

# 1998 MONTANA

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

## Individual Income Tax Booklet

Dear Montana Taxpayer:

At the Montana Department of Revenue, we are continuing our efforts to become more modern, more efficient and more customer-focused. Our goal is to make it simpler and more convenient for taxpayers to do business with us. That includes making it easier for you to file your individual income tax return. If you have ideas on how we can improve our service, please feel welcome to contact our offices.

For tax year 1998, there were very few statutory changes impacting Montana income tax. Changes enacted by the Montana legislature include:

- **Montana First Time Homebuyers Savings Account.** Qualifying taxpayers may exclude contributions made to savings accounts established specifically to pay expenses associated with the purchase of a first home. Details can be found in the instructions for line 33.
- **Tax Credit for the Preservation of Historic Buildings.** Taxpayers may claim a credit for expenditures made in relation to the preservation of certain historic buildings located in Montana. For details, see the instructions for line 108.

However, some laws passed by the U.S. Congress may impact Montana individual income tax. These include **Traditional IRAs** (see the worksheet on Form W) and **Roth IRAs** (see page 4 of this instruction booklet).

New to this year's Montana income tax booklet is **Form W**. In the past, various worksheets, such as those for pension and annuity exclusions and allowable IRA contributions, were scattered throughout the instruction booklet. These worksheets are now located together on Form W (you'll find it at the end of the instructions in the booklet). We hope you find Form W more convenient and easier to use. If you use any of these worksheets to calculate an amount reported on your income tax return, please attach the appropriate page of Form W to the tax return.

Finally, let me tell you about a couple of helpful resources.

- Income tax information, along with various downloadable tax forms, can be found at the Department of Revenue's web site. Information about electronic filing and telefile may also be found there. The address is [www.mt.gov/revenue/rev.htm](http://www.mt.gov/revenue/rev.htm).
- Telephone lines dedicated to providing you with any income tax information you need, from general income tax questions to the status of your refund are available. Please see the back cover of this booklet for these important phone numbers.

Our scannable payment coupon to be submitted with your payment of a balance due, has a new look this year. Please see the booklet insert.

Remember that Thursday, April 15, 1999, is the deadline for filing returns.

Sincerely,

Mary Bryson  
Director  
Department of Revenue

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

- Family Education Savings Account Page 5
- Form W (Worksheets) See Form W
- Change in IRA Limitations See Form W
- Roth IRA's Page 4
- First Time Home Buyers Reduction Page 5
- Credit for Preservation of Historic Buildings Page 9
- Scannable Payment Coupon Page 6 & 11

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#### 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

**SEE DIRECTORY ON BACK  
OF THIS BOOKLET  
FOR TELEPHONE NUMBERS**

### Forms Included in Tax Booklet

To order forms call 1-406-444-0290 or request forms from <http://www.mt.gov>

Form No.	Revised	Description	Form No.	Revised	Description
2S	98	Individual Income Tax Return Short Form	OFLT	98	Old Fund Liability Tax
2	98	Individual Income Tax Return Form	W	98	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.
2A	98	Itemized Deductions & Tax Credits			
2A-Page 3	98	Other State Credits & Investment Credits			
2EC	98	Elderly Homeowner/Renter Credit			

### Forms Available Upon Request

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

Form No.	Revised	Description	Form No.	Revised	Description
2S	98	Individual Income Tax Return Short Form	NR1	96	Affidavit (North Dakota Resident's Claim for Exemption under MT/ND Reciprocal Agreement).
2	98	Individual Income Tax Return Form	FID-3	98	Montana Fiduciary Return and Instructions
2A	98	Itemized Deductions & Tax Credits	2441M	98	Child and Dependent Care Expenses
2A-Page 3	98	Other State Credits & Investment Credits	PR-1	98	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	98	Health Insurance for Uninsured Montanans Credit
2EC	98	Elderly Homeowner or Renter Credit	EST	98	Estimated Individual Income Tax Booklet
2X	96	Amended Montana Individual Income Tax Return	DS-1	96	Disability Income Exclusion Form
EXT	98	Application for 4 Month Extension	NOL-1	98	Montana Net Operating Loss Form
IND	96	Indian Certification	2WPC	98	Credit for Wind Energy Producers
NR2	96	Employee Certificate of North Dakota Residence	RIC	98	Recapture Investment Credit
ECC	98	Elderly Care Credit	OFLT	98	Old Fund Liability Tax
DCAC	98	Dependent Care Assistance Credit	EST-P	98	Underpayment Penalty Form
RCYL	98	Credit for Recycling	MSA	97	Medical Savings Account
AFCR	98	Alternative Fuel Credit	<b>NEW</b> W	98	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.
INSTR	98	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, 1998	You <b>must</b> file if your federal gross income was:
Single or Head of Household	} Under 65	\$2,958 or more
Married Filing Separate		
Married Filing a Joint Return	Both under 65	\$5,915 or more
	One spouse 65 or older	\$7,495 or more
	Both spouses 65 or older	\$9,075 or more

Part-year and nonresidents see page 9.

## Residents of Montana (Full-Year)

You are taxed on all income earned in 1998—**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 1998 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.

**NEW** A law enacted by the 1997 Montana legislature provides that 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.

## 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 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:

- 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.

• **Social Security Benefits** - Part of your social security benefits may be subject to Montana tax. Complete the worksheet on Form W-page 4, to determine the taxable portion of social security. Attach Form W to your 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. 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.

• **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 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** - Participating tax preparers can electronically file your income tax return with the Montana 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.

If your return is error-free, your refund will normally be processed within six to eight business days.

• **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 late penalties assessed on your 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 1998.
- 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, 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 1998.
- 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.

## When to File

Your return for calendar year 1998 must be **postmarked** by midnight April 15, 1999. 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.

Electronic filers see page 1.

## Where to File

For RETURNS 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

## Extension of Time to File

A four month extension for filing may be obtained by submitting form EXT-98. A copy of Federal Form 4868 will not be accepted nor will telephone requests for extensions be accepted. You must use Form EXT-98 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 or Form 8800 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-98.

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) will be assessed. When filing a tax return with an extension, interest must be added to any tax due at a rate of 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, 1999.

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

If you file your return late, you will be assessed a 5% penalty on the unpaid tax. A minimum \$5 late filing penalty is assessed on tax less than \$100 and on refunds.

If you owe tax and do not pay the tax by April 15, 1999, you will be assessed a 10% penalty (minimum \$5). In addition, you will be assessed interest (9% per year).

Married taxpayers who file separately are assessed penalties and interest on their separate tax liabilities.

Penalties and interest may be assessed at higher rates for taxpayers who have previously failed to timely file or pay taxes.

If you are unable to pay your tax in full, you are advised to: 1) File your return by the due date; 2) Pay as much tax as you can with the return; 3) Pay the unpaid tax as soon as possible. If you cannot pay the tax in a single payment, make regular payments pending contact from the Department's collection staff. Your payments must include your name, social security number and tax year. Even if you make payments you will be subject to penalty and interest charges.

## 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 have 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 each individual who files a tax return include a social security number. If you have questions on any tax forms call 1-406-444-3674.

## 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 1998, 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)**

**NEW** A law enacted by the 1997 Montana legislature provides that 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 1998 (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 1998 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. (See instructions pages 9 and 10.)

**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 \$1,580 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.

**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 10 & 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.

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

**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 1.

• **Self Employment Tax**—Enter amount from line 27 of Federal Form 1040.

• **Self Employment Health Insurance Deduction**—Enter the amount from line 28 of Federal Form 1040.

• **Student Loan Interest Deduction** - Enter amount from Line 24 of Federal form 1040 or line 16 of Federal form 1040A.

• **Keogh/SEP**—Enter amount from line 29 of Federal 1040.

• **Penalty on early withdrawal of savings** enter amount from line 30 of Federal 1040.

- **Alimony** — Enter amount from line 31 of Federal 1040.
- **Moving Expense** — Enter amount from line 26 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 36 and 37 as Montana 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 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 worksheet on Form W, Page 1, 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 1997 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 spouse filed joint at the federal level and married filing separate at the state level, 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 taxpayer to the total federal taxes reported.

**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 4. **Note:** You must complete the pension and annuity worksheet on Form W-Page 2, 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. **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**.

In general, you are allowed to deduct passive activity losses only from passive activity income.

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.

**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. Then, 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).

**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.

**NEW Roth IRA's**

Per Internal Revenue Code (IRC), taxable portions of regular IRA's converted to Roth IRA's in 1998 may be reported ratably over a four year period provided the taxpayer's income is not in excess of specified amounts and that married taxpayers file a joint federal income tax return. The same conditions apply to Montana taxpayers.

Montana taxpayers filing separately in 1998, must include the full taxable conversion amount in Montana adjusted gross income. To accomplish this, line 23 must include the difference between the conversion amount reported on the federal return and the total taxable amount of the conversion.

**NOTE:** If married taxpayers are required to use a specific filing status on federal tax returns to report taxable IRA conversions ratably in the three years following 1998, the same filing status must be used on Montana tax returns.

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

**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 34.

For any year in which you claim a NOL carryback or carryforward, attach copies of all 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.

**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 Form W-Page 1.

**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 reported 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.

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

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


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.

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 1-406-444-0290.

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 your federal adjusted gross income on line 20 of Form 2 is **larger** than \$30,000, calculate your exclusion using the worksheet on Form W-Page 2. 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. To see if you qualify for the exclusion, **you must complete the worksheet on Form W-Page 2.**

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



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

**Line 31—Medical 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. If questions, please call 1-406-444-3674.

**Line 32—Family Education Savings Account**-Taxpayers may contribute up to \$3,000 per year into an individual trust or savings account to pay qualified higher education expenses for a designated beneficiary. Participants must make contributions in cash and complete an application prescribed by the Montana Board of Regents. Attach a copy of the completed application to your return.

NEW

**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. Interest earned on the account is also excludable from income. Deposits in excess of these amounts may be claimed as a deduction in subsequent tax years, provided the exclusion does not exceed the above amounts in any single year. 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 taxation as ordinary income. For additional information, contact the Department of Revenue at 1-406-444-3674.

#### Line 34—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.

➤**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 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 on line 23.

##### ➤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 wages earned as a result of active duty service performed under the authority of USC Title 10 are 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 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 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.

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 on Form W-Page 4 after completing the pension and annuity worksheet on Form W-Page 2. 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.

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. 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 34. Complete and attach the MT NOL Worksheets.

#### Line 38-Deductions

Standard Deduction - See worksheet on Form W-Page 2.

Itemized Deductions - See Form 2A-Page 1.

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

#### Line 39—Exemptions

Multiply **\$1,580** 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 109.

**Line 47**—Recapture investment credit. Attach Form RIC.

**Line 48**—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 form.**

The tax rate is 0.2% (multiplier of .002). The tax is calculated on a per activity basis (each partnership, each Schedule C business, each S corporation, etc.).

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.

**Line 49**—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 50**—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 52**—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 55**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Do not include OFLT or local tax withheld. Attach withholding statement(s) (W-2's and 1099R's) to your return.

**Line 56**—Enter your total Montana estimated tax payments and payments sent with extension for 1998. Include overpayments from 1997 which were credited to 1998.

If you paid tax for a previous year, that amount cannot be claimed as an estimated tax credit on line 56.

**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 54, 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 1999 (line 61). Only overpayments of more than \$1 will be refunded.

**Line 61**—Enter the amount from line 60 which you want applied to 1999 Estimated Tax.

**Line 62**—Enter the amount of 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. See sample below:

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000	19
Pay to the Order of	\$ <input type="text"/>
Anyplace Bank Anyplace, MT 59000	Dollars
RTN: <input type="text"/>	ACCT: <input type="text"/>
I: (25000005) I: (200000 " 86 "	1234

**Line 63**—Tax Due If line 54 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

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

**Income Tax Withholding for 1999**

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. See Form W-Page 3 to calculate the penalty.

**Line 65**—If you file your return late, you must pay a late file penalty of 5% on any unpaid tax. A minimum penalty of \$5 is assessed on refunds and tax less than \$100.

**Line 66**—A 10% penalty will be assessed on any tax not paid by the due date of your return. The minimum penalty is \$5.

**Line 67**—Interest will be assessed on any tax not paid by April 15th of the year your return is due. Interest is 9% per year or 3/4% (.0075)per month.

**Note: Penalties and interest rates may be higher for taxpayers who habitually file or pay their taxes delinquentlly.**

**1998 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 1999. Call 1-406-444-3674 ☎

**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, you will only be allowed the standard deduction.

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



*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, 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. Calculate allowable medical expense deduction on line 71 and 72. Medical expenses on line 70 must be reduced by 7.5% (.075) of your Montana adjusted gross income (line 37).

**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 95 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). Call the Department of Revenue at 406-444-3674 for more information.

**Note:** The 1997 Montana income tax instruction booklet incorrectly stated that beneficiaries of long term care insurance coverage must be Montana residents. The beneficiaries need not be Montana residents for the payor of the premiums to qualify for this itemized deduction.

If you were eligible to claim this deduction on your 1997 Montana tax return, but did not because of the error contained in the instructions, please file an amended tax return (Form 2X) to claim the deduction.

The Department of Revenue apologizes for any inconvenience caused by this error.

**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 1998. 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 1997 federal income tax paid in 1998. Do not include self-employment taxes paid.

**Line 76**—Enter any additional federal income tax paid in 1998 for years prior to 1997.

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

**Line 78**—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 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 credit for planned gifts.

**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):

<b>IS UNDER</b>	<b>AND YOU HAVE</b>	} 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 now 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 only include expenses not deducted elsewhere on your tax return. For additional information regarding this deduction, contact the Department of Revenue at 406-444-3674.

**Line 90b.**—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 \$124,500 (\$62,250 if married filing separately), see Form W-Page 3, to figure the amount you may deduct.

## Credits Against Tax

**Line 92—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 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 92, Form 2A Schedule II.

**Line 93—College Contribution Credit**—See Form CC for instructions. You may be entitled to a credit for deductible contributions made during 1998 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 94—Planned Gift Credit**—Individual taxpayers are allowed a credit in an amount equal to 50% of the present value of a planned gift made during the tax year to a qualified Montana endowment. The maximum credit is \$10,000 per taxpayer. The credit may not exceed the taxpayer's tax liability for the year in which the contribution was made. The credit is non-refundable and may not be carried back or forward. The value of the gift used in calculating this credit may not be claimed as a contribution on the Montana itemized deduction schedule. 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: (a) is tax exempt under IRC Section 501(c)(3) or (b) is a bank or trust company that is holding the fund on behalf of a tax-exempt organization.

Taxpayers are advised to make sure the above criteria is met before making contributions.

**Line 95—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 96—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 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 must 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 96, 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 97—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 98—Qualified Investment Credit

You may claim a credit of 5% of your 1998 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. Unused portion of the credit earned in 1998 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.**

### Line 99—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 100—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 101—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 102—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 103—Alternative Fuel Credit**—You may claim a credit against your tax liability for conversion of a motor vehicle to an alternative fuel in 1998. See instructions on Form AFCR. Form AFCR must be completed and attached to the return.

**Line 104—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.

Capital Company credit continued...

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 105—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. **Complete and attach Form DCAC available from the Income Tax Division.**

**Line 106—Credit for Health Insurance for Uninsured Montanans**—The credit is available to employers who make disability insurance available to employees. **Complete and attach Form HI from the Income Tax Division.**

**Line 107—Infrastructure Users Fee Credit** - This provides a tax credit for new businesses located in Montana which 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 1-406-444-3674 for additional information.

NEW

**Line 108—Credit for the Preservation of Historic Buildings** - Beginning in tax year 1998, taxpayers may claim a credit for expenditures made in relation to the preservation of certain historic buildings located in Montana. Qualifying historic buildings are those structures defined in Section 47(3) of the Internal Revenue Code. The allowable Montana credit is 25% of the federal rehabilitation credit provided for in Section 47 (a) (2) of the IRC.

The federal rehabilitation credit is a component of the federal general business credit. No other component of the general business credit may be used to compute the Montana credit for the preservation of historic buildings. Qualifying expenditures used to calculate this credit must be reduced by amounts used in calculating other Montana tax credits or tax incentives.

Montana's Credit for the Preservation of Historic Buildings is a nonrefundable credit, however, unused credit may be carried forward for up to seven years succeeding the year in which the credit is generated. Credit amounts carried forward must be used in the earliest succeeding years. If a taxpayer has generated this credit in more than one tax year, the oldest available credits must be used first.

If property generating the credit is owned jointly by husband and wife, the credit may be applied to their joint tax liability. If husband and wife file separately, the credit for the preservation of historic buildings must be computed individually and applied to each spouse's corresponding tax liability.

If a husband and wife filed separately in a year the preservation credit was generated and file jointly in a carryover year, credit(s) must be applied separately to each spouse's share of the joint tax liability.

A credit for the preservation of historic buildings generated by property owned by more than one individual must be allocated between owners based on their share of ownership in the property. Unless specified otherwise when the property is purchased percentage of ownership will be considered equal between owners.

Attach a copy of Federal Form 3468 if you claim this credit.

**Line 109**—Add credits and enter total on line 45, Form 2.

**PART-YEAR RESIDENT AND NONRESIDENT RETURNS**

Refer to the table below to see if you are required to file.  
Marital & Filing Status      Age as of December 31, 1998      You must file if your gross income from Montana sources was:

Single or Head of Household or Married Filing Separate	} Under 65	\$1,580 or more
		} 65 or older
Married Filing a Joint Return	Both under 65	\$3,160 or more
	One spouse 65 or older	\$4,740 or more
	Both spouses 65 or older	\$6,320 or more

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 & 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 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 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?**

*Under Montana law enacted by the 1997 State Legislature, 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 his home at any time during 1998, 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 1998 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 resident instructions beginning on page 3 for entries on lines 6 through 41 of Form 2.

**Line 42** - Complete 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**

**Income Reportable to Montana-Schedule III, Form 2A, Pg. 2 Lines 110-121** 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 110-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 111-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 112-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 113-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 114-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. Gains and losses from sources outside Montana must be reported on this line if they occurred while you were a Montana resident.

**Line 115-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 116-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 the Social Security Worksheet. See Form W-Page 4.

**Line 117-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 118-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 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).

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 119-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 120-Other Income or Loss**

Enter any other income attributable to Montana that is not identified on lines 110 through 119 here. This includes lottery winnings, state and federal refunds, nonemployee compensation, passive and capital loss addback, etc. If you claimed any federal taxes paid or withheld on your 1997 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 121-Montana Total Income**

Add lines 110 through 120.

**Tax Computation — Schedule IV, Lines 122-127**

**Line 122**-Enter the amount from line 121, Schedule III.

**Line 123**-Total Income-Enter the total of lines 18 and 24, Form 2.

**Line 124**-Divide the amount on line 122 by the amount on line 123. 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 124 is larger than 100%, use only 100%.

**Line 125**-Enter the amount from Form 2, line 41.

**Line 126**-Compute the tax on the amount shown on line 125, using the tax table on page 2, Form 2. Enter the tax on line 126.

**Line 127-Nonresident/Part-Year Resident Tax**

Multiply the percentage on line 124 by the amount on line 126. Enter the amount from line 127 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're married, fill in name and social security number for both you and your spouse. Montana law requires that each individual who files a tax return include a 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 Montana Department of Revenue implemented this procedure at the request of the Montanans' for Improving Tax Administration (MITA).

*"continued on next page"...*



**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.**)

**LINE-BY-LINE INSTRUCTIONS—FORM 2S - Full Year Residents Only**

Note: Married persons cannot file separate short forms.

**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.

**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 1998 if you:

- Used federal income taxes paid or withheld on line 22(B) of 1997 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 on Form W-Page 1, to determine the taxable portion of your refund.

**Reductions to Income**

**Line 15—Pension and Annuity Exclusion—Attach copy(s) of 1099R.** See page 4 of this booklet, instructions for line 29 of the long form. Also, complete and attach Form W-Page 2.

**Line 16—Interest Exclusion for the Elderly**— See page 4 of this booklet, instructions for line 27 of the long form.

**Line 17—Exempt Interest Income**—See page 4 of this booklet, instructions for line 28 of the long form.

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

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

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

**Line 21**—Add line 13 to line 14 and subtract line 20. This is your Montana adjusted gross income.

**Line 22 - Standard Deduction** - See Montana Form W-Page 2, 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 1998, if greater than your allowable standard deduction. Check appropriate box. If you check Box B, you may want to consider filing on Form 2 and itemizing deductions on Form 2A.

**Line 23—Exemptions**

Multiply **\$1,580** 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 table on the back of this booklet.

**Line 27—Contributions to Nongame Wildlife Program and Agriculture in Montana Schools Program.** See page 6 of this booklet, instructions for lines 49, 50, and 52.

**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. Do not include OFLT or local taxes withheld. 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. See sample below.

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000	19
Pay to the Order of	\$ <input type="text"/>
Anyplace Bank Anyplace, MT 59000	RTN <input type="text"/> ACCT <input type="text"/>
(1:250000005)1:200000"86)	1234

**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.

**Income Tax Withholding for 1999**

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.

**Declaration and Payment of Estimated Tax**

If in 1999 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 1999 and will need to file on Form 2. Instructions and forms for making estimated tax payments are available by calling 1-406-444-0290. Failure to make required estimated payments may result in an underpayment penalty.

# 1998 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 \$2,000 per spouse). 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, 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.

**NEW**

Beginning in 1998, if one spouse was covered by a retirement plan at work and the other spouse was not covered by a plan during the tax year, complete the column of the worksheet below corresponding to the spouse that was covered by a retirement plan. The spouse who was not covered by a retirement plan does not need to complete the worksheet and may deduct his or her IRA contributions not to exceed \$2,000.

### IRA Worksheet

	Column A	Column B
1. Phase out amount..... 1.	\$10,000	\$10,000
2. Enter your federal adjusted gross income before federal IRA contributions..... 2.		
3. Subtract line 2 from line 1..... 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..... 4.	X .20	X .20
5. Enter IRA amount from line 19, Form 2..... 5.		
6. Enter lesser of line 4 or line 5..... 6.		
7. Subtract line 6 from line 5 and enter this amount on line 23, Form 2. This is the nondeductible portion of your IRA for Montana purposes..... 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..... 1.		
2. All refunds and reimbursements of previously deducted itemized deductions..... 2.		
3. Add lines 1 and 2 above..... 3.		
4. Itemized deductions for prior year. If you took the standard deduction, stop here. None of the refund is taxable..... 4.		
5. Enter prior year's MT Adjusted Gross Income..... 5.		
6. If you are filing single or married filing separately, multiply line 5 by 20% (.20) and enter here. If this amount is less than \$1,290, enter \$1,290. If more than \$2,910, enter \$2,910. or If you are filing a joint return or filing as head of household, multiply line 5 by 20% and enter here. If this amount is less than \$2,580, enter \$2,580. If more than \$5,820, enter \$5,820... 6.		
7. Subtract line 6 from line 4. If the result is zero, stop here. The amount on line 3 is not taxable..... 7.		
8. Enter the smaller of line 3 or line 7..... 8.		
9. Taxable income from prior year..... 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.		

## 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 18 is negative, you are not allowed a capital gain exclusion. Do not proceed any further.

	Column A	Column B
1. Combine 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.		
2. Combine the amounts from Federal Schedule D lines 7(f) and 16(f) and enter here..... 2.		
3. Divide line 1 by line 2..... 3.	%	%
4. Enter the amount from line 17 of Federal Schedule D, but not less than zero..... 4.		
5. Multiply the amount on line 4, times the % on line 3: _____ x _____ %..... 5.		
6. Multiply amount on line 5 times 40% (.40). This is your Montana capital gains exclusion. Enter on line 26 of Montana Form 2..... 6.	X .40	X .40



# 1998 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. . . . . 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. Multiply the amount on line 3 times two 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:
 

Joint or Head of Household  
(filing status 2 or 6): \$5,920

Single or separate (filing  
status 1,3,4, or 5): \$2,960 . . . . . 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:
 

Joint or Head of Household (filing status 2 or 6): \$2,620

Single or separate (filing status 1,3,4 or 5): \$1,310 . . . . . 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 22a, Form 2S) . . . . . 6. \_\_\_\_\_

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	\$ 2,000	2 %	\$ 0	\$15,800	\$19,700	7 %	\$ 414
\$ 2,000	\$ 3,900	3 %	\$ 20	\$19,700	\$27,600	8 %	\$ 611
\$ 3,900	\$ 7,900	4 %	\$ 59	\$27,600	\$39,400	9 %	\$ 887
\$ 7,900	\$11,800	5 %	\$ 138	\$39,400	\$69,000	10 %	\$1,281
\$11,800	\$15,800	6 %	\$ 256	\$69,000		11 %	\$1,971

Example = taxable income \$2,400 x 3% (.03) = \$72 subtract \$20 = \$52 tax

# 1998 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 90a (Total itemized deductions) . . . . .	1. _____	_____
2. Add the amounts on Form 2A, lines 69, 72, 73, 74a, 74b, 75, 76, 80, 82 and 83, plus any gambling losses included on line 89. . . . .	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.) <b>Stop Here.</b> 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 \$124,500 (\$62,250 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. <b>Stop Here.</b> 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 <b>smaller</b> of the two amounts here and on Form 2A, line 90b. . . . .	9. _____	_____

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

### Underpayment Penalty of Estimated Tax

**In 1998 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 1-406-444-0290 to request an underpayment penalty form (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 1998 tax from line 54 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 1997 tax (Line 53 of 1997 Form 2 or line 31 on 1997 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 .05986. This is your **Underpayment Penalty** for 1998. Enter here and on line 64 of Form 2 or line 37 on Form 2S. \_\_\_\_\_

# 1998 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.  
If additional help is needed, call 1-406-444-3674 or TDD 1-406-444-2830 (for hearing impaired).

**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 all exempt income is less than:
  - 1) \$32,000 if you are filing a joint return;
  - 2) \$25,000 if you file a single/head of household return
  - 3) \$16,000 if you are filing married filing separate on the same form.

**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.**

	Filing Status Check One	1 <input type="checkbox"/> Single	2 <input type="checkbox"/> Married filing joint return	3 <input type="checkbox"/> Married and both filing separate returns on this form	4 <input type="checkbox"/> Married and both filing separate returns on separate forms	5 <input type="checkbox"/> Married filing separate return and spouse is not filing	6 <input type="checkbox"/> Head of Household
					COLUMN A (For single, joint, separate or head of household)	COLUMN B (For spouse only when filing separate and box 3 is checked)	
1.							1.
<b>Subtractions</b>							
2.							2.
3.							3.
4.							4.
5.							5.
6.							6.
<b>Additions</b>							
7.							7.
8.							8.
9.							9.
10.							10.
11.							11.
12.							12.
13.							13.
14.							14.
15.							15.
16.							16.
17.							17.
18a.							18a.
18b.							18b.
19.							19.
20.							20.
21.							21.
22.							22.
23.							23.
24.							24.
25.							25.
26.							26.
27.							27.

**ATTACH THIS FORM TO YOUR RETURN**

If Taxable Income is:				If Taxable Income is:			
Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	\$ 2,000	X 2 %	\$ 0	\$15,800	\$19,700	X 7 %	\$ 414
\$ 2,000	\$ 3,900	X 3 %	\$ 20	\$19,700	\$27,600	X 8 %	\$ 611
\$ 3,900	\$ 7,900	X 4 %	\$ 59	\$27,600	\$39,400	X 9 %	\$ 887
\$ 7,900	\$11,800	X 5 %	\$ 138	\$39,400	\$69,000	X 10 %	\$1,281
\$11,800	\$15,800	X 6 %	\$ 256	\$69,000		X 11 %	\$1,971

Example = taxable income \$2,400 x 3% (.03) = \$72 subtract \$20 = \$52 tax

## Wanted

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 1-406-444-3674.

Questions? Call:



(These are not toll free numbers)

Income tax assistance and problems	(406) 444-3674	Extension requests	(406) 444-3674
Estimated tax requirements	(406) 444-3674	TDD (Telephone Device for the Deaf)	(406) 444-2830
Where's my refund?	(406) 444-9840	Fax number—income tax	(406) 444-1505
General information	(406) 444-2837	Employer business tax questions	(406) 444-3388

**To order forms call 406-444-0290 or request forms from <http://www.mt.gov>**

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

BULK RATE  
U.S. POSTAGE  
PAID  
MONTANA DEPARTMENT  
OF REVENUE

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*Do not use this label if your marital status has changed*

*Please remove label and attach to return. Correct name and address if necessary.*