

Montana 2003 Package X - Part IV

Contains Individual Income Tax

MSA

MSA-P

NOL

NOL-99

NR-1

NR-2

QED

RCYL

RIC

RSCH

Montana Medical Care Savings Account

For more information regarding the medical care savings account, please access the website <http://www.montana.edu/wwwpb/pubs/mt9917.html>.

Montana resident taxpayers are allowed a reduction to arrive at Montana adjusted gross income for funds contributed to an account used specifically for eligible medical expenses.

A taxpayer may contribute any amount to a medical savings account (MSA). The maximum tax reduction is \$3,000 per taxpayer per tax year. Jointly held accounts do not qualify as an MSA, although each spouse, regardless of income tax filing status, may maintain a separate MSA.

In addition to deducting up to \$3,000 in contributions to a medical care savings account, interest earned on the principal amount in an account is excludable from Montana adjusted gross income. Interest on excess contributions carried over to subsequent years is not deductible until the excess contribution is considered medical care savings funds and excluded from adjusted gross income.

Any amount of monies used in the reduction of income in one year cannot be deducted again in a future year.

Self-Administered Account Holders

The law allows taxpayers to self-administer MSAs. A self-administered individual MSA may be established with a financial or other institution. The self-administered account holder is not required to register with the department. The self-administered MSA must be kept separate from all other accounts and be maintained specifically to pay eligible medical expenses for the individual account holder, his or her spouse, and any dependents.

Self-administered account holders must file an annual report (Form MSA) with their individual income tax return.

Eligible Medical Expenses

Eligible medical expenses are defined under Internal Revenue Code Section 213, and are the same expenses which, if not paid with MSA funds, would be allowed as an itemized deduction for Montana income tax purposes. Within certain limitations, the contributions to an MSA will be tax free as long as the account is used to pay eligible medical expenses. The maximum reduction per year allowed per taxpayer for Montana tax purposes is \$3,000 plus any interest the account accumulates. Withdrawals made for anything other than eligible medical expenses are subject to a 10% penalty. These penalties cannot be deducted from income. Non-eligible withdrawals made on the last weekday of December are not subject to the penalty.

Any non-eligible withdrawals are taxed as ordinary income if previously deducted. Eligible medical expenses reduced under the MSA cannot be deducted elsewhere on the income tax form.

Documentation Requirements

The account holder in all circumstances is required to maintain documentation to verify eligible medical expenses. The self-administered account holder must also maintain documentation of contribution and withdrawal amounts and dates, interest earned on the account, the year end balance and any penalties for ineligible withdrawals. Self-administered account holders must also keep copies of the financial or other institution's statements of account.



Medical Care Savings Account Penalty Calculation For Self-Administered Individual Accounts 15-61-201, MCA

Taxpayer Information

Name _____ Social Security Number _____

Account Information

Medical care savings account number _____

Financial institution where account is held _____

Address of financial institution _____

If you have a medical care savings account, you must file your Montana income tax return using Form 2 (long form). All nonqualifying withdrawals from your self-administered medical care savings account (MSA), must be included as income on line 23 of Form 2.

If you made withdrawals from a self-administered MSA that were not used to pay qualifying medical expenses, including withdrawals made on the last business day of the tax year, you must complete the worksheet below. Nonqualifying withdrawals, other than those made on the last business day of the tax year, are subject to a 10% penalty.

1. Enter the total from column D of Montana Form MSA. This amount must also be reported on line 23 of Montana Form 2 (long form). 1. _____
2. Enter withdrawals included in column D of Form MSA were made on the last business day in December 2003. 2. _____
3. Subtract amount on line 2 from amount on line 1. 3. _____
4. Multiply amount on line 3 by 10% (.10). This is your penalty. Enter this amount on line 49 of Montana Form 2 and write "MSA" in the space provided on line 49. 4. _____

Attach this form to your tax return. If you electronically file, keep this form for your records (do not send to the Department of Revenue).



Net Operating Loss Worksheet

For 1998 and prior years Loss Year _____

Note: For NOL's generated in tax year 1999 and forward, use Form NOL-99

Attach NOL worksheets to all tax returns affected by NOL

Name _____ Social Security Number _____

I. State Additions & Subtractions

- 1. Federal adjusted gross income 1. _____
- 2. Interest received on non-Montana bonds 2. _____
- 3. Federal refunds received 3. _____
- 4. Add lines 1, 2, and 3 4. _____
- 5. Itemized deductions 5. _____
- 6. Enter the reductions of wages under the targeted jobs credit 6. _____
- 7a. Net non-Montana income (Only years prior to 1992. Nonresident & part year resident only) 7a. _____
- 7b. Net non-Montana losses (Only years prior to 1992. Nonresident & part year resident only) 7b. _____
- 8. Add lines 4, 5, 6, and 7a or 7b. (Montana NOL before adjustments.) 8. _____

II. Nonbusiness Deductions in Excess of Nonbusiness Income

- 9. Enter your nonbusiness capital losses 9. _____
 - 10. Enter your nonbusiness capital gains 10. _____
 - 11. If the amount on line 9 is larger than the amount on line 10, enter the difference; otherwise, enter zero 11. _____
 - 12. If the amount on line 10 is larger than the amount on line 9, enter the difference; otherwise, enter zero 12. _____
 - 13. Enter your nonbusiness deductions (Itemized deductions, IRA, etc.) 13. _____
- (Federal income taxes must be prorated between taxable business income and taxable nonbusiness income. If you have no business income, federal income taxes are fully attributable to nonbusiness income)
- 14. Enter your nonbusiness income (other than capital gains) (Include amounts shown on lines 2 and 3) 14. _____
 - 15. Add lines 12 and 14 15. _____
 - 16. If line 13 is more than line 15, enter the difference; otherwise enter zero 16. _____

III. Adjustment for Capital Loss Limitation

- 17. If line 15 is more than line 13, enter the difference (but not more than line 12); otherwise, enter zero 17. _____
- 18. Enter your business capital losses 18. _____
- 19. Enter your business capital gains 19. _____
- 20. Add lines 17 and 19 20. _____
- 21. If line 18 is more than line 20, enter the difference; otherwise enter zero .. 21. _____
- 22. Add lines 11 and 21, but no more than your capital loss limitation 22. _____
- 23. Enter any Net Operating Losses from other years included in Federal adjusted gross income on line 1. (Enter as a positive number) 23. _____
- 24. Add lines 16, 22 and 23 24. _____
- 25. Add lines 8 and 24. This is your **Montana Net Operating Loss** 25. _____

Check box if you forego carryback and elect to carryforward. The election must be made on the original timely filed return.

Calculation of Loss Absorbed in Carryover Years

	Year _____	Year _____	Year _____	Year _____
1. Federal adjusted gross income as last determined (w/o loss)	_____	_____	_____	_____
2. Add: Adjustments				
(a) Capital gain deduction (Federal)	_____	_____	_____	_____
(b) Non-Montana interest	_____	_____	_____	_____
(c) Federal refund	_____	_____	_____	_____
(d) Capital loss deduction	_____	_____	_____	_____
3. Federal adjusted gross income as adjusted (add lines 1, 2a, 2b, 2c and 2d)	_____	_____	_____	_____
4. Less: Itemized deductions or standard deduction (complete lines A through O)	_____	_____	_____	_____
5. Modified Income (NOL absorbed) (line 3 minus line 4)	_____	_____	_____	_____
Itemized Deductions				
A. 50% medical insurance premiums (1995 & 1996) and 100% medical insurance premiums (beginning 1997)	_____ *	_____	_____	_____
B. Unadjusted medical expenses	_____	_____	_____	_____
C. 7.5% of line 3 (5% for 1986)	_____	_____	_____	_____
D. Subtract C from B	_____ *	_____	_____	_____
E. Taxes	_____ *	_____	_____	_____
F. Interest	_____ *	_____	_____	_____
G. Contributions	_____ *	_____	_____	_____
H. Unadjusted casualty Loss From Form 4684	_____	_____	_____	_____
I. 10% of line 3	_____	_____	_____	_____
J. Subtract I from H	_____ *	_____	_____	_____
K. Unadjusted miscellaneous expenses	_____	_____	_____	_____
L. 2% of line 3	_____	_____	_____	_____
M. Subtract line L from K	_____ *	_____	_____	_____
N. Miscellaneous deductions (not subject to 2%)	_____ *	_____	_____	_____
O. Total: (Add lines marked with an asterisk * A, D, E, F, G, J, M and N)	_____	_____	_____	_____

If carryover of a NOL is more than 4 years, attach an additional worksheet.

Line 1 may have to be adjusted when dealing with more than one NOL within the same year.



Montana Net Operating Loss For Year _____

Worksheet 1

1. Montana adjusted gross income from Montana Form 2. Resident estates and trusts, skip lines 1 and 2. 1. _____
2. Deductions:
 - 2a. Enter your itemized or standard deduction from your Montana Form 2. 2a. _____
 - 2b. Enter your deduction for exemptions from your Montana Form 2. 2b. _____
- 2c. Add lines 2a and 2b. 2c. _____
3. Subtract line 2c from line 1. Resident estates and trusts, enter taxable income increased by the sum of the charitable deduction and income distribution deduction. 3. _____

Note: If line 3 is zero or more, do not complete the rest of the schedule. You do not have an NOL.

4. Deduction for exemptions from line 2b above. Estates and trusts, enter the exemption amount from tax return. 4. _____
5. Total nonbusiness capital losses before limitation. Enter as a positive number. ... 5. _____
6. Total nonbusiness capital gains (without regard to any section 1202 exclusion.)... 6. _____
7. If line 5 is more than line 6, enter the difference; otherwise, enter -0-. 7. _____
8. If line 6 is more than line 5, enter the difference; otherwise, enter -0-. 8. _____
9. Nonbusiness deductions. See instructions. 9. _____
10. Nonbusiness income other than capital gains. See instructions. 10. _____
11. Add lines 8 and 10. 11. _____
12. If line 9 is more than line 11, enter the difference; otherwise, enter -0-. 12. _____
13. If line 11 is more than line 9, enter the difference; otherwise, enter -0-. But do not enter more than line 8. . 13. _____
14. Total business capital losses before limitation. Enter as a positive number. 14. _____
15. Total business capital gains (without regard to any section 1202 exclusion). 15. _____
16. Add lines 13 and 15. 16. _____
17. Subtract line 16 from line 14. If zero or less, enter -0-. 17. _____
18. Add lines 7 and 17. 18. _____
19. Enter the loss, if any, from Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from Schedule D (Form 1041).) Enter as a positive number. If you do not have a loss this schedule (and do not have a section 1202 exclusion), skip lines 19 through 24 and enter on line 25 the amount from line 18. 19. _____
20. Section 1202 exclusion. Enter as a positive number. 20. _____
21. Subtract line 20 from line 19. If zero or less, enter -0-. 21. _____
22. Enter the loss, if any, from the limitation line of Schedule D (Form 1040). (Estates and trusts, enter the loss from Schedule D (Form 1041)). Enter as a positive number. 22. _____
23. If line 21 is more than line 22, enter the difference; otherwise, enter -0-. 23. _____
24. If line 22 is more than line 21, enter the difference; otherwise, enter -0-. 24. _____
25. Subtract line 23 from line 18. If zero or less, enter -0-. 25. _____
26. NOL deduction for losses from other years. Enter as a positive number. 26. _____
27. NOL. Combine lines 3, 4, 12, 20, 24, 25, and 26. If the result is less than zero, enter it here and on page 3 of the Montana worksheet. See instructions. If the result is zero or more, you do not have an NOL. 27. _____
28. See instructions for details on how to report your NOL on Montana Form 2. 28. _____

Check here if electing to forego carryback of this NOL. This election must be made on a timely filed original return.

Check box if you forego the 5 year carryback for 2001-2002 and elect the 2 year carryback.

If you are a farmer, indicate here the carryback period you are claiming

Calculation of NOL Absorbed in Carryover Years

	Year _____	Year _____	Year _____	Year _____
1. Federal adjusted gross income as last determined (w/o loss)	_____	_____	_____	_____
2. Add: Adjustments				
(a) Capital gain deduction (Federal)	_____	_____	_____	_____
(b) Non-Montana interest	_____	_____	_____	_____
(c) Federal refund	_____	_____	_____	_____
(d) Capital loss deduction	_____	_____	_____	_____
3. Federal adjusted gross income as adjusted (add lines 1, 2a, 2b, 2c and 2d)	_____	_____	_____	_____
4. Less: Itemized deductions or standard deduction (complete lines A through O)	_____	_____	_____	_____
5. Modified Income (NOL absorbed) (line 3 minus line 4)	_____	_____	_____	_____
Itemized Deductions				
A. 50% medical insurance premiums (1995 & 1996) and 100% medical insurance premiums (beginning 1997)	_____ *	_____	_____	_____
B. Unadjusted medical expenses	_____	_____	_____	_____
C. 7.5% of line 3	_____	_____	_____	_____
D. Subtract C from B	_____ *	_____	_____	_____
E. Taxes	_____ *	_____	_____	_____
F. Interest	_____ *	_____	_____	_____
G. Contributions	_____ *	_____	_____	_____
H. Unadjusted casualty Loss From Form 4684	_____	_____	_____	_____
I. 10% of line 3	_____	_____	_____	_____
J. Subtract I from H	_____ *	_____	_____	_____
K. Unadjusted miscellaneous expenses	_____	_____	_____	_____
L. 2% of line 3	_____	_____	_____	_____
M. Subtract line L from K	_____ *	_____	_____	_____
N. Miscellaneous deductions (not subject to 2%)	_____ *	_____	_____	_____
O. Total: (Add lines marked with an asterisk * A, D, E, F, G, J, M and N)	_____	_____	_____	_____

If carryover of a NOL is more than 4 years, attach an additional worksheet.
 Line 1 may have to be adjusted when dealing with more than one NOL within the same year.

Instructions

General. Pursuant to statutory authority, Montana and North Dakota have entered into a reciprocal income tax agreement whereby neither state will tax residents of the other state on certain income from personal services. Effective with taxable years beginning on and after January 1, 1975, compensation which is subjected to withholding of federal income tax and is received for personal or professional services rendered within Montana by an individual who is a North Dakota resident is excluded from Montana adjusted gross income to the extent the income is reported on the individual's North Dakota individual income tax return. In order to claim this exclusion you must file Affidavit Form NR-1.

This form, Montana W-2's and a copy of your North Dakota tax return must be submitted with your Montana tax return.

Joint Affidavit. If both husband and wife have income which is exempt under the Montana - North Dakota Reciprocity Agreement, they may file a joint affidavit on Form NR-1.

Montana Income Tax Withheld. If Montana income tax has been withheld by your employer, you must file a Montana individual income tax return (Form 2), even though your income is exempt under the reciprocity agreement. In such case, Affidavit Form NR-1, Montana wage and tax statements and a copy of your North Dakota income tax return must be attached to your Montana return. Also, you may want to file Form NR-2 (Employee's Certificate of North Dakota Residence) with your employer to stop withholding of Montana Income Tax on such exempt income.

Montana Income Tax Not Withheld. If Montana income tax was not withheld by your employer and all of your Montana income is excludible under the reciprocity agreement, you do not have to file a Montana income tax return (Form 2). In this case, you need file only Affidavit Form NR-1.

How to Obtain Forms. Call (406) 444-6900 or mail requests to the Montana Department of Revenue, P.O. Box 5805, Helena, MT 59604-5805.

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



Employee Certificate of North Dakota Residence

Use this form to terminate withholding of Montana income tax with respect to compensation which is exempt under the Montana-North Dakota Reciprocity Agreement.

I, _____, hereby certify that I am a legal resident of the State of North Dakota for purposes of state individual income tax, and my home address in North Dakota is:

Address	City	State	Zip
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I swear that the statements I have made in this certificate are true and correct.

Signature	Date	Social Security Number
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Statement of Explanation

Pursuant to statutory authority 15-30-306 Montana and North Dakota have executed a reciprocal income tax agreement whereby Montana will not tax North Dakota residents on income from personal services rendered in Montana, and North Dakota will not tax Montana residents on income from personal services rendered in North Dakota. The exemption is specifically limited to compensation for personal or professional services which is subject to withholding of federal income tax.

Withholding of Montana income tax will not be required for the above described compensation paid to an employee who is a North Dakota resident, provided, the employee has furnished his/her employer with Certificate of Residence Form NR-2.

Instructions to Employee

Complete two copies of this form. File one copy with your employer, and mail the other copy to the Montana Department of Revenue. PO Box 5835, Helena, MT 59604-5835.

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

Attach this form to your tax return. If you electronically file, keep this form for your records (do not send to the Department of Revenue).



Qualified Endowment Credit

15-30-166, 15-31-161 and 15-31-162, MCA
Instructions on back

Individual or business name as it appears on your individual income tax, Form 2 or corporation license tax, Form CLT-4 _____

Social Security Number or Federal Employer Identification Number _____

1. Name and address of entity holding the qualified endowment
 - Tax exempt organization qualified under 26 U.S.C. 501(c)(3) holding qualified endowment:
 - Name _____
 - Address _____
 - City, State, Zip _____
 - Trustee of the trust administering planned gift:
 - Name _____
 - Address _____
 - City, State, Zip _____
 - Bank or trust company holding the qualified endowment on behalf of tax exempt organization:
 - Name _____
 - Address _____
 - City, State, Zip _____

2. Type of contribution. Check only one box. (See instructions for qualifications)

<input type="checkbox"/> Charitable remainder unitrust	<input type="checkbox"/> Charitable gift annuity
<input type="checkbox"/> Charitable remainder annuity	<input type="checkbox"/> Deferred charitable gift annuity
<input type="checkbox"/> Pooled income fund trust	<input type="checkbox"/> Charitable life estate agreement
<input type="checkbox"/> Charitable lead unitrust	<input type="checkbox"/> Paid-up life insurance policies
<input type="checkbox"/> Charitable lead annuity	<input type="checkbox"/> Qualified outright charitable contribution

 - Used only by a C corporation, Partnership, S corporation, trust, estate, LLC's

3. Qualified endowment contribution date _____

4. Allowable contribution amount \$ _____

5. Qualified endowment credit (see instructions for calculation of credit)
Enter here and on Form 2A, Schedule II for individuals;
Form CLT4, Schedule C for corporations \$ _____

Attach a receipt to Form QEC issued by the exempt organization holding the qualified endowment acknowledging their 501(c)(3) status, type of gift, the date the gift was made and the amount of the allowable contribution.

Attach this form to your tax return. If you electronically file, keep this form for your records (do not send to the Department of Revenue).

Montana Qualified Endowment Credit – General Instructions

A credit is allowed to an individual, C corporation or estate for the percentage of the charitable gift portion of a planned gift or for a C corporation, S corporation, partnership, trust, estate or limited liability company for an outright charitable contribution made to a qualified endowment. The credit may not exceed your tax liability and may not be carried back or carried forward. A credit allowed by a small business corporation, partnership, or limited liability company is attributed to the shareholders, partners, members or managers in the same proportion used to report the corporation's, partnership's or limited liability company's income or loss for Montana income tax purposes.

➤ **Entity Holding the Qualified Endowment.** A "qualified endowment" is a permanent, irrevocable fund that is held by a Montana incorporated or established 501(c)(3) organization, or a bank or trust company holding the funds on behalf of a 501(c)(3) organization. The Montana affordable housing revolving loan account established in 90-6-133, MCA is considered a qualified endowment for the purpose of this credit.

Enter on line one the name and address of the entity holding the qualified endowment and to which you contributed a planned gift or charitable contribution to during your tax year. If your planned gift is a trust, enter the name and address of the trustee, if the trustee is not the tax-exempt organization. If a bank or trust company holds the qualified endowment on behalf of the exempt organization, enter the name and address of the bank or trust company.

➤ **Type of Contribution.** Check the appropriate box for the type of contribution made to the qualified endowment. In order to qualify for the Montana qualified endowment credit, an individual taxpayer must contribute an irrevocable contribution to a permanent endowment by means of one of the following nine "planned gifts." A corporation, partnership or a limited liability company may make a contribution to a qualified endowment by means of either an outright charitable gift or a planned gift.

- **Charitable remainder unitrust.** A trust to which property is transferred and invested by the trustee who each year pays a fixed percent of the unitrust's value, revalued annually, to one or more private income beneficiaries for a term of years or until death, with the remainder interest in the trust then transferring to or for the use of the charity or retained by the trust for the use of the charity.
- **Charitable remainder annuity trust.** A trust to which property is transferred and invested by the trustee who each year pays a fixed dollar amount to one or more private income beneficiaries for a term of years or until death, with the remainder interest in the trust then transferring to or for the use of the charity or retained by the trust for the use of the charity.
- **Pooled income fund trust.** A trust to which property contributed by donors is intermingled and with respect to which the donor retains a lifetime income interest or creates such interest in others and irrevocably contributes the remainder interest to the charity maintaining the trust.
- **Charitable lead unitrust.** A trust to which property is transferred and invested by the trustee who each year pays a fixed percent of the unitrust's value, revalued annually, to the charity for a term of years or during lives of specified linear descendants, with the remainder interest then transferring to private beneficiaries named by the donor.
- **Charitable lead annuity trust.** A trust to which property is transferred and invested by the trustee who each year pays a fixed dollar amount to the charity for a term of years or lifetime(s), with the remainder interest then transferring to private beneficiaries named by the donors.

- **Charitable gift annuity.** The transfer of cash or property to a charity in exchange for the charity's promise to pay the donor (and, if applicable, surviving annuitant) a lifetime annuity, treated as a bargain sale (resulting in taxable gain and a charitable deduction).

- **Deferred charitable gift annuity.** A charitable gift annuity with respect to which the annuity payments are not begun until a future date.

NEW A charitable gift annuity and deferred charitable gift annuity is a planned gift if the issuing charitable organization at the date of the annuity has a minimum \$300,000 net worth or a minimum \$100,000 in unrestricted cash, cash equivalent or public traded securities, been in continuous operations, or a successor or affiliated with an organization that has been in business for at least 3 years, and one-half of the outstanding annuities is maintained in a separate annuity fund. If the above requirements are not met the gift annuity must be commercially insured by a licensed insurance company qualified to do business in Montana.

- **Charitable life estate agreement.** The gift of a personal residence or farm to charity subject to a reserved life estate.
- **Paid-up life insurance policy.** A life insurance policy for which all the premiums have been paid, usually entitling the donor to a current deduction equal to the cost of replacing the policy with a single premium life insurance policy at the donor's current age.

➤ **Qualified Endowment Contribution Date.** Enter the date the planned gift or charitable contribution was completed. A pledge to contribute to a qualified endowment does not qualify you for the qualified endowment credit. The credit is available for the tax period in which the gift is transferred to the qualified endowment.

➤ **Allowable Contribution Amount.** The allowable contribution amount for a "planned gift" is the present value of the aggregate amount of the charitable gift portion of the gift. The allowable contribution amount of a charitable gift for a corporation, partnership or limited liability company is that amount that qualifies and a charitable contribution under IRC § 170. The allowable contribution amount can not be claimed as an itemized deduction for an individual or as a deduction in computing net income for a corporation, partnership or limited liability company.

➤ **Qualified Endowment Credit.** Use the following chart to calculate your qualified endowment credit.

Note: Change in credit application effective 7-01-03

For Planned Gift		
Planned Gift Date	% of Present Value	Max. Credit
1-1-02 through 8-27-02	40%	\$10,000
8-28-02 through 6-30-03	30%	\$ 6,600
7-1-03 through 12-31-07 NEW	40%	\$10,000
For Businesses: Qualified Outright Charitable Gifts		
Qualified Charitable Gift Date	% of Charitable Gift	Max. Credit
1-1-02 through 8-27-02	20%	\$10,000
8-28-02 through 6-30-03	13.3%	\$ 6,600
7-1-03 through 12-31-07 NEW	20%	\$10,000



Recycle Credit/Deduction

MONTANA
RCYL
Rev. 8-03

Instructions on back
15-32-602 and 15-32-610, MCA

Name _____
(as shown on Montana individual income tax, Form 2 or Montana corporation license tax, Form CLT-4)

Business name (if different from above) _____

Social Security Number or Federal Employer Identification Number _____

Check one C. corporation S corporation Partnership Sole proprietorship

Part I

1. Was the qualifying machinery/equipment purchased on or after the first day of the current taxable year and before the last date of the current taxable year? Yes No

If you answer "no" to question 1, stop here. You do not qualify.

2. Is the machinery/equipment used in Montana primarily for collections or processing reclaimed material? Yes No

3. Is the machinery/equipment used in Montana primarily for the manufacturing of finished products from reclaimed materials? Yes No

4. Is the machinery/equipment used to treat soils contaminated by hazardous wastes? Yes No

5. Was the machinery/equipment located and operating in Montana on the last day of the taxable year for which the credit is claimed? Yes No

If you answer "no" to questions 2, 3, and 4 or "no" to question 5, do not complete this form. You do not qualify for the credit.

Part II - For equipment used in Montana

6. Type and purpose of equipment _____

7. Date of purchase _____ (Please provide copy of sales receipt)

8. Cost of equipment (the total cost of equipment in Part II and Part III may not exceed \$11,000,000) \$ _____

9. Computation of Credit (multiply the cost of the equipment by the following percentages):

Multiply the first \$250,000 by 25% (.25) _____

Multiply the next \$250,000 by 15% (.15) _____

Multiply the next \$500,000 by 5% (.05) _____

Total Credit \$ _____

Part III - For qualifying specialized mobile equipment used in and out of Montana

10. Type and purpose of equipment _____

11. Date of Purchase _____ (please provide copy of sales receipt)

12. Cost of Equipment (the total cost of equipment in Part II and Part III may not exceed \$1,000,000) \$ _____

13. Number of days used in Montana _____

14. Total days used for the year _____

15. Divide amount on line 13 by amount on Line 14. _____

16. Computation of credit:

Multiply the ratio on line 15 by 25% (.25) then multiply the first \$250,000 of line 12 _____

Multiply the ratio on line 15 by 15% (.15) then multiply the next \$250,000 of line 12 _____

Multiply the ratio on line 15 by 5% (.05) then multiply the next \$500,000 of line 12 _____

Total Credit \$ _____

17. Total Credit Available (Amount from line 9 and/or line 16)

Enter this amount on Schedule II, Form 2A, for individuals or Schedule C, Form CLT-4 for corporations \$ _____

Amount of credit may not exceed tax liability

Part IV - Deduction for purchase of recycled material

18. Type of recycled material purchased _____

19. Cost of recycled material \$ _____

20. Multiply the amount on line 19 by 10% (.10) and enter the result here. This is the amount of your additional deduction.

Enter on line 35, Form 2, for individuals and line 3c Form CLT-4 for C-corporations \$ _____

Instructions For Recycling Credit

This credit is available to certain C. corporations, S. corporations, partnerships and individuals that qualify.

The tax credit is available only for the procurement of machinery and/or equipment that is depreciable (Defined in IRS Code Section 167). The machinery and/or equipment must be used in Montana; primarily for the collection or processing of reclaimable material or in the manufacturing of finished products from reclaimed material or to treat soils contaminated by hazardous wastes.

The basis for the credit is generally the cost of the property before consideration of trade-in equipment. An exception to this is that the basis shall be reduced by any trade-in which has had this credit previously taken on it. This includes the purchase price, transportation cost (if paid by the purchaser) and the installation cost before depreciation or other reductions. This credit does not increase or decrease the basis for tax purposes.

Recycling machinery and/or equipment must be located and operating in Montana on the last day of the taxable year for which the credit is claimed. The machinery or equipment must be used to collect, process, separate, modify, convert or treat solid waste into a product that can be used in place of a raw material for productive use or to treat soils contaminated by hazardous wastes. This does not include transportation equipment unless it is specialized to the point that it can only be used to collect and process reclaimable material.

The owners of a small business corporation or partnership must prorate the credit in the same proportion as their ownership in the business unless an agreement states otherwise.

Only a taxpayer that owns an interest either directly or through a pass-through entity such as a partnership or S corporation and is operating the equipment as the primary user on the last business

day of the year may claim the credit.

The credit is limited to the amount of the taxpayer's income or corporation tax liability. Any excess credit is not refundable and can not be carried back or forward to other tax years.

The Department of Revenue may disallow a credit resulting from a sale or lease when the overriding purpose of the transaction is not to collect or process reclaimable material or manufacture a product from reclaimed material.

Definitions

“Collect” is the collection and delivery of reclaimed materials to a recycling or reclaimable materials processing facility.

“Machinery or equipment” is property having a depreciable life of more than one year. The machinery or equipment collects or processes reclaimable material or is used in the manufacturing of a product from reclaimed material.

“Reclaimable material” is material that has useful physical or chemical properties after serving a specific purpose and that is normally disposed of as solid waste by a consumer, processor or manufacturer. Material may not be considered reclaimed by the consumer, processor or manufacturer that generated the material.

“Recycled material” is a substance that is produced from reclaimed material as provided in 15-32-609, MCA and defined under the Administrative Rules of Montana, 42.15.507. Reclaimed material collected, processed or used to manufacture a product may not be an industrial waste generated by the person claiming the tax credit.

The tax credit allowable under this section may not exceed the current year's liability. Unused or excess credit may not be refunded and may not be carried back to prior years or forward to any succeeding tax year.



Recapture of Investment Credit

15-30-162, MCA

	Column A			Column B		
	Column A-1 Pre-81 Property	Column A-2 1981-82 Property	Column A-3 1983-2003 Property	Column B-1 Pre-81 Property	Column B-2 1981-82 Property	Column B-3 1983-2003 Property
1. Total tentative recapture tax (Form 4255)	1.	1.	1.	1.	1.	1.
2. Line 1 column A-1 times 20%	2.			2.	← Line 1 Column B-1 times 20%	
3. Line 1 Column A-2 times 30%.....		3.			3. ←	Line 1, Column B-2 times 30%
4. Line 1 Column A-3 times 5%..... ⇒			4.	Line 1 Column B-3 times 5%..... ⇒		4.
5. Total tentative Montana recapture tax Add lines 2, 3, and 4 Column A..... ⇒			5.	Total tentative MT recapture tax Add lines 2,3, and 4 Column B ⇒		5.
6. Previous Montana investment credit unused..... ⇒			6.	Previous Montana investment credit unused..... ⇒		6.
7. Montana investment credit recapture Subtract line 6 from line 5..... ⇒			7.	MT investment credit recapture Subtract line 6 from line 5.... ⇒		7.

Enter these amounts on line 48, Form 2. Do not use this amount to reduce your current year investment credit.

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



Attach this form to your tax return. If you electronically file, keep this form for your records (do not send to the Department of Revenue).



Increase Research and Development Activities Credit

For taxable year beginning _____ and ending _____
Read the instructions before completing this form

- A credit can be claimed for only those research activities that are conducted in Montana.
- A credit allowed for a tax year may not exceed the tax liability.

Part I – Credit Calculation for Basic Research Payments

See IRC 41(e)

1. Enter the basic research payments paid or incurred to qualified organizations (see instructions) 1. _____
2. Qualified organization base period amount 2. _____
3. Subtract line 2 from line 1. If less than zero, enter zero 3. _____

Part II – Credit Calculation for Qualified Research Expenses

See IRC 41(e)

4. Wages for qualified services (do not include wages used to compute the Federal Jobs Credit) 4. _____
5. Cost of supplies 5. _____
6. Rental or lease costs of computers (see instructions) 6. _____
7. Enter the applicable percentage of contract research expenses (see instructions) 7. _____
8. Total qualified research expenses – add lines 4 through 7 8. _____
9. Enter fixed-base percentage, but not more than 16% 9. _____
10. Enter average annual gross receipts 10. _____
11. Base amount – multiply line 10 by the percentage on line 9 11. _____
12. Subtract line 11 from line 8 12. _____
13. Enter 50% (.50) of line 8 13. _____
14. Enter the smaller of line 12 or 13 14. _____

Part III – Total Research and Development Tax Credit

15. Enter the total of line 3 and line 14 15. _____
16. Enter 5% (.05) of line 15 16. _____
17. Research and Development Tax Credit carried forward from a prior year (attach schedule) 17. _____
18. Total Research and Development Tax Credit available (Add line 16 and line 17) 18. _____

For individual income tax, enter this amount on Form 2A ,Schedule II. For corporation license tax, enter this amount on Form CLT-4, Schedule C.

Attach this form to your tax return. If you electronically file, keep this form for your records (do not send to the Department of Revenue).

Instructions

Increase Research and Development Activities Credit

Use form RSCH to calculate and claim the credit for increasing the research activities of a trade or business. Complete Parts I through III to compute the research credit.

- A credit can be claimed for only those research activities that are conducted in Montana.
- A credit for increased research activities is allowed based on qualified expenditures made in taxable years beginning after December 31, 1998.
- Section references are to the Internal Code otherwise noted.

Qualified Research Activities

The research and development tax credit is generally allowed for qualified research activities. Qualified research activities means research for which expenditures may be treated as I.R.C. Section 174 expenses. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability or quality. For in-house research expenses (see I.R.C. 41(b)(2)), the requirement that the taxpayer must have incurred the expenses in carrying on a trade or business will be met if the principal purpose for conducting the research is to use the results of the research in the active conduct of a future trade or business. See I.R.C. 41(b)(4).

The research and development tax credit is generally not allowed for the following types of activities.

- Research conducted after the beginning of commercial production
- Research adapting an existing product or process to a particular customer's need
- Duplication of an existing product or process
- Survey or studies
- Research relating to certain internal use computer software
- Research conducted outside the State of Montana
- Research in the social sciences, arts or humanities
- Research funded by another person (or governmental entity)

See I.R.C. 41 for other definitions concerning the research credit.

Who Can Claim the Credit

A corporation, individual, small business corporation, partnership or limited liability company claiming a credit for increasing research activities should complete this form and attach it to a tax return.

For a small business corporation, partnership or limited liability company claiming a credit for increasing research activities, the credit must be attributed to the individual shareholders, partners, members or managers in the same proportion used to report income or loss for Montana tax purposes. The allocations I.R.C. 41(f) do not apply.

Credit Carryover

If the research credit cannot be used because of tax liability limitations, it may be carried back two years and forward up to fifteen years. The entire amount of the credit not used in the year earned must be carried first to the earliest tax year in which the credit may be applied and then to each succeeding year. Please attach a schedule documenting any credit carryover.

Specific Instructions for Form RSCH

Part I

Credit Calculation for Basic Research Payments

Line 1 – A corporation, individual, small business corporation, partnership or limited liability company is eligible for a “basic research” credit if the payments in such to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on general university giving and certain other maintenance-of-effort levels for three preceding years). Enter your payments for basic research conducted in Montana on line 1. See I.R.C. 41(e) for details.

Line 2 – Enter the base period amount as defined in I.R.C. 41(e). Line 2 cannot exceed the amount on line 1.

Part II

Credit Calculation for Qualified Research Expenses

Lines 4 through 7 – Pertain to qualified research expenditures paid or incurred for research activities conducted in Montana.

Line 6 - See I.R.C. 41(b)(2)(A) for rules on leased property if the taxpayer received payments for the rental or lease of substantial identical property.

Line 7 – Include 65% (.65) of any amount paid or incurred for qualified research performed on the taxpayer's behalf. Prepaid tract research expenses are considered paid in the year the research is actually done. Also include 65% (.65) of that portion of the line 1 basic research payments that does not exceed the line 2 base amount See I.R.C. 41(e)(1)(B). However use 75% in place of 65% (.65) for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in section 501(c)(3) or 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

Line 9 - Compute the fixed-base percentage as follows. The fixed-base percentage for an existing company (any company that is not a start-up company) is figured by dividing the aggregate qualified research expenses for the tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those tax years. Round off the percentage to the nearest 1/100th of 1% (.01) (i.e. four decimal places).

Start up companies – A start up company is a taxpayer that had both gross receipts and qualified research expenses either:

- for the first time in a tax year beginning after 1983, or
- for less than 3 tax years beginning after 1983 and before 1989.

For tax years beginning before January 1, 1994 the fixed-base percentage is 3% (.03) if you have fewer than three taxable years beginning after December 31, 1983 and before January 1, 1989 in which you had both gross receipts and qualified research expenses. If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a tax year or short tax years are involved, see I.R.C. 41(c)(3) and 41(f)(4).

For tax years beginning after December 31, 1993, the fixed-base percentage is 3% (.03) for each of the first five tax years for which there were qualified research expenses. However, the fixed-base percentage for the sixth through tenth years after 1993 in which percentage (rounded to 1/100th of 1% (.01)) which qualified research expenses bear to gross receipts everywhere for specified preceding years as follows:

- for the sixth year, one-sixth of the percentage which qualified research expenses bear to gross receipts everywhere for its fourth and fifth years
- for the seventh year, one-third of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years
- for the eighth year, one-half of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years
- for the ninth year, two-thirds of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through eighth years
- for the tenth year, five-sixths of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through ninth years

For subsequent tax years, the taxpayer's fixed-base percentage will be the whole percentage which qualified research expenditures bear to gross receipts everywhere for any five years selected by the taxpayer from the fifth through tenth tax years.

The maximum percentage that can be entered on line 9 is 16% (16).

Line 10 – Enter the average annual gross receipts everywhere for the four tax years preceding the tax year for which the credit is being determined (called the credit year). The taxpayer may be required to annualize gross receipts for any short tax year. See I.R.C. 41(c)(1)(B) and 41(f)(4).

For purposes of lines 9 and 10, reduce gross receipts everywhere for any tax year by returns and allowances made during the tax year. In the case of a foreign corporation, include only gross receipts that are effectively connected with the trade or business within the United States.

Line 13 – The base amount cannot be less than 50% (.50) of the current year qualified research expenses. The rule applies to existing and newly organized businesses.

Part III

Total Research and Development Tax Credit

The total research and development tax credit available on line 18 is one of several credits that are allowed for individuals and corporations. Transfer to Form 2A, Schedule II for individual income tax or to Form CLT-4, Schedule C for corporate license tax.