on line 70, subtract line 70 from the combined overpayment and enter the result on this line.

Line 73

Enter the amount of your overpayment from line 72 that you want to be applied to your 2014 estimated taxes.

Line 74 – Your Refund

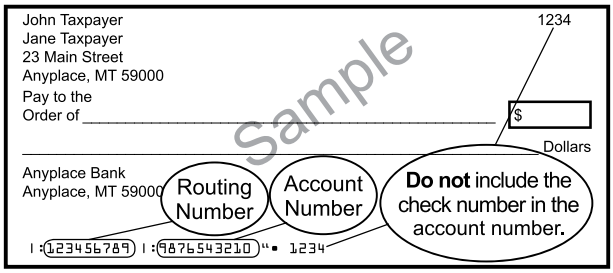
Subtract line 73 from line 72 and enter the result on this line. This is the amount of your refund.

If you would like to use direct deposit, enter your financial institution's routing number (RTN#) and your account number (ACCT#) in the space provided. Your routing number will be nine digits and your account number can be up to 17 characters, including numbers and letters. Mark whether your account is a checking or savings account and if your refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa, US Virgin Islands, Federated States of Micronesia, and Guam).

If you and your spouse are due a refund, each of you will get a direct deposit.

If your financial institution does not accept the direct deposit, we will mail you a refund check. If you and your spouse are due a refund, both of you will get separate checks.

A sample of a personal check is provided for your convenience.



✓ **Did you…?**

- Check your return to ensure you have no mathematical errors.
- Make sure that your refund or amount due is reported on the correct line.
- If filing electronically, save the tax information that you have entered.

Step 9. Sign, Assemble and File Your Return

Sign Your Return

Your tax return is considered incomplete unless you sign it. If your filing status is married filing jointly or married filing separately on the same form, your spouse must also sign. Incomplete returns cannot be processed and require us to contact you for additional information. If you have someone prepare your return, you are still responsible for the correctness of the return. If you are filing a joint return as a surviving spouse, see FAQ ⓴ on page 42.

Electronic Return Signatures

If you are filing your return electronically, you are not required to actually sign your return. The act of filing your return electronically signifies your declaration, under the penalty of false swearing, that:

- You are the taxpayer identified in the return; and
- The information in the return is true, correct and complete.

Your filing electronically, with this declaration, is your signature.

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your return. We may have questions about items on your return and if you are able to answer our questions over the phone, we may be able to continue processing your return without mailing you a letter. If you are filing a joint return, you can enter either your or your spouse's daytime phone number.

Paid Preparer

Anyone you pay to prepare your return must sign it and include his or her Preparer Tax Identification Number (PTIN) in the space provided. Preparers should have a PTIN, but the preparer's Social Security Number (SSN) may be used when the paid preparer does not have a PTIN. The paid preparer must also include his or her firm's Federal Employer Identification Number (FEIN), if applicable. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return or include their PTIN or SSN.

Third Party Designee

If you want to allow your preparer, friend, family member, or any other person you choose to discuss your 2013 tax return with the department, mark the "Yes" box in the bottom of the signature block. You will also need to enter your designee's printed name and phone number. If you are married filing separately on the same form or filing a joint return, please review the following instructions carefully.

- If you and your spouse are filing separately on the same form, and the "Yes" box is marked, each of you is authorizing us to discuss the return with the third party designee to answer any questions that arise while we are processing your 2013 tax return.
- If you are filing a joint return, you are automatically authorizing us to discuss the joint return with either spouse, but you will still need to complete the third party designee section if you wish to allow another person, such as a tax preparer, to discuss your return with us.

If you do not complete the third party designee section according to these instructions, we cannot discuss your return with another person. By completing this section, you are authorizing the designee to:

- Give us any information that is missing from your return;
- Call us for information about the processing of your return or the status of your refund or payment(s); and
- Respond to notices from us about math errors, offsets and return preparation.

You are not authorizing the designee to discuss any other tax year, receive any refund check, bind you to anything or otherwise represent you before the Department. If you want to expand the designee's authorization, please view information about granting someone power of attorney at *revenue.mt.gov*.

The authorization will automatically end no later than the due date (without regard to extensions) for filing your 2014 return. This is April 15, 2015, for most people.

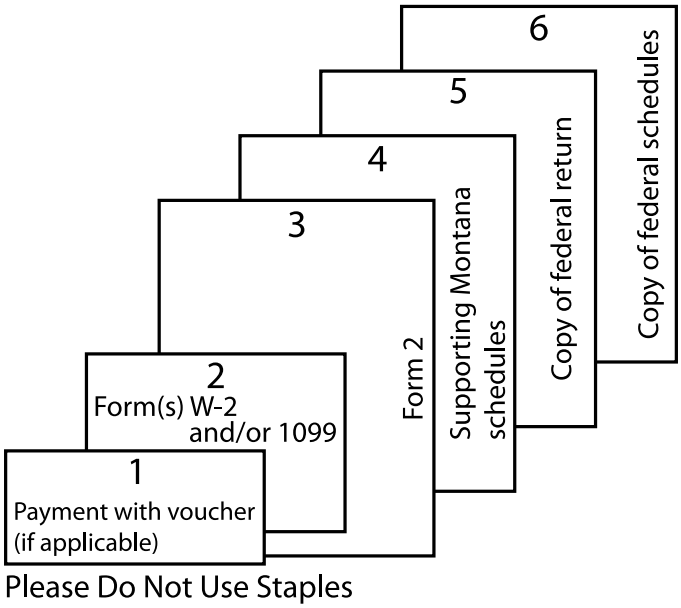
For additional information, please see FAQ ❺ on page 39.

Assemble Your Return

If you are filing your return on paper, please include with your return all Form(s) W-2 and any Form(s) 1099 reporting Montana withholding you were issued. If you forget to send your Form(s) W-2 or other withholding forms with your return, do not send them separately or with another copy of your tax return. Wait until we request them from you.

If you are filing your return on paper, you are required to include any applicable federal forms and schedules we

requested on the return. You are not required to provide us with your entire federal return when you file your Montana return unless you are a nonresident or part-year resident. However, you should retain your federal return in your tax records and be able to provide it to us upon request. Please assemble your return, without using staples, in the following order:



File Your Return

We encourage you to e-file your tax return. To see the e-filing options available to you, please see FAQ ❼ on page 40 or visit *revenue.mt.gov*. If you have chosen to file your return on paper, you will need to mail your return to us.

If your tax return does not include a payment or shows you are due a refund, please mail your tax return to the following address:

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

If your tax return includes a payment, please mail your tax return and check to the following address:

Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308

✓ **Did you…?**

- Get a confirmation that your Montana return was accepted, if you are filing electronically.
- Sign your tax return if you are filing on paper. Have your spouse sign the return if you are married filing a joint return or filing separately on the same form.
- Fill out the third party designee section if you want to allow someone else to discuss your return with us.
- Include all schedules that support information on your tax return. You do not need to include blank schedules or any worksheets.
- If filing electronically, save the tax information that you have entered.

Schedule I – Montana Additions to Federal Adjusted Gross Income

► **Are you ready? You will need–**

- Supporting documents for items on Schedule I that apply to you, such as:
  - Worksheet II if you received a federal tax refund in 2013 and you itemized deductions on your 2012 Montana tax return.
  - Worksheet VIII showing the amount of your social security benefits taxable to Montana.
  - Premiums paid to the Insure Montana small business health insurance program.

Line 1 – Interest and Mutual Fund Dividends from Other States' State, County, or Municipal Bonds

Enter the interest and mutual fund dividend income that you received from bonds and obligations of another state, territory, or political subdivision of another state (county, municipality, district, etc.).

Line 2 – Dividends Not Included in Federal Adjusted Gross Income

Enter the amount of any dividends that you received that are not already included in your federal adjusted gross income.

Line 3 – Taxable Federal Refund

If you received a 2012 federal income tax refund in 2013 and you claimed federal income taxes paid as an itemized deduction on your 2012 Montana tax return, you may need to report a portion or all of your federal refund as income on your 2013 Montana tax return.

To the extent that the federal tax deduction that you claimed on your 2012 Montana tax return reduced the amount of your 2012 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received them.

You will need to complete Worksheet II, Tax Benefit Rule for Federal Income Tax Refund, found on page 44 of this booklet to determine whether your federal income tax refund is taxable in 2013, unless one of the following scenarios applies to you:

- If you claimed the Montana standard deduction when you filed your 2012 Montana return (instead of itemized deductions) in 2013, none of your federal income tax refund is taxable and you do not need to complete Worksheet II.
- Your deduction for federal taxes paid in 2012 may have been limited on your Montana tax return to $5,000 ($10,000 if filing a joint return). Because of this limitation, your refund may or may not be taxable.

A simple way to check this is to subtract the refund that you received in 2013 from the total federal income taxes paid in 2012 (Form 2, Schedule III, lines 7a through 7d or Form 2M, Schedule I, lines 7a through 7d).

- If the result is more than $5,000 ($10,000 if you filed a joint return), none of the refund is taxable and you do not need to complete Worksheet II.
- If the result is less than $5,000 ($10,000 if you filed a joint return), please complete Worksheet II to determine whether your federal income tax refund is taxable.

If you and your spouse filed your federal tax return jointly and are now filing your Montana tax return separately, you will each need to complete a separate tax benefit rule worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2012 federal income tax deduction to the total federal tax deducted.

Line 4 – Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income

If in 2013, you received a reimbursement of an amount that you previously deducted on your Montana tax return and this deduction originally reduced the amount of your Montana income tax liability in the year of the deduction, you may need to report as income a portion or all of the reimbursement that you received on your 2013 Montana tax return. For example, you may have recovered amounts from more than one year, such as a federal income tax refund from 2008 and a casualty loss reimbursement for a loss claimed as a deduction in 2009.

To the extent that these deductions reduced your income tax liability in 2008 and 2009, you are required to include these reimbursements as income in 2013. If you have a reimbursement from a prior year deduction other than your 2012 federal income tax refund, please call us toll free at (866) 859-2254 (in Helena, 444-6900) or visit our website at *revenue.mt.gov* to get Worksheet IX, Tax Benefit Rule for Recoveries of Itemized Deductions.

Line 5 – Addition to Federal Taxable Social Security

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Worksheet VIII, Taxable Social Security Benefits, found on page 48 of this booklet. Before you can complete your social security worksheet, you will need to complete your partial pension and annuity income exemption worksheet, Worksheet IV, found on page 45 of this booklet.

If, after you have completed your social security worksheet, you find that your social security benefits taxable to Montana are greater than those that you reported on Form 2, line 20b, enter that difference on this line. If your social security benefits taxable to Montana are less than those that you reported on line 20b, you should report that difference as a subtraction from federal adjusted gross income on your Schedule II, line 22.

Line 6 – Sole Proprietor's Allocation of Compensation to Spouse

If you are a sole proprietor reporting net income on your federal Schedule(s) C or F, you have to report the full amount of your income in column A or B to determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. You need to base this allocation on an amount that is equivalent to the services that your spouse provides. It is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

Services that your spouse provided for operating your household or services that are incidental to your operations cannot be used as a basis for allocation of income to your spouse. When you claim this addition to income, you should be prepared to provide us with verification of those services performed and the substantial contribution made by your spouse.

Report on this line the amount of income allocated to your spouse and report the offsetting subtraction on Schedule II, line 26 in your column.

Line 7 – Medical Care Savings Account Nonqualified Withdrawals

Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for detailed instructions. You should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions for Form 2, line 68 and Montana Form MSA for more information on the Montana medical care savings account 10% penalty.

Line 8 – First-Time Home Buyer Savings Account Nonqualified Withdrawals

Your nonqualified withdrawal from a Montana first-time home buyer savings account is a withdrawal that you made during the tax year for any purpose other than to pay for the eligible cost of purchasing your single family residence. You can refer to Montana Form FTB for further detailed instructions. You should report any nonqualified withdrawals from your Montana first-time home buyer savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions

for Form 2, line 68 and Montana Form FTB for more information on the Montana first-time home buyer savings account 10% penalty.

Line 9 – Farm and Ranch Risk Management Account Taxable Distributions

A distribution from your Montana farm and ranch risk management account is taxable in either of the following situations:

- The distribution is from a fund that was previously excluded from Montana adjusted gross income as a farm and ranch risk management account deposit; or
- The distribution was not distributed within five years from the date the original deposit was made.

You can refer to Montana Form FRM for detailed instructions. You should report your Montana farm and ranch risk management account taxable distributions as an addition to federal adjusted gross income on this line.

You may also be subject to a penalty on your farm and ranch management account distribution if it is not distributed within five years from the date of the original deposit. See the instructions for Form 2, line 68 for more information on the farm and ranch risk management account 10% penalty.

Line 10 – Addition for Dependent Care Assistance Credit Adjustment

If you have claimed business expenses for providing dependent care assistance on your federal Schedules C, E or F and now are claiming the Montana dependent care assistance credits on Form 2, Schedule V, line 15, you will have to add the amount of the dependent care assistance expenses used to calculate your Montana dependent care assistance credits on Montana Form DCAC as an addition to federal adjusted gross income on this line.

Line 11 – Addition for Smaller Federal Estate and Trust Taxable Distributions

Differences between Montana's laws and the federal laws may mean that the Montana taxable distribution that you received from an estate or trust is greater than your federal taxable distribution from the same estate or trust. If so, the difference is an addition to federal adjusted gross income and you should report it on this line.

Line 12 – Federal Net Operating Loss Carryover

The federal net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your Montana net operating loss carryover. On this line, you should enter the amount of your federal net operating loss carryover from line 21, and then compute your Montana net operating loss carryover using Montana Form NOL. The Montana net operating loss carryover is reported on Schedule II, line 27.

Line 13 – Share of Federal Income Taxes Paid by Your S Corporation

If you are a shareholder in an S corporation that is required to pay a federal income tax on its income, you will have to add to your federal adjusted gross income that portion of your income that has been reduced by the federal income taxes paid by your S corporation. Refer to your federal Schedule K-1 to determine the amount of income that you are required to include as an addition to your federal adjusted gross income.

Line 14 – Title Plant Depreciation and Amortization

If you are taking a federal deduction for depreciation and amortization on a title plant, you have to add back to your federal adjusted gross income the amount of this depreciation and amortization when you determine your Montana adjusted gross income.

Line 15 – Premiums for Insure Montana Credit

If you were the owner of a business that received a tax credit from the Insure Montana small business health insurance program, you are not allowed a deduction for the premiums used to calculate the credit. Because the credit cannot exceed 50% of the premiums, multiply the amount of credit you are claiming by two and enter the result on this line.

Line 16 – Other Additions

Enter any other additions to federal adjusted gross income not described in lines 1 through 15. Some examples of other additions include:

- You may have a passive or rental loss carryover that is larger for federal purposes than for Montana purposes because of differences in state and federal filings in prior years. If this results in a larger passive or rental income reportable on your Montana tax return, enter the additional amount here.
- You may have a larger capital loss carryover for federal purposes than for Montana purposes for a similar reason. If this results in larger reportable capital gains, enter the additional amount. Please note that when computing your Montana adjusted gross income, you are allowed to carryover capital losses incurred prior to becoming a Montana resident or losses from activity in another state.
- Compensation and expenditures used to compute the film production credit have to be included in taxable income in the year that the compensation and expenditures were incurred.

Schedule II – Montana Subtractions from Federal Adjusted Gross Income

► **Are you ready? You will need–**

- Supporting documents for items on Schedule II that apply to you, such as:
  - Information about any federal interest or dividends from bonds, notes or obligations.
  - Worksheet IV if you have taxable income from a pension or annuity on line 15b or 16b.
  - Information about income from tips.
  - Information about your Montana medical savings account if you used the account this year.
  - Worksheet VIII showing the amount of your social security benefits taxable to Montana.

Line 1 – Exempt Interest and Dividends from Federal Bonds, Notes, and Obligations

If you received interest on United States government obligations and mutual fund dividends attributable to that interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2. In addition, if you received interest on obligations from U.S. territory or government agency obligations that are specifically exempt by federal law or any mutual fund dividends attributable to this interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2.

Interest on obligations that are only guaranteed by the United States government is not tax exempt. If you received interest or mutual fund dividends attributable to Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds, or Federal Home Loan Mortgage Corporation (FHLMAC) securities, you cannot subtract this interest or mutual fund dividends.

United States obligations that are exempt include:

- Series E, EE, F, G and H savings bonds
- U.S. treasury bills
- U.S. government notes
- U.S. government certificates

Please refer to your federal Form 1099-DIV to determine what percentage of your dividends qualifies for this exemption.

Line 2 – Exempt Tribal Income

If you are an enrolled member who lives and works on the reservation governed by your tribe, you can subtract from your federal adjusted gross income all reservation source wages and income that you have earned. If your wages or other income was earned from both reservation sources and nonreservation sources, you can exclude from your federal adjusted gross income only those wages or other income that you received while you lived and worked within the exterior boundaries of the reservation governed by your tribe. If you did not reside on your own reservation for the entire year, you can subtract only those wages or other income that you earned while you lived and worked on your own reservation.

If you reside outside the boundaries of the reservation governed by your tribe, or if you live on another reservation that is not governed by your tribe, there is no special exemption for income that you earn unless that income is derived directly from allotted or restricted lands that are held in trust by the United States.

If you are a tribal member whose federal gross income meets the filing requirements listed in FAQ ❶ on page 38, you have a Montana individual income tax filing requirement even though your income may be exempt income.

NEW! Starting with the 2013 tax year, you no longer have to file a Montana income tax return if you are a tribal member and all of your income is exempt from Montana income tax. Form ETM (Enrolled Tribal Member Exempt Income Certification/Return) replaces Form IND (Tribal Member Certification). Form ETM can serve as your return if all of your income is exempt tribal income or if your remaining non-exempt income is below the threshold for your filing status. In this case, simply submit a completed Form ETM. If your non-exempt income exceeds the threshold for your status, complete and submit your Montana Form 2 and include Form ETM.

Line 3 – Exempt Unemployment Compensation

If you have received unemployment benefits from Montana or from another state, these benefits are exempt from Montana tax. If you reported taxable unemployment benefits on your Form 2, line 19, enter the same amount of these benefits on this line.

Line 4 – Exempt Workers' Compensation Benefits

Benefits received under the workers' compensation laws are not taxed by Montana. If you reported taxable workers' compensation benefits in your federal adjusted gross income, enter the amount of these benefits on this line.

Line 5 – Exempt Capital Gains and Dividends from Small Business Investment Companies

If you have capital gains or dividend income from an investment in a small business investment company (SBIC) included in your federal adjusted gross income, you are allowed to exempt these capital gains or dividends in arriving at your Montana adjusted gross income. In order for you to exempt this income, the SBIC has to meet the following conditions:

- The SBIC has to be organized for the purpose of diversifying and strengthening employment opportunities of companies in Montana.

- Within one year of being licensed by the federal Small Business Administration, 75% of the SBIC's investments have to be in manufacturing or timber companies located in Montana.
- The SBIC's manufacturing and timber companies have at least 50% of their employees working in Montana.

Line 6 – State Income Tax Refunds

If you are required to include your state income tax refund in your federal adjusted gross income on Form 2, line 10, you can exclude that amount on this line. Montana income tax refunds and income tax refunds received from another state are not taxable to Montana.

Line 7 – Recoveries of Amounts Deducted in Earlier Years That Did Not Reduce Montana Income

If you are required to include in your federal adjusted gross income any amounts that you recovered from a previous federal income tax deduction and if this previous deduction did not reduce your Montana income tax liability in the year of that deduction, you can subtract the amount of this recovery from your Montana adjusted gross income.

Line 8 – Exempt Military Salary of Residents on Active Duty

If you are a Montana resident receiving military compensation that is included in your federal adjusted gross income, you can subtract your basic, special and incentive pay from your federal adjusted gross income that you receive from serving on active duty as a member of the regular armed forces.

- You are serving on active duty as a member of the regular armed forces when you are a member of a reserve component of the armed forces or a member of the National Guard serving on active duty in a "contingent operation" as it is defined in 10 USC 101.
- You are serving on active duty as a member of the regular armed forces when you are a member of the National Guard and assigned to active service authorized by the President of the United States or the Secretary of Defense for a period of more than 30 consecutive days for the purpose of responding to a national emergency declared by the president and supported by federal funds.

If you receive wages under the combat zone exclusion that are not included in your Form W-2, Box 1, it will not be included in your federal adjusted gross income, so you should not subtract that pay again. However, if you are a commissioned officer who could not exclude all of your wages received under the combat zone exclusion because it exceeded the highest rate of enlisted pay for each part of the month you served in a combat zone or were hospitalized as a result of your service there, you may exclude the additional combat pay that was included in your federal adjusted gross income.

The following military compensation cannot be subtracted from your federal adjusted gross income:

- Salaries that you received for annual training and weekend duty;
- Salaries that you received for being a member of a reserve component of the armed forces that is not received under 10 USC 101;
- Salaries that you received for performing full-time National Guard duty under Title 32 of the United States Code (for example, Active Guard and Reserve, Active Duty for Operational Support, or Active Duty for Counter Drug that is not received under 10 USC 101); and
- Retirement, retainer, equivalent pay, or allowances.

If you claim this exemption, you will need to include verification of your military status (such as your military orders) with your income tax return. Please contact the department or visit our website at *revenue.mt.gov* for more information.

Line 9 – Exempt Income of Nonresident Military Servicepersons

If you are a nonresident of Montana, living in Montana solely to comply with your military orders, you are not a Montana resident and your military compensation is not considered Montana source income and is not taxable to Montana. On this line, you should subtract the military compensation that you included in your federal adjusted gross income on Form 2, line 7.

If you have received any other income that is considered Montana source income (such as wages for civilian services performed in Montana or Montana business income), this income is taxable. You should complete a Montana tax return and report both your Montana source and non-Montana source income and then prorate your Montana tax liability on Form 2, Schedule IV.

If you are the nonresident spouse of a nonresident military serviceperson and are in Montana solely to be with your military spouse who is serving in compliance with military orders, you may be covered under the Military Spouse Residency Relief Act and your compensation for personal services in Montana may be taxable only by your home state. Please contact the department or visit our website at *revenue.mt.gov* for more information.

Line 10 – Exempt Life Insurance Premiums Reimbursement for National Guard and Reservist

If you are a Montana National Guard member or Reservist who is serving on active duty in a contingency operation and you were reimbursed by the U.S. Department of Defense for the life insurance premiums that you paid for benefits under the service members' group life insurance program, you do not have to add the Department of Defense reimbursement when you figure your Montana tax. To the extent this federal reimbursement is taxable to you for federal and Montana income tax purposes, it has already been included in your federal adjusted gross income.

An adjustment to your federal adjusted gross income is needed if you also received a premium reimbursement from the Montana Department of Military Affairs for additional life insurance premiums you paid (up to $17.50 a month). The Montana reimbursement is taxable income for federal income tax purposes but it is exempt for Montana income tax purposes, so you can deduct these reimbursements from your federal adjusted gross income in arriving at your Montana adjusted gross income.

Line 11 – Partial Pension and Annuity Income Exemption

If you have reported taxable retirement income on your Form 2, lines 15b and/or 16b, you may be entitled to a partial exemption of this income. Before you determine if any of this retirement income is excluded, you should first determine if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on Schedule II, line 23. Any remaining amount of pension and annuity income is then used to determine the partial pension and annuity income exemption.

Distributions of your retirement income that are considered early or premature according to federal regulations do not qualify for the retirement income exemption, regardless of whether or not payment of the federal 5% or 10% additional tax was required. If you received a disability pension, which is identified as a distribution code 3 on your federal Form 1099-R, you should use Montana Form DS-1, 2013 Disability Income Exemption, to determine your deduction instead of the retirement income exemption.

If you received retirement income other than Tier II Railroad Retirement benefits or premature distributions and early withdrawals, you should complete Worksheet IV on page 45 to determine the amount of your exemption. Your retirement exemption is limited to the lesser of your taxable retirement income that you have received or $3,900, as long as your federal adjusted gross income is $32,480 or less and you are filing as a single taxpayer, filing jointly with your spouse and only one of you has taxable retirement income, or filing as head of household. If you are filing jointly with your spouse, both of you have retirement income, and your federal adjusted gross income is $32,480 or less, you both can exclude the lesser of your taxable retirement income that you receive personally, or $3,900 each for a maximum of $7,800.

If both you and your spouse received retirement income and you are filing your income tax return separately on the same form or on separate forms, the lesser of your retirement income or $3,900 applies separately to both spouses as long as your separately stated federal adjusted gross income is $32,480 or less.

When your federal adjusted gross income exceeds $32,480, your retirement exemption is reduced $2 for every $1 that your federal adjusted gross income is over $32,480. For example, if your federal adjusted gross income is $33,480, your retirement exemption is $1,900 ($3,900 – ($1,000 x $2) = $1,900). You are not entitled to this retirement income exemption if your federal adjusted gross income is greater than $34,430 ($3,900 – ($1,950 x $2) = $0) if you are filing single, married filing separately, or head of household. If you are married and filing jointly and both spouses have retirement income, then your retirement exemption is completely phased out when your federal adjusted gross income is greater than $36,380, because your maximum retirement exemption is $7,800 (($3,900 – ($1,950 x $2)) + ($3,900 – ($1,950 x $2) = $0). You should complete Worksheet IV on page 45 to determine your partial pension and annuity income exemption.

Line 12 – Partial Interest Exemption for Taxpayers 65 and Older

If you are single and age 65 or older at the end of 2013, you can exempt up to $800 of the interest income that you reported in your Montana adjusted gross income.

If you are married and are filing a joint return with your spouse and at least one of you is age 65 or older at the end of 2013, you can exempt up to $1,600 of the interest income that you reported in your Montana adjusted gross income.

If you are married and filing your return separately and are age 65 or older at the end of 2013, you can exempt up to $800 of the interest income that you reported in your Montana adjusted gross income. Please note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

For the purpose of this exemption, when you determine the amount of your interest income, you should consider distributions commonly called dividends on deposits or share accounts as interest. Under no circumstances can you exempt more interest income than what you have reported in your Montana adjusted gross income.

Line 13 – Partial Retirement Disability Income Exclusion for Taxpayers Under Age 65

You can qualify for a partial retirement disability income exclusion of up to $5,200 if you are:

- under the age of 65
- retired as permanent and totally disabled, and
- not treating your disability income as a pension and annuity.

You are permanently and totally disabled if you are unable to engage in any substantial gainful activity, if you have been medically determined to be physically or mentally impaired, and if your condition is expected to last at least 12 months.

Your disability income is generally reported with a distribution code 3 on your federal Form 1099-R. If you qualify for this exclusion, you should complete Montana Form DS-1 in order to determine the amount of your exclusion. You should also include a copy of the completed Form DS-1 with your income tax return.

Line 14 – Exemption for Certain Taxed Tips and Gratuities

You can subtract from your federal adjusted gross income any tips and gratuities that you have received from customers while you worked in the food, beverage or lodging industry that you reported as part of your federal adjusted gross income. All other tips and gratuities that you received for providing services in other types of businesses—such as hair stylists, paper carriers and river guides—are not excluded from your federal adjusted gross income in arriving at your Montana adjusted gross income.

Line 15 – Exemption for Certain Income of Your Child Taxed to the Parents

If your federal adjusted gross income included unearned income of a dependent child as determined on federal Form 8814, you may be able to exclude the unearned income from your Montana adjusted gross income. You can exclude the unearned income from your adjusted gross income if your child's gross income does not exceed $4,180 or they file their own Montana tax return.

Line 16 – Exemption for Certain Health Insurance Premiums Taxed to Employee

If you are a shareholder in an S corporation, you can subtract from your federal adjusted gross income to arrive at your Montana adjusted gross income the cost of your health insurance premiums to the extent they are included in your federal adjusted gross income.

Line 17 – Exemption for Student Loan Repayments Taxed to a Health Care Professional

If you are a health care professional licensed in Montana, you can exclude from your federal adjusted gross income up to $5,000 of any health-related student educational loan repayments that are paid on your behalf when this repayment is included in your federal adjusted gross income. In order for you to qualify for this exclusion, you have to be a health care professional who:

- is licensed in Montana;
- participates in a federal, state or qualified private loan repayment program (these repayment programs are generally through the U.S. Department of Health and Human Service Corp. and their Nursing Education Loan Repayment Program, the Montana Rural Physician Incentive Program, or a qualified private program with a licensed health care facility in Montana); and
- serves a significant portion of a designated geographic area, a special population, or a facility population in a federally designated health professional shortage area (HPSA), a medically underserved area (MUA), or a medically underserved population (MUP).

You can determine if you are serving in an area listed above by contacting your employer or the Montana Department of Public Health and Human Services Primary Care Office at (406) 444-3934. To learn more about primary and preventative health care and ways to improve the health status of underserved and vulnerable populations, visit the Montana Department of Public Health and Human Services Primary Care Office website at *dphhs.mt.gov/publichealth/primarycare*, or the U.S. Department of Health and Human Services Bureau of Health Professions at *bhpr.hrsa.gov/shortage*.

Line 18 – Exempt Medical Care Savings Account (MSA) Deposits and Earnings

To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts that you deposited into a Montana medical care savings account. Please don't confuse this Montana MSA with the federal health savings account (HSA) that is deductible on Form 2, line 26--you are allowed to participate in both programs. See your federal income tax instructions for information on your federal HSA.

Your Montana medical care savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to $3,000 of contributions plus interest or other earnings on these funds annually. If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana MSA and you each can exclude up to $3,000 plus interest or other earnings on this account annually. To qualify for this exclusion, you will need to establish a separate account that is owned by you alone and is not jointly held with your spouse or any other individuals. In addition, you cannot commingle other funds with this account. Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the payment of qualified medical expenses for you, your spouse or your qualified dependent. Any of these funds withdrawn for other purposes are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana medical care savings account, see Montana Form MSA. When you claim this exclusion, you will need to include a copy of Form MSA with your Montana tax return.

Line 19 – Exempt First-Time Home Buyer Savings Account Deposits and Earnings

To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts you deposited into a Montana first-time home buyer savings account. Your Montana first-time home buyer savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to $3,000 of contributions plus interest or other earnings on these funds annually.

If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana first-time home buyer savings account and you each can exclude up to $3,000 plus interest or other earnings on this principal annually. To qualify for this exclusion, you will need to establish a

separate or joint account with another person, who also qualifies as a first time homebuyer, and contribute to your account(s) prior to purchasing your first-time home. If you file your income tax return separately with your spouse and you have established a joint first-time home buyer savings account with your spouse, you cannot take this exclusion. Therefore, we recommend that you and your spouse establish separate first-time home buyer savings accounts instead of a jointly held account. These separate accounts will qualify both of you for the $3,000 annual exclusion whether you file jointly or separately with your spouse.

Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the down payment and allowable closing costs for purchasing your single-family residence in Montana. Examples of eligible expenses include down payment, closing costs, realtor's fees, appraisal costs, credit history report, points, pro-rated property taxes and loan origination fees. If you withdraw any of these funds for other purposes, they are subject to tax in the year that they are withdrawn and they may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana first-time home buyer savings account, see Montana Form FTB. When you claim this exclusion, you will need to include a copy of Form FTB with your Montana tax return.

Line 20 – Exempt Family Education Savings Account Deposits and Earnings

When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of the contributions that you made during 2013 to one or more Montana family education savings accounts or $3,000. If you are married, both you and your spouse are entitled to exclude up to $3,000 for contributions that you made to one or more Montana family education savings accounts. This exclusion is allowed for contributions that you make to a Montana family education savings account that is owned by you or jointly with your spouse. As part of your exclusion, you may also be able to include amounts that you use to establish a Montana family education savings account (under the Montana Uniform Transfers to Minors Act or another state's uniform gifts to minors act) for your child or stepchild if your child or stepchild is a Montana resident.

Withdrawals of your contributions and earnings from a Montana family education savings account are not taxable to you if you withdraw them to pay for qualified higher educational expenses defined under federal law. If you withdraw these contributions for purposes other than to pay for qualified higher educational expenses, they are subject to a recapture tax of 6.9%, which should be reported on Montana Form 2, line 52.

To establish your Montana family education savings account or for additional information, call the Montana Family Education Savings Program at (800) 888-2723 or visit their website at *montana.collegesavings.com*.

NEW! Beginning in 2013, contributions to another state's 529 college savings plan may now qualify for the deduction. The rules for which contributions to the Montana Family Education Savings Program qualify for the deduction apply to these contributions as well. Please note, contributions to a state's prepaid tuition plan do not qualify.

The department may ask for a copy of any statement(s) from the plan administrator after you file your return.

Line 21 – Exempt Farm and Ranch Risk Management Account Deposits

When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income any deposits you make into a farm and ranch risk management account equal to the lesser of 20% of the net income that is attributable to your agricultural business or $20,000. This account is designed to be used as a risk management tool for your individual or family farm corporation's agricultural business. It is established as a Montana trust with your financial institution as the trustee.

Amounts that you contributed to your farm and ranch risk management account that were excluded from your Montana adjusted gross income in prior years are taxable to you and should be included in your Montana adjusted gross income when you distribute your funds. Amounts that you contributed to your farm and ranch risk management account that are not distributed before the last business day on the fifth year from the date that this contribution was deposited are considered distributed and are assessed a 10% penalty on the amount of tax resulting from the farm and ranch risk management account principal. For further instructions about the Montana farm and ranch risk management account, see Montana Form FRM. When you claim this exclusion, you will need to include a copy of Form FRM with your Montana tax return.

Line 22 – Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana Worksheet VIII, Taxable Social Security Benefits for Form 2, found on page 48.

If, after you have completed your social security worksheet, you find that your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, enter that difference as a subtraction from federal adjusted gross income on this line. If your social security benefits are greater than those that you reported on Form 2, line 20b, you should report that difference as an addition to federal adjusted gross income on your Form 2, Schedule I, line 5.

Line 23 – Subtraction for Federal Taxable Tier II Railroad Retirement Benefits

When you determine your Montana adjusted gross income, you can subtract your taxable Tier II Railroad

Retirement benefits included on Form 2, line 16b, from your federal adjusted gross income. Your taxable pension and annuity income may include your taxable portion of Tier II Railroad Retirement benefits that are paid by the Railroad Retirement Board. These benefits are 100% exempt from Montana income tax.

Line 24 – Passive Loss Adjustment

Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were required to recompute the amount of allowable passive loss. This may have resulted in a larger passive loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of passive loss allowed using the federal rules for a married couple filing a joint return. If you have a state passive loss carryover from tax year 2006 or earlier that you can now use under the federal rules, report the adjustment on this line.

Line 25 – Capital Loss Adjustment

Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were only allowed to claim a capital loss of $1,500. This may have resulted in a larger capital loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of capital loss allowed using the federal rules for a married couple filing a joint return. If you have a state capital loss carryover from tax year 2006 or earlier that was previously absorbed on your federal return, report the adjustment on this line. The total capital losses that can be claimed are still limited to $3,000, so a married couple cannot each claim $3,000.

Line 26 – Subtraction of Sole Proprietor for Allocation of Compensation to Spouse

If you are a sole proprietor reporting net income on your federal Schedule(s) C or F, you have to report the full amount of your income in column A or B when you determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. You need to base this allocation on an amount that is equivalent to the services that your spouse provides. This amount is considered taxable income to your spouse. This allocation will reduce your taxable income as the sole proprietor of the business.

Services that your spouse provides for operating your household, or services that are incidental to your operations, cannot be used as a basis for allocating income to your spouse. When you claim this reduction to income, you should be prepared to provide us with verification of those services provided and the substantial contribution made by your spouse.

On this line, subtract from your federal adjusted gross income the amount of income allocated to your spouse that is reported by your spouse as an addition to federal adjusted gross income on Schedule I, line 6 in his or her column.

Line 27 – Montana Net Operating Loss Carryover

The Montana net operating loss (NOL) carryover may be different from the amount of your federal net operating loss carryover. On this line, you should enter the amount of the Montana net operating loss carryover from Montana Form NOL. For further instructions, and to calculate the net operating loss, see Montana Form NOL.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, use Montana Form NOL-Pre-99 to determine your carryover amount.

Line 28 – 40% Capital Gain Exclusion for Pre-1987 Installment Sales

If you have an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be allowed to exclude 40% of this capital gain from your federal adjusted gross income when you determine your Montana adjusted gross income. Complete Worksheet III, Qualified Capital Gain Exclusion, found on page 45, to determine your capital gain exclusion and then report the amount here.

Line 29 – Subtraction for Business-Related Expenses for Purchasing Recycled Material

You can subtract 10% of the expenses that your business paid for purchasing recycled products from your federal adjusted gross income. This deduction is allowed only to businesses within Montana. It applies to products purchased that contain recycled material at a level consistent with industry standards or consistent with the standards established by the federal Environmental Protection Agency. If this deduction is passed through to you from a partnership, the share of this additional deduction is based on the same percentage used to report the partnership's income or loss for Montana tax purposes; or if an S corporation, the pro rata share of the corporation's cost of investing in equipment.

Line 30 – Subtraction for Sales of Land to Beginning Farmers

You can subtract 100% of your income or capital gain (up to a maximum of $50,000) that you recognized from the sale to a beginning farmer of at least 80 acres or more of land at 9% or less interest on a long-term contract from your federal adjusted gross income. To qualify for this deduction, you need to apply to and be approved by the Agricultural Loan Authority of the Montana Department of Agriculture. You will need to include a copy of this approval with your individual income tax return. To learn more about the Montana Beginning Farm/Ranch Loan Program, you can call the agricultural finance program manager of the Montana Department of Agriculture at (406) 444-2402 or visit the website at *agr.mt.gov/agr/Producer/GrantsLoans/beginFarmRanch*.

Line 31 – Subtraction for Larger Federal Estate and Trust Taxable Distribution

Differences between Montana law and federal law may mean that the Montana taxable distribution that you received from an estate or trust is less than your federal taxable distribution from the same estate or trust. If so, the difference is a subtraction from federal adjusted gross income, and you should report it on this line.

Line 32 – Subtraction for Wage Deduction Reduced by the Federal Targeted Jobs Credit

You can subtract all wages and salaries paid by your business that were reduced for federal income tax purposes because of the fact that you applied for the federal targeted jobs credit on your federal income tax return from your federal adjusted gross income. This additional deduction should be claimed in the tax year that you paid the wages, using the salaries that you used to calculate your federal targeted jobs credit.

If you are a shareholder in an S corporation, a partner in a partnership, or a member or manager of a limited liability company, this additional deduction is applied at the entity level to determine the entity's Montana income or loss. For Montana tax purposes, your share of this additional deduction applied at the entity level is based on the same proportion that you used to report the income or losses of your ownership in the entity.

Line 33 – Subtraction for Certain Gains Recognized by a Liquidating Corporation

You can subtract that portion of your gain from the liquidation of a reporting corporation to the extent that this gain is included in the gross income of the liquidating corporation's Montana corporate license tax return from your federal adjusted gross income.

Line 34 – Other Subtractions

Enter any other subtractions to federal adjusted gross income not described in lines 1 through 33. For example, if you were the owner of a mobile home park and you sold the park to a tenants' or mobile home park residents' association, a 501(c)(3) organization or a county or municipal housing authority, you may be able to exclude all or a portion of the gain you recognized. Complete Montana Form MHPE to determine the amount of the exclusion. Or, if you received a death benefit payment from the Montana Department of Military Affairs because you are the survivor of a member of the National Guard who died while on state active duty orders that is included in your federal adjusted gross income, that amount is exempt from state taxes in Montana. Enter the amount that was included in your federal adjusted gross income. Do not enter income earned outside of Montana. If you are a full or part-year Montana resident and you have income taxed by another state, complete Schedule VI or VII. A part-year resident also completes Schedule IV.

If you are a nonresident, complete Schedule IV.

Also do not report your net operating loss as recomputed for Montana. Instead, report that amount on line 27.

Schedule III – Montana Itemized Deductions

► **Are you ready? You will need–**

- Receipts and supporting documents for deductible expenses, such as:
  - medical expenses
  - federal income tax payments
  - property taxes
  - vehicle registration
  - mortgage interest and points
  - charitable contributions

You should use Form 2, Schedule III, to calculate your itemized deductions, but remember that your Montana itemized deductions may be different from your federal itemized deductions. There are federal deductions that are not allowed on your Montana tax return and state deductions that are allowed only on the Montana tax return.

If you are married and you are filing separately on the same form or on separate forms, you should apply the following rules:

- Both spouses should either claim the standard deduction or itemize their deductions. You are not allowed to claim one method for one spouse and another method for the other spouse.
- Deductions that are attributable to only one spouse have to be claimed by that spouse. This includes, for example, federal income tax withheld from your wages and your employee business expenses reported on federal Form 2106.
- Payments made from accounts owned by both spouses and that pertain to both spouses can be allocated to either spouse in any proportional amount.

Line 1 – Medical and Dental Expenses

Enter your medical expenses paid in 2013 after you have deducted from these expenses any payments that you received from your insurance company or other sources. These expenses are the same medical and dental expenses that are allowed under the Internal Revenue Code with the exception of the following expenses that are not deductible on line 1:

- Medical insurance and long-term care insurance premiums paid in 2013 that are claimed as a deduction on Form 2, Schedule III, lines 5 and 6;
- Health insurance premiums that are paid by your employer and are excluded from federal adjusted gross income in determining Montana adjusted gross income on Form 2, Schedule II, line 16; and

- Medical expenses paid with funds withdrawn from your Montana medical care savings account.

Lines 2 and 3

NEW! The Patient Protection and Affordable Care Act of 2010 affected some filers' itemized deductions for medical expenses. Beginning with the 2013 tax year, individuals under age 65 at the end of the tax year can only deduct medical expenses that exceed 10% of their Montana adjusted gross income. Individuals 65 or older on January 1, 2014 can deduct expenses that exceed 7.5% of their adjusted gross income. For a married couple filing a joint return, only one spouse must be 65 or older for the lower rate to apply. If a married couple files separate returns, the individual's age determines the rate, no matter if they filed on the same form or not. Therefore, the 10% rate applies to an individual who is under 65 even if his or her spouse is over 65.

Multiply the amount on line 2 by 10% (0.1) if under age 65 on January 1, 2014. Otherwise multiply line 2 by 7.5% (0.075). Enter the result on line 3.

Line 4 – Deductible Medical and Dental Expenses

Subtract line 3 from line 1 and enter the result on this line, but do not enter an amount less than zero. This is your allowable deduction for medical and dental expenses.

Line 5 – Medical Insurance Premiums

If you pay your own medical insurance premiums for coverage for yourself and your family, you may be eligible to deduct 100% of these medical insurance premiums. In addition, the supplemental part of Medicare insurance (Medicare B) and the premiums you pay for Medicare Part D insurance from your social security benefits are 100% deductible on this line.

To qualify to deduct 100% of your medical insurance premiums, you have to meet the following criteria:

- Your premiums have to be paid for health and medical insurance coverage. Your life insurance premiums are not deductible.
- Your premiums cannot have been paid through a federal or state medical care savings account, such as the federal Health Savings Account or the Montana Medical Care Savings Account.
- Your premiums cannot have been paid through an employer health benefit cafeteria plan in which your premium payments are considered "pre-tax" payments and therefore not subject to federal or state income tax withholding, federal social security, or federal Medicare payments. If you are unsure whether your medical insurance premiums are covered by a health benefit cafeteria plan, you can check with your employer's payroll office.
- Your premiums cannot be deducted as a self-employed health insurance deduction on your Form 2, line 30, or as a subtraction from federal adjusted gross income on your Form 2, Schedule II, line 16.
- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on this line.

Line 6 – Long-Term Care Insurance Premiums

You may be eligible to deduct 100% of the long-term care insurance premiums that you paid. You have to meet the following criteria:

- Your payments have to be for long-term care policies that provide coverage primarily for any qualified long-term care service that provides for the necessary diagnostic, preventive, therapeutic, curing, treating, mitigating and rehabilitative service and personal care that is required for a chronically ill individual who is under the prescribed care of a licensed health care practitioner.
- The long-term care policies have to be for the benefit of you, your dependents, your parents or your grandparents.
- Your premiums cannot have been deducted elsewhere on your tax return when you determined your Montana adjusted gross income.
- Your premiums cannot have been included as qualified elderly care expenses when you claimed the elderly care credit that you reported on Schedule V, line 7.

Lines 7a through 7e – Federal Income Tax

Montana allows federal income taxes paid during the year as an itemized deduction. This does not include any state income taxes you may have paid to Montana or any other state even if you were able to deduct them on your federal return. Additionally, this does not include any self-employment taxes you have paid during the year.

The amount you can claim may be limited based on your filing status. See the instructions for line 7e.

Complete lines 7a through 7e if you are claiming a deduction for federal income taxes paid in 2013.

Line 7a – Federal Income Tax Withheld

Enter the total amount of federal income tax withheld that was reported to you on your federal Form(s) W-2 and/or 1099. If you are married filing separately with your spouse, the federal income tax withheld should be reported by the spouse who earned the income. Do not include in this total the amount of the self-employment tax that you paid.

Line 7b – Federal Estimated Tax Payment Paid in 2013

Enter the total amount of the federal estimated income tax payments that you made in 2013. When you claim federal estimated tax payments, you should include a copy of your federal Form 1040 or 1040A, pages 1 and 2.

Line 7c – 2012 Federal Income Taxes Paid in 2013

Enter the balance of the total amount of the 2012 federal income tax that you paid in 2013.

Line 7d – Additional Back Year Federal Income Taxes Paid in 2013

Enter the total amount of additional back year federal income taxes that you paid in 2013. For example, you may have paid additional 2010 federal income taxes in 2013.

Line 7e – Federal Income Tax Deduction

Add lines 7a through 7d. If the result is less than $10,000 and you file your Montana return jointly with your spouse, or the result is less than $5,000 and you file your return using another filing status, enter the result.

If the result is more, your federal tax deduction is limited as follows:

- If your filing status is single, married filing separately or head of household, you should deduct the lesser of $5,000 or the sum of lines 7a through 7d. If you are married filing separately on the same form or on separate forms, you each are limited to the $5,000 federal tax deduction and you cannot arbitrarily allocate this deduction between spouses.
- If you file your Montana tax return jointly with your spouse, your federal income tax deduction is limited to the lesser of $10,000 or the sum of lines 7a through 7d.

Line 8 – General State and Local Sales Taxes Paid in 2013

Enter the amount you claimed on your federal Schedule A as a deduction for state and local sales taxes. If you were not required to file a federal return or claimed the standard deduction on your federal return and you saved your receipts throughout the year, you can add up the total amount of sales taxes you actually paid and claim that amount. If you didn't save your receipts, you can fill out the worksheet and use the optional general sales tax tables in the instructions for federal Schedule A (Form 1040) or use the Sales Tax Deduction Calculator available on the Internal Revenue Service's website at *apps.irs.gov/app/stdc*. If you claimed your state income taxes as an itemized deduction on your federal return, you cannot claim the deduction for sales taxes on your Montana return. Also, none of the resort, accommodations or similar taxes collected in Montana qualify as a general sales tax under the federal definitions, so they cannot be deducted.

Line 9 – Local Income Taxes Paid in 2013

Enter any local income taxes that you paid in 2013. No city in Montana imposes a local income tax, so a Montana resident would be unlikely to take this deduction.

Line 10 – Real Estate Taxes Paid in 2013

Enter any real estate taxes that you paid in 2013 on real estate that you own and that was not used for business. If you apply for the elderly homeowner/renter credit, do not confuse this amount with the amount of your property tax billed that is used to determine the amount of your elderly homeowner/renter credit. See Montana Form 2EC for information on the Montana elderly homeowner/renter credit.

Line 11 – Personal Property Taxes Paid in 2013

Enter any personal property taxes that you paid in 2013. Only personal property taxes that are based on value and charged on a yearly basis are deductible, with one exception.

The exception is the Montana light vehicle registration fee which is deductible even though it is based not on the vehicle's value, but on the age of the vehicle. However, any light vehicle registration fee that you pay to another state is not deductible on your Montana tax return. Taxes and fees deductible on this line from your Montana vehicle registration receipt include the light vehicle registration fee (LVREG) and any county option tax (COOPT) assessed by the county where the vehicle is registered. However, because receipts may vary by county, these items may not appear on your receipt exactly as listed here.

Line 12 – Other Deductible Taxes

Enter any other deductible taxes that you paid in 2013 and that you did not report on lines 7a through 11. When you claim these other deductible taxes, list on this line the type and amount of tax that you paid.

Taxes you may be able to deduct include generation-skipping transfer taxes imposed on income distributions, environmental taxes imposed under section 59A of the Internal Revenue Code and taxes paid to a foreign country. Please note that you can only deduct foreign taxes on your Montana tax return if you elected to claim them as a deduction on your federal tax return.

You cannot take a deduction on your Montana individual income tax return for the following taxes that you paid in 2013: state income, federal excise, social security, Medicare, gasoline, lodging, alcoholic beverage, cigarette, tobacco, or selective sales taxes. Also, you cannot take a deduction for certain license fees paid in 2013—such as hunting, fishing or driver's license fees.

Line 13 – Home Mortgage Interest and Points

Enter your home mortgage interest and points allowed by federal law that were reported to you on your federal Form 1098.

Enter any home mortgage interest that you paid that was not reported on your federal Form 1098. If you bought your home from another person, write that person's name, social security number and address in the space provided.

Enter any points that you paid that were not reported to you on federal Form 1098.

Line 14 – Qualified Mortgage Insurance Premiums

The deduction amount you can claim on your Montana tax return is the same amount you can claim on your federal tax return. If you did not itemize your deductions on your federal return, complete Worksheet VI-QMIP, Qualified Mortgage Insurance Premiums Deduction, on page 46 to determine the amount you can deduct. Married taxpayers filing separately in Montana may allocate the total allowable amount between both spouses.

Line 15 – Investment Interest

Determine your Montana investment interest deduction by following the computation on federal Form 4952 but include any Montana adjustments to income. You cannot use interest expense related to income that is exempt from Montana tax when computing your investment interest deduction. If you and your spouse are filing separately, you should compute your investment interest deduction on federal Form 4952 separately.

Charitable Contributions

The charitable contributions allowed as a deduction in computing your net income for Montana income tax purposes are those same contributions allowed as a deduction for federal income tax purposes—with the following exceptions:

- Your contributions made in 2013 to the Montana veterans' service special revenue account or the Montana state veterans' cemetery program, or the surcharge you paid for purchasing a Montana patriotic specialty license plate may be included as itemized deductions on your Montana income tax return even if they are not allowed as itemized deductions on your federal return. For further instructions about this contribution, see Montana Form VT. This form is available at *revenue.mt.gov*.
- When you apply the federal 50%, 30% and 20% contribution limitations, use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contributions that are allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction. You can claim a charitable deduction for that portion of the contribution not used to calculate this credit.

Line 16 – Contributions Made by Cash or Check

Enter your contributions made by cash or check on this line.

Line 17 – Contributions Made Other Than by Cash or Check

Enter your non-cash contributions on this line.

Line 18 – Contribution Carryover from the Prior Year

Enter any contribution carryover amounts that you were not allowed to deduct in an earlier year because they exceeded your Montana adjusted gross income limitation.

Line 19 – Child and Dependent Care Expenses

If you pay for household or dependent care services for a child under the age of 15, or for a disabled dependent while you are searching for gainful employment, or while you and your spouse both were at work, you can qualify for a child and dependent care expense deduction.

To qualify for this deduction, you have to maintain a household for a child under the age of 15 or for a dependent or spouse who is unable to care for himself or herself. You also have to meet the following income level requirements:

You qualify if you and your spouse's total Montana adjusted gross income is:

Under	And You Have
$22,800	1 child
$25,200	2 children
$27,600	3 or more children

If you are married and filing separately on the same form with your spouse, your deduction has to be divided equally between both spouses. If you are married and filing separately on separate forms, or your spouse is not filing, you cannot qualify for this deduction.

If you are a licensed and registered daycare operator who operates a family daycare home or a group daycare home and if you care for your own child in addition to at least one other unrelated child, you can deduct the employment related expenses considered to have been paid by you for the care of your own child.

For further information on the child and dependent care expense deduction, see the instructions on Montana Form 2441-M. When you claim this deduction, complete Form 2441-M and include a copy with your Montana tax return.

Line 20 – Casualty and Theft Loss

If you have a casualty and/or theft loss, you should complete federal Form 4684 to figure the amount of the Montana loss that you can enter on this line. To determine your casualty and/or theft loss, you should use your Montana adjusted gross income in place of the federal adjusted gross income. And if you and your spouse are filing separately, you each should complete a separate federal Form 4684 to determine the amount of your separate casualty and/or theft loss.

Line 21 – Unreimbursed Employee Business Expenses

When you deduct unreimbursed employee business expenses on your Montana income tax return, you should use the same expenses that are allowed on your federal tax return. To claim these expenses, complete federal Form 2106 or 2106-EZ. Because you can claim only your own unreimbursed employee business expenses and not those of your spouse, when you and your spouse file your returns separately, you should report your own employee business expenses in the column that is associated with your income and expenses.

Line 22 – Other Expenses

Enter other expenses that are allowed on your federal tax return. Examples of these expenses include, but are not limited to, your tax preparation fee, certain legal and accounting fees, clerical help, office rent, and custodial fees related to the production of income.

Line 23

Add lines 21 and 22; enter the result on this line.

Lines 24 and 25

Your unreimbursed employee business expenses and other expenses reported on lines 21 and 22 are deductible only to the extent that these expenses exceed 2% of your Montana adjusted gross income. Enter on line 24, the amount that you reported on Form 2, line 41. Multiply the amount on line 24 by 2% (0.02) and enter the result on line 25.

Line 26

Subtract line 25 from line 23 and enter the result on this line, but not less than zero. This is the amount of your unreimbursed employee business expenses and other expenses that are deductible in computing your net income.

Line 27 – Political Contributions

When you compute your net income, you can take a deduction for political contributions that you made during the year. These contributions are limited to a total of $100 for yourself and, if married, a total of $100 for your spouse. To qualify for this deduction, your contribution of money has to be made to:

- an individual who is a candidate for nomination or election to any federal, state or local public office in a primary, general or special election;
- a committee, association or organization set up to campaign for the nomination or election to any federal, state or local public office in a primary, general or special election;
- a national committee or a national political party;
- a state committee of a national political party; or
- a local committee of a national political party.

Line 28 – Other Miscellaneous Deductions Not Subject to 2% of Montana Adjusted Gross Income

When you compute your net income, you can take a deduction for other miscellaneous expenses that are not subject to 2% of your Montana adjusted gross income. These deductions are the same deductions that are allowed on your federal tax return. They include a deduction for amounts you paid to purchase organic fertilizer and inorganic fertilizer that is produced as a by-product of mining or industrial operations in Montana. Other deductions you may be allowed are per capita livestock fees imposed for enforcement of the livestock laws of the state and for the payment of bounties on wild animals.

Line 29 – Gambling Losses

You can take a deduction for gambling losses that you incurred during the year. These losses are allowed only to the extent of the gambling winnings that you have reported on Form 2, line 21. If you are married and you and your spouse are filing your Montana tax return separately, the spouse who claims the gambling winnings on Form 2, line 21 should report the gambling losses on this line.

Line 30 – Total Itemized Deductions

NEW! The American Taxpayer Relief Act of 2012 reinstated what's commonly known as the "Pease Limitation"—the limitation on itemized deductions for individuals with incomes above certain thresholds.

If your adjusted gross income from Form 2, line 41 is:

- more than $300,000 and you are filing a joint return
- more than $275,000 and you are filing as head of household
- more than $250,000 and you are filing as single
- more than $150,000 and you are married filing separate returns

then mark the box on line 30 and complete Worksheet VI-IDL (Itemized Deduction Limitation) on page 46. Enter the result on line 30 and Form 2, line 42.

Otherwise, add lines 4 through 6, 7e through 20, and 26 through 29 and enter the result on line 30 and Form 2, line 42.

Schedule IV – Nonresident/Part-Year Resident Tax

► **Are you ready? You will need–**

- Form 2 filled out through line 48.
- Any source documents that show Montana source income, such as:
  - Form(s) W-2 and/or 1099
  - Montana Schedule(s) K-1

Schedule IV was revised in order to better guide you in completing it if your income includes a net operating loss. If you are a nonresident or a part-year resident, you are subject to the same filing requirements as a resident unless you are specifically exempt. If you are unsure of your residency status, see FAQ ❸ on page 39 of the instructions to determine your legal residence and whether you are a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes.

Before You Complete Schedule IV – When you file your Montana income tax return as a nonresident or as a part-year resident, you should complete your Montana Form 2, lines 1 through 48, and Form 2, Schedules I, II and III as though you were a resident reporting your total Montana and non-Montana source income. After you have determined your preliminary resident tax after capital gains tax credit on Form 2, line 48, you should complete Form 2, Schedule IV to determine your nonresident, part-year resident tax after capital gains tax credit.

Part-Year Residents – As a part-year resident you are considered a resident of Montana once you establish your Montana residency or, up until the time you relinquish your

Montana residency and establish residency in another state. For the period of time that you are considered a resident, all of your income is taxable to Montana no matter where you earn it. For the period of time that you are considered a nonresident, only your income that is considered Montana source income is taxable to Montana.

For example: Suppose you relocated to Montana and established your residency July 1, 2013. You are filing your 2013 Montana tax return as a part-year resident of Montana reporting wages earned both within and outside of Montana, along with interest and dividends that you earned throughout the year. For the period of January 1 through June 30, your wages, interest and dividends are not considered Montana source income. The wages, interest and dividends that you received on or after July 1, 2013, are Montana source income and are taxable to Montana.

Nonresident Servicemember – If you are a nonresident servicemember of the United States armed forces living in Montana solely by reason of compliance with your military orders, the Servicemembers Civil Relief Act allows you to maintain your original state of residency and protects you from being considered a Montana resident (unless you choose to become a resident). Starting with the 2009 tax year, the Military Spouses Residency Relief Act provides similar protection to a nonresident nonmilitary spouse who moves to Montana solely to be with their nonresident military spouse who is serving in Montana in compliance with military orders. Any compensation a nonresident servicemember received for military service or a qualified nonmilitary servicemember's spouse received for performing personal services is not Montana source income and should not be used to determine your nonresident, part-year resident tax after capital gains tax credit. Refer to the instructions for Form 2, Schedule II, line 9 on page 18, for the treatment of your military income. For more information about the Military Spouses Residency Relief Act, go to our website at *revenue.mt.gov*.

Reporting Your Montana Source Income

Lines 1 through 16

In general, your Montana source income is all the income you received for work that you performed in Montana, income you received from real or personal property that is located in Montana, and income you received from business conducted in Montana. Your Montana source income also includes your distributive share of the Montana source income from an S corporation, partnership, or other pass-through entity. If you were a part-year resident, your Montana source income also includes any interest, dividends, pensions and annuities, and other income you received while you were a resident. For the part of the year that you are a Montana resident, all of your income that you receive—no matter where you earn it—is Montana source income.

Only report amounts included in the calculation of adjusted gross income for the current year when you complete Schedule IV. A loss, such as a capital loss, incurred in a prior year affects the amounts reported only if it is included in a carryover amount that reduces income in the current year.

Adjusting for Montana Additions and Subtractions – Amounts reported on lines 1 through 15 should include any related Montana sourced additions you reported on Schedule I and subtractions you reported on Schedule II. If you are a part-year resident, you may need to prorate some types of income after you have adjusted for any related Montana additions and subtractions before including that income on Schedule IV. Some examples have been provided to help illustrate this concept.

Example 1: You worked in Montana and earned $15,000 in wages included in the amount on Form 2, line 7. If those wages include $2,000 in eligible tips that can be subtracted by reporting them on Schedule II, line 14, the amount to report on Schedule IV, line 1 is $13,000 ($15,000 minus $2,000).

Example 2: You were a resident of Michigan for the entire year and have to file a Montana return due to royalty income from wells in Montana. Additionally, on Schedule I, line 1, you reported $1,500 in interest income received evenly throughout the year that is exempt from federal tax but is included in income taxable to Montana because the interest is from bonds issued by the State of Ohio. All of the royalty income is reported on Schedule IV, line 11 but the $1,500 of interest is not included on Schedule IV, line 2 because you were a resident of another state when it was earned so it is not sourced to Montana.

Example 3: Assume the same facts as example 2 except that you became a Montana resident on July 1. The appropriate amount to include on Schedule IV, line 2 is $750 because one-half of the interest was earned while you were a Montana resident.

Example 4: You received federally taxable pension distributions evenly throughout the year totaling $28,000 and became a Montana resident on March 29. Because your federal adjusted gross income is low enough, you are eligible for the maximum Partial Pension and Annuity Income Exemption (Schedule II, line 11) of $3,900. That results in $24,100 ($28,000 minus $3,900) being included in Montana adjusted gross income. The appropriate amount to include on Schedule IV, line 10 is $18,075 because you were a Montana resident for three-fourths of the year.

Example 5: You were a Montana resident for several years and had been making deposits into a Montana Medical Care Savings Account (MSA) and claiming the subtraction on Schedule II. On July 15, you moved to Arizona and became a resident there. Because your MSA had a balance when you became a resident of another state, you are required to report an amount on Schedule I, line 7 as a Montana addition to federal income. The same amount is included on Schedule IV, line 15 as Montana source income.

Line 1 – Montana Source Wages, Salaries, Tips, etc.

If you are a nonresident, enter that portion of your wages, salaries, tips and other compensation for services that you

performed in Montana and that are included in your total on Form 2, line 7.

If you are a part-year resident, enter all of your wages, salaries, tips and other compensation that you earned during the part of the year that you were a resident. Also include, when applicable, that portion of your wages, salaries, tips and other compensation that you received for services in Montana during the part of the year that you were a nonresident.

Do not include compensation that is exempt from Montana tax. This includes exempt tribal income, unemployment compensation, workers' compensation benefits, military salary of residents on active duty, exempt income of nonresident military servicepersons and their spouses, some federally taxed tips and gratuities, health insurance premiums taxed to the employee, and student loan repayments taxed to a health care professional.

Line 2 – Montana Source Interest

If you are a nonresident, enter that portion of your interest that you received from an installment sale of real property or tangible commercial or business personal property located in Montana. As a nonresident, you do not have to include as Montana source income any personal interest that you received on an account in a financial institution located in Montana, or from notes (other than for the installment sales or notes for loans made during the usual course of business in Montana).

If you are a part-year resident, enter all of the interest that you received or accrued during the period of time that you were a resident and that is included in the totals on Form 2, line 8a and Form 2, Schedule I, line 1.

Your distributable share of any separately stated Montana source interest income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 3 – Montana Source Ordinary Dividends

If you are a nonresident, generally your dividends are not considered Montana source income and should not be included on this line.

If you are a part-year resident, enter all of the dividends that you received or accrued during the period of time that you were a Montana resident in 2013 and that are included in your total on Form 2, line 9.

Line 4 – Montana Source Refunds or Other Recoveries

If you are a nonresident or a part-year resident and you have a taxable income tax refund or a recovery of an amount deducted in 2012 that is reported on Form 2, line 10 or line 21, enter that portion of your taxable refund and/or recovery that is determined to be Montana source income. Do not include any state income tax refund in this amount.

To determine that portion of your refund and/or recovery that is Montana source income, use the ratio of your Montana source income to total income that was reported on your 2012 Schedule IV, line 19. If you did not have any Montana source income in 2012 and you were not required to file a 2012 Montana tax return, your income tax refund and/or recovery is not Montana source income.

If, in 2013, you received a refund and/or recovery of a prior year deduction from a year other than tax year 2012, use the ratio of your Montana source income to total income that was determined in the year of the deduction.

Line 5 – Montana Source Alimony Received

If you are a nonresident, the alimony that you reported on Form 2, line 11 is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter that portion of the alimony that you received during the period that you were a Montana resident in 2013 and that is included in your federal adjusted gross income on Form 2, line 11.

Line 6 – Montana Source Business Income or (Loss)

If you are a nonresident, enter the portion of your net income or loss that is reported on Form 2, line 12 that you received from a trade, business, profession, or occupation carried on in Montana.

If you are a part-year resident, enter the net income or loss received from any trade, business, profession or occupation during the period you were a resident that is included in your total on Form 2, line 12. Also include, where applicable, the portion of any net income or loss you received from a trade, business, profession or occupation that is carried on in Montana during the period of time that you were a nonresident.

Your distributable share of any separately stated Montana source business income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 7 – Montana Source Capital Gain or (Loss)

If you are a nonresident, enter the portion of your gains or losses included in your total on Form 2, line 13 that you received on the sale or transfer of your tangible property located in Montana or for your tangible property used or held in connection with your trade, business or occupation that is carried on in Montana. Tangible property includes real property and tangible personal property.

If you are a part-year resident, enter all of your gains or losses included in your total on Form 2, line 13, received during the part of the year that you were a resident. Also, where applicable, include the portion of any gains or losses received during the part of the year in which you were a nonresident for the sale or transfer of your tangible property located in Montana or for the sale or transfer of any tangible property used or held in connection with your trade, business or occupation that is carried on in Montana.

If you are a nonresident who sold an interest in a publicly traded partnership doing business in Montana, some or all of the gain is Montana source income. Multiply your gain by the partnership's apportionment factor for the year you sold your interest. If the apportionment factor was not reported to you by the partnership, you will need to contact them.

Disregarded entities are disregarded for all income tax purposes. For example, if you sold an interest in a single member limited liability company, it is reported as your sale of the assets of the company here, not as the sale of an interest in an entity.

Your distributable share of any separately stated Montana source capital gain income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 8 – Montana Source Other Gains or (Losses)

If you are a nonresident, enter the portion of your gains or losses included in your total on Form 2, line 14 related to what you received from the sale or exchange of business property located in Montana and reported on your federal Form 4797.

If you are a part-year resident, enter all of the gains and losses included in your total on Form 2, line 14, received during the part of the year that you were a resident. Also include, where applicable, the portion of any gains or losses from the sale or exchange of business property located in Montana during the period of time that you were a nonresident.

The sale of your interest in a single member limited liability company is treated as if you sold the assets of the company.

Your distributable share of any separately stated Montana source other gains from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 9 – Montana Source IRA Distribution

If you are a nonresident, the IRA distribution that you reported on Form 2, line 15b is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter all the taxable IRA distributions included in your total on Form 2, line 15b received during the part of the year that you were a resident.

Line 10 – Montana Source Pensions and Annuities

If you are a nonresident, the taxable pensions and annuities that you reported on Form 2, line 16b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter all of the taxable pensions and annuities included in your total on Form 2, line 16b for the part of the year that you were a resident. Do not include pension and annuity that is exempt from Montana tax.

Line 11 – Montana Source Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.

If you are a nonresident, enter the portion of the following income or losses that you included in your total on Form 2, line 17:

- Net rental income or loss from real property and tangible personal property located in Montana
- Net royalties from real property and tangible personal property to the extent that this property is used in Montana
- Patent royalties to the extent that the income that you received is for the production, fabrication, manufacturing, or other processing in Montana, or the patented product is produced in Montana
- Net copyright royalties to the extent that the printing and other publication originated in Montana
- Partnership income derived from a trade, business, occupation or profession carried on in Montana
- S corporation income derived from a trade, business, occupation or profession carried on in Montana
- Montana source trust income

If you are a part-year resident, enter all of the income or losses included in your total on Form 2, line 17, received during the part of the year that you were a resident and, where applicable, include the portion of any income or loss attributable to Montana (as described in the preceding paragraph) during the period of time that you were a nonresident.

Line 12 – Montana Source Farm Income or (Loss)

If you are a nonresident, enter the portion of your net income or loss reported on Form 2, line 18, received from the farming activity carried on in Montana.

If you are a part-year resident, enter your net income or loss included in your total on Form 2, line 18, received from any farming activity during the period that you were a resident. Also include, where applicable, the portion of any net income or loss received from the farming activity carried on in Montana during the period of time that you were a nonresident.

Your distributable share of any separately stated Montana source farm income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 13 – Montana Source Taxable Social Security Benefits

If you are a nonresident, the taxable social security benefits that you reported on Form 2, line 20b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter only the portion of the taxable social security benefits received during the part of the year that you were a resident. You will need to complete the social security Worksheet VIII, Taxable Social Security Benefits for Form 2, on page 48 in order to determine your Montana source taxable social security benefits. Then you will need to calculate your portion of taxable social security benefits by dividing the amount calculated on Worksheet VIII, line 18, by 12 months and then multiply this result by the number of months you were a resident of Montana in 2013.

Line 14 – Montana Source Other Income

If you are a nonresident, enter any other amounts of your income not included above that are derived from Montana sources. This includes, but is not limited to:

- Montana lottery winnings
- Non-employee compensation

Line 15 – Montana Source Additions to Income Reported on Form 2, Schedule I

If you are a nonresident, enter any amount of income not included above that you reported on Form 2, Schedule I derived from Montana sources. This includes, but is not limited to:

- **Federal tax refunds**

  If you received a federal income tax refund in 2013 and are now required to include this refund as income on Form 2, Schedule I, line 3, a portion of this refund may be considered Montana source income. To determine this portion, multiply the amount of the taxable federal refund that you reported on Form 2, Schedule I, line 3 by the percentage that you reported on Form 2, Schedule IV, line 20 of your 2012 Montana tax return.
- **Recapture of a prior year tax benefit**

  If you received a refund in 2013 of an amount that you claimed as a deduction in a prior year, you are now required to include this amount as income on Form 2, Schedule I, line 4. A portion of this refund may be considered Montana source income. To determine this portion, multiply the amount on your Form 2, Schedule I, line 4 by the percentage of your Montana source income divided by your total income from all sources that you reported on Form 2, Schedule IV, for the year in which you claimed this deduction.
- **Medical care savings account nonqualified withdrawals**

  The amount that you deposited into your Montana medical care savings account while you were a resident maintains its character as Montana source income as long as you don't withdraw it to pay for eligible medical expenses prior to the time that you establish your residency elsewhere.
- **First-time home buyer savings account nonqualified withdrawals**

  The amount that you deposited into your Montana first-time home buyer savings account while you were a resident maintains its character as Montana source income. If you have not used these funds to purchase a home in Montana prior to establishing residency elsewhere, these funds are Montana source income and taxable to Montana.

Line 17

Enter your total federal income as shown on Form 2, line 22

Line 18

Enter your total Montana additions as shown on Form 2, Schedule I, line 17.

Line 19

Enter your total Montana subtractions as shown on Form 2, Schedule II, line 35.

Line 20

Enter your net operating loss(es) as shown on Form 2, Schedule II, line 27.

Line 23

Divide the amount on 16 by the amount on line 22 and round to 6 decimal places (e.g. 0.123456). Do not enter more than 1.000000.

Line 24

Enter your resident tax after capital gains credit as shown on Form 2, line 48.

Line 25 – Nonresident, Part-Year Resident Tax after Capital Gains Tax Credit

After you have finished completing Form 2, Schedule IV and have determined the amount of your nonresident, part-year resident tax after capital gains tax credit, enter that amount on Form 2, line 48a and then proceed to line 49. The instructions for lines 49 through 74 begin on page 7.

✓ **Did you…?**

- Include on Schedule IV all income you received for the portion of 2013 you were a Montana resident.
- Include all income you received from Montana sources while you were not a resident of Montana.
- If filing electronically, save the tax information that you have entered.

Schedule V – Montana Tax Credits

► **Are you ready? You will need–**

- Credit forms and/or other supporting documents for any credits you are claiming.

There are three categories of credits available on your Montana tax return. We have listed the 26 Montana tax credits available to you under these three categories to assist you in managing these credits. With the exception of the capital gains tax credit, which is required to be applied before any other credit (refer to Form 2, line 47), you are not required to apply any of the other tax credits in a particular order.

- **Nonrefundable Single-Year Credits**

  Your nonrefundable single-year credits can only be used to offset your 2013 resident, nonresident, or part-year resident tax after capital gains tax credit and cannot reduce your tax liability below zero. The unused

portion of your nonrefundable single-year credits that exceeded your 2013 income tax liability cannot be carried forward or carried backward to other tax years.

- **Nonrefundable Carryover Credits**

  Your nonrefundable carryover credits can be used to offset your 2013 resident, nonresident, or part-year resident tax after capital gains tax credit. These credits cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2013 income tax liability can be carried forward and used to offset future year tax liabilities.

- **Refundable Credits**

  Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

Nonrefundable Single-Year Credits (Lines 1-8)

Line 1 – Credit for Income Tax Paid to Another State or Country

You can use this credit only if you are filing as a full-year or part-year resident.

If you are required to file an income tax return in more than one state or country and you are entitled to this credit, you will have to complete a separate Form 2, Schedule VI or VII for each state or country in which you filed an income tax return and paid an income tax on income that is also taxed to Montana.

You will not be entitled to this credit if the other state or country in which you have filed an income tax return has allowed you a credit against the taxes that they have imposed on your net income because you are also subject to tax on the same income by Montana.

When calculating this credit on Schedule VI or VII, you cannot include in your income tax liability paid to the other state or country on line 4, any penalties and interest that you paid to the other state or country.

Full-year residents – If you are a full-year resident and you paid an income tax to another state or country on income that is also taxable to Montana, you may be entitled to a credit against your Montana income tax liability. You will need to complete Form 2, Schedule VI to determine your available credit.

Part-year residents – If you are a part-year resident and you paid an income tax to another state or country on income that is also taxable to Montana and if you included it as Montana source income on Form 2, Schedule IV, lines 1 through 16, you may be entitled to a credit against your Montana part-year resident income tax liability for these income taxes paid to another state or country. You will need to complete Form 2, Schedule VII to determine your available credit.

Wages for work performed in North Dakota – If you worked in North Dakota while a resident of Montana, the wages you receive for this work are not taxable by North Dakota under the income tax reciprocity agreement between the two states. If this applies to you, but your employer withheld North Dakota income tax from the wages, you should not take this credit. Instead, you should file a North Dakota individual income tax return to obtain a refund of the North Dakota income tax withheld.

Income other than wages from North Dakota sources – You may be eligible for this credit if you are required to pay income tax to North Dakota on income other than wages, provided you earn or receive the income while a Montana resident.

Foreign tax credit – If you claimed the foreign tax credit on your federal tax return, you can claim this credit for foreign taxes on your Montana tax return only if you have unused federal credit that is not eligible to be carried back or carried forward to another tax year. To determine your available credit if you have unused federal credit, you will need to complete either Form 2, Schedule VI if you are a resident or Form 2, Schedule VII if you are a part-year resident.

Shareholders of an S corporation or Partners in a Partnership – If you are a shareholder of an S corporation or a partner in a partnership and your S corporation or partnership pays an income tax to another state or country, you can claim a credit for your share of these income taxes paid by the entity. In order for you to claim this credit, however, the income tax paid by the S corporation or partnership has to be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the S corporation or partnership as long as they are imposed on and measured by net income. However, you are not allowed to use other taxes paid by your S corporation or partnership such as, but not limited to, franchise or license taxes or fees that are not imposed on or measured by net income, gross receipt taxes or gross sales taxes. When you claim this credit for the taxes paid by your S corporation or partnership, you will have to add back to your federal adjusted gross income in determining your Montana adjusted gross income, on Form 2, Schedule I, line 13, your share of the S corporation's or partnership's federal tax deduction that is included in your total on Form 2, line 17. This is required whether or not your S corporation or partnership separately or non-separately stated the income tax deduction on your federal Schedule K-1.

Line 2 – College Contribution Credit

You can claim a credit against your income tax liability for contributions that you made in 2013 to a foundation or general endowment fund of the Montana university system, a Montana private college, a community college or a tribal college. Your credit is equal to 10% of the contribution that you made with a maximum credit allowed of $500.

In order to qualify for this credit, your contribution has to be made to a Montana college or university that offers an associate or baccalaureate degree level education program. In addition to this credit, your contribution may also be claimed as an itemized deduction on Form 2, Schedule III, line 16.

For further instructions on the college contribution credit, and to calculate this credit, see Montana Form CC. When you claim this credit, you will have to include a copy of Form CC with your tax return.

Line 3 – Qualified Endowment Credit

You can claim a credit against your income tax liability for contributions made to a qualified Montana endowment held by a Montana corporation or established organization that is tax-exempt under 26 USC 501(c)(3) or is held by a bank or trust company in Montana on behalf of the tax-exempt organization.

Your credit is equal to 40% of the present value of a planned gift that you personally made during the year to the qualified Montana endowment. If you are a shareholder in an S corporation, a partner in a partnership, or a member or manager of a limited liability company and your entity made a contribution to a qualified Montana endowment, you are entitled to a credit equal to 20% of your share of the entity's outright gift or 40% of your share of the entity's planned gift. In no case can your credit be larger than $10,000 for your contribution and, when applicable, $10,000 for your spouse. When claiming this credit, you cannot claim a charitable contribution deduction on Form 2, Schedule III, for the amount of the contribution that you used to calculate this credit.

For further instructions on the qualified endowment credit, and to calculate this credit, see Montana Form QEC. Visit the Governor's Task Force on Endowed Philanthropy website at *mtnonprofit.org/endowMontana/* to learn more about the endowments statewide. When you claim this credit, you will have to include a copy of Form QEC with your tax return.

Line 4 – Energy Conservation Installation Credit

If you are a resident of Montana, you can claim a credit against your income tax liability for energy conservation investments that you made to your home or other buildings. Your credit is equal to 25% of your expenses for a maximum credit of up to $500 for the capital investments you made to your home or another building for energy conservation purposes or for the installation or replacement of a hot water heater or household heating or cooling system. If you are married, your spouse may also qualify for a credit of up to $500 as long as you both made qualifying capital investments.

You will not qualify for this credit by simply switching to an energy source that is less expensive or free (investments of this nature may qualify for the alternative energy system credit).

For further instructions and a list of investments that qualify for the energy conservation credit, see Montana Form ENRG-C. In addition, please refer to our website at *revenue.mt.gov* for more information such as specific examples of what investments may or may not qualify. When you claim this credit, you will have to include a copy of Form ENRG-C with your tax return.

Line 5 – Alternative Fuel Credit

You can claim a credit against your income tax liability for the cost of converting your motor vehicle to operate on an alternative fuel. Your credit is equal to 50% of the cost to convert your motor vehicle for a maximum credit of up to $1,000.

In order to qualify for this credit, your motor vehicle has to be licensed in Montana and the conversion has to be from gasoline to an alternative fuel, such as natural gas, liquefied petroleum gas, liquefied natural gas, hydrogen, electricity, or other combinations.

For further instructions on the alternative fuel credit and to calculate this credit, see Montana Form AFCR. When you claim this credit, you will have to include a copy of Form AFCR with your tax return.

Line 6 – Health Insurance for Uninsured Montanans Credit

You can claim a credit against your income tax liability if your business provides health insurance coverage for its employees. Your credit is a percentage of the premium payments that you made throughout the year for a maximum credit of up to $3,000 per year.

In order to qualify for this credit, as an employer you should meet the following criteria:

- You have been in business in Montana for at least 12 months.
- You employ at least 2 but not more than 20 employees who work at least 20 hours a week.
- You pay at least 50% of each of your employees' health insurance premiums.

Your credit is limited to a maximum of 10 employees and should include small employer group health insurance under the Small Employer Health Insurance Availability Act.

Important Your eligibility for this credit is not affected if you claimed the federal small business health care tax credit. However, if you are using insurance premiums to calculate the Insure Montana small business health credit (which is a separate credit), these premium payments cannot be used to calculate the health insurance for uninsured Montanans credit.

For further instructions on the health insurance for uninsured Montanans credit, and to calculate this credit, see Montana Form HI. When you claim this credit, you will have to include a copy of Form HI with your tax return.

Line 7 – Elderly Care Credit

You can claim a credit against your income tax liability for paying certain expenses in order to provide care to an elderly family member. Your credit cannot exceed $5,000 for one qualifying family member, or $10,000 for the care of two or more qualifying family members.

In order to qualify for this credit, you need to care for an elderly family member, who is at least 65 or has been determined to be disabled by the Social Security

Administration, and who has a family income of $15,000 or less if not married, or $30,000 or less if married. In addition, your Montana adjusted gross income must be less than $55,000 if your filing status is single or married filing jointly, or $27,500 if your filing status is married filing separately.

For further instructions on the elderly care credit and to calculate this credit, see Montana Form ECC. When you claim this credit, you will have to include a copy of Form ECC with your tax return.

Line 8 – Recycle Credit

You can claim a credit against your income tax liability for the investment that your business makes in depreciable equipment or machinery that you use to collect, process, or manufacture a product from reclaimed material. Your credit is equal to 25% of the first $250,000 invested in the property, 15% of the next $250,000 invested and 5% of the next $500,000 invested. You are not entitled to any additional credit for property that exceeds $1 million.

For further instructions on the recycle credit, and to calculate this credit, see Montana Form RCYL. When you claim this credit, you will have to include a copy of Form RCYL with your tax return.

Nonrefundable Carryover Credits (Lines 9-23)

Line 9 – Oilseed Crushing and Biodiesel/ Biolubricant Production Facility Credit

You can claim a credit for the cost of investments in qualifying depreciable property used to crush oilseed crops for the purpose of making biodiesel fuel or biolubricant, or used to construct or equip a facility in Montana to be used for producing biodiesel or biolubricant. This credit can be carried over for seven succeeding years if the facility is crushing oilseed during that tax period. If the facility for which the credit is claimed ceases operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. For detailed instructions, see Montana Form OSC. If this credit is claimed, include a copy of Form OSC with your tax return.

Line 10 – Biodiesel Blending and Storage Credit

You can claim a credit for the cost of investments in depreciable property used for storing or blending biodiesel made from Montana products with petroleum diesel for sale. This credit can be carried over for seven succeeding tax years if the facility is blending or storing biodiesel for blending. If the facility ceases blending biodiesel for sale for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. If the facility's biodiesel sales are not at least 2% of all diesel sales by the end of the third year after the credit is initially claimed, the credit is subject to recapture. For detailed instructions, see Montana Form BBSC. If this credit is claimed, include a copy of Form BBSC with your tax return.

Line 11 – Contractor's Gross Receipts Tax Credit

You can claim a credit against your income tax liability for the public contractor's gross receipts tax that your business has paid, or has been withheld and remitted on your behalf, throughout the year. The amount of credit cannot exceed your tax liability, and any credit balance remaining can be carried forward for up to five subsequent years. If you are carrying forward a credit, the oldest gross receipts tax amounts will be used first to offset credit claims.

When you claim this credit, you must provide your Contractors Gross Receipts (CGR) Account ID in the space provided. This Account ID was created when your CGR account was registered with the Department of Revenue, and is where your gross receipts tax has been deposited. If you are requesting credit from more than one CGR account, please mark the box indicating multiple accounts and include a schedule detailing how much credit should be taken from each CGR account. If you do not know your CGR Account ID, please call us toll free at (866) 859-2254 (in Helena, 444-6900) and we will provide it to you.

Line 12 – Geothermal Systems Credit

If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing a geothermal system in your principal home. The amount of the credit cannot exceed $1,500 and is applied in the year that you installed your geothermal system. The balance of your credit that is not used can be carried forward and applied against subsequent income tax liabilities for a period of seven years. You are not allowed to claim both the alternative energy systems credit and the geothermal systems credit for the same investment.

For further instructions on the geothermal systems credit, and to calculate this credit, see Montana Form ENRG-A. When you claim this credit, you will have to include a copy of Form ENRG-A with your tax return.

Lines 13a and 13b – Alternative Energy Systems Credit

Line 13a – Nonfossil form of energy: If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system that uses a recognized nonfossil form of energy such as, but not limited to, solar energy, wind energy, solid waste and organic waste in your principal home. Your total credit cannot exceed $500 per taxpayer. Any balance of your credit that is not used in 2013 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years. You are not allowed to claim both the alternative energy systems credit and the geothermal systems credit for the same investment.

Line 13b – Low emission wood or biomass combustion: If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system using a low emission wood or biomass combustion device, such as a pellet or wood stove in your principal home. You can also claim the credit for installing certain outdoor hydronic heaters or masonry heaters. Your total credit cannot exceed $500 per taxpayer. Any balance of your credit that is not used in 2013 can be carried forward and applied to

future income tax liabilities for a period of four succeeding tax years.

For further instructions on the alternative energy systems credit, and to calculate this credit, see Montana Form ENRG-B. When you claim this credit, you will have to include a copy of Form ENRG-B with your tax return.

Line 14 – Alternative Energy Production Credit

You can claim a credit against your income tax liability for an investment of $5,000 or more that your business makes in depreciable property for the use of a commercial system or a net metering system that is located in Montana and that generates energy by means of an alternative renewable energy source.

The amount of your credit is limited to 35% of the eligible cost associated with the purchasing, installing and upgrading of the alternative energy system. Your credit is further limited in that it can only be applied against the tax liability due as a consequence of the alternative energy system generating taxable or net income. Your credit cannot exceed that portion of your tax liability that results from taxable or net income generated as a result of the system. Your unused credit can be carried forward and applied to future income tax liabilities for a period of seven years. An exception to the seven-year carryforward period applies when your investment is located within the exterior boundaries of a Montana Indian reservation.

For further instructions on the alternative energy production credit and to calculate this credit, see Montana Form AEPC. When you claim this credit, you will have to include a copy of Form AEPC with your tax return.

Line 15 – Dependent Care Assistance Credit

If you are an employer in Montana, you can claim a credit against your income tax liability for the amount that you paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available to you that qualify for this credit, including:

- A dependent care assistance credit.
- A dependent care information and referral service credit.
- A day care facilities credit—In order to claim the credit under this program, the facility must have been placed in operation before January 1, 2006.

For further instructions about the amount of the credit that is available, the carry forward provisions and how to calculate these credits, see Montana Form DCAC. When you claim these credits, you will have to include a copy of Form DCAC with your tax return.

Line 16 – Historic Property Preservation Credit

You can claim a credit against your income tax liability for your own qualified rehabilitation expenditures. The allowable Montana credit is 25% of the federal rehabilitation credit provided for in IRC Section 47(a)(2). The credit may not be allocated between spouses unless the property is used by a small business corporation or a partnership in which they are shareholders or partners. When you claim this credit, you will have to include a copy of your federal Form 3468 with your tax return. If the federal credit was transferred to you, the owner who transferred it, not you, has to claim the Montana credit.

Please note: The credit previously allowed for creating a conservation easement, which was an alternative to the credit described above, expired on December 31, 2011. Therefore, no credit can be claimed for a conservation easement created after 2011. Unused amounts from a credit for an easement claimed prior to January 1, 2012 can be carried forward up to six years after the easement was created.

Line 17 – Infrastructure User Fee Credit

You can claim a credit against your income tax liability for the fees attributable to the use of the infrastructure. Your credit is the total of the interest and principal paid as reported in the letter from the Montana Board of Investments.

When you claim this credit, you will have to include a copy of the letter from the Montana Board of Investments detailing the principal and interest paid. You can carry back three years or carry forward seven years any of your unused infrastructure user fee credit.

For further instructions on the infrastructure user fee credit, and to calculate the credit, see Montana Form IUFC. When you claim this credit, you will have to include a copy of Form IUFC with your tax return.

Line 18 – Empowerment Zone Credit

You can claim a credit against your income tax liability if you are an employer who has a business in an empowerment zone. The credit is based on the number of qualifying new employees and is equal to $500 for each qualifying employee in the first year of employment, $1,000 for each qualifying employee in the second year of employment and $1,500 for each qualifying employee in the third year of employment. To be eligible for this credit, you have to be certified by the Montana Department of Labor and Industry.

Your credit can be carried back three years and carried forward seven years. The entire amount of your credit that is not used in the year that you earned it has to be carried first to the earliest tax year that the credit can be applied and then to each succeeding tax year.

Line 19 – Increasing Research Activities Credit

The Increasing Research and Development activities credit expired on December 31, 2010. Therefore, a current year credit cannot be claimed for periods beginning after that date. Any unused credit from a prior period can be carried forward for up to 15 tax years. If you are claiming unused credit carryforward, you will have to include a detailed schedule of the credit carryforward with your tax return.

Line 20 – Mineral and Coal Exploration Incentive Credit

You can claim a credit against your income tax liability for the certified expenditures for mining exploration activities involving mineral and coal deposits. In determining your credit, your qualified expenditures include those costs that you incurred for activities that directly support the exploration at a specific site. Your credit cannot exceed 50% of that portion of your tax liability that is related to the production from the mining operation for which the exploration activity occurred.

You are required to apply for the certification of expenditures incurred by sending the Montana Form MINE-CERT to the department within 60 days after the close of the calendar year. The department will make a determination about the certification of the expenditures by September 30.

For further instructions on the mineral and coal exploration incentive credit, and to calculate this credit, see Montana Form MINE-CRED. When you claim this credit, you will have to include copies of Forms MINE-CRED and MINE-CERT with your tax return.

Line 21 – Film Employment Production Credit

You can claim a credit against your income tax liability for employing residents of Montana in a state-certified production. The credit is equal to the sum of 14% of the first $50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

When you claim this credit, you should make a one-time election by either:

- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 21 and carrying forward any unused credit to be applied against your income tax liability in subsequent years; or
- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 25 in which any unused credit is refunded to you.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 22 – Adoption Credit

You can claim a credit against your income tax liability if you finalized the adoption of an eligible child in 2013. An eligible child is:

- any child under age 18, or
- any disabled person physically or mentally unable to take care of himself or herself.

The amount of the credit is $1,000 per child. If the amount of the credit exceeds your tax liability for 2013, you can carry forward the unused credit to the next five tax years. For Montana purposes, this carryforward applies only to adoptions that were finalized on or after January 1, 2007. Also, the legal adoption of a stepchild does not qualify for the federal or Montana credit. Include a copy of federal Form 8839 for the year of the adoption with your tax return.

Refundable Credits (Lines 24-29)

Line 24 – Elderly Homeowner/Renter Credit

The Montana elderly homeowner/renter credit is a property tax relief program that provides you with a refundable credit of up to $1,000 if you are age 62 or older, have resided in Montana for at least nine months during the year, occupied a Montana residence for at least six months during the year, and your gross household income is less than $45,000.

For further instructions on the elderly homeowner/renter credit, and to calculate this credit, see Form 2EC instructions at the back of this booklet.

Line 25 – Film Employment Production Credit

You can receive a refundable film employment production credit if you made the one time election to apply the credit against your income tax liability and requested a refund of the unused credit by reporting it on this line. You can also elect to carry forward your credit. If you have made this election, see Form 2, Schedule V, line 21 for further details and instructions.

The film employment production credit is equal to the sum of 14% of the first $50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 26 – Film Qualified Expenditures Credit

You can receive a refundable film qualified expenditures credit for expenditures made in Montana in connection with your state-certified production. Your credit is equal to 9% of the total qualified expenses that you incurred in connection with your production.

The qualified expenditures used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film qualified expenditures credit, and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 27 – Insure Montana Small Business Health Insurance Credit

If you were the owner of a business that received a tax credit from the Insure Montana small business health insurance program, enter the amount of credit to which you are entitled. The amount of credit you may claim is the total credit amount issued to the business multiplied by your ownership percentage. For example, if you were a 50% owner and the business received $6,000 in tax credit, you are entitled to claim $3,000 ($6,000 x 50% (0.5)).

Enter the federal employer identification number (FEIN) of the business that received the credit in the space provided. If you were the owner of more than one company receiving the credit, enter the FEIN of the company that received the highest amount of credit. Include a copy of the most recent certificate from the State Auditor's Office providing the amount of tax credit the business received.

Important Your eligibility for this tax credit is not affected if you claimed the federal small business health care tax credit. However, if you are using insurance premiums to calculate the health insurance for uninsured Montanans credit (which is a separate credit), these premium payments cannot be used to calculate the Insure Montana credit. Additionally, the premiums paid for these policies are not allowed as a deduction. Please see instructions for Form 2, Schedule I, line 15 on page 16.

Line 28 – Temporary Emergency Lodging Credit

A refundable tax credit is available for licensed establishments that provide short-term emergency lodging under the Temporary Emergency Lodging Program. The program helps provide lodging for individuals or families who have been displaced from their residence and have been referred to the establishment by a charitable organization approved by the Montana Department of Public Health and Human Services. Please visit their website at *http://www.dphhs.mt.gov/publichealth/fcs/* emergencylodging*.shtml* for additional information regarding participation in this program.

The credit is $30 for each night of lodging provided by the establishment with a maximum of five nights' lodging for each individual. An individual may claim the credit if they are the owner of the establishment or they have an ownership interest in the partnership or S corporation that owns the establishment.

For further instructions on the temporary emergency lodging credit, and to calculate this credit, see Montana Form TELC. When you claim this credit, you will have to include a copy of Form TELC with your tax return.

Schedule VI – Credit for an Income Tax Liability Paid to Another State or Country – Full-Year Resident Only

Schedule VII – Credit for an Income Tax Liability Paid to Another State or Country – Part-Year Resident Only

If you are filing as a full-year or part-year resident and paid income tax to another state or country, use either Schedule VI or VII to determine the amount of your credit for income tax paid to another state or country that you may be able to report on your Montana tax return.

See the instructions for Form 2, Schedule V, line 1, credit for an income tax liability paid to another state or country, on page 32 of this booklet for help in completing Schedule VI or VII. Also, please see the instructions included with Schedules VI and VII on Form 2, page 9.

Schedule VIII – Reporting of Special Transactions

Complete Form 2, Schedule VIII only if you and/or your spouse were required to complete one or more of the federal forms that are identified on this schedule. If you are required to complete this schedule because you have answered yes to one or more of the statements, you will need to include a copy of your federal tax return, Form 1040, with your Montana tax return.

For further information on the reporting of special transactions see Form 2, Schedule VIII.

FAQs—Frequently Asked Questions

Please find the answers to these questions identified by number on pages 38-43.

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2. I have to file a Montana individual income tax return. Which form is appropriate for me and my situation?
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1 Do I have to file a Montana individual income tax return?

If you are a resident, nonresident, or part-year resident, you have to file a Montana individual income tax return when you have Montana source income and your federal gross income, excluding unemployment compensation, is equal to or greater than the threshold for your filing status.

IF your filing status is…	AND at the end of 2013 you were…	THEN you have to file a tax return if your federal gross income, excluding unemployment compensation was at least…
Single, or married filing separately	Under 65	$4,180
	65 or older	$6,460
Head of household	Under 65	$6,080
	65 or older	$8,360
Married filing jointly with your spouse	Both under 65	$8,360
	One spouse 65 or older	$10,640
	Both spouses 65 or older	$12,920

You are entitled to an additional exemption if you are blind or your spouse is blind. Increase your federal gross income by $2,280 to determine if you are required to file.

❷ I have to file a Montana individual income tax return. Which form is appropriate for me and my situation?

To use Montana Form 2EZ, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2013.
- I am filing as a single person or as a married person filing a joint tax return.
- My spouse and I were under 65 and not blind at the end of 2013.
- I am claiming no dependents.
- My only income is from wages, interest, dividends, or unemployment compensation.
- I am claiming the standard deduction rather than itemizing deductions.
- I am not claiming any credits.
- I did not have any military or tribal income that is exempt from income tax.

To use Montana Form 2M, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2013.
- I am filing as a single person, head of household, or as a married person filing a joint tax return.
- My only income is from wages, interest, dividends, capital gains, IRA distributions, pensions, annuities, unemployment compensation, social security benefits or refunds.
- The only tax credit that I may be claiming is one (or more) of the following:
  - Adoption Credit
  - Elderly Homeowner/Renter Credit (Form 2EC)
  - College Contribution Credit (Form CC)
  - Energy Conservation Installation Credit (Form ENRG-C)
  - Elderly Care Credit (Form ECC)
  - Alternative Energy Systems Credit (Form ENRG-B)
- I did not have any military or tribal income that is exempt from income tax.

You will have to use the Montana Form 2 if you answer yes to any of the following:

- I was a resident of Montana for only part of 2013.
- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate Montana income tax return.
- My income includes:

income from a business or profession, farm or ranch, rents, royalties, partnerships, S corporations, estates or trusts; or

  - military or tribal income that is exempt from income tax.
- My tax year ended on a date other than December 31, 2013.
- I am claiming the tax withheld from my Montana mineral royalty payments.
- I am claiming the tax withheld by a pass-through entity from Montana Schedule K-1.

❸ How do I know whether I am a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes?

You are a resident of Montana for individual income tax purposes if you live in Montana or if you maintain a permanent home in Montana. A permanent home in Montana means a dwelling place you habitually use as your home, whether or not you own it and whether or not you may someday leave. You do not lose your Montana residency if you leave the state temporarily with the intention of returning. Your Montana residency is lost when you move outside of Montana with no intention of returning. Unless there is a specific exception under Montana law, if you establish Montana residency for any other purpose, you are considered a Montana resident for income tax purposes.

You are a nonresident of Montana if you were not a resident during any part of the tax year.

You are a part-year resident of Montana if you moved to or from Montana during the tax year with the intention of establishing a permanent residence in your new state.

A nonresident or part-year resident who is required to file a Montana tax return needs to use Form 2.

❹ When do I have to file my Montana tax return?

Your 2013 Form 2 tax return is required to be filed by April 15, 2014. If filing after April 15, 2014, please see FAQs ❿ and ⓫.

❺ What does the checkbox that asks “Do you want to allow another person (such as a paid preparer) to discuss this return with us?” mean?

If you mark the “Yes” box, we can discuss any concerns that we might have with your 2013 tax return—for example, a missing W-2—with a third party designee. If you mark the “No” box or do not mark a box, we cannot discuss your return with anyone but you or someone to whom you have given a power of attorney that allows us to discuss the return with them.

If you and your spouse are filing a joint return or separately on the same form, and the “Yes” box is marked, each of you is authorizing us to call the third party designee to answer any questions that arise while we are processing your 2013 tax return.

By marking “Yes,” you are also authorizing us to:

- Request that the third party designee give us any information that is missing from your return.
- Respond to the third party designee’s call to us for information about the processing of your return or the status of your refund or 2013 payment(s).

- Discuss certain notices from us about math errors, offsets and return preparation. Note: The department will only send notices directly to you, not to the third party designee.

You are not authorizing the third party designee to receive any refund check, bind you to anything (including any additional tax liability), receive any information about any other tax year or tax matter, or otherwise represent you before the department.

Please be aware that this authorization cannot be revoked. The authorization will, however, automatically end no later than the due date, without regard to extensions, for filing your next year's (2014) tax return. This is April 15, 2015, for most people.

If you want to expand or change the third party designee's authorization (for example, to verify any estimated payments you'll be making in the future), you can use Form POA, Power of Attorney, Authorization to Disclose Tax Information. Form POA is available on our website at *revenue.mt.gov*. You also can grant your third party designee access to your tax account information through Taxpayer Access Point (TAP) at *https://tap.dor.mt.gov*.

6 If I choose to file a paper return, where do I mail it?

We have two different mailing addresses for your paper return, if you choose not to file electronically. We do this so that if you are asking for a refund, we can get your refund processed and to you more quickly and efficiently.

If you are filing a tax return that includes no payment or if you are due a refund, please mail your tax return to:

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

If you are filing a tax return that includes a payment, please mail your tax return and check to:

Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308

7 What options do I have to file my Montana tax return electronically?

- File your Montana tax form FREE through our website. For more information, please visit *revenue.mt.gov* and click on Taxpayer Access Point (TAP). Please note that this service only applies to your Montana tax return; you may still have to file a federal tax return.
- File both your Montana and federal tax returns at the same time through the federal/state electronic filing program either online or with software you download (options may be free or low-cost). Additional information can be found at *www.irs.gov* or on our website at *revenue.mt.gov*. A list of approved e-file software products for Montana filing can also be found on our website.
- File through a tax professional who is an Authorized IRS E-file Provider.
- File by using the free electronic filing option available on *MontanaFreeFile.org*.

Please see the following chart to find out which e-filing methods are available to you as a first-time filer, full-year resident, part-year resident or nonresident.

	In 2013, I was a…			
	First-time filer	Full-year resident	Part-year resident	Nonresident
E-file with tax preparer	Yes	Yes	Yes	Yes
E-file with online/retail software	Yes	Yes	Yes	Yes
E-file through TAP*	No	Yes	Yes***	Yes***
E-file through MT Direct File**	Yes	Yes	Yes	Yes

**Taxpayer Access Point (TAP) is a free electronic service for accessing your Montana tax account information, filing your return, paying your tax and more. Visit revenue.mt.gov.*

***MT Direct File is a free electronic service for filing your return without signing up for account access. Visit revenue.mt.gov.*

****If you are a nonresident or part-year resident who has previously filed a Montana income tax return, you may use this option. If you have not previously filed, you cannot sign up for account access and e-file through TAP.*

8 If I file my return electronically, what information do I have to send in and what documents do I have to retain?

If you file electronically, you don't have to mail in a paper copy of your tax return, any accompanying federal Form(s) W-2 or 1099, or any other Montana supplemental forms. When you file your tax return electronically, you represent that you have kept all the documents required as your tax record and that you will provide copies of these if we ask for them. You also don't have to sign a copy of your tax return and submit it to us. The act of completing and filing your tax return electronically is considered your authorized signature.

9 What options do I have to pay my Montana taxes electronically?

You can pay your Montana taxes electronically by using any of the following methods:

- Electronic funds withdrawal when e-filing your joint federal/state tax return. You can schedule a withdrawal for a date later than when you file your return. (There is no fee for an electronic funds withdrawal.)
- E-checks (There is no fee for an e-check payment.)
- Credit/debit cards (A small fee is applied for a credit card payment.)

To pay your Montana taxes electronically by e-check or using a credit/debit card, please visit *revenue.mt.gov* and click on Taxpayer Access Point (TAP) or Income Tax Express (ITE) e-payment services.

❿ What happens if I do not file my Montana tax return on time?

If you file your tax return late, you will need to pay a late file penalty of $50 or the amount of tax due, whichever is less. You do not owe a late file penalty if you file a late tax return for which you are receiving a refund. Please remember that your return is considered late if you file after April 15, 2014, unless you qualified for an extension. If you were granted an automatic, six-month extension, your return is considered late after October 15, 2014.

⓫ What if I need more time to file my Montana tax return?

You are granted an automatic extension of time of up to six months for filing your Montana income tax return if one of the following applies to you:

- Your 2013 tax liability is $200 or less.
- You paid 100% of your 2012 Montana income tax liability through your estimated tax payments, your withholding, or a combination of both by April 15, 2014.
- You paid at least 90% of your 2013 Montana income tax liability through your estimated tax payments, your withholding, or a combination of both by April 15, 2014.
- You are a first time filer.
- You had zero or negative taxable income for 2012.

You do not need to apply for a federal extension in order to receive a Montana extension.

Please use the Montana Form EXT-13, 2013 Extension Payment Worksheet, to determine if you have to make an extension payment by April 15, 2014, to qualify for the automatic filing extension. You can get a copy of this form by visiting our website at *revenue.mt.gov* or calling us toll free at (866) 859-2254 (in Helena, 444-6900). If you are required to make an extension payment, please use the tax payment voucher found on this worksheet or sign up to make your payment online by visiting our website at *revenue.mt.gov*.

Important Unless you qualify for an extension because your tax liability is $200 or less, an extension of time to file your Montana income tax return is not an extension of time to pay your income tax liability. If your tax liability is more than $200 and you have a valid Montana extension but you have not paid your entire 2013 income tax liability by April 15, 2014, you are relieved of late file penalties but you are not relieved of late pay penalties and interest on your outstanding Montana income tax liability.

⓬ What do I do if I made an error on my tax return and I now want to correct it?

If you discover that your tax return was incorrect, you have five years from the due date of the original tax return to file an amended Montana tax return to correct the mistake. Please mark the “Amended Return” box found in the upper left-hand corner of the Montana tax return.

Important Include copies of any schedules submitted with the original filing, even if none of the amounts previously reported have changed.

Montana AMD Worksheet is available to help you reconcile the changes to the original tax return. Although not required, we suggest that you complete and include AMD Worksheet, or a similar form outlining the changes, with your corrected tax return. AMD Worksheet does not serve as an amended return on its own. You can get AMD Worksheet by visiting our website at *revenue.mt.gov*.

Important If you file an amended tax return that reflects an increased tax liability, you may have the late payment penalty waived. To receive the waiver, simply mark the “Amended Return” box on the top left-hand corner of the tax return and pay the tax and applicable interest in full when you file the amended return. By marking this box and paying all tax and interest, you are treated as having requested a waiver of the late payment penalty.

⓭ I have filed an amended federal tax return with the Internal Revenue Service, or the Internal Revenue Service has adjusted my federal tax return. Do I have to report this change to Montana? If so, how do I report this change?

Yes, you have to report the change to Montana. Within 90 days after you receive notification that the Internal Revenue Service changed or corrected your federal taxable income, or 90 days after you change your federal taxable income by filing an amended federal return, you have to file an amended Montana tax return. If you do not file an amended Montana return within that 90 days, we will have five years to adjust your Montana tax return to reflect the changes made on your federal tax return or make any other assessments of additional tax.

⓮ What happens if my payment is late?

If you do not pay all of your tax on or before April 15, 2014—or October 15, 2014, if your tax liability is $200 or less—you will need to pay a late payment penalty. This penalty is 1.2% per month or fraction of a calendar month on the unpaid tax. This penalty cannot exceed 12% of the tax due.

If you do not pay your tax liability by April 15, 2014—or October 15, 2014, if your tax liability is $200 or less—you will also be charged interest at a rate of 8% per year, accrued daily. If you can’t pay your tax in full, you should file your tax return by the due date and pay as much as you can with your tax return. If you wish to set up a payment plan, please call us toll free at (866) 859-2254 (in Helena, 444-6900) as soon as possible to discuss payment options and make arrangements to pay.

Note: If your tax liability is $200 or less, and you have not filed your return and paid your tax due on or before October 15, 2014, a late payment penalty and interest will be assessed on the amount you owe. Penalty and interest will be assessed from the original due date of the return, April 15, 2014.

When you file as married filing separately on the same form or on separate forms and both spouses owe tax, penalties and interest need to be calculated separately for each spouse.

Whether you just pay your tax late or are making a payment as part of a payment plan you established with us, be sure to include your name, social security number and the tax year for which the payment is to be applied clearly on your payment. If you intend to have one payment applied to more than one social security number or tax year, please include a statement with your payment that tells us how you want us to apply your payment.

⓯ What is the interest rate on unpaid taxes?

The current interest rate is 8%, and it will continue to be in effect through December 31, 2014. Under Montana law, the interest rate for all unpaid individual income taxes depends on the rate set by the Internal Revenue Service and may fluctuate each year, but will not be less than 8%.

⓰ How can I check on my refund?

You can check the status of a refund you are expecting by visiting our website at *revenue.mt.gov* and going to the "Where's My Refund?" link. You can also check the status of your refund by calling us toll free at (866) 859-2254 (in Helena, 444-6900). We will be able to tell you the status of your refund once it is processed and on our computer system.

Whether you are checking the status of your refund online or by phone, you will need to provide the following information:

- The social security number of the first taxpayer's name on your tax return, and
- The amount of the refund requested as shown on your tax return.

⓱ I am on active duty in the regular armed forces and currently serving in an area designated as a "combat zone" or "contingency operations." I am unable to file my 2013 Montana tax return by April 15, 2014. Can I (and my spouse) obtain an extension to file?

Yes, you can. Montana law follows federal law with respect to the time allowed for filing a return. Therefore, the extension of time to file your Montana tax return is the same for filing your federal tax return. If you are serving in a combat zone or in a contingency operation, you (and/or your spouse) can extend the filing of your Montana tax return for up to 180 days after your last day in a combat zone.

If you are filing your tax return under this provision, clearly write on the top of Montana Form 2, using red ink, "combat zone or contingency operations extension," and file your tax return within 180 days after your last day in a combat zone. If you file within the 180 days, you are not assessed any penalties or interest.

⓲ My spouse has a past-due child support obligation and I don't want my refund to be applied to this debt. What can I do?

If you do not want your refund to be applied toward your spouse's child support obligation, you can file your Montana tax return using Form 2 and filing status 3b, which is "married filing separate tax returns on separate forms." When using this filing status, each spouse claims his or her own income, losses, deductions, expenses, exemptions and credits, and your Montana refund would not be offset by your spouse's child support debt.

If you filed a joint return with your spouse and your refund was applied to your spouse's child support debt, you may be considered an "injured spouse" and we can help you resolve the matter. You need to contact us within 30 days after receiving notice that your refund was applied to your spouse's child support debt. If necessary, we can help you file the correct tax return(s).

⓳ A mental or physical disability prevents me from completing and filing a tax return. What can I do?

If you have a filing obligation but are unable to complete and file a tax return because of a mental or physical disability, the tax return can be prepared by your authorized agent, guardian or person responsible for your care and property.

⓴ How do I file for a deceased person?

If you are responsible for the financial affairs of a deceased person, you'll have to file a tax return for that person if his or her income exceeds the minimum filing requirements found in FAQ ❶. If you and the deceased person were married, you can file a joint tax return. If you are filing a joint return and you are the surviving spouse, that is all that is required. All other filers requesting the deceased taxpayer's refund must file the return and include a federal Form 1310 as well as any court documents appointing you as the personal representative.

This tax return has to include the income of that deceased spouse from the beginning of the year to the date of death in addition to the income of the surviving spouse for the entire year. Income of the deceased person received after the date of death should not be included on an individual tax return. Post-death income is reported on a fiduciary income tax return for a trust or estate, Montana Form FID-3.

21 I have heard that special rules apply to wages that Montana residents earn in North Dakota, or North Dakota residents earn in Montana. What are those rules?

Montana and North Dakota have a reciprocal agreement. If a Montana resident performs personal or professional services for an employer in North Dakota, the wages are treated as being earned in Montana and the Montana resident does not have to file a North Dakota income tax return reporting those wages. If a North Dakota resident performed personal or professional services for an employer in Montana, the wages are treated as being earned in North Dakota and the North Dakota resident does not have to file a Montana income tax return reporting those wages. The agreement also covers withholding taxes. Withholding is not required on wages treated as earned in the other state. The Montana-North Dakota agreement applies only to wages; other types of income, such as the self-employment income of an independent contractor or mineral royalties, are not included.

- **I am a Montana resident. How do those rules apply to me?**

  You should report all of your wages on your Montana return—you are not required to file a North Dakota income tax return (unless your employer withheld North Dakota taxes on wages covered by the agreement and you need to file a North Dakota return to get a refund of those taxes). You can also claim an exemption from future North Dakota withholding by completing North Dakota Form NDW-R and giving it to your North Dakota employer. You can get this form from your employer, by visiting North Dakota's website at *nd.gov/tax* or by writing to Office of State Tax Commissioner, State Capitol, Bismarck, ND 58505.

- **I am a North Dakota resident. How do those rules apply to me?**

  You should report all of your wages on your North Dakota return—you are not required to file a Montana income tax return (unless your employer withheld Montana taxes on wages covered by the agreement and you need to file a Montana return to get a refund of those taxes). If you have to file a Montana return to get a refund, complete Form 2, following the instructions for filing under the reciprocal agreement, and file by April 15, 2014. File as a nonresident and do not report the wages that you earned in Montana as "Montana source income."

  You can also claim an exemption from future Montana withholding by completing Montana Form MT-R annually. File a copy with your employer by February 28 of the calendar year for which you want it to apply, or within 30 days after you begin working or change your permanent residence. You can get this form from your employer, by visiting our website at *revenue.mt.gov*, or by writing to Montana Department of Revenue, PO Box 5805, Helena, MT 59604-5805.

22 What should I do if I did not receive a Form W-2, wage and tax statement, from my employer or I misplaced it?

Your employer is required to issue a Form W-2 by January 31 if you earned wages during the previous calendar year. If you haven't received your Form W-2 by that date or you misplaced it, request your employer to reissue it. You may also obtain this information by completing a Request for Copies of Tax Information (Form RTI) and submitting it to us in person, by fax or by mail. You can obtain this form by visiting *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

You still must file your tax return on time even if you do not receive your Form W-2. If you do not receive the missing information in time to file, you may complete federal Form 4852, Substitute for Form W-2, Wage and Tax Statement. Include Form 4852 with the return, estimating income and withholding taxes as accurately as possible. There may be a delay in any refund due while the information is verified. Keep a copy of the completed Form 4852 for your records.

If you receive a Form W-2 or W-2C (corrected form) after you have filed your return using Form 4852 and the information differs from what you reported on your return, you must amend your Montana individual income tax return.

23 How long do I need to maintain my tax records after I have filed my state tax return?

You should keep all your records for at least five years from the date that you filed your Montana tax return. This is called the statute of limitations. The statute of limitations for Montana individual income tax purposes is five years, and the statute of limitations for federal individual income tax purposes is three years. You should keep your property records and carryover information even longer.