



Forms included
in this booklet:

Long Form 2
Short Form 2S
Form 2A
Form W
Form 2A Page 3
Form 2EC
Payment Coupon

MONTANA 2002

Individual Income Tax Booklet

Dear Montana Taxpayer:

Our job at the Montana Department of Revenue is to provide quality customer service to all Montana taxpayers. By paying income taxes, you help to support Montana's many necessary activities. Your tax dollars provide services needed to make our state a wonderful place to live and work ... the place where we can live out our dreams.

The Department of Revenue is committed to providing you the best possible customer service. We recommend electronic filing for the fastest and most accurate processing of your tax return and refund. Visit our web site at www.discoveringmontana.com/revenue or consult your tax preparer for more information regarding E-filing. If you chose not to file electronically, you can help by mailing your completed return as early as possible using your preprinted mailing label. When submitting payment with your return, please use the enclosed scannable payment coupon.

Some important changes for the 2002 tax year will be noted by the **NEW** symbol:

- Farm Risk Management Account Reduction to Income
- Qualified Endowment Credit Limitations and Form
- Alternative Energy Systems Credit
- Preservation of Historic Property Credit
- Net Operating Loss Carryback Changes
- Credit Card and Electronic Check Payments
- On-line filing of the Short Form (Form 2S) or Elderly Homeowner or Renter Credit (Form 2EC)

If you need income tax assistance, please contact our Customer Service Center at (406) 444-6900. If you wish to order forms and instructions, call (406) 444-6900 or download the forms and instructions from our web site at www.discoveringmontana.com/revenue.

Remember that April 15, 2003 is the deadline for filing returns and/or extension payments.

Sincerely,

Kurt Alme
Director
Montana Department of Revenue



Items of interest  and new items **NEW** are highlighted and marked throughout the booklet.

	Page		Page
Tax Preparer Contact	1 and 10	Qualified Endowment Credit, Form QEC	8
Farm Risk Management	4	ENRG-B	8
Montana Net Operating Losses	4 and 5	ENRG-C	8
Credit Card Payment	6 and 11	Credit for Preservation of Historic Property	9

Table of Contents

General	Page	Nonresidents and Part-year Residents	Page
Who Must File	1	Who Must File.....	1-9
Which Form to Use	2	Which Form to Use.....	1-9
When and Where to File	1	Filing Status.....	2
Extensions and Late Filing	2	Exemptions.....	3
Filing Status	2	Line-by Line Instructions	
Residency Status	3	Part-year.....	9-10
Exemptions	3	Nonresidents.....	9-10
Line-by-Line Instructions		Deductions - Part-year and Nonresident	
Form 2	3-9	Standard	13
Form 2S	10-11	Itemized	6-7
Passive /Rental Losses..	4	Form W.....	12-15
IRA's	3	➤ IRA Worksheet	
Deductions - Standard	13	➤ Tax Benefit Rule Worksheet	
Itemized	6-7	➤ Qualifying Capital Gain Exclusion Worksheet	
Military	5	➤ Pension and Annuity Exclusion Worksheet	
Estimated Individual Income Tax	6	➤ Standard Deduction Worksheet	
Credits Against Tax	8	➤ Itemized Deduction Worksheet	
		➤ Underpayment Penalty Worksheet	
		➤ Social Security Worksheet	

For Returns With Payments

Mail To:
Dept. of Revenue
PO Box 6308
Helena, MT 59604-6308



For All Other Returns

Including Refunds Mail To:
Dept. of Revenue
PO Box 6577
Helena, MT 59604-6577

Questions? Call (406) 444-6900
Where's my Refund? (406) 444-9840

Note: Due to budget constraints you may experience a delay when calling for assistance.

Income Tax Express

Online Filing:
Form 2S, Form
2EC (only)



Online Payment:
Credit Card
Check

app.discoveringmontana.com/intax

Helpful Tips for Filing Your Tax Return

Listed below are the 5 most common errors made when calculating the tax liability/refunds on individual income tax:

- Math errors
- Computing standard deduction
- Computing the tax liability
- Computing estimated tax payment
- Payment not mailed in with return

Be sure to:

- Print clearly
- Mark correct box for filing status (single, married joint, separate, etc.)
- Attach federal schedules where applicable

Do not use the preaddressed label on the back of this booklet if your marital status, name or address have changed.


Forms Included in Tax Booklet

To order forms call (406) 444-6900 or download forms from the internet at www.discoveringmontana.com/revenue.

<u>Form No.</u>	<u>Description</u>	<u>Form No.</u>	<u>Description</u>
2S	Individual Income Tax Return Short Form	W	Worksheets for Standard Deduction, Taxable
2	Individual Income Tax Return Form		Refunds, Retirement Exclusion, Capital Gain
2A	Itemized Deductions & Tax Credits		Exclusion, IRA's, Social Security, Itemized
2A-Page 3	Other State Credits & Investment Credits		Deduction Limitation and Under Payment Penalty
2EC	Elderly Homeowner/Renter Credit		for Failure to Make Estimated Payments (short method.)

Forms Available Upon Request

Forms may be available at banks, courthouses, libraries and post offices.

Form Name	Description
2S	Individual Income Tax Return Short Form
2	Individual Income Tax Return Long Form
2A-Pages 1 and 2	Itemized Deductions, Tax Credits, Nonresident and Part-Year Resident and Allocation of Income
2A-Page 3	Other State Credits & Investment Credits
NEW ENRG-B	Alternative Energy Systems Credit
ENRG-C	Energy Conservation Installation Credit
2EC	Elderly Homeowner/ Renter Credit
2X	Amended Montana Individual Income Tax Return
Worksheet-EXT-02	Extension Payment Worksheet
IND	Indian Certification
NR2	Employee Certificate of North Dakota Residence
ECC	Elderly Care Credit
DCAC	Dependent Care Assistance Credit
RCYL	Recycle Credit
AFCR	Alternative Fuel Credit
INSTR	Instructions Only for Individual Income Tax
FTB	First Time Home Buyer Savings Account
NR1	North Dakota Reciprocal Affidavit
IT-EST	Estimated Individual Income Tax Booklet
ESW	Individual Estimated Income tax Worksheet
FID-3	Montana Fiduciary Return and Instructions
2441-M	Child and Dependent Care Expense Deduction
CC	College Contribution Credit
HI	Disability Insurance for Uninsured Montanans Credit
DS-1	Disability Income Exclusion Calculation Form
NOL	Montana Net Operating Loss Worksheet (1998 and prior years)
NOL-99	Montana Net Operating Loss Worksheet (1999 and subsequent years)
AEPC	Alternative Energy Production Credit
RIC	Recapture Investment Credit
EST-P	Underpayment Of Estimated Tax Penalty Form
MSA	Medical Care Savings Account
W	Worksheets for Standard Deduction, Taxable Refunds, Retirement Exclusion, Capital Gain Exclusion, IRA's, Social Security, Itemized Deduction Limitation and Under Payment Penalty, Short Method, and Tax Table
NEW QEC	Qualified Endowment Credit
NEW FRM	Farm and Ranch Risk Management Account
RSCH	Increase Research and Development Activities Credit
ESA	Annualization Worksheet for Estimated Tax
2101.....	W-2 Withholding Declaration
 Pass-through Entity Forms	
PR1.....	Partnership Booklet
CLT4S	Small Business Corporation Booklet
DER-1.....	Disregarded Entity Information Return
PT-WHREM.....	Transmittal Document
PT-EXT.....	Pass through Entity Extension Form

Who Must File

(Residents, Part-Year Residents and Nonresidents)

Refer to the table below to see if you are required to file.

Marital & Filing Status	Age as of December 31, 2002	You must file if your Federal gross income was:
Single, Head of Household Married Filing Separate	Under 65	\$3,265 or more
	65 or older	\$5,005 or more
Married Filing a Joint Return	Both under 65	\$6,530 or more
	One spouse 65 or older.....	\$8,270 or more
	Both spouses 65 or older..	\$10,010 or more

Increase federal gross income by \$1,740 if eligible for the blind exemption.

Residents of Montana (Full-Year)

You are taxed on all income earned in 2002—regardless of where you earned it. You are a Montana resident if you live in Montana or if you maintain a permanent home in Montana. You do not lose your residency when you leave the state temporarily. You lose your Montana residency only when you establish permanent residence outside of Montana with no intention of returning.

A person who claims Montana residency for any one purpose is considered a resident for all other purposes. For example, persons claiming residency for the purpose of obtaining resident hunting licenses or in-state tuition will be considered residents for income tax purposes.

You must file a 2002 Montana individual income tax return if you meet the minimum filing requirements. If you are generating a Montana net operating loss or have carryovers, you must file even if you do not meet the minimum filing requirement in order to perfect the losses.

Where's My Refund?

Taxpayers expecting refunds from current or back year returns will be able to check the status of those refunds by calling (406) 444-9840. This is a 24 hour-a-day service, accessible from both touch tone and rotary dial telephones.

When calling to inquire about a refund you will need to provide the following information:

- The social security number corresponding to the first name shown on the return.
 - The amount of the refund requested as shown on the return.
- The status of a refund will only be available if the tax return has been added to the department's computer system.

Other Filing Information

Generally the Montana statute of limitations is five years. Normally records should be kept during this time. Records for basis of property and carryforwards may need to be kept longer.

➤ **Statute of Limitations** - If you had a filing requirement, but did not file a return, there is no statute of limitation preventing the assessment of tax, penalties and interest. However, statutes of limitation do not allow for the payment of refunds if the delinquent return is filed more than five years after the due date of the return.

➤ **Deceased Taxpayers and Fiduciaries** - If you're responsible for the financial affairs of a deceased person, you must file a return for the deceased if his/her income prior to death exceeds the minimum filing requirements. If the deceased taxpayer was married, a joint return can be filed. The return would include the income of the deceased spouse from the beginning of the year to the date of death and the income of the surviving spouse for the entire tax year. A Montana Fiduciary Return (Form FID-3) must be filed for the deceased person if income is received after the date of death for the balance of the estate year. This return would include income received from the date of death for the balance of the estate tax year. An estate or trust cannot be filed on Form 2.

➤ **Injured Spouse Claim** - You qualify as an injured spouse if all or part of your share of the refund was, or is expected to be applied against your spouse's past child support debt. To avoid confiscation of your refund, you must file using filing Status 4 (married filing separate on separate forms). Each spouse must claim their own income/losses, deductions, expenses, and their own exemptions. This is the only way you can file an injured spouse claim. If you file with any other filing status other than married filing separate on separate forms your refund will be confiscated. If you have received a Letter of Offset on your tax refund from the department, please follow the letter's instructions to submit a written statement for the injured spouse claim or a copy of the federal form 8379 for injured spouses. Do not submit an amended return. Please contact the department for additional assistance.

➤ **Montana and North Dakota Reciprocal Agreement**
Wages earned by Montana residents in North Dakota do not have to incur North Dakota income tax. All other income earned in North Dakota by Montana residents may be subject to North Dakota taxes. North Dakota requires that you file an information return (Form NW-R). You can obtain Form NW-R from: **Office of State Tax Commissioner, State Capitol, Bismarck, North Dakota 58505.**

North Dakota residents who had Montana state income tax withheld on income earned in Montana, can get a refund under the Montana-North Dakota Reciprocal Agreement. File a Montana income tax return (Form 2) with Montana NR-1 affidavit and a copy of your North Dakota return. You may obtain Form 2 and Form NR-1 from the Montana Department of Revenue.

➤ **Electronic Filing** - Montana participates in the Federal/State Electronic Filing Program. You can electronically file your Montana income tax return with the Department of Revenue in conjunction with the electronic filing of your federal return. You will have the option of directly depositing your refund into your bank account or receiving a check in the mail.

➤ **S Corporation Election** - If you are a shareholder in a Montana corporation which has elected Federal S Corporation status, you are generally treated as a small business corporation for Montana income tax purposes. Shareholders must include the net income or loss in Montana adjusted gross income.

➤ **Amended Returns** - If you made an error or want to change your original filing, file an amended return on Montana Form 2X. You can only receive a refund on an amended return if the amended return is filed within 5 years from the due date of the original return. The filing of an amended return will not reduce the penalties assessed on your original return.

☞ If the federal government changes a taxpayer's federal taxable income the taxpayer is required to file an amended Montana income tax return. The amended return must identify the federal adjustments and must recalculate Montana tax for the year adjusted. Taxpayers must file the Montana amended return within 90 days of receiving the Internal Revenue Service's notification of the corrections made to the federal return.

NEW ➤ **Tax Preparer Contact** -To streamline resolution to questions related to your return, we have included an area for you to authorize the department to contact your preparer. By placing an "X" in the box marked yes under the heading "May the Department of Revenue discuss this return with the preparer shown above" on the back of Form 2 and Form 2S significantly improves the processing of your return. If you check this box, the department may contact the preparer or you for additional information. You will however, continue to receive notification of any formal adjustments made to your tax liability.

When to File

Your return for calendar year 2002 must be postmarked by midnight April 15, 2003. If you operate on a fiscal year, your return must be postmarked by midnight the 15th day of the fourth month following the close of your fiscal year.

Where to File

For Return Without Payments Including Refunds—Mail to:
Dept. of Revenue
PO Box 6577
Helena, MT 59604-6577

For Returns With Payments—Mail to:
Dept. of Revenue
PO Box 6308
Helena, MT 59604-6308

Which form should I use?

Short Form

You may file Form 2S (Short Form) if you answer "yes" to all of the following:

- You were a Montana resident for all of 2002.
- You are filing from a Montana address.
- You are filing single, head of household, or married filing a joint return.
- You wish to use only the standard deduction or federal income tax paid or withheld. (To itemize further use Forms 2 and 2A).
- The only tax credit you may have is Elderly Homeowner Renter Credit.
- Your only income is from one or more of the following: wages, pensions and annuities, interest and dividends, fees (such as jury duty), alimony, unemployment, winnings, prizes, awards or other miscellaneous income.
- You made no estimated payments.

Long Form

You must file the Form 2 (Long Form), if you answer "yes" to any of the following:

- You were a resident of Montana for only part of 2002.
- You were a nonresident of Montana with income from Montana sources.
- You are married, filing a separate return.
- You are using an itemized deduction schedule.
- Your income includes any of the following: income from business or profession, rents, royalties, partnerships, trust or s-corporation income, capital gain(s) or taxable social security.
- You are claiming tax credits.
- You made estimated tax payments.

Extension of Time to File

The extension of time for filing a return is not an extension of time for the payment of taxes. Taxpayers will be granted an extension of time for filing their Montana income tax return if both of the following requirements are met:

1. On or before the due date of the return, the taxpayer has applied with the Internal Revenue Service for a 4-month extension of time for filing the taxpayer's federal individual income tax return for the same year. 15-30-144(2)(a), MCA. An additional 2-month extension of time for filing a return is automatically allowed provided that the taxpayer has applied with the Internal Revenue Service for an additional 2-month extension of time for filing the taxpayer's federal individual income tax return for the same tax year.
2. The taxpayer has paid by estimated tax payments, withholding tax, or a combination of estimated tax payments and withholding tax, 90% of the current year's tax liability or 100% of the previous year's tax liability. 15-30-144(2)(b), MCA.

A valid federal extension will not be considered valid for Montana income tax purposes unless the taxpayer has met one of the payment requirements identified in item #2 on or before April 15th. Complete Montana Worksheet-EXT "Four-Month Extension Payment Calculation" to determine if you have met the payment requirements. A Montana Individual Income Tax Payment Coupon is included with Worksheet-EXT.

Note: Taxpayers must attach copies of their four month and two month federal extension forms to their **completed** Montana tax return. Additionally, the extension indicator box on the Montana tax form must be checked. **Do not send in copies of your federal extension prior to filing your return.**

Failure to comply with these requirements will result in the denial of your extension and in the assessment of penalties.

If you File or Pay Late

Late Filing. If you file your return late, you will be assessed a late file penalty of \$50 or the amount of tax due, whichever is less.

Note: If you are filing a return in which you receive a refund, the late file penalty is \$0.

For information regarding extensions of time to file, see above. Extensions are not granted for additional time to pay.

Late Payment. If you owe tax, you are required to pay your tax on or before April 15, 2003. If you do not pay the full amount owed by this date, you will be assessed a late payment penalty. The penalty is 1.5% per month or fraction of month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Interest. Any tax not paid by April 15, 2003, will be subject to interest. Interest is assessed at the rate of 12% (.12) per year accrued at 1% a month or fraction of a month.

Additional Information. Married couples filing separately, on the same tax form or on separate tax forms, are assessed penalties and interest individually.

Taxpayers who have purposely failed to timely file or pay their Montana taxes may be assessed penalties and interest at higher rates than those rates stated above.

- If you are unable to pay your tax in full: File your return by the due date and pay as much tax as you can with the return.
- Send payment(s) as soon and as often as possible, prior to notification from the Department of Revenue. Refund returns are processed before tax due returns, so you may not receive immediate notification.
- Making payments will not prevent the assessment of penalties and interest. However, paying as much as you can, as soon as you can, will minimize these assessments.
- Be sure payments reflect the name and the social security number and tax year to which the payment is to be applied. If one payment is to be applied to more than one social security number, include a statement identifying how the payment is to be allocated between social security numbers.

Filing Status (Check the appropriate box on form)

Note: Married persons where one spouse is a resident and the other spouse is a nonresident cannot file on the same form. For additional information please call the department.

Box 1 Single. Use Column A.

Box 2 Married, Filing Joint Return. Use Column A.
Note: You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both spouses. Married couples who both have taxable income normally benefit by filing separately. See box 3 or 4.

Box 3 Married, Filing Separate Returns on the Same Form. Use Columns A and B.
 If both you and your spouse had income, you can file separate returns even if you filed a joint federal return. Each of you must claim your own income, deductions, and exemptions. If one spouse itemizes deductions, so must the other. Be sure each spouse signs the return.

Note: Married couples cannot file separate short forms.

Box 4 Married, Filing Separate Returns on Separate Forms. Use Column A.

If you and your spouse want to receive your own refund or pay your own tax or if you have different residency statuses, you must file separate returns on separate income tax forms. Be sure to include your spouse's social security number on your return.

Box 5 Married, Filing Separate Return and Spouse is not Filing. Use Column A.

A spouse who had any gross income or was claimed as a dependent by another taxpayer can't be claimed as an exemption.

Box 6 Head of Household: (Box 3 of Form 2S)

If you qualify for federal purposes you may file your Montana return as head of household (Attach Federal Form 1040 or 1040A pages 1 and 2).

Residency Status (Check the appropriate box)

Note: Only one residency status can be marked on a return. A person who claims Montana residency for any one purpose is considered a resident for all other purposes. For example, persons claiming residency for the purpose of obtaining resident hunting licenses or in-state tuition will be considered residents for income tax purposes

Box 1 Full-Year Resident

Check this box if you were a Montana resident in 2002 (even though you may have been out of the state temporarily during the year). Include income from all sources, both inside and outside of Montana. Credit may be taken for taxes paid to other states.

Box 2 Full-Year Nonresident

Check this box if you were not a Montana resident for any part of the tax year. (See instructions pages 9 and 10.)

Box 3 Part-Year Resident

Check this box if you permanently established or ended your Montana residency during the tax year. Be sure to give the date you changed your residency and the state of residency. (See instructions pages 9 and 10.)

Exemptions**Line 1 - Yourself**

You may take one exemption for yourself. Take one additional exemption if you are 65 or older and one additional exemption if you are blind. You are allowed one exemption even though you are claimed as a dependent on another return.

Line 2 - Your Spouse

If you file a joint return you may take one exemption for your spouse. Take one additional exemption if your spouse is 65 or older and one additional exemption if your spouse is blind. If married filing separately you can only claim your own exemption(s).

Line 3 - Children and Other Dependents

You're entitled to one exemption for each person who qualifies as a dependent. The dependent schedule on line 3 must be completed. Additional dependents must be listed on a separate sheet and attached to the return. To qualify as a dependent, a person must meet the following requirements:

➤ Income

The dependent must have less than \$1,740 gross income. This requirement doesn't have to be met if your child was under 19 or a full-time student under age 24 for at least five months of the year.

➤ Support

The dependent must have received over half of their support from you. If you file a joint return, the support can be from you or your spouse.

➤ Married Dependent

The dependent must not have filed a joint return with their spouse.

➤ Citizenship or Residence

The dependent must meet the federal requirement for citizenship or residence.

➤ Relationship

The dependent must meet at least one of the requirements listed below:

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

* Child	Stepbrother	Son-in-law
Stepchild	Stepsister	Daughter-in-law
Mother	Stepmother	or, if related by
Father	Stepfather	blood:
Grandparent	Mother-in-law	Uncle
Brother	Father-in-law	Aunt
Sister	Brother-in-law	Nephew
Grandchild	Sister-in-law	Niece

- * Includes a child placed in your home by an authorized legal adoption agency.

- Must have lived in your home as a member of your household for the entire year.

Line 4 - Handicapped dependent children

You're entitled to an additional exemption for a handicapped child provided the handicapped child is:

- Claimed as a regular exemption; and
- At least 50% permanently disabled as certified by a physician. The physician's certification must state that the child's handicap constitutes a disability of greater than 50% to the body as a whole. A copy of the physician's certification must be submitted with your return each year.

Line 5 - Total number of exemptions columns A and B**Line - By - Line Instructions for Form 2**

Instructions for filing Form 2S - see pages 10 and 11.

Income Reported on Federal Return

Lines 6 through 18 - Enter all items of income you reported on your federal income tax return. This includes the portion of social security income that is taxable for federal purposes. Attach copies of applicable federal schedules and forms.

Note: Married persons filing separately must allocate income based on percentage of ownership.

Line 19 - Adjustments to Income

Please specify the adjustment.

- **Educator expenses** - Enter amount from line 23, Federal 1040 or line 16 of Federal 1040A.

Individual Retirement Account (IRA) - Enter the amounts from line 24 of Federal 1040, or line 17 of Federal 1040A. **Note:**

If your filing status on your federal return is married filing jointly, and on your Montana return you checked Box 3, 4 or 5, married and filing separately, see IRA instructions on Form W, Page 12.

- **Student Loan Interest Deduction** - Enter amount from Line 25 of Federal 1040 or line 18 of Federal 1040A.
- **Tuition and fees deduction**. Enter amount from line 26 of Federal 1040 or line 19 of Federal 1040A.
- **Archer MSA deduction**. Enter amount from line 27 of Federal 1040. Attach Federal 8853.
- **Moving Expense** - Enter amount from line 28 from Federal 1040 and attach Federal Schedule 3903 or 3903-F.
- **Self Employment Tax** - Enter amount from line 29 of Federal Form 1040.

- **Self Employment Health Insurance Deduction** - Enter the amount from line 30 of Federal Form 1040.

- **Keogh/SEP** - Enter amount from line 31 of Federal 1040.

- **Penalty on early withdrawal of savings** enter amount from line 32 of Federal 1040.

- **Alimony** - Enter amount from line 33a of Federal 1040.

Line 20 - Subtract line 19 from line 18 to arrive at your federal adjusted gross income. Total of columns A and B must agree with federal adjusted gross income.

Additions to Income

Line 21- Include interest income from bonds and obligations of other states or their political subdivisions. Interest income from Montana municipal bonds is not taxable.

Line 22 - If you received refunds, rebates, or reimbursements for any expense you previously deducted on Form 2A (itemized deductions), complete the Tax Benefit Rule Worksheet on Form W, Page 12, to figure the amount to include in income. If you recovered amounts in the current year which are attributable to more than one prior year, (i.e. a federal income tax refund from 2001 and a reimbursement of medical expenses you deducted in 2000), complete a separate worksheet for each year. Use information from Form 2A for the year the expense was deducted.

If you and your spouse filed a joint federal return and are filing married filing separate state returns, you must each complete a separate Tax Benefit Rule worksheet. The federal refund must be prorated using the ratio of federal tax reported as an itemized deduction by each spouse to the total federal taxes deducted.

Line 23 - Other Additions:

Medical Savings Account - Amounts withdrawn for other than eligible medical expenses must be reported as income.

Social Security - To calculate the portion of your social security benefits taxable to Montana, complete the Social Security Worksheet on Form W-Page 15. Note: You must complete the pension and annuity worksheet on Form W Page 13, before beginning the Social Security Worksheet. If the portion of your social security benefits taxable to Montana is greater than the portion taxable to federal, enter the difference on line 23, Form 2. Attach a copy of Form W to your return.

Passive and Rental Income and Losses - If you filed a joint federal return and are filing a separate Montana return, you must recompute allowable passive activity losses according to the federal passive activity rules for married filing separate status.

For each spouse, complete and attach a federal Form 8582, Passive Activity Loss Limitations, using married filing separate rules to determine your allowable passive activity losses for Montana purposes. On line 23, enter the difference between the passive losses reported on Form 2, line 12 under married filing joint rules and the allowable passive losses computed on Form 8582 under married filing separate rules. The unallowed losses added back on line 23 are carried forward to the following year or years until used. (see line 34 instructions in this booklet to claim unallowed losses).

The special allowance for losses from rental real estate activities in which you actively participate, which is allowable if you file a joint return, is disallowed if you file married filing separately and you lived with your spouse at any time during the year.

For additional passive activity information, please refer to IRS Publication 925, Passive Activity and At-Risk Rules.

Independent Liability Funds - If you received a distribution of principal from an independent liability fund, you must report the amounts received if you previously took a deduction for the contribution.


Capital Loss - If you and your spouse file separately, you must claim your own capital loss which is limited to \$1,500 each. If the capital loss claimed on line 10 is greater than \$1,500, report the excess on line 23.

Allocation of Income - See special information on page 5, line 34.

NEW **Montana Net Operating Losses** -Use Form NOL-99 for calculating your net operating losses for tax years beginning after December 31, 1998. Under the Federal Job Creation and Worker Assistance Act of 2002 an individual who has a net operating loss in 2001 or 2002 must carryback the NOL 5 years unless they timely elect to carryback the 2001 or 2002 NOL two years or timely elect to forgo the carryback of the NOL and elect to carryforward the loss.

Use Form NOL for calculating your net operating losses for the years prior to January 1, 1999. Complete and attach the MT NOL Worksheets.

Dependent Care Assistance Credit - If you took dependent care assistance as a deduction on Federal Schedule C and will be taking the Montana dependent care assistance credit, you must add back the amount of assistance deduction that the federal credit is based on.

 **Student Loan Interest, Tuition and Fees** - Married taxpayers filing separately for Montana tax purposes on the same or different forms are not allowed to deduct these expenses. If filing separately, these expenses reported on line 19 must be added back to Montana income on line 23.

Reductions to Income**NEW**

Line 26 - Farm Risk Management Account- An individual or family farm corporation may exclude from adjusted gross income deposits into a farm and ranch risk management account to use as a risk management tool for agricultural business. You are limited to one account for each individual or family farm corporation. The amount of the deduction is the lesser of 20% of your net income attributable to agricultural business included in your federal adjusted gross income or \$20,000 a year. Deposits must be made during the year or specified for the tax year and made within 3 1/2 months after the close of your tax year. If you are claiming this deduction you must complete and attach Form FRM.

Line 27 - Interest Exclusion for Elderly - If you're 65 or older, and filing single, separate, or head of household, you may exclude up to \$800 of interest income. You may deduct up to \$1,600 if filing jointly.

Note: If you're married filing separately, only the spouse 65 or older can exclude up to \$800 interest. However, if you file a joint return you're allowed to exclude up to \$1,600 even if only one of you is 65 or older. If you're married and both 65 or older, you're each allowed to exclude up to \$800 interest when filing separately or jointly.

Line 28 - Interest Income received on obligations of the United States Government is exempt from Montana income tax if the following conditions are met: the instruments must be written documents, bear interest, and contain a binding promise by the United States to pay specified sums at specified dates.

They must also contain specific Congressional Authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest from the obligation is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

Mutual fund dividends derived from qualifying U.S. Government interest, is exempt from Montana income tax. See your annual Mutual Fund statement (1099-DIV) to determine what percentage of your dividends qualify for this exemption.

The combination of line 27 and line 28 cannot exceed the amount included as income on line 7 and 21.

Line 29 - Treatment of Pension and Annuity Income - Attach copies of Form 1099R with distribution codes 2 and 7.

You may be able to exclude up to \$3,600 of taxable pension and annuity income. Qualifying pension and annuity income is reported on Form 1099R, distribution codes 2 and 7.

If you have a disability pension (Code 3 on Form 1099R), use the disability pension worksheet Form DS-1.

Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board are fully exempt from Montana taxation. Enter Tier I benefits reported on Line 15b as a reduction on line 34. Enter Tier II benefits reported on Line 14b as a reduction on line 29.

If your federal adjusted gross income on line 20 of Form 2 is less than \$30,000, enter the smaller of your taxable pension and annuity income or \$3,600 on Form 2, line 29. If you filed married filing separately, the \$30,000 limit applies to each spouse separately.

If you're filing single, head of household or married filing separate and your federal adjusted gross income on line 20 of Form 2 is \$31,800 or greater; or if married filing jointly and both spouses have pension income and your federal adjusted gross income is \$33,600 or greater you are not entitled to the Pension and Annuity exclusion.

If your federal adjusted gross income on line 20 of Form 2 is larger than \$30,000 but less than \$31,800 if single, head of household or married filing separate (\$33,600 if married filing jointly and both spouses have pension income) calculate your exclusion using the Pension and Annuity Exclusion worksheet on Form W page 13.

Premature distributions/early withdrawals and disability payments do not qualify for the exclusion. These are shown as distribution Code 1 and Code 3 of Form 1099R.

Line 30 - State Taxation Benefits - Unemployment benefits received from Montana or other states are not taxable in Montana.

Line 31 - Medical Care Savings Account - An MSA can be administered by an Account Administrator that is registered with the Department of Revenue or can be self administered by the taxpayer. Each individual taxpayer, not to include dependents, must separately own an account to be eligible for a reduction to income. Within certain limitations, the contributions to an MSA will be tax free as long as they are used for eligible medical expenses. The maximum deduction allowed per taxpayer from Montana adjusted gross income is \$3,000 plus interest the account accumulates. Eligible medical expenses cannot be deducted elsewhere on the tax form. Withdrawals used to pay nonqualifying medical expenses are subject to tax and penalty. If you self administer your account you must complete and attach Form MSA.

Line 32 - Family Education Savings Account - Taxpayers may deduct up to \$3,000 per year for contributions made to an account established under the Montana family education savings program. If married, each spouse is entitled to the \$3,000 deduction for his or her contributions to the account. The contribution must be made to an account where the account owner is the taxpayer, the taxpayer's spouse, child or stepchild. Nonqualified withdrawals from the family education savings account are subject to an 11% recapture tax. Participants must complete an application provided by the Montana Board of Regents. To establish a Family Education Savings Account and for additional information call (800) 888-2723.

Line 33 - First Time Home Buyers Savings Account - Qualifying individuals may exclude from income up to \$3,000 per year (\$6,000 if filing jointly) for contributions to a first-time home buyer's account. First-time home buyer accounts must be new accounts opened in the first year this reduction is claimed. Interest earned on the account is also excludable from income. Deposits in excess of these amounts may be claimed as a reduction in subsequent tax years, provided you have not purchased a home and exclusion does not exceed the above amounts in any single year. You are no longer eligible for the reduction after you have purchased your first time home. Contributions to an account may not be made for a period exceeding 10 years. After 10 years, any money remaining in the account not expended for eligible expenses associated with the first-time purchase of a home (down payment and closing costs) is ordinary income subject to tax. Any withdrawal of funds from the account for purposes other than the first time purchase of a home is subject to a 10% penalty and taxed as ordinary income.

Attach Form FTB and copies of monthly/quarterly statements from financial institutions showing beginning balances, deposits, withdrawal, interest/dividends earned and ending balance of accounts.

Note: If you purchased a home during the tax year, attach a copy of the buy-sell agreement.

Line 34 - Other Reductions - **Note:** The Capital Gain Exclusion is now included in line 34.

➤ **Capital Gain Exclusion** - If you had an installment sale(s) of a capital asset(s) which you entered into before January 1, 1987 you may be able to take a capital gain exclusion of 40%. Compute your exclusion on Form W-Page 12, Worksheet III.

➤ **Health insurance paid by S corporations** - Shareholders are allowed to deduct health insurance premiums paid on their behalf by an S corporation if the cost of the premiums are included in the shareholders federal adjusted income.

➤ **Child's Income Exclusion** - If you file Federal Form 8814 (Parents' Election to Report Child's Interest and Dividends), exclude from your income the amount reported as "Form 8814" income on the "Other income" line of your federal return and on line 17 of your Montana return. Your child must file a Montana return if he/she otherwise meets the income filing requirements listed on page 1.

➤ **Tip Income** is excludable if:

- it is included in federal adjusted gross income, and
- received for services provided to patrons of a licensed business that provides food, beverages or lodging.

➤ **State Refunds** - If included on line 17, deduct state refunds here.

➤ **Disability Income Exclusion** - You may subtract up to \$5,200 a year of your disability payments (reported on Form 1099R, distribution Code 3) from your gross income. Use Form DS-1 to calculate your allowable deduction and attach to your return.

➤ **Deduction for Purchase of Recyclable Material** - Individuals may take an additional 10% deduction of the expenses related to the purchase of recycled products used within Montana in their business if the recycled products purchased contain at least 90% reclaimed material.

➤ **Wages Covered by Federal Targeted Jobs Credit** - As an employer, you can deduct wages and salaries reduced by the

amount of the federal targeted jobs credit or by work incentive program credits. Deduct the credit amount(s) from your Montana adjusted gross income. The deduction must be taken in the year the wages and salaries are used to compute the federal credit.

➤ **Land Sales to Beginning Farmers** - You can deduct from your taxable income all income or capital gain realized from the sale of land consisting of 80 acres or more sold to a beginning farmer at a maximum of 9% interest. The transaction must first be approved by the Agricultural Loan Authority. The maximum deduction allowed is \$50,000. A copy of your letter of approval from the Department of Agriculture must be attached.

➤ **Passive Loss Carryover** - You may be allowed to claim prior year disallowed passive activity losses if you have current year passive activity income or if you sell or exchange your entire interest in the activity in a fully taxable transaction to an unrelated party. Previously disallowed losses may also be claimed in the current tax year if you file a joint return. Please complete federal Form 8582, Passive Activity Loss Limitations, to determine the amount of passive loss carryover you can claim. If you qualify, enter the allowable passive loss carryover on line 34 and attach copies of Form 2, page 1, from previous years tax returns on which you reported unallowed losses.

➤ **Indian Reservation Income** - Native American Indians who do not reside and work on the reservation of the tribe in which they are enrolled will be subject to Montana tax on all income whether earned on or off the reservation.

Native American Indians working in Montana are required to file a Montana tax return even if the income earned is exempt from Montana tax. Any loss incurred on the reservation cannot be used to offset taxable income. Certification of enrollment (Form IND) and proof the income was earned on the reservation must be attached to the return each year.

➤ **Exempt Military Pay**

Military wages received for serving on active duty under the authority of USC title 10 in the regular armed forces are exempt from Montana taxation. Pay earned as a result of service performed under USC Title 10 not in active duty status in the regular armed forces or under any other authority (i.e., Title 32, Title 5, etc.) is subject to Montana tax. If you are claiming exempt military wages, you need to attach verification, such as a copy of your orders, which specify that you are serving on active duty in the regular armed forces under the authority of Title 10. **Note:** Separation pay and early out incentive payments are not wages and are fully taxable on your state return.

Residents of Montana serving in the military who wish to maintain their Montana residency are required to file Montana income tax returns.

➤ **Social Security**

Complete the social security worksheet on page 15 of this booklet after completing the pension and annuity worksheet on page 13. If the portion of your social security benefits that is taxable to Montana is less than the federal taxable amount, enter the difference. Attach Form W to your return.

➤ **Allocation of Income to Proprietor's Spouse**

If your spouse regularly performs substantial personal services in operating the business for which he or she is not paid a salary or wage, you can assign to your spouse reasonable pay for the services. Compensation must be determined on the basis of the reasonable rate of pay appropriate in your area for the particular type of personal services performed. Services performed by operating a household or services which are incidental to the operation of the business may not be used as a basis for this allocation.

Note: Attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 34 as a reduction of your income and on line 23 as an addition to your spouse's income.

NEW

➤ **Montana Net Operating Losses** - Use Form NOL-99 for calculating your net operating losses for tax years beginning after December 31, 1998. Under the Federal Job Creation and Worker Assistance Act of 2002 an individual who has a net operating loss in 2001 or 2002 must carryback the NOL 5 years unless they timely elect to carryback the 2001 or 2002 NOL two years or timely elect to forgo the carryback of the NOL and elect to carryforward the loss.

Use Form NOL for calculating your net operating losses for the years prior to January 1, 1999. Complete and attach the MT NOL Worksheets.

Line 38 - Itemized and Standard Deductions

Standard Deduction - See Form W, Worksheet -V, page 13.
Itemized Deductions - See Page 6

Note: If husband and wife file separate returns, both must itemize deductions or both must claim the standard deduction.

Line 40 - Exemptions - Multiply \$1,740 by the number of exemptions in box 5 on the front of Form 2. Part-year and nonresidents must now turn to page 9 and 10 to determine income reportable to Montana.

Tax Computation

Line 42 - Compute the tax using the table on the back of Form 2.

Line 43 - Tax on lump-sum distributions which haven't been included in adjusted gross income. Enter 10% of the federal tax you paid on lump-sum distributions. Attach a copy of Federal Form 4972. Part-year residents must calculate the tax on all lump sum distributions received while residing in Montana.

Line 45 - Credits - Enter the total from Form 2A, Schedule II, line 113.

Line 47 - Recapture Investment Credit. Attach Form RIC.

Line 48 - You can contribute any amount to the program(s) of your choice. A contribution will increase your existing tax liability. If you itemize deductions, the contribution may be claimed in the tax year being filed or the year paid.

Line 49 - Nongame Wildlife Program

Contributions will be used to ensure the well-being of many of Montana's watchable wildlife species, such as eagles, herons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.



Line 50 - Child Abuse and Neglect Prevention Program
Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

Line 51 - Agriculture in Montana Schools Program
Contributions will 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 the rest of the world.

Line 54 - Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's and 1099R's) to your return.

Line 55 - Enter your total Montana estimated tax payments for 2002. Include overpayments from 2001 which were credited to 2002.

If you paid tax for a previous year, that amount cannot be claimed as an estimated tax credit on line 55.

NEW Line 56 - Enter payment made calculated from the Four-Month Extension Payment Calculation Worksheet, EXT-02.

Line 57 - Elderly Homeowner or Renter Credit
To determine if you qualify see detailed instructions on Form 2EC.



Refund or Balance Due

Line 60 - Amount Overpaid If line 59 is larger than line 53, enter the difference. This is your overpayment. You can choose to have all or part of this amount refunded to you (line 62). The remainder, if any, can be applied to your estimated tax for 2003 (line 61). Only overpayments of more than \$1 will be refunded.

Line 61 - Enter the amount from line 59 which you want applied to Estimated Tax for year 2003.



Line 62 - Enter the amount from line 60 you want refunded to you. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 62 on your tax return. The routing number must be nine digits. The account number can be up to 17 characters (both numbers and letters).

Verify that the routing and accounting numbers are correct otherwise the direct deposit will be rejected and a check will be mailed to you instead. See sample below:

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000		1234
Pay to the Order of		Dollars
Anyplace Bank Anyplace, MT 59000		\$ <input type="text"/>
Routing Number	Account Number	Do not include the check number in the account number
1-250000005	1-2000000000 86	1234

Line 63 - Tax Due - If line 53 is larger than line 59, enter the difference. This is your tax due. Make your check or money order payable to the Department of Revenue. Be sure your social security number and tax year is on your check or money order. Send your payment with the coupon provided in this booklet along with your tax return.

NEW If you wish to pay your tax due by credit card or electronic checks visit our website at www.discoveringmontana.com/revenue. Only Mastercard and Visa are accepted. Be sure to write your confirmation number in the space provided on Form 2, page 2.



If you cannot pay all of your tax with your return, file your return and pay as much of the tax as possible.

Filing on time will prevent a late filing penalty assessment. See Page 2.

Be sure to include your work or home phone number next to your signature on the tax form.

Income Tax Withholding for 2003

If the amount you owe (line 63) or the amount you overpaid (line 60) is excessive, see your payroll office. Ask about filling out a new Form W-4 for Montana purposes to change the amount of income tax to be withheld from your state wages. Your federal withholding can remain unchanged.

Line 64 - If you were required to make estimated tax payments and did not remit the required amounts, you must pay an underpayment penalty. Complete worksheet VII, Form W, page 14 to calculate the penalty

Line 65 - If you file your return late, you must pay a late file penalty of \$50 or the amount of tax owing whichever is smaller. There is no late file penalty if you are receiving a refund.

Line 66 - If you do not pay by the due date of your return, you must pay a late pay penalty. The penalty is 1.5% per month or fraction of month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Line 67 - Interest will be assessed on any tax not paid by April 15, 2003. Interest is 12% per year accrued at 1% per month or fraction of a month. Consider April as one month, as a month is considered a calendar month.

2003 Declaration & Payment of Estimated Tax

If you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you may need to make estimated tax payments in 2003.

Contact the department to obtain estimated tax payment information and vouchers.

Schedule I Form 2A Itemized Deductions

Note: Allowable Montana itemized deductions may be different than deductions allowed on your federal tax return. Complete Form 2A to calculate allowable itemized deductions for Montana purposes.

If you itemize deductions, you must mark box B on line 38, Form 2, and attach a copy of Form 2A to your return.

If you fail to do either, the processing of your return will be delayed and your return may be adjusted.

Line 69 - Medical Insurance Premium - 100% of qualifying medical insurance premiums are now deductible. Do not include amounts reported on lines 19 and 34 of Form 2 and line 73 of Form 2A. Please read the following conditions to determine if insurance premiums you pay qualify: continued.....

Medical Insurance Premiums continued...

- The premiums must be paid for health/medical insurance coverage (life insurance does not qualify).
- You must pay the premium expense. Premiums paid by your employer or someone else do not qualify unless the cost of the premium is included in taxable income.
- Premiums paid through a medical savings account (MSA) are not deductible.
- The premiums must have been paid with after-tax dollars. Insurance premiums deducted from wages, but not subject to federal and state withholding tax or social security tax do not qualify for the deduction because the premium is paid with pre-tax dollars. Earnings used to pay pre-tax premiums are not included as taxable wages in box 1 or box 3 of your W-2.

Most employers who have a health insurance plan for employees deduct insurance premiums from wages on a pre-tax basis. You may need to check with the employee benefits/payroll office where you work to determine if insurance premiums are deducted on a pre-tax or after-tax basis.

- Self employed persons and S. corporation shareholders who claim insurance deductions on lines 19 and 34 of Form 2, must reduce their total premiums by these amounts.
- Medicare B insurance premiums deducted from your social security benefits may be used to calculate the deduction.

Medicare A premiums do not qualify for this deduction. Medicare tax withheld from wages or paid as part of self-employment tax are not deductible.

Line 70-72 - Medical and Dental Expenses - On line 70, enter your deductible medical expenses. Montana statute allows the same items to be deducted as are deductible for federal income tax purposes. You must subtract from your federal medical expenses any medical insurance premiums included on lines 19, 34, or 69. Medical expenses paid through a medical savings account are not deductible. Medical expenses on line 70 must be reduced by 7.5% (.075) of your Montana adjusted gross income (line 37). Enter allowable medical expense deduction on line 72.

Examples of allowable medical expenses include prescription medicines; doctors, dentist and hospital expenses; medical related transportation and lodging; hearing aids; dentures; and eye glasses.

Line 73 - Long Term Care Insurance - Enter total amount of qualifying premium payments made for long term care insurance. You may include the premiums you paid for yourself, your dependents, your parents or grandparents. Premiums deducted elsewhere on your return may not be claimed on this line. If you are claiming the Montana credit for elderly care (Form ECC; line 96 of the Montana return), you may not claim this deduction.

Premiums are deductible if they are paid for long term care insurance that provides benefits that meet or exceed the minimum standards established by the Montana State Auditors Office (Insurance Commission Division).

Line 74a - Enter the amount of federal tax withheld from your wages and/or your pensions and annuities. Be sure to attach copies of your W-2's and 1099's to your return to verify the amounts claimed. Do not include self-employment taxes paid.

Line 74b - Enter the amount of federal estimated tax payments made in 2002. Attach copies of pages 1 and 2 of your federal return (Form 1040 or 1040A). Failure to attach a copy of your federal return may make it necessary for the Department of Revenue to request this information from you at a later date. Do not include self-employment taxes paid.

Line 75 - Enter the balance of your 2001 federal income tax paid in 2002. Do not include self-employment taxes paid.

Line 76 - Enter any additional federal income tax paid in 2002 for years prior to 2001.

Line 77 - Enter any taxes you paid on real estate and personal property.

Line 78 - Enter your motor vehicle taxes and fees paid. The motor vehicle taxes and fees you can deduct are those taxes paid which are based on the value of the vehicle and light vehicle registration fees. Taxes and fees which are deductible on the Montana vehicle registration receipt include codes 07-AVTAX, 08-BKAVTX, 11-PROPTX, 12-BKPRTX, 14-COOPT, 61-REGRAT and 62-BKRGRT.

You cannot deduct state income tax paid or withheld, federal excise taxes, gasoline tax, social security tax (FICA), tax on alcoholic beverages or tobacco or selective and general sales taxes. Accommodation tax or license fees (hunting, fishing, driving, etc.) are also nondeductible.

Line 79 - Enter only home mortgage interest and deductible points allowed on your federal return. If you pay interest to an individual, please provide his/her name, social security number and address.

Line 80 - Enter deductible investment interest (attach Federal Form 4952). If you file separately, the deduction must be computed for each taxpayer.

Note: Interest expense related to exempt income is not deductible.

Line 81 - Contributions - You can deduct what you gave to qualified organizations as authorized by federal tax laws. Limitations are based on Montana adjusted gross income from line 37, not on the federal adjusted gross income. Do not include amounts used in calculating the qualified endowment credit.

Line 82 - Child and Dependent Care Expense

Payments you made for child or disabled dependent care while you and your spouse both worked or looked for work may qualify for a deduction. To qualify you must maintain a home that included a child under 15 or dependent or spouse unable to care for himself/herself. You must also meet certain income requirements. The deduction must be divided equally between spouses when filing separately on the same form. If married filing on separate forms, you cannot take the credit. If you are a licensed and registered day care operator providing day care for your own child and one additional child, please contact the department.

If the total income of both spouses income (line 37, columns A & B):

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

If you qualify, call the department for Form 2441M.

Line 83 - Casualty or Theft Loss - Attach Federal Form 4684. You may deduct casualty and theft losses subject to the limitations established by federal tax laws. Use Montana adjusted gross income, line 37, in your computation on Schedule 4684. If you file separately, the deduction must be computed for each taxpayer.

Miscellaneous Deductions

Line 84 - Unreimbursed Business Expenses - Attach Federal Form 2106.

Line 85 - You may deduct other miscellaneous items of expense subject to the limitations of federal tax laws. Only expenses which exceed 2% (.02) of your Montana adjusted gross income (line 37) are deductible. Figure your limitation and allowable expenses on lines 87 and 88.

Line 89 - Enter miscellaneous deductions not subject to 2% (.02) of adjusted gross income from your federal return. In addition to those miscellaneous deductions allowed for federal income tax purposes, Montana statute provides a deduction for the expense of purchasing organic fertilizer and inorganic fertilizer (produced as a by-product of mining or industrial operations in Montana).

You may not include expenses deducted elsewhere on your tax return.

Line 90 - Gambling Losses. Include gambling losses allowed by federal law. For married filing separate on the same form gambling losses must be claimed by the spouse reporting the gambling income.

Line 91b - People with higher incomes may not be able to deduct all of their itemized deductions. If the amount on Form 2, line 37, is more than \$137,300 (\$68,650 if married filing separately), see Worksheet VI, page 14 to figure the amount you may deduct.

Credits Against Tax

Line 93 - Rural Physicians Credit - A physician who commences practice in an area without a 60 bed hospital located within a 30 mile radius, may claim a credit against individual income tax. The credit may be claimed for each of four consecutive years beginning with the year in which his/her practice starts in a qualifying area. In order to qualify for the credit, a physician must have commenced rural practice after this date. The physician must maintain the practice for at least 9 months of the taxable year in which the credit is claimed. Credit may not be used for any taxable year in which the physician ceases to practice in an area described above.

If a physician ceases to practice in the rural area within 4 years following the taxable year in which the credit is allowed, the physician shall repay to the state the amount of the credit claimed for that taxable year.

Include with your return, a statement providing the following information:

- Date your practice began
- Location of your practice (street address and town)
- Nature (medical area of your practice)
- Nearest hospital.

The credit is \$5,000 a year and may be used only to offset tax liability. Enter credit amount on line 93, Form 2A, Schedule II.

Line 94 - College Contribution Credit - See Form CC for instructions. You may be entitled to a credit for deductible contributions made during 2002 to a general endowment fund of the Montana university system foundations or to a general endowment fund of a private Montana college or its foundation. The credit is 10% of the contribution with a maximum of \$500 and is non-refundable. To be eligible for the credit the college must offer a baccalaureate degree level education program. The contribution may also be claimed as an itemized deduction on Form 2A, subject to the normal limitations.

Line 95 - Qualified Endowment Credit — Individual taxpayers are allowed a credit for a percentage of the present value of a planned gift made during the tax year to a qualified Montana endowment or for their proportionate share of a charitable gift made by a pass-through entity. The credit may not exceed your tax liability and is non-refundable and may not be carried over. The value of the gift used in calculating the credit may not be claimed as an itemized contribution deduction.

For Planned Gift

Planned Gift Date	% of Present Value	Max. Credit
1-1-02 through 8-27-02	40%	\$10,000
8-28-02 through 6-30-03	30%	\$ 6,600
7-1-03 through 4-30-04	50%	\$13,400

For Qualified Charitable Gift

Qualified Charitable Gift Date	% of Charitable Gift	Max. Credit
1-1-02 through 8-27-02	20%	\$10,000
8-28-02 through 6-30-03	13.3%	\$ 6,600
7-1-03 through 4-30-04	26.7%	\$13,400

A planned gift is an irrevocable contribution made using any of the following techniques: charitable remainder unitrust, charitable lead unitrusts, charitable gift annuities, charitable life estate agreements, paid-up life insurance policies, charitable remainder annuity trusts, charitable lead annuity trusts, deferred charitable gift annuities or pooled income fund trusts.

A qualified Montana endowment means a permanent, irrevocable fund that is held by a Montana organization that is tax exempt under IRC Section 501(c)(3) or is a bank or trust company that is holding the fund on behalf of a tax-exempt organization. The affordable housing revolving loan account that is established in 90-6-133, MCA is considered a qualified endowment for the purpose of this credit.

NEW

Attach Form QEC and verification of planned gift to a qualifying endowment.

Line 96 - Elderly Care Credit - see Form ECC for instructions. You may be eligible to receive a credit for paying certain expenses of an elderly family member who is 65 or older or has been determined disabled for Social Security purposes.

Line 97 - Credit Allowed for Income Tax Paid to Other States or Countries - (Full-year or part-year residents only). Taxpayers who previously were required to pay income tax to another state on pension income should call the Department of Revenue for special information.

Residents are entitled to a credit for income taxes paid to another state or country. In addition, residents are entitled to a credit

for their pro-rata share of any income taxes paid to another state or country by an S corporation in which they are a shareholder. If you are claiming a credit for taxes paid by an S Corporation, states taxes claimed as a deduction on the S Corporation return must be added back as additions to income in determining Montana adjusted gross income. Residents may compute the credit on Form 2A page 3, Schedule V.

Part-year residents who have income that was taxed in another state while a Montana resident may take the credit if the income from the other state(s) is included in Montana total income on Schedule III. Part-year residents must complete Form 2A page 3, Schedule VII to compute the credits.

Enter the credit on line 97, Form 2A, Schedule II. The credit claimed must be supported by a copy of your tax return filed with the other state or country.

A separate computation must be made for each state or country for which a credit is claimed. Your total credit cannot exceed your tax liability.

Line 98 - Contractor's Gross Receipts Tax Credit - You are allowed a credit against Montana income tax liability for the public contractor's gross receipts tax you paid. If you report your income from contracts on a percentage-of-completion basis, the credit must be pro-rated accordingly. The allowable credit is the actual gross receipts tax paid after taking the personal property tax credit. The credit cannot be in excess of your tax liability. Attach schedule to return showing the contractor's name, date and amount of contract, primary contractor, subcontractor, and location of job.

Line 99 - Qualified Investment Credit - You may claim a credit of 5% of your 2002 federal investment tax credit. The property claimed for credit must have been placed in service in Montana and used in the production of Montana income. To take the credit, complete Form 2A page 3, Schedule VI, and attach a copy of Federal Form 3468 which shows a computation of the federal credit.

Credit for the taxable year may not exceed \$500. Unused portion of the credit earned in 2002 may not be carried back or forward to other years.

The credit may not be allocated to your spouse if he or she is not a partner in the business, partnership or a shareholder in the S corporation.

If the property is used both inside and outside the state, the credit is pro-rated according to the number of days the property is used in Montana and the length of time owned during the year. No investment credit is allowed for rehabilitation property.

NEW

Line 100 - Installation of Alternative Energy Systems Credit (Only residents of Montana can claim this credit.) You may claim a credit against your tax liability for some of the cost of installing a geothermal or an alternative energy system. Examples of these systems are solar energy, wind energy, and low emission wood or biomass combustion devices. Complete Form ENRG-B and attach it to the return.

NEW

Line 101 - Energy Conservation Installations Credit - You may claim a credit against your tax liability for some of the cost of an investment for energy conservation purposes in a building. Montana law defines an eligible expense as "the installed cost of materials and equipment which reduce the waste or dissipation of energy or reduce the amount of energy required to accomplish a given amount of work."

The maximum credit is \$500 for investments in the physical attributes of a building and \$500 for investing in a water, heating or cooling system. Complete Form ENRG-C and attach it to the return.

Line 102 - Alternative Energy Production Credit - You may claim a credit against your Montana income tax for a qualified investment of \$5,000 or more. The alternative energy system must be located in Montana. Complete Form AEPC and attach it to the return.

Line 103 - Recycle Credit - You may claim a credit for investments in depreciable equipment or machinery used to collect, process or manufacture a product from reclaimed material. Complete Form RCYL and attach it to the return.

Line 104 - Alternative Fuel Credit - You may claim a credit against your tax liability for conversion of a motor vehicle to an alternative fuel in 2002. Complete Form AFCE and attach it to the return.

Line 105 - Montana Capital Company Credit - (carryovers only)

Line 106 - Dependent Care Assistance Credit (DCAC)

An employer may claim a credit against personal income taxes for amounts paid or incurred during the taxable year for dependent care assistance provided to employees. This assistance may be in the form of:

- Acquiring, constructing, reconstructing, renovating, or improving real property for the primary use as a day care facility.
- Providing dependent care assistance to employees that meet the requirements of IRS code. 26 U.S.C. 129(d)(2) through (d)(6).
- Providing information and referral services to assist employees within the state in obtaining dependent care.

Complete and attach Form DCAC to the return.

Line 107 - Credit for Disability Insurance for Uninsured Montanans - The credit is available to employers who make disability insurance available to employees.

Complete and attach Form HI to the return.

Line 108 - Infrastructure Users Fee Credit - This provides a tax credit for new businesses located in Montana which create at least 15 jobs in the primary sector of the economy of a local community. The credit is calculated based on the infrastructure fees paid by the new business to the local government.

NEW**Line 109 - Credit for the Preservation of Historic Property**

A credit equal to 25% of the federal rehabilitation credit provided for in IRC Section 47(a)(2) is allowed on qualifying historic buildings. Attach federal form 3468 to the return.

As an alternative to the federal rehabilitation credit, an individual may take a credit equal to 20% of the cost of creating a conservation easement and for the diminishing value of historic property, including buildings and structures that result from placing a conservation easement on the property.

Line 110 - Increasing Research Activities Credit - A credit is available for increases in qualified research expenses and basic research payments for research conducted in

Montana. The credit is determined in accordance with Section 41 of the IRC, 26, U.S.C. 41, except the applicable percentage rate is 5% for Montana purposes. A completed form provided by the department must be attached to the return. Any unused credit cannot be refunded in the year reported, but may be carried back 2 years and carried forward 15 years.

Line 111 - Mineral Exploration Incentive Credit - A credit may be claimed for certified expenditures of mining exploration activities (15-32-501, MCA), not to exceed 50% of the tax liability. Certified expenditures represent costs incurred for activities in direct support of exploration activity conducted at a specific exploration activity conducted at a specific exploration site. The credit applies to activities associated with both new mines and mines that are being reopened. A completed copy of Form MINE-CRED provided by the department must be attached to the return.

To obtain the credit, the taxpayer must first submit a request that details the work done and the expenses incurred. This must be done within 60 days following the end of the calendar year on a form provided by the department. The department then has until September 30 to certify whether the expenses qualify for the credit.

Line 112 - Affordable Housing Revolving Loan Account Credit

- You may be entitled to a tax credit for contributions made during the year to the affordable housing revolving loan account established in 90-6-133, MCA. A taxpayer is allowed a tax credit in an amount equal to 20% of the amount donated by an individual to the affordable housing revolving loan account. The maximum credit that may be claimed is \$10,000 and may not exceed your income tax liability. There are no carryover provisions allowed for this credit. **Note:** You are not entitled to this credit if you have claimed the full amount of the contribution as an itemized deduction or have taken the contribution as a Qualified Endowment Credit on Line 95.

Part-Year Resident and Nonresident Returns

Refer to the table on page 1 to see if you are required to file.

Part-year and nonresident filers must file on the Montana long form (Form 2) and attach the following items to the Montana return when filing:

- Copy of your federal income tax return, all forms and schedules.
- Copies of W-2's from all states.
- Completed Montana Schedules III and IV.
- Copies of tax returns filed in other states.

Part-year residents and nonresidents must complete lines 1 through 41 of Montana Form 2 using the instructions on pages 3-5 of this booklet. Report the total income from all sources as shown on your federal income tax return. Line 20 of Form 2 must agree with the federal adjusted gross income reported on your federal income tax return. You are allowed to claim either the standard deduction or itemized deductions and at least one personal exemption. Once you have completed Form 2 through line 41, you must go to Form 2A, Schedules III and IV on page 2 to prorate your Montana tax liability.

The computation of the tax liability of part-year residents and nonresidents is based on a proration of the tax liability computed on the total income shown on line 41 Form 2. The percentage of the total tax you are required to pay is based on the ratio of Montana income to total income for the year. For example, if 50% of your total income is attributable to Montana, your tax liability will be 50% of the tax computed on the total taxable income from line 41, Form 2.

You are not paying tax on income attributable to sources outside of Montana; however, the total income must be reported to compute your correct Montana tax liability.

How Do I Determine My Legal Residence (Domicile) for Montana Tax Purposes?

A person who claims Montana residency for any purpose is considered a Montana resident for all other purposes.

If you have two or more residences, you cannot choose to make your home in one place for the general purposes of life and in another for tax purposes.

Your legal residence is usually the place where you maintain your most important family, social, economic, political and religious ties. A change of legal residence will not be accomplished by a temporary or prolonged absence from a place; you must have the intention not to return.

Nonresident A nonresident of Montana is a person who did not consider Montana to be their home at any time during 2002, although they may have been temporarily living here. Examples are: students going to school in Montana and military personnel stationed in Montana.

Part-Year Resident A part-year resident is a person who moved into or out of Montana during 2002 with the intention of establishing a new residence.

Form 2 Instructions For Nonresidents/Part-Year Residents**Income**

Nonresident individuals are subject to Montana income tax on all income included in federal gross income which is derived from or connected with Montana sources. Intangible income related to a Montana business or from the sale of real property is taxable.

Part-year residents are subject to Montana tax on all income included in federal gross income which is received while residing in Montana and on all income which is derived from or connected with Montana sources.

Lines 6 through 41 - Refer to full-year resident instructions beginning on page 3 for entries on lines 6 through 41 of Form 2.

Line 42 - Complete Form 2A page 2, Schedules III and IV to calculate your tax liability. See instructions for Schedules III and IV on page 10.

Lines 43 through 68 - See full-year resident instructions.

Instructions For Schedule III - IV (Form 2A, page 2)

Nonresident/Part-Year Resident allocation of Income Reportable to Montana-Schedule III, Form 2A, Pg. 2

Lines 114-125 - If you have income from Montana and from a non-Montana source shown on the same schedule, you must attach a statement to the Montana return to identify the Montana income.

The following line by line instructions are for nonresidents and part-year residents with income reportable to Montana.

Line 114- Wages, Salaries and Tips

Enter the amount of wages, salaries and/or tips that were derived from Montana sources or after you established Montana residency. These amounts should be shown on your W-2(s). Be sure to attach the W-2(s) to the front of Form 2.

Line 115 - Interest Income

Include amounts from lines 7 and 21 from Form 2 for interest income received while you were Montana resident(s).

If you are a nonresident, you must report interest income from installment sale(s) of real property or tangible commercial or business property located in Montana.

Nonresident income from interest on bank deposits, notes, dividends on capital stock of corporations, royalties from patents and copyrights and all other income from intangible property is not taxable to Montana.

Line 116 - Dividend Income

Enter the amount of dividend income received while you were a Montana resident. As an example, if you were a resident for one half of the year, and you receive a 1099 from an account, 50% of the reported dividend income would be taxable to Montana and reportable here.

Line 117 - Business Income

If you are a nonresident, the net income received from any trade, business, profession, or occupation carried on in Montana is subject to Montana tax. For a part-year resident (while a resident) net income from any trade, business profession, or occupation must be reported on this line.

If you have more than one business, you may need to complete a separate Federal Schedule C to show the Montana business activities.

Line 118 - Capital Gain or Loss

Enter the amount of gain or loss related to the sale(s) of Montana properties or assets. Remember, the gain from installment sales of Montana property is taxable to Montana. Gains and losses from sources outside Montana must be reported on this line if they occurred while you were a Montana resident.

Line 119 - Supplemental Gain or Loss

Enter here any supplemental gain or loss attributed to Montana property(s). If you are filing as a part-year resident, report any supplemental gain received while you were a resident or any gain related to Montana property(s).

Line 120 - Rents, Royalties, Partnerships, Etc. Note: In the following paragraphs, income refers to profit or loss. Rental income is the net amount derived from or connected with the rental of real or tangible Montana property.

Partnership income is your share of any partnership income and deductions derived from Montana. Income is one of two types—passive or nonpassive. The type of income depends upon whether or not you materially participated in the activities of the partnership. If the income is passive, you are required to fill out a separate Federal Form 8582 for Montana purposes.

Your share of the partnership income includes income, capital gain and deductions from the partnership whether you actually received it or not. Attach K-1'(s).

S Corporation income is a shareholders' percentage of the corporation's net income and deductions derived from Montana. Attach K-1(s).

Estate and trust income is the beneficiary's share of the income and deductions from a trust with nexus in Montana. Attach K-1(s).

Partnerships and S corporations may be eligible to file a Montana composite tax return on behalf of nonresident partners and shareholders. (Contact the Department of Revenue for more information or refer to the Montana S corporation or partnership booklet.

Line 121 - Taxable Pensions, Etc. If you are a part-year resident, enter the amount of pension income attributed to the time you resided in Montana. Remember, you must complete the retirement pension worksheet. See line 29.

Line 122 - Taxable Portion of Social Security

If you are a part-year resident, a portion of your social security benefits may be attributable to Montana.

To calculate the portion of Social Security benefits includable on Schedule III, divide amount(s) reported on line 15b by 12, then multiply by the number of months you resided in Montana. Remember you must complete and attach the Social Security Worksheet. See Social Security Worksheet on page 15.

Line 123 - Farm Income or Loss

Report the farm income or loss attributed to Montana. Please attach a separate Schedule F if necessary, showing only the Montana farm activities.

Line 124 - Other Income or Loss

Enter any other income attributable to Montana that is not identified on lines 114 through 123. This includes lottery winnings, state and federal refunds, nonemployee compensation, etc. If you claimed any federal taxes paid or withheld on your 2001 Montana return, your federal refund must be included in your total Montana income to the extent the deduction resulted in a reduction of Montana income tax liability.

Line 125 - Montana Total Income

Add lines 114 through 124.

Tax Computation - Schedule IV, Lines 126-131.

Line 126 - Enter the amount from line 125, Schedule III.

Line 127 - Total Income - Enter the total of lines 18 and 24, Form 2.

Line 128 - Divide the amount on line 126 by the amount on line 127. If your Montana total income is smaller than your federal total income, you will arrive at a percent amount. Carry decimal to 4 places.

If your Montana total income is larger than your federal total income, and the computed amount on line 128 is larger than 100%, use only 100%.

Line 129 - Enter the amount from Form 2, line 41.

Line 130 - Compute the tax on the amount shown on line 129, using the tax table on page 2, Form 2. Enter the tax on line 130.

Line 131 - Nonresident/Part-Year Resident Tax

Multiply the amount on line 130 by the percentage on line 128. Enter the amount from line 131 on line 42, Form 2. This is your Montana tax liability. Go to Form 2 and complete lines 43-68.

Instructions For Form 2S

Introduction

Name, Address and Social Security Number

Only full-year Montana residents filing from a Montana address, can file on Form 2S.

If you did not receive a booklet or a postcard with a removable label, print or type your name, address and social security number in the appropriate spaces.

If you're married, fill in name and social security number for both you and your spouse. Montana law requires that each

NEW Tax Preparer Contact-

To streamline resolution to questions related to your return, we have included an area for you to authorize the department to contact your preparer. By placing an "X" in the box marked yes, under the heading "May the Department of Revenue discuss this return with the preparer shown above" on the back of Form 2 and Form 2S significantly improves the processing of your return. If you check this box, the department may contact the preparer or you for additional information. You will however, continue to receive notification of any formal adjustments made to your tax liability.

Filing Status (Check the appropriate box)

- Box 1** Single - Note: Married persons cannot file separate short forms using the single filing status.
- Box 2** Married, Filing Joint Return - You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both spouses.
- Box 3** Head of Household - If you qualify for federal purposes, you may file your Montana return as head of household (Attach Federal Form 1040 or 1040A, pages 1 & 2).

Form 2S—Line-By-Line Instructions - Full-Year Residents Only

Note: Married persons cannot file separate short forms. You must file Form 2, see page 2 "Which form shall I use".

Income Reported on Federal Return

Lines 6 through 12 - Enter all items reported on your federal income tax return (Attach copies of applicable schedules.)

Line 13 - This amount must be the same as the federal adjusted gross income you reported on your federal return.

Additions to Income

Line 14 - Include interest income from bonds and other obligations of other states or their political subdivisions. Interest income from Montana municipal bonds is not taxable.

Your federal refund is income in 2002 if you:

- Used federal income taxes paid or withheld on line 22(B) of 2001 Form 2S.
- Itemized deductions on your Montana return last year using federal withholding/estimates as a deduction.

Caution: Do not include any portion of your federal refund that is due to earned income credit.

Use the Tax Benefit Rule Worksheet II on Page 12, to determine the taxable portion of your refund.

Reductions to Income

Line 15 - Pension and Annuity Exclusion - Attach copy(s) of 1099R. See instructions for line 29 of Form 2 on page 4 of this booklet. Also, complete and attach Worksheet IV on page 13.

Line 16 - Interest Exclusion for the Elderly - See instructions for line 27 of Form 2 on page 4 of this booklet.

Line 17 - Exempt Interest Income - See instructions for line 28 of Form 2 on page 4 of this booklet.

Line 18 - Unemployment Benefits - Unemployment benefits received from Montana or other states are not taxable in Montana.

Line 19 - Other Reductions - Only the items of income specifically identified below may be reported on this line.

- **Medical Savings Account Contributions** - See instructions for line 31 on page 5 of this booklet.
- **Tip Income** - See instructions for line 34 on page 5 of this booklet.
- **Family Education Savings Account Contributions** - See instructions for line 32 on page 5 of this booklet.
- **Children's Income** - See instructions for line 34 on page 5 of this booklet.
- **Exempt Military Pay** - See instructions for line 34 on page 5 of this booklet.
- **Indian Reservation Income** - See instructions for line 34 on page 5 of this booklet.
- **Disability Income** - See instructions for line 34 on page 5 of this booklet.
- **State Income Tax Refund** - If any state refund was reported on line 10, subtract it here.

Line 21 - Add Lines 13 and 14 and subtract line 20. This is your Montana adjusted gross income.

Line 22 - Standard Deduction - See Montana Form W-Page 13, Worksheet V. Complete only column A of the worksheet.

➤ **Federal Income Tax**

(If not claiming standard deduction)

You may use your federal income taxes withheld in tax year 2002, if greater than your allowable standard deduction.

Check appropriate box. If you check Box B, you may want to consider filing Form 2 and itemizing deductions on Form 2A.

Line 23 - Exemptions - Multiply \$1,740 by the number of exemptions in box 5 at top of Form 2S and enter the result here.

Line 26 - Enter the tax from the tax table on the back of this booklet.

Line 27 - Contributions to Nongame Wildlife Program, Child Abuse, and Agriculture in Montana Schools Program - See instructions for lines 48, 49, 50, and 51 on page 6 of this booklet.

Line 31 - Add amounts on lines 26 and 27 for total tax.

Line 32 - Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's, 1099R's, etc.) to your return.

Enter only Montana tax withheld from wages or pensions and annuities. Do not report estimated tax payments on this line. If you made estimated tax payments, you must file on the long form (Form 2).

 **Line 33 - Elderly Homeowner or Renter Credit** - To determine if you qualify see detailed instructions on Form 2EC.

Refund or Tax Due



Line 35 - Amount Overpaid (If line 34 is greater than line 31) - Subtract line 31 from line 34. Only overpayments of more than \$1 will be refunded. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 35 on your tax return. The routing number must be nine digits. The account number can be up to 17 characters (both numbers and letters).

Verify that the routing and accounting numbers are correct otherwise the direct deposit will be rejected and a check will be mailed to you instead. See sample below.

Paul Taxpayer
Lilian Taxpayer
23 Main Street
Anyplace, MT 59000

1234

Pay to the Order of Dollars \$

Anyplace Bank
Anyplace, MT 59000

Routing Number Account Number

1 250000005 1 2000000 86 1234

Do not include the check number in the account number

Line 36 - Tax Due (If line 31 is larger than line 34) - Subtract line 34 from line 31. This is the amount you owe, if the balance is \$1 or more. If payment is due, make your check or money order payable to the Department of Revenue. Be sure your social security number is on your check or money order. Include your payment and coupon with your return. If a return is filed without full remittance you are advised to make regular payments pending contact by our collection staff. Unpaid tax will be subject to penalty and interest assessments.

Line 37 - Penalties and Interest - See pages 2 and 6 of this booklet for details about penalties and interest.

Income Tax Withholding for 2003

If the amount you owe (line 36) or the amount you overpaid (line 35) is excessive, see your payroll office. Ask about filling out a new Form W-4 to change the amount of withholding.

NEW

If you wish to pay your tax due by credit card visit our website at www.discoveringmontana.com/revenue. Only Mastercard and Visa are accepted. Be sure to write your confirmation number in the space provided on Form 2S.



Declaration and Payment of Estimated Tax

If in 2003 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 2003 and will need to file on Form 2. Instructions and forms for making estimated tax payments are available by calling (406) 444-6900. Failure to make required estimated payments may result in an underpayment penalty.

2002 Individual Income Tax Worksheets

Attach This Form To Your Return



Worksheet I - IRA Deduction

If you filed jointly on your federal tax return and separately (filing status 3, 4 or 5) on your Montana return, your deductible IRA for Montana purposes may be less than the amount allowed on your federal return.

If during the tax year, neither spouse was covered by a retirement plan where they worked, Montana and federal IRA deductions will be the same (maximum \$3,000 per spouse, or \$3,500 if 50 years old or older). If part of your IRA deduction is attributable to the IRA of a nonworking spouse, that amount must be added back on line 23 in the column of the nonworking spouse.

If during the tax year, one or both spouses were covered by a retirement plan where they worked, complete both columns of the worksheet below to determine if there is a difference between allowable federal and Montana IRA deductions.

IRA Worksheet

	Column A	Column B
1. Phase out amount	\$10,000	\$10,000
2. Enter your federal adjusted gross income before federal IRA contributions.	2. _____	2. _____
3. Subtract line 2 from line 1	3. _____	3. _____
4. Maximum allowable IRA deduction. Multiply line 3 by 20% (.20). If the result is less than \$200, but more than zero, enter \$200	X .20	X .20
5. Enter IRA amount from line 19, Form 2	4. _____	4. _____
6. Enter lesser of line 4 or line 5	5. _____	5. _____
7. Subtract line 6 from line 5 and enter this amount on line 23, Form 2.	6. _____	6. _____
This is the nondeductible portion of your IRA for Montana purposes.	7. _____	7. _____

If you are married, filing separate returns and lived apart from your spouse the entire year, you will be treated as single individuals.

Worksheet II - Tax Benefit Rule (Taxable Refunds and Reimbursements)

	Column A	Column B
1. Total of all federal income tax refunds received. Do not include EIC. (Do not enter more than the amount deducted for the prior year).....	1. _____	1. _____
2. All refunds and reimbursements of previously deducted itemized deductions..... Example: In 2001 you deducted medical expenses not covered by insurance. In 2002 your insurance company determines that a portion of the denied expenses should have been paid by them. They send you a check. This amount may be taxable because you claimed it as an expense paid by you in the prior tax year.	2. _____	2. _____
3. Add lines 1 and 2 above.....	3. _____	3. _____
4. Montana Itemized deductions for prior year. If you took the standard deduction, stop here. None of the refund is taxable.....	4. _____	4. _____
5. Enter prior year's Montana Adjusted Gross Income.....	5. _____	5. _____
6. If you are filing single or married filing separately, multiply line 5 by 20% (.20). If this amount is less than \$1,430, enter \$1,430. If more than \$3,230, enter \$3,230. If you are filing a joint return or filing as head of household, multiply line 5 by 20% (.20). If this amount is less than \$2,860, enter \$2,860. If more than \$6,460, enter \$6,460.....	6. _____	6. _____
7. Subtract line 6 from line 4. If the result is zero, stop here. The amount on line 3 is not taxable.....	7. _____	7. _____
8. Enter the smaller of line 3 or line 7.....	8. _____	8. _____
9. Montana taxable income from prior year.....	9. _____	9. _____
10. Enter the following amount on Form 2, line 22. If line 9 is: Zero or more, enter the amount from line 8. If less than zero, add lines 8 and 9 and enter the net amount (but not less than zero).....	10. _____	10. _____

Worksheet III - Qualifying Capital Gain Exclusion

Capital Gain Exclusion Worksheet - If you had an installment sale(s) of a capital asset(s) which you entered into before January 1, 1987 you may be able to take a capital gain exclusion of 40%. Compute your exclusion on the worksheet below.

If Federal Schedule D line 17 is negative, you are not allowed a capital gain exclusion. Do not proceed any further.

	Column A	Column B
1. Add the amounts from Federal Schedule D lines 11 and 12 which pertain to installment sales entered into before January 1, 1987, and enter here.	1. _____	1. _____
2. Add the amounts from Federal Schedule D lines 7(f) and 16(f) and enter here.....	2. _____	2. _____
3. Divide line 1 by line 2.	3. _____ %	3. _____ %
4. Enter the amount from line 17 of Federal Schedule D, but not less than zero.....	4. _____	4. _____
5. Multiply the amount on line 4, times the % on line 3: _____ x _____ %	5. _____	5. _____
6. Multiply amount on line 5 times 40% (.40). This is your Montana capital gains exclusion. Enter on line 34 of Montana Form 2.....	X .40	X .40
	6. _____	6. _____

2002 Individual Income Tax Worksheets

Attach This Form To Your Return



Worksheet IV - Pension and Annuity Exclusion

Column A Column B

Note: Short Form filers use column A only.

1. Enter your federal adjusted gross income from line 20 of Form 2 or line 13 of Form 2S.. 1. _____
2. Phase-out limitation. 2. 30,000 30,000
3. If line 1 is smaller than line 2, enter on Form 2 line 29: the smaller of a) pension and annuity income or b) \$3,600 for each person who has pension and annuity income. Stop Here, you do not need to complete the remainder of this worksheet. If line 1 is larger than line 2, subtract line 2 from line 1 and enter the result. 3. _____
4. Fill Out Only One.
If your filing status is:
 - a. Single or Joint and only one has pension and annuity income; enter your taxable pension and annuity income or \$3,600, whichever is smaller. 4a. _____
 - b. Married Filing Separately; enter 1) each spouse's taxable pension and annuity income, or 2) \$3,600 in columns A and B whichever is smaller. 4b. _____
 - c. Joint and both spouses have pension and annuity incomes: 1st, enter each spouse's taxable pension and annuity income or \$3,600, whichever is smaller, on the following lines:
His _____ Hers _____; 2nd, enter the total of the two lines. 4c. _____
5. Double the amount on line 3 and enter the result. 5. _____
6. Pension and annuity exclusion. Subtract line 5 from line 4a, 4b or 4c, whichever applies to you. If the result is zero or negative, you are not eligible for an exclusion. If the number is positive, this is your exclusion. Transfer this number to line 29 on Form 2.. . . . 6. _____

Worksheet V - Standard Deduction

Column A Column B

Note: Short Form filers use column A only.

1. Enter amount from line 37 of Form 2. (Line 21 of Form 2S) 1. _____
2. Enter 20% (.20) of line 1. 2. _____
3. Enter the amount from below that corresponds to your filing status:

Single or separate (filing status 1,3,4 or 5): \$3,260

Joint or Head of Household (filing status 2 or 6): \$6,520 3. _____
4. Enter the amount from line 2 or line 3, whichever is smaller. 4. _____
5. Enter the amount from below that corresponds to your filing status:


Single or separate (filing status 1,3,4 or 5): \$1,450

Joint or Head of Household (filing status 2 or 6): \$2,900 5. _____
6. Enter the amount from line 4 or line 5, whichever is larger. This is your standard deduction. Transfer this amount to line 38, Form 2. (line 22, Form 2S) 6. _____

Tax Table

If Taxable Income is:		Tax Table		If Taxable Income is:			
Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	\$ 2,200	X 2 %	\$ 0	\$17,400	\$21,800	X 7 %	\$ 458
\$ 2,200	\$ 4,400	X 3 %	\$ 22	\$21,800	\$30,500	X 8 %	\$ 676
\$ 4,400	\$ 8,700	X 4 %	\$ 66	\$30,500	\$43,500	X 9 %	\$ 981
\$ 8,700	\$13,100	X 5 %	\$ 153	\$43,500	\$76,200	X 10 %	\$ 1,416
\$13,100	\$17,400	X 6 %	\$ 284	\$76,200		X 11 %	\$ 2,178

Example = taxable income \$2,400 x 3% (.03) = \$72 subtract \$22 = \$50 tax

Questions? Please call (406) 444-6900 or (406) 444-2830 for hearing impaired. 

2002 Individual Income Tax Worksheets

Attach This Form to Your Return



Worksheet VI - Itemized Deduction Worksheet

	Column A	Column B
1. Enter the amount from Form 2A, line 91a (Total itemized deductions).	1. _____	_____
2. Add the amounts on Form 2A, lines 69, 72, 73, 74a, 74b, 75, 76, 80, 82, 83 and 90	2. _____	_____
3. Subtract line 2 from line 1. (If the result is zero, enter the amount from line 1 above on Form 2, line 38.) <u>Stop Here.</u> You do not need to complete this worksheet.	3. _____	_____
4. Multiply amount on line 3 above by 80% (.80).	4. _____	_____
5. Enter the amount from Form 2, line 37.	5. _____	_____
6. Enter \$137,300 (\$68,650 if married filing separately, even if filing on the same form)	6. _____	_____
7. Subtract line 6 from line 5. (If the result is zero or less, enter the amount from line 1 above on Form 2, line 38. <u>Stop Here.</u> You do not need to complete this worksheet.)	7. _____	_____
8. Multiply line 7 by 3% (.03).	8. _____	_____
9. Compare the amounts on lines 4 and 8 above. Enter the <u>smaller</u> of the two amounts here and on Form 2A, line 91b.	9. _____	_____

Worksheet VII - Calculation of Underpayment Penalty for Failure to Make Estimated Payments

Underpayment Penalty of Estimated Tax

In 2002 you must have paid through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current year's tax liability after credits, or 2) an amount equal to 100% of your previous year's total tax liability. Payments made with extensions are not considered estimated payments. If you do not meet this requirement, you may be subject to an underpayment penalty.

You may use the short method to figure your penalty only if:

- You made no estimated tax payments (or your only payments were Montana withholding); or
- You paid estimated tax in four equal amounts by the due dates.

If you cannot use the short method call the department at (406) 444-6900 to request an underpayment penalty form (EST-P).

Note: A taxpayer who derives at least 2/3 of gross income from farming or ranching is not subject to estimated tax. Montana law does not provide for a "lookback" to the previous year when determining if a taxpayer is a qualifying farmer or rancher.

Short Method

1. Enter your 2002 tax from line 53 on Form 2 or line 31 on Form 2S. (Total liability if married filing separately on the same form). _____
2. Enter 90% of line 1 above. _____
3. Enter your total withholding, amount credited from prior year's tax and Elderly Homeowner/Renter Credit from line 59 on Form 2 or line 34 on Form 2S. (If married filing separately enter the total payments). _____

4. Subtract line 3 from line 1. If the result is \$500 or less, do not complete the rest of the form. You do not owe the underpayment penalty. _____
5. Enter your 2001 tax (Line 53 of 2001 Form 2 or line 31 on 2001 Form 2S). If married filing separately enter the total tax. _____
6. Enter the smaller of line 2 or line 5. _____
7. Enter the amount from line 3 plus any estimated payments made. _____
8. Total underpayment for the year. Subtract line 7 from line 6. If zero or less, stop here. You do not owe the underpayment penalty. _____
9. Multiply line 8 by .07980 and enter the result. _____
10. If the amount on line 8 was paid on or after April 15, 2003, enter -0-. If the amount on line 8 was paid before April 15, 2003, multiply: Amount on line 8 x Number of days paid before April 15, 2003 x .0003288. _____
11. Underpayment interest penalty. Subtract line 10 from line 9. Enter the results here and on line 64 of Form 2 or line 37 of Form 2S or on line 51 of Form FID-3. **Total Due:** _____

2002 Individual Income Tax Worksheets Attach This Form To Your Return

Worksheet VIII - Taxable Social Security

The portion of your social security benefits taxable to Montana may be different than what is taxable to federal.

Note: None of your benefits are taxable to Montana if:

- a. The only retirement you receive is Railroad Retirement income, or
b. Your federal adjusted gross income plus interest on all state and county municipal bonds and 1/2 of your social security benefits received during 2002 is less than:
-> \$32,000 if you are filing a joint return;
-> \$25,000 if you file a single/head of household return
-> \$16,000 if you are filing married filing separate.

If you fall into one of the above categories, enter any benefits taxable to federal on line 34 of Form 2. Do not fill out this form.

Form with columns for Filing Status (Single, Married filing joint return, Married and both filing separate returns on this form, Married and both filing separate returns on separate forms, Married filing separate return and spouse is not filing, Head of Household) and rows for tax calculations (Federal adjusted gross income, Subtractions, Additions, Modified adjusted gross income, Social security benefits received, etc.)

If Taxable Income is:				Tax Table		If Taxable Income is:					
Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	\$ 2,200	X.... 2 %	\$ 0	\$17,400	\$21,800	X	7 %	\$ 458			
\$ 2,200	\$ 4,400	X.... 3 %	\$ 22	\$21,800	\$30,500	X	8 %	\$ 676			
\$ 4,400	\$ 8,700	X.... 4 %	\$ 66	\$30,500	\$43,500	X	9 %	\$ 981			
\$ 8,700	\$13,100	X.... 5 %	\$ 153	\$43,500	\$76,200	X	10 %	\$ 1,416			
\$13,100	\$17,400	X.... 6 %	\$ 284	\$76,200		X	11 %	\$ 2,178			

Example = taxable income \$2,400 x 3% (.03) = \$72 subtract \$22 = \$50 tax

Pay The Fair Share


We are committed to insuring everyone pays the correct amount of tax owed; no more and certainly no less. If you can establish that someone is paying less than his or her share call (406) 444-6900.

Important Numbers:

Income tax assistance and problems (406) 444-6900

Estimated tax requirements (406) 444-6900

Where's my refund? (406) 444-9840



(These are not toll free numbers.)

TDD (Telephone Device for the Deaf) (406) 444-2830

Fax number—income tax. (406) 444-6642

Employer business tax questions. (406) 444-6900

Montana Department of Revenue
 Post Office Box 5805
 Helena MT 59604-5805

PRSRT STD
 U.S. POSTAGE
 PAID
 MONTANA DEPARTMENT
 OF REVENUE

No Return

Please remove label and attach to return.
 Do not use this label if your marital status, name or address has changed.