

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

They are:

- |                                 |              |                   |              |
|---------------------------------|--------------|-------------------|--------------|
| 1) Tax Benefit Worksheet        | Page 4       | 3) Direct Deposit | Pages 8 & 14 |
| 2) Standard Deduction Worksheet | Pages 7 & 14 | 4) ENRG-B changes | Page 10      |

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#### For RETURNS WITH PAYMENTS

**Mail To:**  
**Income Tax Division**  
**Dept. of Revenue**  
**PO Box 6308**  
**Helena, MT 59604-6308**



#### For ALL OTHER RETURNS

**INCLUDING REFUNDS Mail To:**  
**Income Tax Division**  
**Dept. of Revenue**  
**PO Box 6577**  
**Helena, MT 59604-6577**

**FOR ASSISTANCE SEE**  
**DIRECTORY ON COVER**  
**OF THIS BOOKLET**

*These are not toll free numbers*

### Forms Included in Tax Booklet

To order forms call 1-406-444-0290

Form No.	Revised	Description	Form No.	Revised	Description
2S	96	Individual Income Tax Return Short Form	SS	96	Social Security Worksheet
2	96	Individual Income Tax Return Form	OFLT	96	Old Fund Liability Tax
2A	96	Itemized Deductions & Tax Credits	2A-Page 3	96	Other State Credits & Investment Credits

### Forms Available Upon Request

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

Form No.	Revised	Description	Form No.	Revised	Description
2S	96	Individual Income Tax Return Short Form	NR1	96	Affidavit (North Dakota Resident's Claim for Exemption under MT/ND Reciprocity Agreement).
2	96	Individual Income Tax Return Form	FID-3	96	Montana Fiduciary Return and Instructions
2A	96	Itemized Deductions & Tax Credits	2441M	96	Child and Dependent Care Expenses
2A-Page 3	96	Other State Credits & Investment Credits	PR-1	96	Partnership Distribution Schedule
ENRG-B	96	Credit for Geothermal Energy Systems	CC	96	College Contribution Credit
ENRG-C	96	Credit for Energy Conservation Installation	HI	96	Health Insurance for Uninsured Montanans Credit
2EC	96	Elderly Homeowner or Renter Credit	EST	96	Estimated Individual Income Tax Booklet
2X	96	Amended Montana Individual Income Tax Return	DS-1	96	Disability Income Exclusion Form
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IND	96	Indian Certification	ECT	96	Property Tax Certification Form
NR2	96	Employee Certificate of North Dakota Residence	SS	96	Social Security Worksheet
ECC	96	Elderly Care Credit	2WPC	96	Credit for Wind Energy Producers
DCAC	96	Dependent Care Assistance Credit	RIC	96	Recapture Investment Credit
RCYL	96	Credit for Recycling	OFLT	96	Old Fund Liability Tax
AFCR	96	Alternative Fuel Credit	EST-P	96	Underpayment Penalty Form
INSTR	96	Instructions only for Individual Income Tax			

### WHO MUST FILE

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

Marital & Filing Status	Age as of December 31, 1996	You <b>must</b> file if your federal gross income was:
Single or Head of Household or Married Filing Separate	Under 65	\$2,844 or more
	65 or older	\$4,364 or more
Married Filing a Joint Return	Both under 65	\$5,689 or more
	One spouse 65 or older	\$7,209 or more
	Both spouses 65 or older	\$8,729 or more

### Residents of Montana (Full-Year)

You are taxed on all income earned in 1996—**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.

You must file a 1996 Montana individual income tax return if you meet the minimum filing requirements. However, 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 their refunds by calling 1-406-444-9840. 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:

- 1) The social security number corresponding to the first name shown on the return.
- 2) 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.

•**Social Security Benefits** - Part of your social security benefits may be subject to Montana tax. Complete the worksheet in this booklet to determine the taxable portion of social security.

•**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. This 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. This 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.

•**Montana and North Dakota Reciprocal Agreement** Montana residents whose only North Dakota income is wages don't have to pay North Dakota income tax. North Dakota does require 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 Income Tax Division.

•**Electronic Filing** - Participating tax preparers can electronically file your income tax return with the Montana Dept. 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. An electronically filed return is processed the day after it is

received which drastically reduces the time it takes for you to receive your refund. In our pilot year, refunds processed from an error free return were issued in six to eight days. Contact your tax preparer to inquire about this service.

•**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. (See pages 4 and 5 of instructions for more information.)

•**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.

•**Tax Preparer Contact** -To streamline resolving questions related to your return, we have included an area for you to authorize the department to contact your preparer. Your initials in the box(es) on the back of Form 2 and Form 2S significantly speed the processing of your return. If you are filing jointly or married filing separate on the same form, **both spouses** must initial the boxes. If you initial these boxes, 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. The department implemented this procedure at the request of the Montanans' for Improving Tax Administration (MITA).

### 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 1996.
- 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 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, other miscellaneous income.

#### Long Form

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

- You were a resident of Montana for only part of 1996.
- 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)
- You are claiming tax credits.

**When to File**

Your return for calendar year 1996 must be **postmarked** by midnight April 15, 1997. 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 RETURNS WITH PAYMENTS—Mail to:  
Income Tax Division  
Dept. of Revenue  
PO Box 6308  
Helena, MT 59604-6308

For ALL OTHER RETURNS Including REFUNDS—Mail to:  
Income Tax Division  
Dept. of Revenue  
PO Box 6577  
Helena, MT 59604-6577

Electronic filers see page 1.

**Extension of Time to File** 

A four month extension for filing may be obtained by submitting form EXT-96. A copy of Federal Form 4868 will not be accepted nor will telephone requests for extensions be accepted. You must use Form EXT-96 to report and remit the amount you and/or your spouse expect to owe. Attach your remittance to the Montana extension form.

A copy of Federal Form 2688 **is acceptable** when requesting an additional 2-month extension.

The law provides that to be granted an extension of time for filing a return, you must have paid toward your current year's liability by estimated tax payments, withholding tax, or a combination of both, either: 1) **90 percent** of your current year's total tax liability or 2) an amount equal to **100 percent** of your previous year's total tax liability. Detailed instructions are provided on Form EXT-96.

An extension of time to file your return is **not an extension of time to pay**. When you file your return, if you still owe money after subtracting your withholding, estimated payments and 2EC credit and do not meet the above requirements, a late pay penalty of 10% of the unpaid tax (a minimum of \$5.00) will be assessed. When filing a tax return with an extension, interest must be added to any tax due at a rate 3/4% per month (.0075), computed from the original due date of the return.

When filing a calendar year return, your extension request must be postmarked by midnight April 15, 1997. For a fiscal year filer, extension requests must be postmarked by the 15th day of the fourth month following the close of your fiscal year. Montana law does not provide for an automatic two month extension from April 15th to June 15th for those persons outside the United States on the due date of the return.

**If You File or Pay Late**

You will be subject to a late filing penalty of 5% of your unpaid tax (a minimum amount of \$5) on all late returns filed. In addition, you will be subject to a 10% late payment penalty on the unpaid tax (a minimum of \$5). When filing after the due date, you will be subject to interest charges at 3/4% per month (.0075) on the unpaid balance. The interest and penalty charges can be avoided by filing your return with full payment postmarked by midnight April 15, 1997. If you have a valid extension, the late filing penalty applies only if you file after the expiration of the extension.

**Note:** If you and your spouse file separately, penalties and interest are calculated on each separate tax liability. Income tax assessments issued by the department and not paid in full within 60 days are subject to a 5% deficiency penalty.

If a return is filed without full remittance, you are advised to make regular payments pending contact by our collection staff. Be sure to include your social security number and tax year on your payment.

 **Underpayment Penalty of Estimated Tax**

In 1996 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. If you did 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 1-406-444-0290 to order an underpayment penalty form.

**Note:** A taxpayer who derives at least 66 2/3% of gross income from farming or ranching is not subject to estimated tax.

Short Method

1. Enter your 1996 tax from line 52 on Form 2 or line 32 on Form 2S (Total liability if married filing separately on the same form). \_\_\_\_\_
2. Enter 90% (.90) of line 1. \_\_\_\_\_



3. Enter your total withholding, amount credited from prior year's tax and Elderly Homeowner/Renter Credit from line 57 on Form 2 or line 36 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 1995 tax (Line 52 of 1995 Form 2 or line 32 on 1995 Form 2S). If married filing separately enter the total payments. \_\_\_\_\_
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 .05986. This is your **Underpayment Penalty** for 1996. Enter here and on line 62 of Form 2 or line 39 on Form 2S. \_\_\_\_\_

## Introduction

### Name, Address, and Social Security Number

Each year we mail Montana individual income tax forms to taxpayers who filed returns the previous year. If you have indicated you don't need forms and instruction booklets, you will receive a postcard with an address label.

If you didn't 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 are sending in a back year return or amended return, please use your most current address. If you move after you filed your return, please notify us of your new address.

If married, fill in name and social security number for both you and your spouse. Montana law requires all individuals who file a tax return include their social security number. If you have questions on any tax forms call 1-406-444-2837.

### Filing Status (Check the appropriate box)

**Note:** Married persons with different residency statuses 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:** Married couples who both have taxable income normally receive a tax benefit by filing separately. See box 3 or 4.

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 Married, Filing Separate Returns on the Same Form. Use Columns A and B.**

If both you and your spouse had income in 1996, 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 itemizes deductions, so must the other. Be sure each signs the return.

**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.

**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)

**Box 1 Full-Year Resident**

Check this box if you were a Montana resident in 1996 (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 1996 tax year. (See instructions pages 13 and 14.)

**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. (See instructions pages 13 and 14.)

## Exemptions

### Line 1—Yourself

You may take one exemption. (Students: take one exemption even though you are claimed as a dependent on your parents' return.) Take one additional exemption if blind **or** 65 or over; take two additional exemptions if you are blind **and** 65 or over.

### 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 blind **or** 65 or over; take two additional exemptions if your spouse is blind **and** 65 or over. If married filing separately you must 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 \$ 1,520 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 his or her 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 his/her 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 (includes foster child).

### 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 in boxes, columns A and B

## LINE BY LINE INSTRUCTIONS FOR FORM 2

Instructions for filing Form 2S see pages 12, 13, & 14.

### 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.

- **Individual Retirement Account (IRA)**—Enter the amounts from lines 23a and 23b of Federal 1040, or lines 15a and 15b of Federal 1040A on line 19 of Form 2.

If your filing status on your federal **and** Montana returns is the same, no adjustment will be necessary on line 23 or line 32.

**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 both filing separately, you may have to make an adjustment on line 23. Your allowable IRA deduction for Montana may be different than your federal IRA deduction. See instructions for line 23, Form 2, page 5

- **Self Employment Tax**—Enter amount from line 25 of Federal Form 1040.

- **Self Employment Health Insurance Deduction**—Enter amount from line 26 of Federal Form 1040.

- **Keogh/SEP**—Enter amount from line 27 of Federal 1040. **Penalty on early withdrawal of savings** enter amount from line 28 of Federal 1040.

- **Alimony** — Enter amount from line 29 of Federal 1040.

- **Moving Expense** — Enter amount from line 24 from Federal 1040 and attach Federal Schedule 3903 or 3903-F.

**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.

You may have to adjust the total income you reported on line 20 to determine the amount you should report on line 35 as Montana adjusted gross income.

### Additions to Income

**Line 21**—Include interest income from bonds and other obligations of other states or their political subdivisions. Interest income from Montana 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 this worksheet to figure the amount to include in income. If you recovered amounts in the current year from more than one year, such as a federal income tax refund from 1995 and a reimbursement of long term care insurance premiums you deducted in 1993, complete a separate worksheet for each year. Use information from Form 2A for the year the expense was deducted.

If you and your wife filed joint at the federal level and married filing separate at the state level, you must each complete a separate TBR worksheet. The federal refund must be prorated using the ration of federal tax reported as an itemized deduction by each taxpayer to the total federal taxes reported.

### Tax Benefit Rule Worksheet



1. Total of all federal income tax refunds received \_\_\_\_\_
2. All rebates of previously deducted itemized deductions. \_\_\_\_\_
3. Add lines 1 and 2 \_\_\_\_\_
4. Itemized deductions for prior year  
If you took the standard deduction,  
stop here. None of the refund is taxable. \_\_\_\_\_
5. Enter prior year's MT AGI \_\_\_\_\_
6. Multiply line 5 times 20% (for 1995,  
maximum \$2,770 if filing single or  
married filing separate and \$5,540  
if filing joint). \_\_\_\_\_
7. Subtract line 6 from line 4. If the result is zero,  
stop here. The amount on line 3 is not taxable. \_\_\_\_\_
8. Enter the smaller of line 3 or line 7. \_\_\_\_\_
9. Taxable income from prior year. \_\_\_\_\_
10. Enter the following amount to include income.  
If line 9 is:  
-0- or more, enter the amount form line 8. \_\_\_\_\_

Less than zero, add lines 8 and 9  
and enter the net amount

(but not less than zero)**Note:** \_\_\_\_\_

1. Do not enter more than amount deducted for the prior year.
2. Prior year refers to the year in which the deduction(s) was claimed.

3. If taxable income is a negative amount enter that amount in brackets. Do not enter zero unless your taxable income is exactly zero. Taxable income will have to be adjusted for any net operating loss carryover.

4. For example  $\$700 + (\$400) = \$300$ .

### Line 23—Other Additions:

#### Social Security

To calculate the portion of your social security benefits taxable to Montana, complete the Social Security Worksheet in this booklet. **Note:** You must complete the retirement worksheet on page 6 of this booklet before beginning the Social Security Worksheet. If the portion of your benefits taxable to Montana is greater than the portion taxable to federal, enter the difference on line 23, Form 2.

#### Passive and Rental Income and Losses

Married couples who file a joint federal return and do not file a joint Montana return are required to make an adjustment if they deduct rental losses or other passive activity losses. Under federal law, married couples who lived together at anytime in 1996 **and** file separate Montana returns are not allowed to deduct rental/passive activity losses.

When filing separate returns, the allowable losses for couples must be reported by the person who owns the property. If it is held jointly, the income/loss must be split according to legal ownership in the property.

If you filed a joint federal return and a separate Montana return, make the following adjustment: Enter on line 23 the amount of federal rental/passive loss reported on line 12.

Any excess loss must be carried forward until a joint Montana return is filed, a disposition of the passive activity occurs, or net income is generated from the passive activity which can be offset by the losses. Your federal and Montana rental/passive loss carry forwards may be different if your filing status on federal is different from Montana. It would be helpful to complete and attach a separate Federal Form 8582 for Montana when filing jointly for federal and separately for Montana.

#### 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 add the excess on line 23.



**S Corporation Income and Losses**

If you are a shareholder in a Federal S Corporation, AND:

**IF**

**YOUR MONTANA INCOME IS:**

- 1. Your corporation is a Federal S corporation which is doing business in Montana. Same as federal (no change)
- 2. Your corporation is a Federal S corporation which is doing business in Montana and elected C corporation status for Montana purposes prior to 1/1/92. Report only the dividends actually received on line 32. Add back any losses and subtract any income included on line 18.
- 3. Your S Corporation does not do business in Montana. Same as federal (no change)

If either category #1 or #2 applies to you **and** your S Corporation pays federal tax on excess capital gains, you are required to add to your Montana income your shareholder's percentage of the federal tax. Questions? Call 1-406-444-2837.

**Allocation of Income** See special information on page 7, line 32.

**Montana Net Operating Losses**

To compute your Montana net operating loss, complete and attach Form NOL-1. If your net operating loss for federal and for Montana differ, add your federal net operating loss on line 23 and subtract your Montana net operating loss on line 32.

**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.

**IRA Deductions**

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 \$2,000 per spouse). If part of your IRA deduction is attributable to a nonworking spousal IRA, that amount must be added back on line 23 in the column of the nonworking spouse.

If either spouse was covered by a retirement plan at work, both spouses are considered covered and subject to IRA limitations for separate filers on their Montana income tax return. A spouse with federal adjusted gross income (line 20 of Montana Form 2) of \$10,000 or more is not allowed an IRA deduction and must add their IRA deduction on line 19 back to Montana income on line 23. Spouses with a federal adjusted gross income of less than \$10,000 will need to complete the worksheet below to determine their allowable Montana IRA deduction.

**IRA Worksheet**

	<b>Column A</b>	<b>Column B</b>
1. Phase out amount .....	1. \$10,000	1. \$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. Multiply line 3 by 20% (.20). ....	4. _____ x .2	4. _____ x .2
5. Maximum allowable IRA deduction. If the result is less than \$200, but more than zero, enter \$200 .....	5. _____	5. _____
6. Enter: IRA amount from line 19, Form 2 .....	6. _____	6. _____
7. Enter: Lesser of line 5 or line 6 .....	7. _____	7. _____
8. Subtract line 7 from line 6 and enter this amount on line 23, Form 2. ....	8. _____	8. _____

This is the nondeductible portion of your IRA for Montana purposes.

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

**Reductions to Income**



Note: Montana adjusted gross income may not be reduced by non-Montana income

**Line 26**—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 18 is negative, you are not allowed a capital gain exclusion. Do not proceed any further.

**Capital Gain Exclusion Worksheet**

- 1. Combine the amounts from Federal Schedule D lines 12 and 13 which pertain to installment sales entered into before January 1, 1987, and enter here. \_\_\_\_\_
- 2. Combine the amounts from Federal Schedule D lines 7(g) and 16(g) and enter here. \_\_\_\_\_
- 3. Divide line 1 by line 2. \_\_\_\_\_ %
- 4. Enter the amount from line 18 of Federal Schedule D, but not less than zero. \_\_\_\_\_
- 5. Multiply the amount on line 4, times the % on line 3:  
 \_\_\_\_\_ x \_\_\_\_\_ % = \_\_\_\_\_
- 6. Multiply amount on line 5 times 40% . \_\_\_\_\_ x .40
- 7. This is your Montana capital gains deduction. Enter on line 26 of Montana Form 2. \_\_\_\_\_



**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. **The amount on line 27 cannot exceed the total amounts on line 7 and line 21.**

**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.

**Line 29—Treatment of Retirement Pension and Annuity Income. Attach copies of Form 1099R.**


The 1991 Legislature passed a bill providing a uniform pension exclusion of up to \$3,600. If your federal adjusted gross income on line 20 of Form 2 is **less** than \$30,000, enter the **smaller** of your total retirement 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 your federal adjusted gross income on line 20 of Form 2 is **larger** than \$30,000, calculate your retirement exclusion using the worksheet below. If it is greater than \$31,800, you do not qualify for this exclusion. If married filing jointly and both spouses have pension income the limit is increased to \$33,600.


The exception to this law is Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board. These benefits are fully exempt from Montana taxation.

Premature distributions/early withdrawals **do not** qualify for a retirement exclusion under the new law. These are shown as distribution Code 1 and Code 3 of Form 1099R.

If you have a disability pension (Code 3 on Form 1099R), use the disability pension worksheet Form DS-1. This worksheet is available by calling the Income Tax Division.

Questions? Please call 1-406-444-3674 or TDD 1-406-444-2830 for hearing impaired. 

To see if you qualify for the retirement exclusion, you must complete the worksheet on this page.

**Retirement Pension and Annuity Worksheet** 

	COL A	COL B
1. Enter your federal adjusted gross income from line 20.		
2. Phase-out limitation.	30,000	30,000
3. If line 1 is smaller than line 2, enter on Form 2 line 29: the smaller of (a) retirement income or (b) \$3,600 for each person who has retirement income. <b>Stop Here</b> , 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.		
4. <b>Fill Out Only One.</b> If your filing status is:		
a. <b>Single or Joint and</b> only one has retirement income; enter your retirement income or \$3,600, whichever is smaller.		
b. <b>Married Filing Separately</b> ; enter 1) each spouse's retirement income, or 2) \$3,600 in columns A and B whichever is smaller.		
c. <b>Joint</b> and both spouses have retirement incomes: <b>1st</b> , enter each spouse's total retirement income or \$3,600, whichever is smaller, on the following lines: (His) _____ (Hers) _____ <b>2nd</b> , enter the total of the two lines.		
5. Multiply the amount on line 3 times two and enter the result.		
6. Retirement 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 a retirement exclusion. If the number is positive, this is your retirement exclusion. Transfer this number to line 29 on Form 2.		

**Line 30—State Unemployment Benefits** are not taxable to Montana

**Line 31—Medical Savings Account**-House Bill 560 was established to allow a taxpayer to make contributions to a medical care savings account through a third party "account administrator". Within certain limitations, the contributions to a medical care savings account will be tax-free as long as they are used for "eligible" medical expenses. An "eligible medical expense" is an expense that is deductible for federal purposes. The maximum deduction from federal adjusted gross income a taxpayer is allowed in one year is \$3,000 plus any interest the medical care savings account accumulates.

**Line 32—Other reductions**

➤ **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.

➤ **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 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. The deduction is available for tax years 1993 through 1997.

➤ **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.

 ➤ **Indian Reservation Income**

Beginning January 1, 1994, 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 pay earned as a result of service performed under the authority of USC Title 10 is exempt from Montana taxation. Pay earned as a result of service performed under any other authority (i.e., Title 32, Title 5, etc.) is subject to State tax. If you are claiming exempt military wages, you need to attach verification, such as your orders, which specify that you are serving under the authority of Title 10. Note: Separation pay is not considered wages. As such separation pay is fully taxable on your state return.

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

For more detailed information on filing requirements for military personnel and on what income is taxable to Montana, contact the Department of Revenue at 1-406-444-3674.

➤ **Social Security**

Complete the social security worksheet in this booklet after completing the retirement worksheet on page 6. If the portion of your social security benefits that is taxable to Montana is less than the federal, enter the difference. Attach the Social Security Worksheet 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 for 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.

Attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 32 as a reduction of your income and on line 23 as an addition to your spouse's income. Transfer allocations are subject to OFLT.

➤ **Montana Net Operating Losses**

If your net operating loss for federal and for Montana differ, add your federal net operating loss on line 23 and subtract your Montana net operating loss on line 32.

**Deductions**



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



**Line 36—Standard Deduction Worksheet**

	Column A	Column B
1. Enter amount from line 35 of Form 2.	_____	_____
2. Enter 20% of line 1.	_____	_____
3. Enter the amount from below that corresponds to your filing status: Joint or Head of Household (filing status 2 or 6): \$5,680 <b>(Maximum)</b> Single or separate (filing status 1, 3, 4, or 5): \$2,840	_____	_____
4. Enter the amount from line 2 or line 3, whichever is <b>smaller</b> .	_____	_____
5. Enter the amount from below that corresponds to your filing status: Joint or Head of household (filing status 2 or 6): \$2,520 <b>(Minimum)</b> Single or separate (filing status 1, 3, 4 or 5): \$1,260	_____	_____
6. Enter the amount from line 4 or line 5, whichever is <b>larger</b> . This is your standard deduction. Transfer this amount to line 36, Form 2.	_____	_____

**Line 38—Exemptions**

Multiply **\$1,520** by the number of exemptions in box 5 on the front side of Form 2.

**Part year and nonresidents, must now turn to page 13 to determine income reportable to Montana.**

**Tax Computation**

- Line 40**—Enter the tax from the table on back of form.
- Line 41**—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 43**—Enter the total from Form 2A, Schedule II, line 105.
- Line 45**—Recapture investment credit Use Form RIC available from the Income Tax Division.

**Line 46—Old Fund Liability Tax** - There is an Old Fund Liability Tax (OFLT) assessed on income received from self-employment and the ordinary income (passive and nonpassive) from partnerships, S corporations, estates, trusts and limited liability companies.

Additionally, OFLT is assessed on members and managers of limited liability companies. (Does not include publicly traded LLC's). Allocated income is subject to OFLT. **Attach Form OFLT and copies of ALL K-1'S from partnerships, S corporations, estates, trusts, and limited liability companies to your Montana income tax returns. If you do not have income from one of the above activities you do not need to complete the OFLT forms.**

Schedule E rental income is not subject to the tax. The OFLT is assessed on the wages of employed persons, however, the tax is deducted directly from their wages. Income derived from the performance of work or services for which compensation is received but no W-2 is issued, is also subject to OFLT. Examples of this type of income would include director's fees, administrator's fees, non-employee compensation, etc., reported on a 1099 statement, commodities paid in lieu of wages, etc. Only income earned in Montana is subject to the tax.

The tax rate is .2% (multiplier of .002). The tax is calculated on a per activity basis (each partnership, each Schedule C business, each S corporation, etc.).

**Line 47**—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 48**—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 49**—Montana Children's Trust fund. Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

**Line 50**—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 53**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Do not include OFLT withheld. Attach withholding statement(s) (W-2's and 1099R's) to your return.





**Line 54**—Enter your total Montana estimated tax payments and payments sent with extension for 1996. Include overpayments from 1995 which were credited to 1996.

If you paid tax for a previous year, that amount cannot be claimed as an estimated tax credit on line 54. Please submit all estimated payments with Form ESV to ensure proper credit.

**Line 55**—Elderly Homeowner or Renter Credit  
To determine if you qualify see detailed instructions on Form 2EC.

## Refund or Balance Due

**Line 58—Amount Overpaid (If line 57 is larger than line 52)**  
Subtract line 52 from line 57. You can choose to have all or part of this amount refunded to you (line 60). The remainder, if any, can be applied to your estimated tax for 1997 (line 59). Only overpayments of more than \$1 will be refunded.

**Line 59**—Enter the amount of line 58 which you want applied to 1997 Estimated Tax.

**Line 60**—Enter the amount of line 58 you want refunded to you. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 60 on your tax return. See sample below:

NEW

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000	_____ 19
Pay to the Order of _____	\$ _____ Dollars
Anyplace Bank Anyplace, MT 59000	_____ 1234
RTN (line 2) ACCT (line 3)	
I:250000000\$ I:200000" '86"	

**Line 61—Tax Due (If line 52 is larger than line 57)**  
Subtract line 57 from line 52. This is the amount you owe. Submit payment with return. 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. Please staple your payment to the return. If a return is filed without full remittance you are advised to make regular payments pending contact by our collection staff.

## Income Tax Withholding for 1997

If the amount you owe (line 61) or the amount you overpaid (line 58) 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.

## Declaration and Payment of Estimated Tax for 1997

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 1997. Call 1-406-444-3647. ☎

## Schedule I Form 2A Itemized Deductions

### Line 67- 1/2 Medical Insurance Premium.

One-half of certain medical insurance premiums you pay may be allowed as an itemized deduction on your Montana return. Please read the following conditions to determine if insurance premiums you pay qualify:

- 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.
- 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 all 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, including S corporation shareholders who claim insurance deductions on lines 19 and 32, must reduce their total premiums by these amounts before calculating the 50% deduction.
- Medicare B may be used to calculate the deduction. Medicare A does not qualify for the deduction.

**Line 68-70—Medical and Dental Expenses** On line 68, enter your deductible medical expenses. Montana statute allows the same items to be deducted as are deductible for federal income tax purposes. Insurance premiums deducted on lines 19, 32, and 67 of the Montana return may not be included on this line.

Calculate allowable medical expense deduction on line 69 and 70. Medical expenses on line 68 must be reduced by 7.5% of your Montana adjusted gross income (line 35).

### Line 71—Long Term Care Insurance

Enter total amount of premium payments made for long term care insurance. Benefits must meet or exceed the minimum standards as established by the Montana State Auditors Office; (Insurance Commission Division). Call the Income Division for more information.

**Line 72**—Enter the amount of federal estimated tax paid and/or the amount of federal tax withheld from your salary during the tax year. Self-employment taxes are not deductible.

**Line 73**—Enter the balance of your 1995 federal income tax paid in 1996. Do not include self-employment taxes paid.

**Line 74**—Enter any additional federal income tax paid in 1996.

**Line 75**—Enter any taxes you paid on real estate and personal property.



**Line 76**—Enter your motor vehicle taxes paid. You cannot deduct new car taxes, state income tax paid or withheld, OFLT, 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 77**—Enter **only** home mortgage interest and deductible points allowed on your federal return. If you pay interest to an individual, please provide their name, social security number and address.

**Line 78**—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 79—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 35**, not on the federal adjusted gross income.

**Line 80—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 of both spouses income (line 35, columns A & B):

<b>IS UNDER</b>	<b>AND YOU HAVE</b>	} You do qualify
\$22,800	1 child	
\$25,200	2 children	
\$27,600	3 or more	

If you qualify contact the Income Tax Division and request Form 2441M.

**Line 81—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 35, in your computation on Schedule 4684. If you file separately, the deduction must be computed for each taxpayer.

**Miscellaneous Deductions**

**Line 82—Unreimbursed Business Expenses**

Attach Federal Form 2106.

**Line 83**—You may deduct other miscellaneous items of expense subject to the limitations of federal tax laws. Only expenses which exceed 2% of your Montana adjusted gross income (line 35) are deductible. Figure your limitation and allowable expenses on lines 85 and 86.

**Line 87**—Enter miscellaneous deductions not subject to 2% of adjusted gross income from your federal return.

**Line 89**—People with higher incomes may not be able to deduct all of their itemized deductions. If the amount on Form 2, line 35, is more than \$117,950 (\$58,975 if married filing separately), use the worksheet below to figure the amount you may deduct.

Itemized Deduction Worksheet	Col A	Col B
1. Enter the amount from Form 2A, line 88 (Total itemized deductions).	1. _____	
2. Add the amounts on Form 2A, lines 67, 70, 71, 72, 73, 74, 78, 80 & 81, plus any gambling losses included on line 87.	2. _____	
3. Subtract line 2 from line 1. (If the result is zero, enter the amount from line 1 above on Form 2, line 36. You do not need to complete this worksheet. <b>Stop Here</b> )	3. _____	
4. Multiply amount on line 3 above by 80% (.80).	4. _____	
5. Enter the amount from Form 2, line 35.	5. _____	
6. Enter \$117,950 (\$58,975 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 36. You do not need to complete this worksheet. <b>Stop Here.</b> )	7. _____	
8. Multiply line 7 by 3% (.03).	8. _____	
9. Compare the amount on lines 4 & 8 above. Enter the <b>smaller</b> of the two amounts here.	9. _____	
10. <b>Total allowable itemized deductions.</b> Subtract amount on line 9 from amount on line 1. Enter the result here and on Form 2A, line 89 and Form 2, line 36.	10. _____	

**Credits Against Tax**

**Line 90—Rural Physicians Credit**—A physician who commences practice in an area without a 60 bed hospital located within 30 miles, 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. Effective date of this credit is January 1, 1991. In order to qualify for this 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 90, Form 2A Schedule II.

**Line 91—College Contribution Credit—See Form CC for instructions.**

You may be entitled to a credit for deductible contributions made during 1996 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 92—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 93—Credit Allowed for Income Tax Paid to Other States or Countries. (Full year or part-year resident) Taxpayers who previously were required to pay income tax to another state or pension should call the Income Tax Division for special information.**

Residents are entitled to a credit for income tax liability paid to another state or country. 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 please complete Schedule VII, Form 2A, page 3 to compute the credits. Residents may compute the credit on Schedule V, Form 2A page 3.

Enter the credit on line 93, Schedule II, Form 2A. 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 94—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. This 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 95—Qualified Investment Credit**

You may claim a credit of 5% of your 1996 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 Schedule VI, Form 2A page 3, 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. No unused portion of the credit earned in 1996 may be carried back or forward to other years. **For limitations applying to carryforwards of years prior to 1983 call the Income Tax Division at 1-406-444-2837.**

If you have a combination of current year investment tax credit and carryforward credit from years prior to 1983, apply the current year credit first. Then apply the carryforward credit. Please attach a copy of your carryforward/carryback computations.

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.

**NEW**

**No investment credit is allowed for rehabilitation property.**

**Line 96—Credit for Installation of Geothermal Energy Systems (Only residents of Montana can claim this credit.)**

See instructions on Form ENRG-B which must be completed and attached to the return.

**Line 97—Credit for Energy Conservation Installations**

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 for residential purposes is \$150 and \$300 for commercial purposes. Form ENRG-C must be completed and attached to the return.

**Line 98—Credit for Wind-Energy Producers**

You may claim a credit against your Montana income tax for a qualified investment of \$5,000 or more. The commercial wind-powered electrical generation system must be located in Montana. Complete Form 2 WPC and attach it to the return.

**Line 99—Recycling 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 your return.

**Line 100—Alternative Fuel Credit—**You may claim a credit against your tax liability for conversion of a motor vehicle to an alternative fuel in 1996. See instructions on Form AFRC. Form AFRC must be completed and attached to the return.

**Line 101—Montana Capital Company Credit—**You may claim an income tax credit for investments in Montana capital companies. The company must be certified by the Montana Department of Commerce and privately capitalized at \$200,000 or more. The credit is limited to 50% of the investment up to a maximum of \$150,000 per taxpayer. The total amount of tax credits authorized for one capital company may not exceed \$1,500,000. Attach a copy of the certification.

A capital company that fails to make qualified investments must pay a penalty equal to all the tax credits allowed to taxpayers investing in that company. The penalty must be paid to the Montana Department of Revenue. Attach a detailed explanation of your claim for the credit.

**Line 102—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. Fill out Form DCAC available from the Income Tax Division.

**Line 103—Credit for Health Insurance for Uninsured Montanans —**The credit is available to employers who make disability insurance available to employees. See Form HI for details.

**Line 104—Infrastructure Users Fee Credit -** This provides a tax credit for new businesses located in Montana who create at least 50 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. Call the Income Tax Division for additional information.

**Line 105—**Add credits and enter total on line 43, Form 2.

## PART-YEAR RESIDENT AND NONRESIDENT RETURNS

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.
- 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 39 of Montana Form 2 using the instructions on pages 3-10 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 39, you must go to Schedules III and IV on page 2 of Form 2A 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 39 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 39, 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?

*Your legal residence is determined by all the facts and circumstances in your case. If you have two or more residences, your legal residence is the one you regard as your true home or principal residence. 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 his home at any time during 1996, although he 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 1996 with the intention of establishing a new residence.

### Instructions For Nonresidents/Part-Year Residents Income

Refer to resident instructions beginning on page 4 for entries on lines 6 through 39 of Form 2.

**Line 40** - Complete Schedules III and IV to calculate your tax liability. See instructions for Schedules III and IV later on this page.

**Lines 41 through 66** - See full year resident instructions.

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

### INSTRUCTIONS FOR SCHEDULE III & IV

**Income Reportable to Montana-Schedule III, Form 2A, Pg. 2 Lines 106-116** If you have income from Montana and from another 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 106-WAGES, SALARIES AND TIPS

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

#### Line 107-INTEREST INCOME

If you are filing as a part-year resident enter the amount of interest income related to the time you were Montana resident(s). Include amounts from lines 7 and 21 from Form 2.

**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 108-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 109-BUSINESS INCOME

Business income is the amount of net income or loss from a business, trade, or profession carried on in Montana. If you have more than one business, you may need to complete a separate Federal Schedule C to show the Montana business activities.

If you are a nonresident, the income received from any trade, business, profession or occupation carried on in Montana is taxable to Montana and reportable here. Attach completed Form OFLT

#### Line 110-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 includable here and taxable to Montana.

#### Line 111-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 112-TAXABLE PORTION OF SOCIAL SECURITY

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



Complete and attach the Social Security Worksheet to determine the amount of social security that is taxable for Montana. The amount taxable for Montana may differ from the taxable amount for federal.

**Line 113-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 114-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 real or tangible personal 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 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 completed Form OFLT and K-1(s).

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

**Do not include on this line any passive loss add backs reported on line 23.**

Partnerships and S corporations may be eligible to file a Montana composite tax return on behalf of nonresident partners and shareholders. For more information a representative of the partnership or S corporation can call 1-406-444-3674.



**Line 115-FARM INCOME OR LOSS**

Report the farm income or loss attributed to Montana, following the same instructions as shown for line 16. Please attach a separate Schedule F if necessary, showing only the Montana farm activities. Attach completed Form OFLT.

**Line 116-OTHER INCOME OR LOSS**

Enter any other income attributed to Montana that is not identified on lines 106 through 115 here. This includes lottery winnings, state and federal refunds, nonemployee compensation, etc. If you claimed any federal taxes paid or withheld on your 1995 Montana return, your federal refund is includable in your total Montana income to the extent the deduction resulted in a reduction of Montana income tax liability.

**Line 117-MONTANA TOTAL INCOME**

Add lines 106 through 116 and enter the result here and on line 118, Schedule IV.

**Tax Computation — Schedule IV, Lines 118-123 and Form 2, Line 40**

**Line 118-**Enter the amount from line 117, Schedule III.

**Line 119-**Total Income-Enter the total of lines 18, 21 and 22, Form 2.

**Line 120-**Divide the amount on line 118 by the amount on line 119. 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 120 is larger than 100%, use only 100%.

**Line 121-**Enter the amount from Form 2, line 39.

**Line 122-**Compute the tax on the amount shown on line 121, using the tax table on page 2, Form 2. Enter the tax on line 122.

**Line 123-NONRESIDENT/PART-YEAR RESIDENT TAX**

Multiply the percentage on line 120 by the amount on line 122. Enter the amount from line 123 on line 40, Form 2. This is your Montana tax liability. Go to Form 2 and complete lines 40-66.

**INSTRUCTIONS FOR FORM 2S**

**Introduction**

**Name, Address, and Social Security Number**

Only full year Montana residents can file on Form 2S.

If you're married, fill in name and social security number for both you and your spouse. Montana law requires that all individuals who file a tax return include their social security number.

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.

**Tax Preparer Contact**

The department may have questions regarding your return. Your initials, in the appropriate box near your signature will allow us to contact your preparer. This may significantly speed the processing of your return.

You will however, continue to receive notification of any formal adjustments made to your tax liability. The department implemented this procedure at the request of the Montanans' for Improving Tax Administration (MITA).

**Filing Status (Check the appropriate box)**

**Box 1 Single**

**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**).

**LINE-BY-LINE INSTRUCTIONS—FORM 2S**

**Full Year Residents only**

**Income Reported on Federal Return**

**Lines 6 through 10**—Enter all items of income you reported on your federal income tax return (Attach copies of applicable schedules.)

**Line 12—Individual Retirement Account (IRAs)**

Enter the IRA deduction you and/or your spouse computed on your Federal IRA Worksheet. If you did not make pay

ments to an IRA, do not make an entry on this line. Payroll contributions to employer sponsored retirement or profit sharing plans are not deductible.

**Line 13**—Subtract line 12 from line 11 to arrive at your federal adjusted gross income. This amount must be the same as the federal adjusted gross income you reported on your federal return.

*continued on page 13.....*

Continued from page 12.....

**LINE-BY-LINE INSTRUCTIONS—FORM 2S**

**Modifications to Income**

**Additions to Income**

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

Your federal refund is income in 1996 if you:

- Used federal income taxes paid or withheld on line 23B of 1995 Form 2S.
- Itemized deductions on 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.**

**Reductions to Income**

**Line 15—Pension and Annuity Exclusion—Attach copy of 1099R.** Compute your retirement exclusion using the following worksheet and enter it on line 15 of Form 2S.

**Taxation of Retirement Pension and Annuity Income**

The 1991 Legislature passed a bill providing a uniform pension exclusion of up to \$3,600. To see if you qualify for the exclusion, you must complete the retirement worksheet on this page.

The exception to this law is railroad retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board. These benefits are fully exempt from Montana taxation.

If you have a disability pension, use the disability pension worksheet Form DS-1. This worksheet is available by calling the Income Tax Division.

If your federal adjusted gross income on line 13 of Form 2S is less than \$30,000, enter the **smaller** of your total retirement income or \$3,600 on Form 2S, line 15.

If your federal adjusted gross income on line 13 of Form 2S is **larger** than \$30,000, calculate your retirement exclusion using the worksheet. If it is greater than \$31,800, you do not qualify for this exclusion. If married filing jointly and both spouses have pension income, the limit is increased to \$33,600.

Premature distributions/early withdrawals **do not** qualify for a retirement exclusion under the law.

**Retirement Pension and Annuity Worksheet**



1. Enter your federal adjusted gross income from line 13. 1. \_\_\_\_\_
2. Phase-out limitation 2. 30,000
3. If line 1 is smaller than line 2, enter on Form 2S, line 15: the smaller of each (A) retirement income or (B) \$3,600 for each person who has retirement income and **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 retirement income; enter your retirement income or \$3,600, whichever is smaller. 4a. \_\_\_\_\_  
b. **Joint** and both spouses have retirement incomes: **1st**, enter each spouse's total retirement income or \$3,600, whichever is smaller, on the following lines:  
(His) \_\_\_\_\_ (Hers) \_\_\_\_\_  
**2nd**, enter the total of the two lines. 4b. \_\_\_\_\_
5. Multiply the amount on line 3 times two (x2) and enter the result. 5. \_\_\_\_\_
6. **Retirement Exclusion.** Subtract line 5 from line 4a or 4b, whichever applies to you. If the result is zero or negative, you are not eligible for a retirement exclusion. If the number is positive, this is your retirement exclusion. Transfer this number to line 15 on Form 2S. 6. \_\_\_\_\_

**Line 16—Interest Exclusion**—If you're 65 or older, and filing single or head of household, you may exclude up to \$800 of interest income. If filing jointly, you may exclude the interest amount up to \$1,600; only one spouse must be 65. The amount on line 16 may not exceed the amounts on line 7 and 14.

**Line 17—Exempt Interest Income**

Interest income received on obligations of the United States Government is exempt from Montana income tax if all of 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**. It must 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 obligations is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

**Line 18—Unemployment Benefits** are not taxable to Montana.

**Line 19—Medical Savings Deductions**—House Bill 560 was established to allow a taxpayer to make contributions to a medical care savings account through a third party "account administrator". Within certain limitations, the contributions to a medical care savings account will be tax-free as long as they are used for "eligible" medical expenses. An "eligible medical expense" is an expense that is deductible for federal purposes. The maximum deduction from federal adjusted gross income a taxpayer is allowed in one year is \$3,000 plus any interest the medical care savings account accumulates.

**Line 20—Other reductions**

➤ **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.

➤ **Montana State Refund**

If included on line 10, deduct it here.



**➤ Exempt Military Pay**

Military pay earned as a result of service performed under the authority of USC Title 10 is exempt from Montana taxation. Pay earned as a result of service performed under any other authority (i.e., Title 32, Title 5, etc.) is subject to state tax. If you are claiming exempt military wages, you need to attach verification, such as your orders, which specify that you are serving under the authority of Title 10. Note: Separation pay is not considered wages. As such separation pay is fully taxable on your state return.

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

For more detailed information on filing requirements for military personnel and on what income is taxable to Montana, contact the department of Revenue at 1-406-444-3674.

**➤ Indian Reservation Income**

**Indians who do not reside on the reservation of the tribe in which they are enrolled will be subject to Montana tax on all income 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 that the income was earned on the reservation must be attached to the return each year.**

**➤ Disability Income Exclusion**

You may subtract up to \$5,200 a year of your disability payments from your gross income. Use Form DS1 (available from the department) to calculate your allowable exclusion and attach to your return.

**Line 22**—Add line 13 to line 14 and subtract line 21. This is your Montana adjusted gross income.



**Line 23—Deductions**

• **Standard Deduction (If not claiming federal withholding)** Column A

1. Enter amount from line 22 of Form 2S. \_\_\_\_\_
2. Enter 20% of line 1. \_\_\_\_\_
3. Enter the amount from below that corresponds to your filing status: \_\_\_\_\_

Joint or Head of Household (filing status 2 or 3): \$5,680

**Maximum**

Single (filing status 1): \$2,840 \_\_\_\_\_

4. Enter the amount from line 2 or line 3, whichever is **smaller**. \_\_\_\_\_
5. Enter the amount from below that corresponds to your filing status: \_\_\_\_\_

Joint or Head of household (filing status 2 or 3): \$2,520

**Minimum**

Single (filing status 1): \$1,260 \_\_\_\_\_

6. Enter the amount from line 4 or line 5, whichever is **larger**. \_\_\_\_\_  
This is your standard deduction. Transfer this amount to line 23, Form 2S.

• **Federal Income Tax**

**(If not claiming standard deduction)**

You may use your federal income taxes paid (withheld and/or estimated) in tax year 1996, if greater than your allowable standard deduction. Check appropriate box. If you check Box B, you may want to consider itemizing deductions on Form 2 and 2A.

**Line 24—Exemptions**

Multiply **\$1,520** by the number of exemptions in box 5 at top of Form 2S and enter.

**Tax Computation**

**Line 27**—Enter the tax from the table on the back of this booklet.

**Line 28**—Enter total contributions from lines 29, 30 and 31. You and/or your spouse can each give any amount to the program(s) of your choice. This is in addition to your existing tax liability.

**Line 29—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 30—Child Abuse and Neglect Prevention Program**

Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

**Line 31—Agriculture in Montana Schools Program**

Contributions will fund the development and presentation of educational programs which will ensure Montana's young people will have a better understanding of agriculture in our state and the rest of the world.

**Line 32**—Add amounts on lines 27 and 28 for total tax.

**Line 33**—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 return.

**Line 34**—1996 estimated tax payments, amounts credited from previous year and/or payments made with extension.

If you paid tax on previous years' returns, that amount cannot be claimed as an estimated tax credit on line 34. Please submit all estimated payments with Form ESV to ensure proper credit.

**Line 35—Elderly Homeowner or Renter Credit**

**Note:** To determine if you qualify see detailed instructions on Form 2EC.



**Refund or Tax Due**

**Line 37—Amount Overpaid (If line 36 is greater than line 32)**

Subtract line 32 from line 36. 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 37 on your tax return. See sample below.

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000	19
Pay to the Order of	\$ _____ Dollars
Anyplace Bank Anyplace, MT 59000	1234
RTN (line 2) (line 3) ACCT (line 3)	
⑆25000000⑆1:200000⑈86⑈	

**Line 38—Tax Due (If line 32 is larger than line 36)**

Subtract line 36 from line 32. This is the amount you owe, if the balance is \$1 or more. If any 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. Please staple your payment to the return. If a return is filed without full remittance you are advised to make regular payments pending contact by our collection staff.

**Income Tax Withholding for 1997**

If the amount you owe (line 38) or the amount you overpaid (line 37) is excessive, see your payroll office. Ask about filling out a new Form W-4 to change the amount of withholding.

**Declaration and Payment of Estimated Tax**

If in 1997 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 1997. **Note: For tax years after December 31, 1992.** If you have a tax liability greater than \$500.00 you may be required to pay estimated taxes in four installments. Instructions and forms for 1997 are available from the Montana Department of Revenue.