

MONTANA

Individual Income Tax Booklet

Dear Montana Taxpayer:

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

The department is committed to providing you with the best possible customer service. You can help us by mailing your completed return as early as possible; using your preprinted labels; and using the appropriate scannable payment coupon (if you are sending a payment with your return).

You will want to note some important changes enacted by the Montana legislature for year 2001. They involve:

- Family Education Savings Account
- Federal Advanced Payment
- Motor Vehicle Taxes Paid
- Qualified Endowment Credit
- Credit Allowed for Income Tax Paid to Other States or Countries
- Affordable Housing Revolving Loan Account Credit
- Credit for Providing Day Care

We recommend electronic filing for the fastest and most accurate processing of your tax return and refund. Simply consult your tax preparer and ask for "Montana E-File." For more information on electronic filing and on-line filing, visit our web site at www.discoveringmontana.com/revenue.

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

Remember that April 15, 2002 is the deadline for filing returns or extension payments.

Sincerely,

Kurt Alme
Director
Montana Department of Revenue

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

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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

Questions?
Call (406) 444-6900

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

Helpful Tips for Filing Your Tax Return

- Electronic filing offers you a faster, more accurate way to file taxes. To find more information about electronic filing, visit our web site at www.discoveringmontana.com/revenue or the IRS web site at www.irs.gov.
- If you file electronically or telefile, do not send in a paper copy of your return.
- Do not use the preaddressed label on the back of this booklet if your marital status, name or address have changed.
- If you are claiming Montana withholding, attach copies of W-2's and 1099's to verify.
- Be sure to:
 - Print clearly
 - Mark correct box for filing status (single, married joint, separate, etc.)
 - Attach federal schedules where applicable
- The deadline for filing is April 15, 2002.

Forms Included in Tax Booklet

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

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

Forms Available Upon Request

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

Form No.	Description
2S	Individual Income Tax Return Short Form
2	Individual Income Tax Return Form
2A	Itemized Deductions, Tax Credits, Nonresident and Part-Year Resident and Allocation of Income
2A-Page 3	Other State Credits & Investment Credits
ENRG-B	Credit for Geothermal Energy Systems
ENRG-C	Credit for Energy Conservation Installation
2EC	Elderly Homeowner/ Renter Credit
2X	Amended Montana Individual Income Tax Return
EXT-Worksheet	Extension Payment Worksheet
IND	Indian Certification
NR2	Employee Certificate of North Dakota Residence
ECC	Elderly Care Credit
DCAC	Dependent Care Assistance Credit
RCYL	Credit for Recycling
AFCR	Alternative Fuel Credit
INSTR	Instructions Only for Individual Income Tax
FTB	First Time Homebuyer Account
NR1	Affidavit (North Dakota Resident's Claim for Exemption under MT/ND Reciprocal Agreement)
FID-3	Montana Fiduciary Return and Instructions
2441-M	Child and Dependent Care Expenses
PR-1	Partnership Distribution Schedule
CC	College Contribution Credit
HI	Health Insurance for Uninsured Montanans Credit
EST	Estimated Individual Income Tax Booklet
DS-1	Disability Income Exclusion Form
NOL-1	Montana Net Operating Loss Form (Pre-1999 losses)
NOL-99	Net Operating Loss for 1999 and Beyond
2WPC	Credit for Wind Energy Producers
RIC	Recapture Investment Credit
EST-P	Underpayment Penalty Form
MSA	Medical Care Savings Account
W	Worksheets for Standard Deduction, Taxable Refunds, Retirement Exclusion, Capital Gain Exclusion, IRA's, Social Security, Itemized Deduction Limitation and Under Payment Penalty, Short Method, and Tax Table
IT-2101	W-2 Withholding Declaration
RSCH	Credit for Increasing Research and Development Activities
ESA	Annualization Worksheet for Estimated Tax

Who Must File

(Residents, Part-Year Residents and Nonresidents)

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

Marital & Filing Status	Age as of December 31, 2001	You must file if your Federal gross income was:
Single, Head of Household Married Filing Separate	Under 65	\$3,230 or more
	65 or older	\$4,955 or more
Married Filing a Joint Return	Both under 65	\$6,460 or more
	One spouse 65 or older.....	\$8,185 or more
	Both spouses 65 or older..	\$9,910 or more

Increase federal gross income by \$1,723 if eligible for the blind exemption.

Residents of Montana (Full-Year)

You are taxed on all income earned in 2001—regardless of where you earned it. You are a Montana resident if you live in Montana or if you maintain a permanent home in Montana. You do not lose your residency when you leave the state temporarily. You lose your Montana residency only when you establish permanent residence outside of Montana with no intention of returning.

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

You must file a 2001 Montana individual income tax return if you meet the minimum filing requirements. If you are generating a Montana net operating loss or have carryovers, you must file even if you do not meet the minimum filing requirement in order to perfect the losses.

Where's My Refund?

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

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

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

Other Filing Information

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

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

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

➤ **Injured Spouse Claim** - You are an injured spouse if you file a joint return and all or part of your share of the overpayment was, or is expected to be, applied against your spouse's past child support debt. The best way to avoid the need to file an injured spouse claim is for married taxpayers to file separately on separate forms. If you have received a Letter of Offset on your tax refund from the department, please follow the letter's instructions to submit a written statement for the injured spouse claim or a copy of the federal Form 8379 for injured spouses. Do not submit an amended return. Please contact the department for additional assistance.

➤ Montana and North Dakota Reciprocal Agreement

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

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

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

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

➤ **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).

When to File

Your return for calendar year 2001 must be postmarked by midnight April 15, 2002. If you operate on a fiscal year, your return must be postmarked by midnight the 15th day of the fourth month following the close of your fiscal year.

Where to File

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

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

Which form should I use?

Short Form

- You may file Form 2S (Short Form) if you answer "yes" to all of the following:
- You were a Montana resident for all of 2001.
 - You are filing from a Montana address.
 - You are filing single, head of household, or married filing a joint return.
 - You wish to use only the standard deduction or federal income tax paid or withheld. (To itemize further use Forms 2 and 2A).
 - The only tax credit you may have is Elderly Homeowner Renter Credit.
 - Your only income is from one or more of the following: wages, pensions and annuities, interest and dividends, fees (such as jury duty), alimony, unemployment, winnings, prizes, awards or other miscellaneous income.
 - You made no estimated payments.

Long Form

- You must file the Form 2 (Long Form), if you answer "yes" to any of the following:
- You were a resident of Montana for only part of 2001.
 - You were a nonresident of Montana with income from Montana sources.
 - You are married, filing a separate return.
 - You are using an itemized deduction schedule.
 - Your income includes any of the following: income from business or profession, rents, royalties, partnerships, trust or S corporation income, capital gain(s) or taxable social security.
 - You are claiming tax credits.
 - You made estimated tax payments.

Extension of Time to File

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

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

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

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

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

If you File or Pay Late

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

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

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

Late Payment. If you owe tax you are required to pay your tax on or before April 15, 2002. If you do not pay the full amount owed by this date, you will be assessed a late payment penalty. The penalty is 1.5% per month or fraction of month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Interest. Any tax not paid by April 15, 2002, will be subject to interest. Interest is assessed at the rate of 12% (.12) per year accrued at 1% a month or fraction of a month.

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

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

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

Filing Status (Check the appropriate box on form)

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

Box 3 Married, Filing Separate Returns on the Same Form. Use Columns A and B.

If both you and your spouse had income in 2001, you can file separate returns even if you filed a joint federal return. Each of you must claim your own income, deductions, and exemptions. If one spouse itemizes deductions, so must the other. Be sure each spouse signs the return.

Note: Married couples cannot file separate short forms.

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

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

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

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

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

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

Residency Status (Check the appropriate box)

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

Box 1 Full-Year Resident

Check this box if you were a Montana resident in 2001 (even though you may have been out of the state temporarily during the year). Include income from all sources, both inside and outside of Montana. Credit may be taken for taxes paid to other states.

Box 2 Full-Year Nonresident

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

Box 3 Part-Year Resident

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

Exemptions**Line 1 - Yourself**

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

Line 2 - Your Spouse

If you file a joint return you may take one exemption for your spouse. Take one additional exemption if your spouse is 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 \$1,720 gross income. This requirement doesn't have to be met if your child was under 19 or a full-time student under age 24 for at least five months of the year.

➤ **Support**

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

➤ **Married Dependent**

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

➤ **Citizenship or Residence**

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

➤ **Relationship**

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

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

* Child	Stepbrother	Son-in-law
Stepchild	Stepsister	Daughter-in-law
Mother	Stepmother	or, if related by blood:
Father	Stepfather	Uncle
Grandparent	Mother-in-law	Aunt
Brother	Father-in-law	Nephew
Sister	Brother-in-law	Niece
Grandchild	Sister-in-law	
- * Includes a child placed in your home by an authorized legal adoption agency.
- Must have lived in your home as a member of your household for the entire year.

Line 4 - Handicapped dependent children

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

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

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

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

Income Reported on Federal Return

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

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

Line 19 - Adjustments to Income

Please specify the adjustment.

- **Individual Retirement Account (IRA)** - Enter the amounts from line 23 of Federal 1040, or line 16 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 12.

- **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 17 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.

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 Tax Benefit Rule Worksheet on Form W, Page 12, to figure the amount to include in income. If you recovered amounts in the current year which are attributable to more than one prior year, (i.e. a federal income tax refund from 1999 and a reimbursement of medical expenses you deducted in 1998), complete a separate worksheet for each year. Use information from Form 2A for the year the expense was deducted. **Note:** Do not include your 2001 Federal Advance Payment received on line 22. See instructions for Line 73C.

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

Line 23 - Other Additions:

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

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

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

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

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

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

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

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

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

Montana Net Operating Losses - Use Form NOL-99 for calculating your net operating losses for tax years beginning after December 31, 1998.

Use Form NOL for calculating your net operating losses for tax years prior to January 1, 1999.

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



Student Loan Interest - Married taxpayers filing separately for Montana tax purposes on the same or different forms are not allowed to deduct student loan interest. If filing separately, student loan interest reported on line 19 must be added back to Montana income on line 23.

Reductions to 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 12, Worksheet III.

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.

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

Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board are fully exempt from Montana taxation. Enter Tier 1 benefits reported on Line 15b as a reduction on line 34. Enter Tier II benefits reported on Line 14b as a reduction on line 29.

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

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

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

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

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

Line 30 - State Unemployment Benefits are not taxable to Montana.

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

NEW

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

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

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

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

Line 34 - Other Reductions

➤ Montana adjusted gross income may not be reduced by non-Montana income.

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

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

➤ **Tip Income** is excludable if:
• it is included in federal adjusted gross income, and
• received for services provided to patrons of a licensed business that provides food, beverages or lodging.

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

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

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

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

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

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

➤ **Passive Loss Carryover** - You may be allowed to claim prior year disallowed passive activity losses if you have current year passive activity income or if you sell or exchange your entire interest in the activity in a fully taxable transaction to an unrelated party. Previously disallowed losses may also be claimed in the current tax year if you file a joint return. Please complete federal Form 8582, Passive Activity Loss Limitations, to determine the amount of passive loss carryover you can claim. If you qualify, enter the allowable passive loss carryover on line 34 and attach copies of Form 2, page 1, from previous years tax returns on which you reported unallowed losses on line 23.

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

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

➤ Exempt Military Pay

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

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

➤ Social Security

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

➤ Allocation of Income to Proprietor's Spouse

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

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

➤ **Montana Net Operating Losses** - Use form NOL-99 for calculating your net operating losses for tax years beginning after December 31, 1998.

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

Line 38 - Itemized and Standard Deductions

Standard Deduction - See Form W, Worksheet -V, page 13.

Itemized Deductions - See Page 6

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

Line 40 - Exemptions - Multiply \$1,720 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

Tax Computation

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

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

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

Line 47 - Recapture Investment Credit. Attach Form RIC.

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

Line 49 - Nongame Wildlife Program

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



Line 50 - Child Abuse and Neglect Prevention Program

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

Line 51 - Agriculture in Montana Schools Program

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

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

Line 55 - Enter your total Montana estimated tax payments and extension payments for 2001. Include overpayments from 2000 which were credited to 2001.

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

Line 56 - Elderly Homeowner or Renter Credit

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

Refund or Balance Due

Line 59 - Amount Overpaid If line 58 is larger than line 53, enter the difference. This is your overpayment. You can choose to have all or part of this amount refunded to you (line 61). The remainder, if any, can be applied to your estimated tax for 2002 (line 60). Only overpayments of more than \$1 will be refunded.

Line 60 - Enter the amount from line 59 which you want applied to Estimated Tax for year 2002.



Line 61 - Enter the amount of line 59 you want refunded to you. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 61 on your tax return. The routing number must be nine digits. The account number can be up to 17 characters (both numbers and letters).

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

Paul Taxpayer Lilian Taxpayer 23 Main Street Anyplace, MT 59000		1234
Pay to the Order of		Dollars
Anyplace Bank Anyplace, MT 59000		\$ <input type="text"/>
Routing Number	Account Number	Do not include the check number in the account number
⑆ 250000005 ⑆ 200000 86 ⑆ 1234		

Line 62 - Tax Due - If line 53 is larger than line 58, 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.

If you cannot pay all of your tax with your return, file your return and pay as much of the tax as possible. Filing on time will prevent a late filing penalty assessment. See Page 2.

Paying as much as you can will help minimize the late payment penalty and interest.

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

Income Tax Withholding for 2002

If the amount you owe (line 62) or the amount you overpaid (line 59) 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 63 - If you were required to make estimated tax payments and did not remit the required amounts, you must pay an underpayment penalty. Complete worksheet VII, Form W, page 14 to calculate the penalty

Line 64 - If you file your return late, you may have a late file penalty of \$50 or the amount of tax owing whichever is smaller. There is no late file penalty if you are receiving a refund.

Line 65 - If you file your return late or do not pay by the due date of your return, you must pay a late pay penalty. The penalty is 1.5% per month or fraction of month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Line 66 - Interest will be assessed on any tax not paid by April 15, 2002. Interest is 12% per year accrued at 1% per month or fraction of a month.

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

2002 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 2002.

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

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

Line 68 - Medical Insurance Premium - 100% of qualifying medical insurance premiums are now deductible. Do not include amounts reported on lines 19, 34 or 72. Please read the following conditions to determine if insurance premiums you pay qualify:

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.

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 69-71 - Medical and Dental Expenses - On line 69, 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 68. Medical expenses paid through a medical savings account are not deductible. Medical expenses on line 69 must be reduced by 7.5% (.075) of your Montana adjusted gross income (line 37). Enter allowable medical expense deduction on line 71.

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

Line 72 - 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).

Line 73a - 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 73b - Enter the amount of federal estimated tax payments made in 2001. 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.

NEW Line 73c - Federal Advanced Payment - If you received a federal advanced payment check in 2001 your deduction allowed on your return for federal taxes paid within the year needs to be reduced by the amount of the advanced payment. If an individual elects to take the standard deduction they will not have to recapture the amount of the advance payment, as they have not taken their federal taxes paid as a deduction.

When calculating your allowable federal payments add amount(s) on lines 73a + 73b and subtract line 73c and enter the total allowable federal payment on line 73d.

Line 74 - Enter the balance of your 2000 federal income tax paid in 2000. Do not include self-employment taxes paid.

Line 75 - Enter any additional federal income tax paid in 2001 for years prior to 2000.

Line 76 - Enter any taxes you paid on real estate and personal property.

NEW Line 77 - Enter your motor vehicle taxes and fees paid. The motor vehicle taxes and fees you can deduct are those taxes paid which are based on the value of the vehicle and light vehicle registration fees. Taxes and fees which are deductible on the Montana vehicle registration receipt include codes 07-AVTAX, 08-BKAVTX, 11-PROPTX, 12-BKPRTX, 14-COOPT, 61-REGRAT and 62-BKRGRT. You cannot deduct state income tax paid or withheld, federal excise taxes, gasoline tax, social security tax (FICA), tax on alcoholic beverages or tobacco or selective and general sales taxes. Accommodation tax or license fees (hunting, fishing, driving, etc.) are also nondeductible.

Line 78 - 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 79 - 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 80 - 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 81 - Child and Dependent Care Expense
Payments you made for child or disabled dependent care while you and your spouse both worked or looked for work may qualify for a deduction. To qualify you must maintain a home that included a child under 15 or dependent or spouse unable to care for himself/herself. You must also meet certain income requirements. The deduction must be divided equally between spouses when filing separately on the same form. If married filing on separate forms, you cannot take the credit. If you are a licensed and registered day care operator providing day care for your own child and one additional child, please contact the department.

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

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

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

Line 82 - 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 83 - Unreimbursed Business Expenses - Attach Federal Form 2106.

Line 84 - 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 86 and 87.

Line 88 - 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.

Line 89 - Gambling Losses. Include gambling losses allowed by federal law.

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 \$132,950 (\$66,475 if married filing separately), see Worksheet VI, page 14 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 a 30 mile radius, may claim a credit against individual income tax. The credit may be claimed for each of four consecutive years beginning with the year in which his/her practice starts in a qualifying area. In order to qualify for the credit, a physician must have commenced rural practice after this date. The physician must maintain the practice for at least 9 months of the taxable year in which the credit is claimed. Credit may not be used for any taxable year in which the physician ceases to practice in an area described above.

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

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

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

The credit is \$5,000 a year and may be used only to offset tax liability. Enter credit amount on line 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 2001 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.

NEW

Line 94 - Qualified Endowment 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 is tax exempt under IRC Section 501(c)(3) or is a bank or trust company that is holding the fund on behalf of tax-exempt organization. The affordable housing revolving loan account that is established in MCA, § 90-6-133 is considered a qualified endowment for the purpose of this credit.

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

Attach verification of planned gift to a qualifying endowment. Documentation must identify date of gift, method of giving (i.e. cash, trust, etc) amount of gift, recipient and donor.

If you are a fiscal year filer, contact the Department of Revenue.

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.

NEW

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

for their pro-rata share of any income taxes paid to another state or country by an S corporation in which they are a shareholder. 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 2001 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 2001 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 2001. See instructions on Form AFRCR. Form AFRCR must be completed and attached to the return.

Line 104 - Montana Capital Company Credit - (carryovers only) Enter carryover credit absorbed this year.

NEW

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. This assistance may be in the form of:

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

Complete and attach Form DCAC from the Department of Revenue.

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 Department of Revenue.

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.

Line 108 - Credit for the Preservation of Historic Buildings
Contact the Department of Revenue for Details. Attach a copy of Federal Form 3468 if you claim this credit.

Line 109 - Credit for Increasing Research Activities - A credit is available for increases in qualified research expenses and basic research payments for research conducted in Montana. The credit is determined in accordance with Section 41 of the IRC, 26, U.S.C. 41, except the applicable percentage

rate is 5% for Montana purposes. A completed form provided by the department must be attached to the return. Any unused credit cannot be refunded in the year reported, but may be carried back 2 years and carried forward 15 years.



Line 110 - Mineral Exploration Incentive Credit - A credit may be claimed for certified expenditures of mining exploration activities (MCA, §15-32-501), not to exceed 50% of the tax liability. Certified expenditures represent costs incurred for activities in direct support of exploration activity conducted at a specific exploration activity conducted at a specific exploration site. The credit applies to activities associated with both new mines and mines that are being reopened. A completed copy of the form provided by the department must be attached to the return.

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

NEW

Line 111 - Affordable Housing Revolving Loan Account Credit - You may be entitled to a tax credit for contributions made during the year to the affordable housing revolving loan account established in MCA, § 90-6-133. A taxpayer is allowed a tax credit in an amount equal to 20% of the amount donated by an individual to the affordable housing revolving loan account. The maximum credit that may be claimed is \$10,000 and may not exceed your income tax liability. There are no carryover provisions allowed for this credit. You are not entitled to this credit if you have claimed the full amount of the contribution as an itemized deduction or have taken the contribution as a Qualified Endowment Credit on Line 94.

Part-Year Resident and Nonresident Returns

Refer to the table on page 2 to see if you are required to file.

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

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

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

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

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

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

Nonresident A nonresident of Montana is a person who did not consider Montana to be their home at any time during 2001, although they may have been temporarily living here. Examples are: students going to school in Montana and military personnel stationed in Montana.

Part-Year Resident A part-year resident is a person who moved into or out of Montana during 2001 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 on page 2 of Form 2A to calculate your tax liability. See instructions for Schedules III and IV on page 10.

Lines 43 through 67 - See full-year resident instructions.

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

Income Reportable to Montana-Schedule III, Form 2A, Pg. 2 Lines 113-124 - 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 113- Wages, Salaries and Tips

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

Line 114 - 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 115 - 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 116 - Business Income

Business income is the amount of net income or loss from a business, trade, or profession carried on in Montana or after you have established Montana residency. 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.

Line 117 - 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 118 - 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 119 - 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 K-1'(s).

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

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

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

Line 120 - 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 121 - Taxable Portion of Social Security

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

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

Line 122 - Farm Income or Loss

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

Line 123 - Other Income or Loss

Enter any other income attributable to Montana that is not identified on lines 113 through 122 here. This includes lottery winnings, state and federal refunds, nonemployee compensation, etc. If you claimed any federal taxes paid or withheld on your 2000 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 124 - Montana Total Income

Add lines 113 through 123.

Tax Computation - Schedule IV, Lines 125-130.

Line 125 - Enter the amount from line 124, Schedule III.

Line 126 - Total Income - Enter the total of lines 18 and 24, Form 2.

Line 127 - Divide the amount on line 125 by the amount on line 126. 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 127 is larger than 100%, use only 100%.

Line 128 - Enter the amount from Form 2, line 41.

Line 129 - Compute the tax on the amount shown on line 128, using the tax table on page 2, Form 2. Enter the tax on line 129.

Line 130 - Nonresident/Part-Year Resident Tax

Multiply the amount on line 129 by the percentage on line 127. Enter the amount from line 130 on line 42, Form 2. This is your Montana tax liability. Go to Form 2 and complete lines 43-67.

Instructions For Form 2S

Introduction

Name, Address and Social Security Number

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

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

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

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

Filing Status (Check the appropriate box)

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

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

Note: Married persons cannot file separate short forms.

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 2001 if you:

- Used federal income taxes paid or withheld on line 22(B) of 2000 Form 2S.
- Itemized deductions on your Montana return last year using federal withholding/estimates as a deduction.

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

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

Reductions to Income

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

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

Line 17 - Exempt Interest Income - See instructions for line 28 of the long form on page 4 of this booklet.

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

Line 21 - Line 13 plus line 14 minus line 20. This is your Montana adjusted gross income.

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

➤ **Federal Income Tax**
(If not claiming standard deduction)

You may use your federal income taxes withheld in tax year 2001, if greater than your allowable standard deduction. Enter on line 22 (B) the amount of federal income taxes withheld and reported in box 2 of your W-2. If you received a federal advanced payment check in 2001 your federal tax deduction allowed on Form 2S needs to be reduced by the amount of this advanced payment.

Enter on line 22(B)(1) the amount of your federal advanced payment received in 2001 (\$300, \$500, \$600 or other). Subtract line 22(B)(1) from 22(B) and enter the total on line 22 of Form 2S. Check appropriate box. If you check Box B, you may want to consider filing of Form 2 and itemize deductions of Form 2A.

Line 23 - Exemptions - Multiply \$1,720 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, Child Abuse, and Agriculture in Montana Schools Program - See instructions for lines 48, 49, 50, and 51 on page 6 of this booklet.

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

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

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

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

Refund or Tax Due



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

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

Paul Taxpayer
Lilian Taxpayer
23 Main Street
Anyplace, MT 59000

Pay to the Order of _____ \$ _____ Dollars

Anyplace Bank
Anyplace, MT 59000

Routing Number: 250000005 Account Number: 200000 86 1234

Do not include the check number in the account number

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

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

Income Tax Withholding for 2002

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 2002 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 2002 and will need to file on Form 2. Instructions and forms for making estimated tax payments are available by calling (406) 444-6900. Failure to make required estimated payments may result in an underpayment penalty.



2001 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, one or both spouses were covered by a retirement plan where they worked, complete both columns of the worksheet below to determine if there is a difference between allowable federal and Montana IRA deductions.

IRA Worksheet

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

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..... Example: In 2000 you deducted medical expenses not covered by insurance. In 2001 your insurance company determines that a portion of the denied expenses should have been paid by them. They send you a check. This amount may be taxable because you claimed it as an expense paid by you in the prior tax year.	2.	_____	_____
3. Add lines 1 and 2 above.....	3.	_____	_____
4. Montana 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 Montana 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 \$1,390, enter \$1,390. If more than \$3,130, enter \$3,130. 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 \$2,780, enter \$2,780. If more than \$6,260, enter \$6,260....	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. Montana 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 17 is negative, you are not allowed a capital gain exclusion.
Do not proceed any further.

Column A Column B

1. Add the amounts from Federal Schedule D lines 11 and 12 which pertain to installment sales entered into before January 1, 1987, and enter here.	1.	_____	_____
2. Add 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

2001 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. Double the amount on line 3 and enter the result. 5. _____
6. Pension and annuity exclusion. Subtract line 5 from line 4a, 4b or 4c, whichever applies to you. If the result is zero or negative, you are not eligible for an exclusion. If the number is positive, this is your exclusion. Transfer this number to line 29 on Form 2. 6. _____

Worksheet V - Standard Deduction

Column A Column B

Note: Short Form filers use column A only.

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

Joint or Head of Household
(filing status 2 or 6): \$6,460

Single or separate (filing
status 1,3,4 or 5): \$3,230 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): \$2,860

Single or separate (filing status 1,3,4 or 5): \$1,430 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. _____

TAX TABLE

If Taxable Income is:			If Taxable Income is:	
Over	But not over	Multiply by and Subtract = Tax	Over	But not over
\$ 0	\$ 2,200	X 2 % = \$ 0.	\$17,200	\$21,500
\$ 2,200	\$ 4,300	X 3 % = \$ 22	\$21,500	\$30,200
\$ 4,300	\$ 8,600	X 4 % = \$ 65	\$30,200	\$43,100
\$ 8,600	\$12,900	X 5 % = \$ 151	\$43,100	\$75,400
\$12,900	\$17,200	X 6 % = \$ 280	\$75,400	X 11 % = \$ 2,154

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

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



2001 Individual Income Tax Worksheets

Attach This Form to Your Return



Worksheet VI - Itemized Deduction Worksheet

Table with 2 columns: Column A, Column B. Rows 1-9 detailing itemized deduction calculations.

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

Underpayment Penalty of Estimated Tax

In 2001 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.

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

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

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

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

Short Method

- 1. Enter your 2001 tax from line 53 on Form 2 or line 31 on Form 2S.
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 58 on Form 2 or line 34 on Form 2S.

- 4. Subtract line 3 from line 1. If the result is \$500 or less, do not complete the rest of the form.
5. Enter your 2000 tax (Line 53 of 2000 Form 2 or line 31 on 2000 Form 2S).
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.
9. Multiply line 8 by .07980 and enter the result.
10. If the amount on line 8 was paid on or after 4/15/2002, enter -0-.
11. Underpayment interest penalty. Subtract line 10 from line 9.

2001 Individual Income Tax Worksheets Attach This Form To Your Return

Worksheet VIII - Taxable Social Security

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

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

- a. The only retirement you receive is Railroad Retirement income, or
b. Your federal adjusted gross income plus interest on all state and county municipal bonds and 1/2 of your social security benefits received during 2001 is less than:
-> \$32,000 if you are filing a joint return;
-> \$25,000 if you file a single/head of household return
-> \$16,000 if you are filing married filing separate.

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

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

If Taxable Income is:				<u>TAX TABLE</u>		If Taxable Income is:			
Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax		
\$ 0	\$ 2,200	X ... 2 %	\$ 0.	\$17,200	\$21,500	X	7 % \$	452	
\$ 2,200	\$ 4,300	X ... 3 %	\$ 22	\$21,500	\$30,200	X	8 % \$	667	
\$ 4,300	\$ 8,600	X ... 4 %	\$ 65	\$30,200	\$43,100	X	9 % \$	969	
\$ 8,600	\$12,900	X ... 5 %	\$ 151	\$43,100	\$75,400	X	10 % \$	1,400	
\$12,900	\$17,200	X ... 6 %	\$ 280	\$75,400		X	11 %	\$ 2,154	

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

Pay The Fair Share

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

Important Numbers:



(These are not toll free numbers.)

- | | | | |
|--|----------------|---|----------------|
| Income tax assistance and problems | (406) 444-6900 | TDD (Telephone Device for the Deaf) | (406) 444-2830 |
| Estimated tax requirements | (406) 444-9840 | Fax number—income tax | (406) 444-6642 |
| Where's my refund? | | Employer business tax questions | (406) 444-6900 |

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

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

No Return

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

