



# MONTANA

## 2005

**Forms included in this booklet:**  
Long Form 2  
Short Form 2S  
Form 2A  
Schedules I through VIII  
Form W  
Worksheets I through VIII  
Form 2EC

## Individual Income Tax Booklet

Dear Montana Taxpayers:

Your Montana Department of Revenue is committed to providing the best possible tax services to the citizens of our great state. We promise to do the best we can

- to provide you with the most accurate and timely assistance to help you file your tax returns, and
- to ensure that all citizens and businesses pay their fair share of Montana taxes—no more and no less.

We hope you find the new income tax booklet easier to use than before. The instructions are written in a clear and direct style with larger print and more space between paragraphs. We expanded the tax form to reflect all features of Montana law—including those that allow all of you to reduce your taxes legally.

By paying taxes, you support public services that help make Montana a great place to live, work and raise a family. First-rate public schools, safe highways, community health and safety, quality higher education opportunities, abundant outdoor recreation and a clean environment are just some of the goals that your tax dollars help achieve.

As you prepare your tax return, please note the many important changes for the 2005 tax year listed on pages 1 and 2.

Please consider electronic filing. Last year, more than 50% of Montana taxpayers did. You can reduce the wait for your refund through direct electronic deposit into your bank account. If you owe taxes, you can make an online payment through the Income Tax Express service. It's simple, secure and convenient.

Finally, we continue to work for you. Please let us know how we are doing—so that we can do an even better job for you—by completing the improvement survey attached to the instruction booklet. For your convenience, it is addressed with postage paid.

Thank you for helping make our tax system work for all Montanans!

Best regards,

Dan Bucks  
Director, Montana Department of Revenue

**Now Easier  
to Use!**

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**Pay your Income Tax Online!**

**Payment Options:**

- **Credit Card**
- **eCheck**

**with Income Tax Express**

**<http://app.discoveringmontana.com/intax>**

### Did you know that you can file your Montana income tax return electronically?

**The benefits to you are:**

- **Faster Refunds.** The typical wait for e-filed refunds is 5 – 10 days. Taxpayers who file paper returns wait as long as 6 – 10 weeks for their refunds.
- **Fewer Errors.** Computer calculations are automatic and virtually error-proof.
- **Direct Deposits.** Refunds can be deposited directly into your bank account.
- **Avoid Post Office Lines.** No more last-minute postal runs or doubt about correct postage.
- **Immediate Verification of Receipt.** Returns can't be "lost in the mail."
- **File Now, Pay Later.** E-file accepts both refund and tax due returns. Payments on balance due returns are to be made by April 17, 2006. Check out your electronic payment options on our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) and click on "Income Tax Express."

**Ways to file your return electronically:**

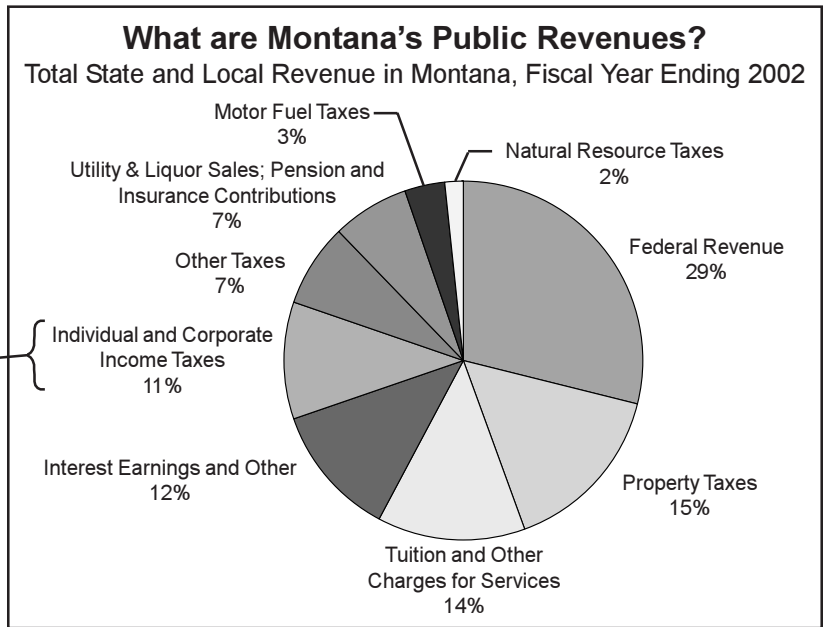
- **E-file from your own computer.** Use our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) and click on "Free-file Alliance" to access e-file services that we make available at no cost to eligible taxpayers and the commercial preparation software that is available for a modest fee.
- **E-file with your tax preparer.** You can request that your tax preparer use this service.

# Your Tax Dollars at Work

The first chart shows the sources of revenue for both state and local governments in Montana for 2002, the most recent year for which totals are compiled.

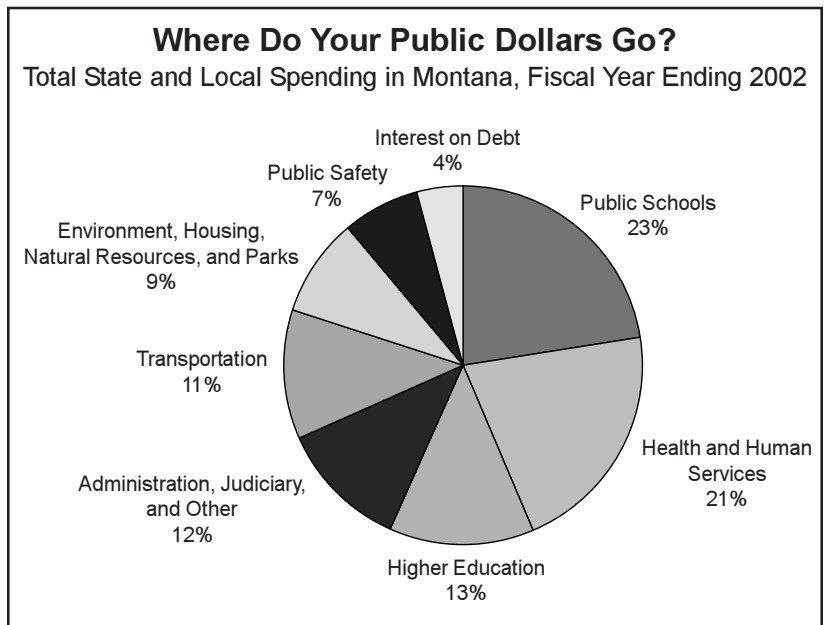
The second chart shows state and local spending.

The table below shows where your income tax dollar—about 11% of total state and local revenues—was spent in 2005.



**Where Your Income Tax Dollar Goes**

Education - K through College	53%
Health and Human Services	20%
Public Safety and Corrections	10%
Transfers to Local Governments	7%
General Government Operations	6%
Other	4%
<b>Total Spending</b>	<b>100%</b>



For Returns With Payments  
Mail To:  
Montana Department of Revenue  
PO Box 6308  
Helena, MT 59604-6308

For All Other Returns  
Mail To:  
Montana Department of Revenue  
PO Box 6577  
Helena, MT 59604-6577

If you need assistance with preparing your return please call us at (406) 444-6900 or for the hearing impaired at (406) 444-2830. You may also visit our website at [www.mt.gov/revenue](http://www.mt.gov/revenue).

## Forms Included in This Tax Booklet

Form Name	Description	Form Name	Description
2 .....	Individual Income Tax Return – Long Form	2A .....	Schedules I through VIII
2S .....	Individual Income Tax Return – Short Form	W .....	Worksheets I through VIII
2EC .....	Montana Elderly Homeowner/Renter Credit		

### Individual Income Tax Forms Available Upon Request

These forms may be available at local banks, courthouses, libraries and post offices.  
Or order your forms by calling us at (406) 444-6900 or by visiting our website at [www.mt.gov/revenue](http://www.mt.gov/revenue).

Form Name	Description	Form Name	Description
2 Booklet .....	2005 Individual Income Tax Booklet	FTB-P .....	First-Time Home Buyer Savings Account Penalty
2 .....	Individual Income Tax Return – Long Form	HI .....	Health Insurance for Uninsured Montanans Credit
2S .....	Individual Income Tax Return – Short Form	IND .....	Indian Certification
2EC .....	Montana Elderly Homeowner/Renter Credit	IT-EST .....	Estimated Individual Income Tax Booklet
2A – Page 1 ...	Amended Return Reconciliation and Schedule I – Montana Additions to Federal Adjusted Gross Income	MINE-CRED ..	Mineral Exploration Incentive Credit
2A – Page 2 ...	Schedule II – Montana Subtractions From Federal Adjusted Gross Income	MSA .....	Medical Care Savings Account
2A – Page 3 ...	Schedule III – Montana Itemized Deductions	MSA-P .....	Medical Care Savings Account Penalty
2A – Page 4 ...	Schedule IV – Non-Resident/Part-Year Resident Tax	NOL .....	Montana Net Operating Loss Worksheet (1999 and subsequent years)
2A – Page 5 ...	Schedule V – Montana Tax Credits	NOL-Pre 99 ...	Montana Net Operating Loss Worksheet (1998 and prior years)
2A – Page 6 ...	Schedules VI & VII – Credit for an Income Tax Paid to Another State or Country	NR1 .....	North Dakota Reciprocal Affidavit
2A – Page 7 ...	Schedule VIII – Reporting of Special Transactions	NR2 .....	Employee Certificate of North Dakota Residence
2101 .....	W-2 Withholding Declaration	OSC .....	Oil Seed Crushing and Biodiesel Production Facility Credit
2441-M .....	Child and Dependent Care Expense Deduction	QEC .....	Qualified Endowment Credit
AEPC .....	Alternative Energy Production Credit	RCYL .....	Recycle Credit
AFCR .....	Alternative Fuel Credit	RSCH .....	Increase Research and Development Activities Credit
BBSC .....	Biodiesel Blending and Storage Tank Credit	VT .....	Veteran's Contribution
CC .....	College Contribution Credit	W .....	Worksheet I – IRA Deduction
DCAC .....	Dependent Care Assistance Credit		Worksheet II – Tax Benefit Rule for Federal Income Tax Refund
DS-1 .....	Disability Income Exclusion Calculation Form		Worksheet III – Qualified Capital Gain Exclusion
ECC .....	Elderly Care Credit		Worksheet IV – Partial Pension and Annuity Income Exemption
ENRG-A .....	Geothermal Systems Credit		Worksheet V – Standard Deduction
ENRG-B .....	Alternative Energy Systems Credit		Worksheet VI – Itemized Deduction Worksheet
ENRG-C .....	Energy Conservation Installation Credit		Worksheet VII – Calculation of Interest on Underpayment of Estimated Taxes – Short Method
ESA .....	Estimated Tax Annualization Worksheet		Worksheet VIII – Social Security Benefits
EST-I .....	Interest on Underpayment of Estimated Tax		Worksheet IX – Tax Benefit Rule for Recoveries of Itemized Deductions
ESW .....	Estimated Individual Income Tax Worksheet		
EXT-05 .....	Extension Payment Worksheet		
FPC .....	Film Employment Production and Qualified Expenditure Credit		
FRM .....	Farm and Ranch Risk Management Account		
FTB .....	First-Time Home Buyer Savings Account		

## What's New For 2005?

**Tax Form Design and Instructions** – As you review the Form 2 income tax booklet, you will notice a number of changes in the line-by-line detail of what is required of you to complete your accurate Montana income tax return. With this expanded tax return also come expanded instructions. As we strive to provide quality taxpayer service, these expanded instructions are one way that we can help you by providing comprehensive instructions for the differences that exist between your federal income tax return and your Montana income tax return. As in the past we will continue to provide personal service through our Customer Service Center at (406) 444-6900.

**Tax Rates** – For tax year 2005 you will find new individual income tax rates. The 10 tax brackets ranging from 2% to 11% that you have used in the past are now replaced with 7 tax brackets ranging from 1% to 6.9%.

2005 Tax Brackets and Table			
If your taxable income on Form 2, line 45 or Form 2S, line 18 is:			
At least	But less than	Then your tax is	Less:
0	\$2,300	1% of your taxable income	
\$2,300	\$4,100	2% of your taxable income	(\$23)
\$4,100	\$6,200	3% of your taxable income	(\$64)
\$6,200	\$8,400	4% of your taxable income	(\$126)
\$8,400	\$10,800	5% of your taxable income	(\$210)
\$10,800	\$13,900	6% of your taxable income	(\$318)
\$13,900		6.9% of your taxable income	(\$443)

For Example: Taxable income \$4,000 X .02(2%) = \$80.  
\$80 minus \$23 = \$57 tax.

**Federal Income Tax Deduction Limitation** – If you and your spouse elect to itemize your deductions instead of taking the standard deduction to determine your taxable income, your federal income tax deduction is limited for tax year 2005 and subsequent years. If your filing status is single, married filing separately or as head of household, your federal income tax deduction is limited to \$5,000 each and \$10,000 if you file jointly with your spouse. See the instructions for Form 2A, Schedule III, lines 6a through 6e on page 22.

**Capital Gains Tax Credit** – If you have reported net capital gains in your Montana adjusted gross income, you are entitled to a 1% capital gains tax credit that is applied directly against your income tax liability. See the instructions for Form 2, line 47 on page 9.

**National Guard Members Called to Active Duty in a Combat Zone or Contingency Operation** – Montana follows the Servicemembers Civil Relief Act passed by Congress in 2003 and also follows Internal Revenue Code (IRC) 7508, which provide a servicemember, and his or her spouse, who is serving in a combat zone, participating in a contingency operation, or has qualified hospitalization time, the opportunity to extend the due date of his or her return up to 180 days after being discharged from service.

**Domestic Production Activities Deduction** – Because Montana's deductions that are allowed in computing net income begin with the federal deductions allowed under 26 U.S.C. 161, the federal domestic production activities

deduction that you reported on Form 2, line 35 is allowed as a deduction when you compute your Montana adjusted gross income. No additional Montana adjustment is necessary for the domestic production activity deduction taken on Form 2, line 35.

**Life Insurance Premium Reimbursement for Members of the National Guard and Reserve** – If you are a member of the Montana National Guard or Reserve and you are reimbursed by the Montana Department of Military Affairs for group life insurance premiums that you paid under the service members' group life insurance program pursuant to 38 U.S.C. 1965 through 1980, you can exempt these reimbursements when you determine your Montana adjusted gross income. See the instructions for Form 2A, Schedule II, line 10 on page 16.

**Oil Seed Crushing and Biodiesel Production Facility Credit** – If you invest in qualifying depreciable property that you use to crush oilseed crops that are used in the production of biodiesel fuel, you can qualify for a tax credit equal to 15% of the cost of your investment up to \$500,000. In addition, you can qualify for an additional tax credit equal to 15% of the cost of investing in qualifying depreciable property that you used to construct and equip a facility to produce biodiesel fuel. See the instructions for Form 2A, Schedule V, line 11 on page 30.

**Biodiesel Blending and Storage Tank Credit** – If you are a special fuel distributor, you can claim a tax credit equal to 15% of the cost of installing depreciable storage and blending equipment that you used to blend biodiesel with petroleum diesel up to a maximum credit of \$52,500. In addition, if you are an owner of a motor fuel outlet that has installed depreciable storage and blending equipment that is used to blend biodiesel with petroleum diesel, you are entitled to a tax credit equal to 15% of the cost of installing such equipment up to \$7,500. See the instructions for Form 2A, Schedule V, line 12 on page 30.

**Film Employment Production Credit** – If you are an owner of a film production company that produced a "state-certified production," you are entitled to an employment production tax credit equal to 12% of the first \$50,000 of compensation that you paid to each of your Montana employees. In addition, you can also qualify for a "qualified expenditures tax credit" equal to 8% of the qualified expenditures that you incurred in your state-certified production. See the instructions for Form 2A, Schedule V, lines 25, 28 and 29 on page 32.

**Endowment Credit Recapture Tax** – If in 2005 you recovered or received back a charitable gift that you previously used to obtain the endowment tax credit, you will need to include in your income any amount that you deducted in the prior year to the extent that it reduced your income tax liability for that year. In addition, you will need to increase your amount of tax due in 2005 by the amount of the credit that was allowed in the previous year. See the instructions for Form 2, line 53 on page 10.

**Interest on Unpaid Individual Income Tax Liabilities** – Effective July 1, 2005, if you owe an individual income tax



debt, interest began accruing daily on your unpaid tax from the original due date of the return, regardless of whether you filed an extension, until that income tax debt is paid. Interest accruing prior to July 1, 2005 remains at 1% per calendar month or fraction of a calendar month. See the instructions for Form 2, line 64d on page 11.

**Reporting of Special Transactions** – If you and/or your spouse were required to complete for federal income purposes federal forms reporting special transactions to the Internal Revenue Service, you will have to disclose this information to us. See the instructions for Form 2A, Schedule VIII on page 32.

## General Information

### Am I required to file a Montana individual income tax return?

If you are a resident, nonresident, or a part-year resident, you have to file a Montana individual income tax return when you have Montana source income and your federal gross income, excluding unemployment compensation, is equal to or greater than the corresponding amounts that are identified in the chart below.

IF your filing status is...	AND at the end of 2005 you were...	THEN you should file a return if your federal gross income, excluding unemployment compensation was at least...
Single, or married filing separately	Under 65	\$3,560
	65 or older	\$5,460
Head of Household	Under 65	\$7,120
	65 or older	\$9,020
Married filing jointly with your spouse	Both under 65	\$7,120
	One spouse 65 or older	\$9,020
	Both spouse 65 or older	\$10,920
If you or your spouse are blind you are entitled to an additional exemption. Increase your federal gross income by \$ 1,900 to determine if you are required to file.		

### How do I determine whether I am a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes?

You are a resident of Montana for individual income tax purposes if you live in Montana or if you maintain a permanent home in Montana. You will not lose your Montana residency if you left the state temporarily with the intention of returning. Your Montana residency is lost, or changed, when you establish a permanent residence outside of Montana with no intention to return. Unless there is a specific statutory exception, if you establish Montana residency for any other purpose, you are considered a Montana resident for income tax purposes.

You are a nonresident of Montana if you did not consider Montana your home at any time during the tax year even though you may have lived and worked in Montana temporarily during the tax year.

You are a part-year resident of Montana if you moved into or out of Montana during the tax year with the intention of establishing a permanent residence in your new state.

### How do I determine my legal residence for Montana income tax purposes?

Your legal residence is generally the place where you maintain your most important family, social, economic, political and religious ties. It is a place where you remain when you are not called elsewhere for work or for other temporary purposes. Your change in residency is not accomplished by being away from your home temporarily or for a prolonged period of time but your change of residence is established when you leave your home and do not intend to return, but instead, intend to establish a new home elsewhere.

### When do I have to file my Montana income tax return?

Your 2005 calendar year tax return has to be filed by April 17, 2006. Because April 15, 2006 falls on a Saturday, your individual income tax return is timely filed if you file it by Monday, April 17, 2006. If you operate on a fiscal year, your return has to be filed by the 15<sup>th</sup> day of the fourth month following the close of your fiscal year. If you file after this date, you may have to pay penalties and interest.

### How can I get an extension of time to file my Montana income tax return?

First of all, it should be clear that any extension of time to file your Montana income tax return is NOT an extension of time to pay your income tax liability. If you have a valid Montana extension but have not paid your complete income tax liability by April 17, 2006, you are relieved of late file penalties but you are not relieved of late pay penalties and interest on your outstanding Montana income tax liability.

You can be granted an extension of time for filing your Montana income tax return if you meet BOTH of the following requirements:

1. By April 17, 2006, you have applied to the Internal Revenue Service by filing federal Form 4868 for an automatic six-month extension to file your federal income tax return.
2. You have paid 90% of your 2005 Montana income tax liability or 100% of your 2004 Montana income tax liability through your estimated tax payments, your withholding tax, or a combination of both your estimated and withholding tax payments.

Even though you have applied for an automatic six-month federal extension, this does not guarantee that you have a Montana extension unless you have met one of the requirements listed in number 2 above on or before April 17, 2006. You should examine and use the Montana EXT-05, which is the "Extension Payment Calculation" worksheet, in order to determine whether you have a Montana extension payment requirement. If you are required to make an extension payment, please use the tax payment coupon found on the Montana EXT Worksheet.

In order to further complete your Montana extension, you have to check the extension indicator box found on the bottom right hand corner of Montana Form 2 and attach a copy of your federal Form 4868 "Application for Automatic Extension of Time to File U.S. Individual Income Tax

Return” to your Montana income tax return. Do not send us a copy of your federal Form 4868 prior to filling your Montana income tax return.

If you do not follow the requirements stated above, your extension will be denied and late file and late pay penalties apply.

**I am on active duty in the regular armed forces and currently serving in an area designated as a “combat zone” or “contingency operations.” I am unable to file my Montana individual income tax return by April 17, 2006. Can I (and my spouse) obtain an extension to file my 2005 Montana individual income tax return?**

Yes you can. Montana state law conforms to federal law and references the Servicemembers Civil Relief Act, which provides for the same extension of time for you to file your Montana individual income tax return that is provided on your federal income tax return. If you are serving in a combat zone or in a contingency operation, you (and/or your spouse) can extend the filing of your Montana income tax return for up to 180 days after the time you (and/or your spouse) are discharged from service.

If you are filing your return that is allowed to be extended by the Servicemember Civil Relief Act, clearly write on the top of Montana Form 2, using red ink, “combat zone or contingency operations extension,” and file your return within 180 days after being discharged from service. In addition, if you file within 180 days of being discharged you are not assessed any penalties or interest.

**What happens if I’m late in filing my Montana individual income tax return?**

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. If you file a late return for which you are receiving a refund, you will not be charged a late fee.

**What happens if my payment is late?**

If you do not pay the full amount of your tax liability on or before April 17, 2006, you will be charged a late payment penalty. This penalty is 1.5% per month or fraction of a calendar month on the unpaid tax. This penalty cannot exceed 18% of the tax due.

If you do not pay your tax liability by April 17, 2006, you will be charged interest at a rate of 12% per year accrued daily. If you can’t pay your tax in full, you should file your return by the due date and pay as much as you can with your return. If you wish to set up a payment plan with us, please call us at (406) 444-6900 as soon as possible to discuss payment options and make payment arrangements.

When you file as “married filing separately” on the same form or on separate forms and both spouses owe tax, penalties and interest will be charged individually against each spouse. Penalties and interest are set at a higher rate than the rates noted above if you purposely or knowingly do not file a return timely or pay your Montana income tax liability timely.

If you pay your tax late or have established a payment plan with us, be sure to report clearly on your payment your name, social security number and the tax year for which the payment is to be applied. If you intend to have one payment applied to more than one social security number or tax year, please include a statement with your payment that indicates how you want your payment is to be allocated.

**I am required to file a Montana individual income tax return. Can I use the short form (Montana Form 2S) or will I need to use the long form (Montana Form 2)?**

To use Montana Short Form 2S, you should be able to answer, “yes” to ALL of the following:

- I was a Montana resident for all of 2005.
- I am filing from a Montana address.
- I am filing as a single person, head of household, or as a married person filing a joint return.
- My only income is from wages, pensions, annuities, interest, dividends, fees, alimony, unemployment, winnings, prizes, awards, or other miscellaneous income.
- I am claiming the standard deduction.
- I have not made estimated income tax payments.
- The only tax credit that I am claiming is the Elderly Homeowner/Renter Credit on Montana Form 2EC.

You will have to use the Montana Long Form (Form 2) if you answer “yes” to ANY of the following:

- I was a resident of Montana for only part of 2005.
- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate Montana income tax return.
- I elect to itemize my deductions on Montana Form 2A.
- My income includes: income from dividends, a business or profession, capital gains, rents, royalties, partnerships, S. corporation, trust or taxable social security.
- I am claiming a nonrefundable tax credit.
- I made estimated income tax payments for tax year 2005 or I had my 2004 refund applied to my 2005 income tax liability.

**Where do I file my Montana individual income tax return?**

Note that there are two different addresses. We have two different addresses so that if you are asking for a refund, we can get your refunds processed and into your bank more quickly and efficiently.

If you are filing a return that includes no payment or if you are due a refund, mail your return to: Montana Department of Revenue, P.O. Box 6577, Helena, MT 59604-6577.

If you are filing a return that includes a payment, mail your return and check to: Montana Department of Revenue, P.O. Box 6308, Helena, MT 59604-6308.

## **Can I file my Montana individual income tax return electronically?**

Yes you can and we encourage you to do so. Montana participates in the joint Federal/State Electronic Filing Program and also in the Free Filing Alliance Program. This provides all taxpayers the opportunity to participate in electronic filing. If you file your return electronically, you will immediately receive confirmation that the department has received your return. If you are expecting an income tax refund and have requested that this refund be electronically deposited into your checking or savings account at your financial institution, you will generally receive this refund within five to ten business days.

Your Montana income tax return has to be filed electronically at the time you file your federal income tax return. You can file your Montana income tax return electronically even if you are required to attach one or more Montana supplemental tax forms to your return.

## **If I file electronically, do I have to send to the department a copy of my income tax return, supporting schedules, copies of my W2s and 1099s or signature verification?**

No you do not. If you file electronically, you don't have to mail in a paper copy of your return, or any accompanying federal W2s or 1099s, or any Montana supplemental forms. When you file your return electronically, you represent that you have kept all of the documents required as your tax record and that you will provide copies of these to the department if we ask for them.

You also don't have to sign a copy of your return and submit it to the department. Your electronic signature used for filing your federal income tax return is considered your authorized signature for your Montana income tax return.

## **How can I check on my refund?**

If you are expecting a refund, you can check the status of this refund by calling our 24-hour service at (406) 444-9840. We will be glad to tell you the status of your refund once it has been entered into the department's computer system. Remember, if you file your return electronically, generally we will send you confirmation that your return was accepted within 48 hours after we receive your electronically filed income tax return and we find no errors. Also, when you file electronically your refund is generally issued within five to ten business days.

To check the status of your refund you will need to provide the following information:

- The social security number of the first name on your income tax return.
- The amount of the refund requested as shown on your return.

## **What do I do if I made an error on my income tax return and I now want to correct it?**

If you discover that your income tax return was incorrect, you have five years from the due date of the original return

to file an amended Montana income tax return and to correct any mistake on your previous return. When you file this amended return, you will need to complete a new Montana Form 2 or 2S that reflects the corrections that you are making to your previously filed return. You will also need to clearly write the words "Amended Return" on the face of your return. For the tax year 2005 you should check the "Amended Return" box found in the upper left hand corner of your Montana Forms 2 or 2S. We no longer accept the Amended Individual Income Tax Return Form 2X.

## **I have filed an amended federal income tax return with the Internal Revenue Service, or the Internal Revenue Service has adjusted my federal income tax return. What do I need to do to report this change on my Montana income tax return?**

If the Internal Revenue Service changes your federal taxable income or if you voluntarily change your federal taxable income, you will need to file an amended Montana income tax return within 90 days of receiving notification of the change from the Internal Revenue Service or when you have filed your amended federal income tax return. If you do not notify us within 90 days of the change to your federal taxable income, we have five years from the date that the changes become final on your federal return to adjust your Montana income tax return to reflect the changes made on your federal income tax return.

## **My return is prepared by a tax professional. If the department has any questions concerning my return, can I give you authorization to talk to my tax professional about my tax return?**

Yes you can. We have included a place on your return for you to authorize this. Place an "X" in the box marked "yes" next to our heading, "May the DOR discuss this return with your tax preparer?" It appears at the bottom of both Form 2 and Form 2S near the signature block on the return. If you check this box, we may contact your tax preparer or you for additional information. You will be informed of any formal tax liability adjustments that we make.

## **How do I file if I've earned wages in North Dakota and I am a Montana resident?**

Montana has a reciprocity agreement with North Dakota that exempts a Montana resident who earns wages in North Dakota from paying North Dakota income tax on these wages. However, this agreement does not extend to other types of income earned in North Dakota and you may have to file an income tax return and pay an income tax to the North Dakota on this other income. If you are earning wages in North Dakota and you are a Montana resident, you can be exempt from North Dakota withholding tax on these wages. Complete North Dakota Form NDW-R and submit it to your North Dakota employer to be exempt from North Dakota withholding. You can get this form from your employer, from the Office of State Tax Commissioner, State Capitol, Bismarck, ND 58505, or visit their website at [www.ndtaxdepartment.gov](http://www.ndtaxdepartment.gov).



**I am a North Dakota resident earning wages in Montana. How do I file a Montana income tax return?**

Montana has a reciprocity agreement with North Dakota that exempts a North Dakota resident who earns wages in Montana from paying Montana income tax on these wages. However, this agreement does not extend to other types of income earned in the State of Montana and you may have to file an income tax return and pay an income tax to the State of Montana on this other income. If you are earning wages in Montana and you are a North Dakota resident, you can be exempt from Montana withholding on these wages. To be exempt from Montana withholding, complete Montana Form NR-2 annually, submit it to your employer and provide a copy to the Montana Department of Revenue. You can get this form from your employer, from the Montana Department of Revenue, P.O. Box 5805, Helena, MT 59604-5805, or you can download our form at [www.mt.gov/revenue](http://www.mt.gov/revenue).

If your Montana employer has withheld Montana income tax from your wages and you wish to get a refund for it, you should file a Montana income tax return Form 2. When filing your return attach Montana Form NR-1, North Dakota Reciprocal Affidavit, along with a copy of your North Dakota income tax return and mail these to the Montana Department of Revenue by April 17, 2006.

**My spouse has a past child support obligation and I don't want my refund to be applied to this obligation. What can I do?**

You are considered an "injured spouse" if you are a taxpayer who does not owe a child support obligation but who has reported income on a joint return with a taxpayer who does owe a past due child support obligation. If you do not want your refund to be applied against your spouse's child support obligation, you will have to file your Montana income tax return using filing status 3b, which is "married filing separate returns on separate forms." When filing under this filing status, each spouse claims his or her own income/loss, deductions, expenses and exemptions.

If you have filed a joint return with your spouse and you are considered an "injured spouse" as defined above, you can ask us to adjust your joint return in the circumstance where a refund is being offset by the department for a child support obligation of your spouse. You have to make this request in writing within 30 days after you and/or your spouse have received notice of the offset and have been given the opportunity for a hearing on the offset.

**How do I file for a deceased person?**

If you are responsible for the financial affairs of a deceased person, you'll have to file a return for that person if his or her income exceeds the minimum filing requirements found on page 2 of these instructions. You can file a joint return if the deceased person was married. This return has to include the income of that deceased spouse from the beginning of the year to the date of death in addition to the income of the surviving spouse for the entire year.

**How long do I need to maintain my tax records after I have filed my state income tax return?**

You should keep all your records for at least five years from the date that you filed your Montana state income tax return. This is called the "statute of limitations." The statute of limitations for Montana income tax purposes is five years, whereas the statute of limitations for federal income tax purposes is three years. You should keep your records of property and carryovers even longer.

**Form 2 Instructions**

Residents, part-year residents, or nonresidents of Montana can file Montana Form 2, which is called our "Long Form." You can use Form 2 if you are married filing separately with your spouse, if you claim itemized deductions or the standard deduction, if you claim a nonrefundable Montana tax credit, if you made estimated tax payments, or if you are applying your 2004 refund to your 2005 income tax liability.

**Part-year Resident and Nonresident.** If you are a part-year resident or a nonresident you will complete lines 7 through 48 as if you were a resident using the instructions for Form 2 on pages 7 through 10. After you have completed your return through line 48 you will then determine your part-year resident or nonresident tax after capital gains tax credit by completing Form 2A, Schedule IV.

When you file your part-year resident or nonresident Form 2 you will have to attach to your Montana return the following items:

- A copy of your federal income tax return including all federal forms and schedules.
- W-2s issued for all wages reported on Form 2, line 7. This includes your W-2s for wages earned in Montana and for wages earned outside of Montana.
- Montana Form 2A, Schedule IV.
- A copy of your income tax returns filed with your home state and any other state.

**Heading –** Print your name, address, and social security number in the spaces provided. If you are married filing a joint return or separately on the same form, enter your spouse's name and social security number. If your filing status is married filing separately on separate forms or married filing separately and your spouse is not filing a return, do not include your spouse's information in the heading. You will need to include this information when you select your filing status.

If either the primary taxpayer or the spouse is deceased during the tax year, check the appropriate box in the heading of the return.

**Filing Status – (Check only one box).** Montana law does not require you to claim the same filing status that you claimed on your federal income tax return. For example, if you are married and you filed your federal income tax return jointly, you and your spouse have the option to file your Montana income tax return either jointly or separately. See

the explanation below about the filing status available to you on your Montana individual income tax return.

**Box 1 – Single.** You can claim this filing status if on December 31, 2005 you:

- are single;
- were legally separated according to your state law under a decree of divorce or separate maintenance; or,
- were widowed before January 1, 2005 and you did not remarry in 2005.

If your filing status is single, report your income and deductions in column A only.

**Box 2 – Married Filing Jointly.** You can claim this filing status if:

- you were married as of December 31, 2005, even if you did not live with your spouse at the end of 2005; or
- your spouse died in 2005 and you did not remarry in 2005; or
- you were married as of December 31, 2005 and your spouse died in 2006 before filing a 2005 return.

You and your spouse can file a joint return even though one of you has no income or deductions but please note that both spouses have to sign the return. If you filed your federal income tax return jointly with your spouse, you are not required to file your Montana income tax return jointly with your spouse. Generally, if you both have taxable income, you can benefit by filing your return separately using filing status 3a or 3b.

If your filing status is married filing jointly, report your combined income and deductions in column A.

**Box 3a – Married Filing Separately on the Same Form.**

If both you and your spouse have income, you can file your Montana income tax return separately even if you filed your federal income tax return jointly. But if you and your spouse file separately, you will each need to report your own adjusted gross income. You cannot arbitrarily assign income between the two of you.

Your income from salaries, wages, bonuses, commissions and other income from providing personal services either as an employee or an independent contractor should be reported by the spouse who earned it. Any other income that you earned from rents, royalties, dividends, etc. from property that is owned by only one spouse has to be reported by that spouse. If any income is earned from property that is jointly owned by both spouses, that income should be split equally unless you and your spouse can show a different proportional ownership. When you file separately, both spouses should either claim the standard deduction or itemize their deductions. You cannot file separately on the same form when one spouse is a resident and the other spouse is a nonresident. In this case you should use either filing status 3b or 3c.

When you file separately on the same form, you should report your income and deductions for one spouse in column A and the other spouse in column B.

**Box 3b – Married Filing Separately on Separate Forms.**

You and your spouse should use filing status 3b if both of you have Montana source income and one spouse is a resident of Montana and the other spouse is a nonresident. You can also use filing status 3b if you want to receive your own refund or pay your own tax. When you select this filing status, you will have to include your spouse's social security number in the space provided on Montana Form 2. The rules for the assignment of income and expenses (as explained in Box 3a) also apply when you use filing status 3b.

When you file separately on separate forms, you should report your income and deductions in column A.

**Box 3c – Married Filing Separately and Spouse Not Filing.** You can use filing status 3c when:

- both you and your spouse are nonresidents and one spouse has no Montana source income,
- you are a resident and your spouse is a nonresident who has no Montana source income, or
- another taxpayer claims your spouse as a dependent.

When you select this filing status, you have to include your spouse's social security number in the space provided on Montana Form 2. Please note that when you use this filing status, you cannot claim your spouse as an exemption on your return.

When you file separate returns and your spouse does not file, you should report your income and deductions in column A.

**Box 4 – Head of Household.** You can qualify to file as head of household on your Montana income tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, attach your federal Form 1040 or 1040A pages 1 and 2 to your Montana income tax return.

When you file as head of household, report your income and deductions in column A.

**Boxes 5a through 5c – Residency Status.** Check the appropriate box that describes your residency status. To determine your residency status, refer to the residency determination questions found on page 2 of the instructions. If you are married and one of you is a resident of Montana and the other is a nonresident of Montana, you cannot claim two residency statuses on the same return. You will have to file separate Montana income tax returns and use filing status 3b or 3c described above.

**Exemptions**

**Line 6a – Yourself.** Since you are allowed one exemption for yourself, we have placed an "X" in the first box on line 6a for you. Even though you are claimed as a dependent on another person's income tax return, you are still entitled to your one personal exemption. You are also entitled to an additional exemption if you are age 65 or older at the end of the tax year and an additional exemption if you are blind.

**Line 6b – Spouse.** If you are married and are filing jointly with your spouse, or if you file separately on the same form, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year and an additional exemption if he or she is blind. You are not entitled to your spouse’s exemption if you file separately on separate forms or if you file separately and your spouse does not file a Montana income tax return.

**Line 6c – Dependents.** You can claim a dependent exemption for each person who qualifies as your dependent. For any individual who is considered your dependent you should complete the schedule on line 6c listing the dependent’s first name, last name, social security number and his or her relationship to you. If you have more than three dependents, you will need to attach a separate schedule that lists these additional dependents and then include these additional dependents in the total on line 6c, columns A or B.

A person who meets the following requirements is considered your dependent for Montana income tax purposes. Since Montana’s dependency requirements are different from the federal dependency requirements, you will need to meet all of the requirements below in order to claim dependents on your Montana income tax return.

Your dependent is a person:

- for whom you have provided over half of his or her support during the tax year; and
- who does not have gross income of more than \$1,900;
  - unless: the dependent who is your child;
    - has not reached the age of 19 at the close of your tax year; or
    - is a full-time student during 5 calendar months during your tax year at an educational institution or is pursuing a supervised on-farm training institutional program; and
- who is not filing a joint return with his or her spouse during the same tax year, and

In addition to the requirements above, your dependent should be:

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

Child	Mother	Aunt
Stepchild	Grandparent	Son-in-law
Grandchild	Stepfather	Daughter-in-law
Brother	Stepmother	Father-in-law
Sister	Nephew	Mother-in-law
Stepbrother	Niece	Brother-in-law
Stepsister	Uncle	Sister-in-law
Father		
- An individual who for the tax year has shared as his or her principal home your home and has been considered a member of your household.
- An individual who is a descendant of your uncle or aunt, or;

- An individual who is receiving institutional care as a result of a physical or mental disability.

**Disabled Dependent Child Exemption –** In addition to the dependent exemption above, you are entitled to an additional exemption for a child who is disabled. If your child is disabled and you qualify for this additional exemption, place an “X” in the column and row of the disabled child and add an additional exemption to your total on line 6c, columns A or B.

You are allowed this disabled exemption if you meet all of the following requirements:

- you provide over half the disabled child’s support; and,
- your home is the disabled child’s primary home; and
- the disabled child has a permanent disability constituting 50% or more of the body as a whole; and
- a licensed physician has certified the child’s disability.

If you meet all these requirements above and this is the first year that you are claiming the additional exemption for this child, you will need to file a physician’s certification of this qualifying disability with your individual income tax return. This physician’s certification filed with us during the first year of eligibility remains in effect in subsequent years and we do not require you to file it annually unless the circumstances of your disabled child changes. We may at any time ask you to verify the child’s disability and ask if any material changes have occurred that may affect the qualification of this additional exemption.

**Line 6d –** Add lines 6a through 6c and enter the total number on line 6d. If you are married filing separately on the same form, use columns A and B. If you are claiming dependent exemptions, you can allocate these exemptions to either spouse. If your child is disabled and you are claiming an additional exemption for this disabled child, the spouse claiming that dependent will also have to claim the additional exemption.

**Lines 7 through 37a – Federal Adjusted Gross Income.**

Your income on your Montana individual income tax return begins with your federal adjusted gross income. On lines 7 through 37 enter the amount corresponding to your federal individual income tax return Form 1040, 1040A, or 1040EZ. If you are married and if you have filed your federal income tax return jointly with your spouse and if you are now filing your Montana income tax return separately with your spouse, you should apply the following rules as you allocate the income and deductions between you and your spouse.

- If you are married and filing separately with your spouse on the same form or on separate forms, you should each report your own adjusted gross income. You cannot arbitrarily assign income from one spouse to another.
- Income from wages, salaries, bonuses, commissions and other income that is earned in the act of providing personal services as an employee or as an independent contractor should be reported by the spouse who earned it.



- Income such as rents, royalties, dividends, and interest should be reported by the spouse who owns the property from which the income was earned. If you and your spouse jointly hold the property, you should split the income equally between both spouses unless you and your spouse can show a different proportional ownership.
- Income from you or your spouse's ownership in a sole proprietorship (federal Schedules C or F), partnership, S. corporation, or trust should be reported by the spouse who is the owner.

Detailed instructions for lines 7 through 37a are not provided for all lines. You will need to refer to your federal income tax instructions for detailed information on lines 7 through 37. Selected lines have been identified and further defined below for specific Montana tax details.

**Line 9a – Ordinary Dividends.** Enter the total ordinary dividends that you reported on your federal Form 1040, line 9a or Form 1040A, line 9a. Montana taxes all dividends as ordinary dividends and does not have a specific qualified dividend tax rate.

**Line 9b – Qualified Dividends.** Enter the total qualified dividends that you reported on your federal Form 1040, line 9b, or on your Form 1040A, line 9b. Since the qualified dividends that you reported on line 9b are also included in the ordinary dividends that you reported on line 9a, you do not have to add this amount on line 9b to your total income.

**Line 10 – Taxable Refunds, Credits, or Offsets of State and Local Income Taxes.** Enter the same amount that you reported on your federal income tax return. Your state refund is not taxable on your Montana return but you will need to report that state tax refund here and then exclude it from what you report as your subtractions to your Montana adjusted gross income on Form 2A, Schedule II, line 6 in order for you to arrive at your Montana adjusted gross income.

**Line 12 – Business Income or (Loss).** Enter in the box labeled NAICS your North American Industry Classification System principal business or professional activity code. This code is located in Box B on your federal Schedule C or C-EZ. If you are reporting your income or loss from more than one Schedule C or C-EZ on line 12, enter the NAICS for the sole proprietorship that recorded the greatest amount of gross income from sales.

**Line 13 – Capital Gain or (Loss).** Enter here the same amount of your capital gain (or loss) that you reported on your federal income tax return. If you are married filing separately, you will need to adjust the amount that you listed as a capital loss on your Montana Form 2A, Schedule I, line 6b or Form 2A, Schedule II, line 24c.

**Lines 15a and 15b – IRA Distribution.** Enter here the same amount of your IRA distribution that you reported on your federal income tax return. If your Montana basis for your IRA is different from your federal basis, you should adjust your taxable amount on Form 2A, Schedule I, line 6c or Form 2A, Schedule II, line 24b.

**Line 17 – Rental Real Estate, Royalties, Partnerships, S. corporations, Trust.** Enter here the same amount of your income or loss that you reported on your federal Schedule E. If you are married filing separately, you should adjust your passive and rental income loss on your Montana return Form 2A, Schedule I, line 6a or Form 2A, Schedule II, line 24a.

**Line 19 – Unemployment Compensation.** Enter here the same amount of the unemployment compensation that you reported on your federal income tax return. Unemployment compensation is not taxable in Montana; therefore, you should exclude this amount on your Form 2A, Schedule II, line 3.

**Line 20b – Taxable Social Security Benefits.** Enter here the same amount of the taxable social security benefits that you reported on your federal income tax return. Montana taxable social security benefits may be different from your federal taxable social security benefits. You will need to complete Montana Form W, Worksheet VIII on page 42 in order to determine your Montana taxable social security benefits. If your taxable benefits are higher or lower than your federal taxable benefits, you should either include or exclude the difference on your Form 2A, Schedule I, line 5, or Form 2A, Schedule II, line 22.

**Line 25 – Health Savings Account Deduction.** Enter here the same amount of the federal health savings account contributions that you reported on your federal return. Be careful not to confuse this deduction with the Montana Medical Care Savings Account exemption that you reported on Form 2A, Schedule II, line 18.

**Line 32 – IRA Deduction.** Enter here the same IRA deduction that you reported on your federal income tax return. If you filed your federal income tax return jointly with your spouse and you are now filing your Montana income separately from your spouse, the allowable IRA deduction for your Montana income tax purposes may be different. You will need to complete Form W, Worksheet I on page 37 in order to determine your Montana IRA deduction and to make any necessary adjustments on Form 2A, Schedule I, line 6c or Form 2A, Schedule II, line 24b.

**Lines 33 and 34 – Student Loan Interest Deduction and Tuition and Fees Deduction.** Enter here the same amount of the student loan interest deduction and the tuition and fees deduction that you reported on your federal income tax return. If you are married filing separately, Montana does not allow you to be entitled to these deductions. You should add back these deductions on Form 2A, Schedule I, lines 6d and 6e.

**Line 36.** Add lines 23 through 35 and enter the result on line 36. Include in your total on line 36 any write-in adjustments that you made on your federal income tax return. Refer to your federal income tax instructions for a description of the allowable federal write-in adjustments.

**Nonresident Aliens:** If you are a nonresident alien who has earned income in Montana and have filed a federal nonresident alien income tax return Form 1040NR or



1040NR-EZ and you are now filing a Montana income tax return in which your income is exempt under a federal tax treaty, exclude your income on line 36, to the extent it was included as wages in line 7, and write on the dotted line next to line 36 “nonresident alien tax treaty.”

**Line 37a – Federal Adjusted Gross Income.** If you are filing “single” (filing status 1), “married filing jointly” (filing status 2), or “head of household” (filing status 4), enter the amount from line 37 in line 37a. If you are using the same filing status on your federal income tax return, this amount should correspond to the amount of the federal adjusted gross income that you reported on your federal income tax return Form 1040, 1040A, or 1040EZ.

If you are filing “married filing separately on separate forms” (filing status 3b), or “married filing separately and spouse is not filing” (filing status 3c), enter the amount from line 37, column A on line 37a. Depending on what filing status you elected on your federal income tax return, this amount may correspond to the amount of federal adjusted gross income that you reported on your federal income tax return. In any circumstance, your federal adjusted gross income reported on your Montana income tax return plus your spouse’s federal adjusted gross income reported on a separate Montana income tax return, or that is not reported, should correspond to the amount of your combined federal adjusted gross income that you reported for federal income tax purposes.

If you are filing “married filing separately on the same form” (filing status 3a), combine the amounts on line 37, columns A and B and enter the result on line 37a. This combined amount should correspond to the amount of the federal adjusted gross income that you reported on your federal income tax return Form 1040, 1040A, or 1040EZ.

**Line 38 – Montana Additions to Federal Adjusted Gross Income.** You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2A, Schedule I to determine the amount of additions to enter on Form 2, line 38. Refer to the section of instructions on Montana additions to federal adjusted gross income found on pages 12 through 15 for a detailed explanation of these additions.

**Line 39 – Montana Subtractions from Federal Adjusted Gross Income.** You may be eligible to subtract items of income from your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2A, Schedule II to determine the amount of your subtractions that you need to enter on Form 2, line 39. Refer to the section of instructions on Montana subtractions from federal adjusted gross income found on pages 15 through 21 for a detailed explanation of these subtractions.

**Line 40 – Montana Adjusted Gross Income.** Add lines 37 and 38 then subtract line 39 and enter the result on Form 2, line 40. This is your Montana adjusted gross income. (Caution: Do not include in your calculation the amount that you reported on line 37a.) Transfer this amount to Form 2, line 41, page 2.

**Line 42 – Standard or Itemized Deductions.** In most cases, your state income tax will be less if you take either the larger of your itemized deductions or the standard deduction.

When you claim your standard deduction or itemized deductions, remember to check the box on line 42 that identifies which method you are using. If you do not check the appropriate box, this will delay the processing of your return.

When you and your spouse file separately on the same form or on separate forms, you will both have to use the standard deduction or itemize your deductions. You cannot use two different methods.

- **Standard Deduction.** To calculate your standard deduction, complete Form W, Worksheet V on page 40.
- **Itemized Deductions.** To figure your itemized deductions, complete Form 2A, Schedule III. You can find the instructions for Form 2A, Schedule III on pages 21 through 24 of this instruction booklet.

**Line 44 – Exemption.** You are entitled to at least one exemption (your own) and possibly even more. Multiply \$1,900 times the number of exemptions that you have claimed on Form 2, line 6d and enter the result on line 44.

**Line 45 – Taxable Income.** To compute your taxable income, subtract line 44 from line 43 and enter the result on line 45.

## Tax Computation

**Line 46 –** Compute your tax using the tax table below.

2005 Tax Brackets and Table			
If your taxable income on Form 2, line 45 or Form 2S, line 18 is:			
At least	But less than	Then your tax is	Less:
0	\$2,300	1% of your taxable income	
\$2,300	\$4,100	2% of your taxable income	(\$23)
\$4,100	\$6,200	3% of your taxable income	(\$64)
\$6,200	\$8,400	4% of your taxable income	(\$126)
\$8,400	\$10,800	5% of your taxable income	(\$210)
\$10,800	\$13,900	6% of your taxable income	(\$318)
\$13,900		6.9% of your taxable income	(\$443)

For Example: Taxable income \$4,000 X .02(2%) = \$80.  
\$80 minus \$23 = \$57 tax.

**Line 47 – Capital Gains Tax Credit.** You can claim a capital gains credit of up to 1% of the net capital gains that you reported on Form 2, line 13 less any exempt capital gains reported on Form 2A, Schedule II, lines 5 and 27. This credit is nonrefundable and it cannot reduce your tax liability below zero. This credit cannot be carried back or carried forward and it is applied before any other credits.

If you are a nonresident or a part-year resident, you will need to apply this credit to your Montana income tax that you computed on line 46 as though you were a resident.

If you are married and you and your spouse are filing your return separately on the same form or on separate forms, you each will need to calculate your capital gains tax credit.

**Line 48 – Resident Tax After Capital Gains Tax Credit.** Complete line 48 if you are a resident, nonresident or a part-year resident.

If you are a resident, this is your resident tax after capital gains tax credit. Skip line 48a and go to line 49.

If you are a nonresident or a part-year resident, go to line 48a.

**Line 48a – Nonresident, Part-year Resident Tax After Capital Gains Tax Credit.** If you are a nonresident or a part-year resident, you will need go to Form 2A, Schedule IV, Nonresident/Part-year Resident Tax to calculate your nonresident part-year resident tax after capital gain credit. Enter the result of this calculation on Form 2, line 48a. See the instruction for Form 2A, Schedule IV on pages 24 through 27 of these instructions.

**Line 49 – Nonrefundable Single-year Credits.** You may be eligible for one or more of the 12 nonrefundable single-year credits that are available on your Montana income tax return. Complete Form 2A, Schedule V, lines 1 through 13 to determine the amount of your nonrefundable single-year credits that you need to enter on Form 2, line 49. Refer to the section of instructions on Montana tax credits found on pages 28 through 30 for a detailed explanation of these nonrefundable single-year credits.

**Line 50 – Nonrefundable Carryover Credits.** You may be eligible for one or more of the 12 nonrefundable carryover credits that are available on your Montana income tax return. Complete Form 2A, Schedule V, lines 14 through 26 to determine the amount of your nonrefundable carryover credits that you will need to enter on Form 2, line 50. Refer to the section of instructions on Montana tax credits found on pages 30 through 32 for a detailed explanation of these nonrefundable carryover credits.

**Line 52 – Family Education Savings Account Recapture Tax.** If you have a recapturable withdrawal from your family education savings account, you will have to pay a 6.9% recapture tax on this withdrawal instead of including this withdrawal in your Montana adjusted gross income.

Your recapturable withdrawal is a withdrawal that is not used to pay for qualified higher education expenses or for a withdrawal from your family education savings account within three years from the date you opened the account.

Multiply your recapturable withdrawal times 6.9% and enter the result on line 52. This is your family education savings account recapture tax.

**Line 53 – Endowment Credit Recapture Tax.** If you previously claimed an endowment credit and you have also taken a charitable deduction for a gift that you contributed to a qualified endowment and you now have received the gift back, you are required to recapture that previous credit to the extent it reduced your income tax liability in a previous year and to include in your income any amounts that were previously deducted as an itemized deduction.

Enter on line 53 the amount of your endowment credit recapture tax. If in addition to your recapture tax, if part of

the amount that is recaptured was claimed as a charitable contribution in a prior year, you will have to include in your income on Form 2A, Schedule I, line 4 any recoveries of this prior year deduction that reduced your tax liability in the year of that deduction. Complete Form W, Worksheet IX to determine if you will have to recapture any amount of your prior year deduction. You can obtain Form W, Worksheet IX by calling us at (406) 444-6900 or by downloading it from our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue).

**Line 54 – Rural Physician's Credit Recapture Tax.** If you have previously claimed the rural physician's tax credit and have subsequently ended your practice within four years following the year that you claimed the credit in this rural area, you are required to pay back your previous credit(s) claimed.

- Example 1: If you claimed four consecutive \$5,000 rural physician's credits for a total of \$20,000 in years 2001, 2002, 2003 and 2004 and then in 2005 you ended your practice in the rural area that qualified you for that credit, you are required to pay back the \$20,000 credit on your 2005 individual income tax return.
- Example 2: If you claimed four consecutive \$5,000 rural physician's credits for a total of \$20,000 in years 1999, 2000, 2001 and 2002 and then in 2005 you ended your practice in the rural area that qualified you for that credit, you are required to pay back \$10,000 of your previous credits that you claimed in 2001 and 2002. You are entitled to the 1999 and 2000 credits since you maintained your practice in the rural area for at least 4 additional years after becoming eligible for this credit.

Enter on line 54 the amount of your rural physician's credit recapture tax.

## Payments and Offsets

**Line 58 – Montana Income Tax Withheld.** Enter on Form 2, line 58 the amount of the Montana income tax withheld from your income and reported in Box 17 of your federal Form W-2, or in Box 10 of your federal Form 1099R. When you claim Montana income tax withheld, you are required to attach to your return a copy of your withholding statement(s) (federal Forms W-2 or 1099Rs), which show the amount(s) of Montana income tax that was withheld from your payments. If you do not attach your withholding statement(s) to your return, this will delay our processing of your return.

**Line 59 – Estimated Tax Payments.** If you have made estimated income tax payments for tax year 2005, enter on line 59 the amount of these estimated tax payments. Include in this amount the 2004 refund that you requested us to apply to your 2005 estimated income tax payments and any amounts that are reported to you on Montana Form PT-WH and that you received from your ownership in an S. corporation, partnership or disregarded entity. Do not include in this total any income taxes paid for a previous year since these are not estimated taxes paid for tax year 2005.

**Line 60 – Extension Payment.** If you paid an extension payment on or before April 17, 2006 in order to qualify for an automatic six-month extension to file your income tax return, enter that amount on Form 2, line 60. To determine whether you need to make an extension payment, complete the Six-Month Extension Payment Calculation Worksheet, Montana Form EXT-05 Worksheet.

**Line 61 – Refundable Credits.** You may be eligible for one or more of the three refundable credits that are available on your Montana income tax return. Complete Form 2A, Schedule V, lines 27 through 29 to determine the amount of the refundable credits to enter on Form 2, line 61. Refer to the section of instructions on Montana tax credits found on page 32 for a detailed explanation of these refundable credits.

## The Amount You Owe

### Line 64 – Penalties and Interest.

- **Line 64a – Interest on Underpayment of Estimated Taxes.** You are required to pay your income tax liability throughout the year. You can make your payments through employer withholding, through installment payments of estimated taxes, or through a combination of employer withholding and estimated tax payments.

If you did not pay in advance at least 90% of your 2005 income tax liability (after applying your credits) or 100% of your 2004 income tax liability (after applying your credits) you may have to pay interest on the underpayment of your estimated tax.

To calculate your interest complete either Form W, Worksheet VII that is on page 41 of these instructions or Form EST-I “Interest on Underpayment of Estimated Tax Payments.” Even though you may have a refund, you still may be required to pay interest on your underpayment of estimated taxes if your payments were not made timely. You can access this form by visiting our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) or by calling us at (406) 444-6900.

- **Line 64b – Late File Penalty.** If you file your return after April 17, 2006, or October 16, 2006 if you have a valid extension, you will be assessed a late file penalty if your combined total tax due reported on Form 2, line 57 is greater than your combined payments and offsets reported on Form 2, line 63. The penalty is equal to the lesser of \$50 or the amount of tax you owe. If you are filing your return late and you have a refund, you are not assessed a late file penalty.

To calculate your late file penalty subtract line 63 from line 57 and enter the lesser of this result or \$50 in box 64b.

- **Line 64c – Late Pay Penalty.** If you have not paid to us 100% of your income tax liability by April 17, 2006, you will have to pay a penalty. Your late pay penalty is equal to 1.5% per month or fraction of a calendar month on the unpaid balance from April 17, 2006 until it is paid.

To calculate your late pay penalty subtract line 63 from line 57 and then multiply this result by 1.5% per month or a fraction of a calendar month your payment is late. In no instance will your late pay penalty exceed 18% (12 months X 1.5%.)

- **Line 64d – Interest.** If you have not paid to us 100% of your income tax liability by April 17, 2006 you will have to pay 12% annual interest, computed daily on your unpaid balance. Remember: A valid extension of time to file your return by October 16, 2006 does not extend your time for paying your income tax by April 17, 2006.

To calculate your interest subtract line 63 from line 57 and then multiply this result by .0003288 times the number of days your payment is received after April 17, 2006.

**Line 65 – Other Penalties.** Include on Form 2, line 65 any of the following other penalties if they apply to your situation.

- **First-time Homebuyer Savings Account 10% Penalty.** If you withdrew funds from your first-time homebuyer savings account for purposes other than to pay for eligible costs for the purchase of a single-family residence, you are required to pay a 10% penalty on this withdrawal unless this withdrawal is on the last business day of your business year, which is the last weekday in December. Complete Form FTB-P and enter the amount of the penalty on line 65 and attach a copy of Form FTB-P to your income tax return.
- **Medical Care Savings Account 10% Penalty.** If you withdrew funds from your medical care savings account for purposes other than to pay for eligible medical costs, you are required to pay a 10% penalty on this withdrawal unless you made this withdrawal on the last business day of your business year, which is the last weekday in December. Complete Form MSA-P and enter the amount of the penalty on line 65 and attach a copy of Form MSA-P to your income tax return.
- **Farm and Ranch Risk Management Account 10% Penalty.** If you have not distributed your deposits and income from your farm and ranch risk management account within 5 years, they are considered distributed. You are required to pay a 10% penalty on the amount of tax due on this amount considered distributed. Enter on Form 2, line 65 the amount of your farm and ranch risk management account 10% penalty.

If you are required to pay more than one of the penalties listed above, enter on line 65 the sum of your other penalties.

## Montana Check-offs

**Line 66 – Contributions to Montana Check-Offs.** Enter on line 66 the sum of your contributions to the Montana check-off programs.

Montana's tax statutes provide you with the opportunity to contribute, via your income tax return contributions to the



follow programs. You can contribute any amount to any one of these three programs. Your contribution will increase the amount you owe or reduce the amount of your refund.



**Line 66a – Nongame Wildlife Program.** Your contributions to this program are used to ensure the well-being of Montana’s watchable wildlife species, such as eagles, herons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.



**Line 66b – Child Abuse Prevention Program.** Your contributions to this program fund services and activities related to the prevention of child abuse and neglect. If you enclose a separate check with your timely filed return you are allowed to take an itemized deduction for the amount of the contribution on the return you are filing with this contribution.



**Line 66c – Agriculture in Montana Schools Program.** Your contributions to this program 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 how it relates to the rest of the world.

**Line 67 –** Add lines 57, 64, 65, and 66 and enter the result on line 67. This is the sum of your tax, penalty, interest and contributions.

**Line 68 – Amount That You Owe.** If the amount on line 67 is more than line 63 enter the difference on line 68. This is the amount that you owe with your 2005 Montana individual income tax return.

You can pay the amount you owe by personal check, money order, cashier’s check, credit card or E-check. When you send your payment, make it payable to the Montana Department of Revenue and use the coupon that we have provided to you with this income tax booklet. When you pay by personal check, money order, or cashier’s check, please write your social security number and the tax year 2005 on the memo line of your check.

If you wish to pay the amount that you owe by credit card or E-check visit our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) and access Income Tax Express. We accept only Visa or Mastercard when you use a credit card.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as you can. By filing and paying as much as you can by April 17, 2006, you will not be assessed a late file penalty and you can reduce the amount of your late pay penalties and interest that is assessed against your outstanding balance. If you need to establish a payment plan with us, call us at (406) 444-6900 as soon as possible to discuss your options and make payment arrangements.

## Your Refund

**Line 69 –** If line 67 is less than line 63 enter the difference on Form 2, line 69. Then, if applicable, complete line 70 to

determine the amount of your refund to be reported on Form 2, line 71.

**Line 70 – 2006 Estimated Tax.** Enter on line 70 the amount of your overpayment from line 69 that you want to be applied to your 2006 estimated taxes.

**Line 71 – Your Refund.** Enter on line 71 the amount of the overpayment that you want to have refunded to you. Only refunds greater than \$1.00 will be issued. If you wish to use direct deposit, in the space provided enter your financial institution’s routing number (RTN#), your account number (ACCT#) and whether this account is your checking or savings account. Your routing number will be nine digits and your account can be up to 17 characters (both numeric and alpha). Your direct deposit will be rejected if the routing number or account number is incorrectly listed. If your direct deposit is rejected, we will have to mail you a check instead. A sample check is provided for your convenience.

John Taxpayer  
Jane Taxpayer  
23 Main Street  
Anyplace, MT 59000

1234

Pay to the Order of \$

Anyplace Bank  
Anyplace, MT 59000

Routing Number: 123456789  
Account Number: 123456789012345678901234

Do not include the check number in the account number

I: @50000005 I: @000000 86 1234

## Form 2A, Schedule I – Montana Additions To Federal Adjusted Gross Income

**Line 1 – Interest and Mutual Fund Dividends from Other States’ State, County, or Municipal Bonds.** Enter the interest and dividend income that you received from bonds and obligations of another state or territory or county, municipality, district or other political subdivision of another state.

**Line 2 – Dividends Not Included in Federal Adjusted Gross Income.** Enter the amount of the dividends that you received as Montana source income that are not already included in your federal adjusted gross income. But do not include your qualified dividends reported on Montana Form 2, line 9b since these dividends are already in the total of your ordinary dividends reported on Montana Form 2, line 9a.

**Line 3 – Taxable Federal Refunds.** If you received a 2004 federal income tax refund in 2005 and you claimed federal income taxes paid as an itemized deduction, you may need to report a portion or all of your federal refund as income on your 2005 Montana income tax return. This is called the “tax benefit rule.” To the extent that the federal tax deduction that you claimed on your 2004 Montana income tax return reduced the amount of your 2004 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received it. In order to determine whether any of your refund is taxable in 2005,



complete Form W, Worksheet II, Tax Benefit Rule Worksheet on page 38.

If you and your spouse filed your federal return jointly and are now filing your Montana return separately, you will each need to complete a separate tax benefit rule worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2004 federal income tax deduction to the total federal tax deducted.

**Line 4 – Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income.** If in 2005, you received a reimbursement of an amount that you previously deducted on your Montana income tax return and this deduction originally reduced the amount of your Montana income tax liability in the year of the deduction, you may need to report as income a portion or all of the reimbursement that you received on your 2005 Montana income tax return. For example, you may have recovered amounts from more than one year, such as a federal income tax refund from 2003 and a casualty loss reimbursement from 2002. To the extent that these deductions reduced your income tax liability in 2002 and 2003, you are required to include these reimbursements as income in 2005. If you have a reimbursement from a prior year deduction other than your 2004 federal income tax refund, please call us at (406) 444-6900 to obtain Form W, Worksheet IX “Tax Benefit Rule for Recoveries of Itemized Deductions” or you can download this worksheet from our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue).

**Line 5 – Addition to Federal Taxable Social Security/ Railroad Retirement.** Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana Form W, Worksheet VIII found on page 42 of the instruction booklet. Before you can complete your social security worksheet, you will need to complete your pension and annuity income worksheet, Form W, Worksheet IV found on page 39 of the instruction booklet.

After you have completed your social security worksheet and you find that your social security benefits taxable to Montana are greater than those that you reported on Form 2, line 20b, enter that difference on your Form 2A, Schedule I, line 5. If your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, you should report that difference as a subtraction to federal adjusted gross income on your Form 2A, Schedule II, line 22.

**Lines 6a through 6e – Additions for Spouse Filing Joint Federal Return.** If you are married and you and your spouse have filed a federal income tax return jointly and are now filing your state income tax return separately, the special rules found in the Internal Revenue Code for the treatment of these deductions when married individuals file their tax return separately apply. The following items are subject to these special rules and have to be added back to your federal adjusted gross income in order for you to arrive at your Montana adjusted gross income.

- **6a – Passive and Rental Income or Loss Adjustments.** If you have filed a federal income tax return jointly with your spouse and are now filing your Montana income tax return separately with your spouse, you should recompute your passive activity loss according to the federal passive activity rules for a taxpayer who is married and is filing a separate return with his or her spouse.

Using the “married filing separately” rules to determine your Montana passive activity loss, complete federal Form 8582 “Passive Activity Loss Limitation” and attach and enter on Form 2A, Schedule I, line 6a, the difference between your federal passive activity loss that you reported on Form 2, line 17 and the amount of your Montana passive activity loss determined on your federal Form 8582.

Your loss disallowed for Montana income tax purposes and added back on Form 2A, Schedule I, line 6a is carried forward and may be claimed as a subtraction from federal adjusted gross income in subsequent tax years. To deduct your passive and rental income losses in subsequent years, refer to the instructions for Form 2A, Schedule II, line 24a.

The special allowances for losses from rental real estate activities in which you actively participate and which are allowable if you file a joint return are disallowed if you file separately and you live with your spouse at any time during the tax year.

You can learn more about passive activities by referring to IRS Publication 925, “Passive Activity and At-Risk Rules.”

- **Line 6b – Capital Loss Adjustment.** If you and your spouse are filing separately for Montana income tax purposes and have reported capital losses on Form 2, line 13, you may need to adjust this capital loss since your capital loss is limited to \$1,500. If the amount on Form 2, line 13, column A and/or B is greater than \$1,500, you should report the difference as an addition to federal adjusted gross income. Your loss that is disallowed because of the \$1,500 capital loss limitation then can be carried forward and claimed as a subtraction from federal adjusted gross income in subsequent years.
- **Line 6c – IRA Deduction Adjustment.** If you and your spouse have filed your federal return jointly and now are filing your Montana return separately, your Montana IRA deduction may be less than the amount of your deduction on Form 2, line 32. You will need to complete Form W, Worksheet I on page 37 to determine your Montana IRA deduction. You can then add the amount of your federal IRA deduction that is not allowed on your Montana income tax return to your federal adjusted gross income on Form 2A, Schedule I, line 6c.

When you withdraw your IRA contributions in a subsequent year, your taxable distributions may be

different for federal and state income tax purposes. Your basis for these contributions may differ because of your filing status at the time of the contribution. When you and your spouse contribute to an IRA and your Montana deduction is less than your federal IRA deduction, you will need to maintain separate records that clearly identify your contributions and the amount of your IRA deduction for federal and state income tax purposes.

- **Line 6d – Student Loan Interest Adjustment.** If you have reported a student loan interest deduction on Form 2, line 33 and you have filed your federal income tax return jointly with your spouse and you and your spouse now are filing your Montana income tax return separately, you are not entitled to this deduction. As you determine your Montana adjusted gross income, you should add back the amount of your student loan deduction on your Form 2A, Schedule I, line 6d.
- **Line 6e – Tuition and Fee Adjustment.** If you have reported a tuition and fee deduction on Form 2, line 34 because you have filed your federal income tax return jointly with your spouse and you and your spouse now are filing your Montana income tax return separately, you are not entitled to this deduction. As you determine your Montana adjusted gross income, you should add back the amount of your tuition and fee deduction on your Form 2A, Schedule I, line 6e.

**Line 7 – Sole Proprietor’s Allocation of Compensation to Spouse.** If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report the full amount of your income in column A or column B to determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. This allocation will be based on an amount that is equivalent to the services that your spouse provides. It is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

Services that your spouse provided for operating your household or service that are incidental to your operations cannot be used as a basis for allocation of income to your spouse. When you claim this addition to income, you should be prepared to provide us with verification of those services performed and the substantial contribution made by your spouse.

Report on Form 2A, Schedule I, line 7 the amount of income allocated to your spouse and report the offsetting subtraction on Form 2A, Schedule II, line 25.

**Line 8 – Medical Care Savings Account Nonqualified Withdrawals.** Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for further detailed instructions. You

should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on Form 2A, Schedule I, line 8.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions on Form 2, line 65 and on Form MSA-P for the Montana medical care savings account 10% penalty.

**Line 9 – First-Time Homebuyer Savings Account Nonqualified Withdrawals.** Your nonqualified withdrawal from a Montana first-time homebuyer savings account is a withdrawal that you made during the tax year for any purpose other than to pay for the eligible cost of purchasing your single family residence. You can refer to Montana Form FTB for further detailed instructions. You should report any nonqualified withdrawals from your Montana first-time homebuyer savings account as an addition to federal adjusted gross income on Form 2A, Schedule I, line 9.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions on Form 2, line 65 and on Form FTB-P for the Montana first-time homebuyer savings account 10% penalty.

**Line 10 – Farm and Ranch Risk Management Account Taxable Distributions.** The distribution from your Montana farm and ranch risk management account is taxable if that distribution is from a fund that is previously excluded from Montana adjusted gross income as a farm and ranch risk management account deposit or if that distribution was not distributed within five years from the date that your original deposit was made. You can refer to Montana Form RFM for further detailed instructions. You should report your Montana farm and ranch risk management account taxable distributions as an addition to federal adjusted gross income on your Form 2A, Schedule I, line 10.

You may also be subject to a penalty on your farm and ranch management account distribution if it is not distributed within five years from the date of the original deposit. See the instructions on Form 2, line 65 for the farm and ranch risk management account 10% penalty.

**Line 11 – Dependent Care Assistance Credit Adjustment.** If you have claimed business expenses for providing dependent care assistance on your federal Schedules C, E or F and now are claiming the Montana dependent care assistance credits on your Form 2A, Schedule V, line 18, you will have to add to your federal adjusted gross income in arriving at your Montana adjusted gross income the amount of the dependent care assistance expenses used to calculate your Montana dependent care assistance credits on Form DCAC. Enter these expenses on Form 2A, Schedule I, line 11.

**Line 12 – Addition for Smaller Federal Estate and Trust Taxable Distributions.** If the state taxable distribution that you received from an estate or trust is greater than your federal taxable distribution from the same estate or trust, the difference between your state taxable distribution and your federal taxable distribution is an addition to federal

adjusted gross income and you should report it on your Form 2A, Schedule I, line 12.

**Line 13 – Federal Net Operating Loss Carryover.** The federal net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your Montana net operating loss carryover. You should record the amount of your federal net operating loss carryover that you reported on your Form 2, line 21 on Form 2A, Schedule I, line 13 and then compute your Montana net operating loss carryover, using Montana Form NOL.

If you have a 2005 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years proceeding the loss year and then carry forward the balance of your 2005 net operating loss 20 years following the loss year. The federal special carry back rules apply for farm net operating losses and casualty losses. You may elect to forgo the carry back of your 2005 net operating loss and carry forward that loss. In order to forgo your carry back, you are required to make an election on Montana Form NOL by April 17, 2006, or, if you have a valid extension, by October 16, 2006. Once you have made this election, it is irrevocable and you will not be able to carry back your 2005 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, you will need to use Montana Form NOL-Pre99 to determine your carryover amount.

**Line 14 – Share of Federal Income Taxes Paid by Your S. corporation.** If you are a shareholder in an S. corporation that is required to pay a federal income tax on its income, you will have to add to your federal adjusted gross income that portion of your income that has been reduced by the federal income taxes paid by your S. corporation. Refer to your federal Schedule K-1 to determine the amount of income that you are required to include as an addition to your federal adjusted gross income.

**Line 15 – Title Plant Depreciation or Amortization.** If you are taking a federal deduction for depreciation or amortization on a title plant, you should add back to your federal adjusted gross income the amount of this depreciation or amortization when you determine your Montana adjusted gross income.

**Line 16 – Other Additions.** Enter on Form 2A, Schedule I, line 16 any other additions to federal adjusted gross income not described in lines 1 through 15.

## Form 2A, Schedule II – Subtractions From Federal Adjusted Gross Income

**Line 1 – Exempt Interest and Dividends from Federal Bonds, Notes, and Obligations.** If you have received interest on United State government obligations and mutual fund dividends attributable to that interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2, page 1. In addition, if you received interest on obligations from U.S. territory or government

agency obligations that are specifically exempt by federal law and any mutual fund dividends attributable to this interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2, page 1.

Obligations that are guaranteed by the United States government are not tax exempt. If you have received interest or mutual fund dividends attributable to Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds, or Federal Home Loan Mortgage Corporation (FHLMAC) securities, you cannot subtract this interest or mutual fund dividends since they are not exempt under federal law.

United States obligations that are exempt include:

- Series E, F, G, and H savings bonds;
- U.S. treasury bills;
- U.S. government notes; and
- U.S. government certificates.

Please refer to your federal Form 1099-DIV to determine what percentage of your dividends qualifies for this exemption.

**Line 2 – Exempt Tribal Income.** If you are an enrolled member who lives and works on the reservation governed by your tribe, you can subtract from your federal adjusted gross income all reservation source wages and income that you have earned. If your wages or other income was earned from both reservation sources and non-reservation sources, you can exclude from your federal adjusted gross income only those wages or other income that you received while you lived and worked within the exterior boundaries of the reservation governed by your tribe. If you did not reside on your own reservation for the entire year, you can subtract only those wages or other income that you earned while you lived and worked on your own reservation.

If you reside outside the boundaries of the reservation governed by your tribe, or if you live on another reservation that is not governed by your tribe, there is no special exemption for income that you earn unless that income is derived directly from allotted or restricted lands that are held in trust by the United States.

If you are a tribal member whose federal gross income meets the filing requirements listed on page 2 of these instructions, you have to file a Montana individual income tax return even though your income may be exempt income. To exempt your income from Montana tax, you should complete your Montana Form 2 and attach Montana Form IND, "Certification of Enrollment," which needs to be signed by a representative of your governing tribe who can attest to your residency on your reservation along with your tribal enrollment number.

**Line 3 – Exempt Unemployment Compensation.** If you have received unemployment benefits from Montana or from another state, these benefits are not taxable to Montana. If you reported taxable unemployment benefits



on your Form 2, line 19, enter the amount of these benefits on your Form 2A, Schedule II, line 3.

**Line 4 – Exempt Workers’ Compensation Benefits.** If you received benefits under the workers’ compensation laws, these benefits are not taxable to Montana. If you reported taxable workers’ compensation benefits in your federal adjusted gross income, enter the amount of these benefits on your Form 2A, Schedule II, line 4.

**Line 5 – Exempt Capital Gains and Dividends from Small Business Investment Companies.** If you have capital gains or dividend income from an investment in a small business investment company (SBIC) included in your federal adjusted gross income, you are allowed to exempt these capital gains or dividends in arriving at your Montana adjusted gross income. In order for you to exempt this income you have to meet the following conditions:

- The SBIC is organized for the purpose of diversifying and strengthening employment opportunities of companies in Montana.
- Within one year of being licensed by the federal Small Business Administration, 75% of the SBIC’s investments are in manufacturing or timber companies located in Montana, and;
- The manufacturing and timber companies have at least 50% of their employees working in Montana.

**Line 6 – State Tax Refunds.** If you are required to include your state tax refund in your federal adjusted gross income on Form 2, line 10, you can exclude this amount on your Montana Form 2A, Schedule II, line 6. Montana state income tax refunds and state income tax refunds received from another state are not taxable to Montana.

**Line 7 – Recoveries of Amounts Deducted in Earlier Years That Did Not Reduce Montana Income.** If you are required to include in your federal adjusted gross income any amounts that you recovered from a previous federal income tax deduction and if this previous deduction did not reduce your Montana income tax liability in the year of that deduction, you can subtract the amount of this recovery from your Montana adjusted gross income.

**Line 8 – Exempt Military Salary of Residents on Active Duty.** If you are a Montana resident receiving military compensation and if this compensation is included in your federal adjusted gross income, you can subtract from your federal adjusted gross income your basic, special and incentive pay that you receive from:

- serving on active duty as a member of the regular armed forces;
- being a member of a reserve component of the armed forces or as a member of the National Guard serving on active duty in a “contingent operation” as it is defined in 10 USC 101, and
- being a member of the National Guard and assigned to active service authorized by the President of the United States or the Secretary of the Defense for a period of more than 30 consecutive days for the purpose of

responding to a national emergency declared by the president and supported by federal funds.

Military compensation that you have received from the following activities cannot be subtracted from your federal adjusted gross income:

- salaries that you have received for annual training and weekend duty;
- salaries that you have received for being a member of a reserve component of the armed forces that is not received under 10 USC 101; and
- income you have received from retirement, retainer, or equivalent pay, or allowances.

When you claim this exemption, you will need to attach verification of your military status (such as your military orders) to your income tax return.

**Line 9 – Exempt Income of Nonresident Military Servicepersons and Spouses.** If you are a nonresident of Montana living in Montana solely by reason of compliance with your military orders, you are not required to establish residency in Montana and your military compensation is not considered Montana source income and is not taxable to Montana. You should subtract the military compensation that you included in your federal adjusted gross income on Form 2, line 7 on your Form 2A, Schedule II, line 9.

If you and/or your spouse have received any other income that is considered Montana source income (such as wages for services performed in Montana or Montana business income), this income is taxable. You should complete a nonresident Montana income tax return and report both your Montana source and non-Montana source income and then prorate your Montana tax liability on your Form 2A, Schedule IV. See the instruction for Form 2A, Schedule IV “Nonresident/Part Year Resident Tax” on pages 24 through 27 of these instructions.

**Line 10 – Exempt Life-Insurance Premiums Reimbursement for National Guard and Reservist.** If you are a Montana National Guard or Reservist who is serving on active duty in a contingency operation and you were reimbursed by the Montana Department of Military Affairs for the life insurance premiums that you paid for benefits under the service members’ group life insurance program, you can deduct these reimbursements from your federal adjusted gross income in arriving at your Montana adjusted gross income.

The reimbursement that you received is considered a bonus and is included in taxable income for federal income tax purposes. In order to exempt this reimbursement, you will need to have paid the premiums and have served on active duty in a contingency operation after May 6, 2005. The maximum amount of premium reimbursement that you are entitled to exempt cannot exceed \$16.25 a month for each month that you are on active duty in a contingency operation.

**Line 11 – Partial Pension and Annuity (Retirement) Income Exemption.** If you have reported taxable retirement income on your Form 2, lines 15b and/or 16b,



you may be entitled to a partial exemption of this income. Before we determine if any of this retirement income is excluded, we want to first find out if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on Form 2A, Schedule II, line 23.

Premature distributions and early withdrawals of your retirement income do not qualify for the retirement income exclusion. Also, if you have received a disability pension, which is identified as a distribution code 3 on your 1099R, you should use the disability pension worksheet Form DS-1 to determine your deduction instead of the retirement income exclusion.

If you have received retirement income other than Tier II Railroad Retirement benefits, you should complete Form W, Worksheet IV on page 39 in order to determine the amount of your exclusion. Your retirement exclusion is limited to the lesser of your taxable retirement income that you have received or \$3,600, as long as your federal adjusted gross income is \$30,000 or less and you are filing a single return, filing jointly with your spouse and only one of you have taxable retirement income, or you are filing as head of household. If you are filing jointly with your spouse, and both of you have retirement income, and your federal adjusted gross income is \$30,000 or less, you both can exclude the lesser of your taxable retirement income that you receive personally or \$3,600 each for a maximum of \$7,200.

If both you and your spouse have received retirement income and you are filing your income tax return separately on the same form, or on separate forms, the lesser of your retirement income or \$3,600 applies separately to both spouses as long as your separately stated federal adjusted gross income is \$30,000 or less.

When your federal adjusted gross income exceeds \$30,000, your retirement exclusion is reduced \$2.00 for every \$1.00 that your federal adjusted gross income is over \$30,000. For example, if your federal adjusted gross income is \$31,000, your retirement exclusion is \$1,600 ( $\$3,600 - (\$1,000 \times \$2.00) = \$1,600$ ). You are not entitled to this retirement income exclusion if your federal adjusted gross income is greater than \$31,800 ( $\$3,600 - (\$1,800 \times \$2.00) = \$0$ ) if you are filing single, married filing separately or as head of household. If you are married and filing jointly and both spouses have retirement income, then your retirement exclusion is phased out when your federal adjusted gross income is greater than \$33,600 because your maximum retirement exclusion is \$7,200 ( $\$3,600 - (\$1,800 \times \$2.00) + (\$3,600 - (\$1,800 \times \$2.00)) = \$0$ ). You should complete Form W, Worksheet IV on page 39 to determine your partial pension and annuity income exemption.

**Line 12 – Partial Interest Exemption for Taxpayers 65 and Older.** If you are single and are age 65 or older at the end of 2005, you can exempt up to \$800 of the interest income that you reported in your federal adjusted gross income.

If you are married and are filing a joint return with your spouse and at least one of you is age 65 or older at the end of 2005, you can exempt up to \$1,600 of the interest income that you reported in your federal adjusted gross income.

If you are married and filing your return separately and are age 65 or older at the end of 2005, you can exempt up to \$800 of the interest income that you reported in your federal adjusted gross income. Please note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

For the purpose of this exclusion, when you determine the amount of your interest income, you should consider distributions commonly called dividends on deposits or share accounts as interest. Under no circumstances can you exclude more interest income than what you have reported in your federal adjusted gross income.

**Line 13 – Partial Retirement Disability Income Exemption for Taxpayers Under Age 65.** You can qualify for a partial retirement disability income exclusion of up to \$5,200 if you are:

- under the age of 65 and you are retired on disability, and
- not treating your disability income as a pension and annuity.

You are permanently and totally disabled if you are unable to engage in any substantial gainful activity, if you have been medically determined to be physically or mentally impaired and if your condition is expected to last at least 12 months.

Your disability income is generally reported with a distribution code 3 on your Form 1099R. If you qualify for this exclusion, you should complete Montana Form DS-1 in order to determine the amount of your exclusion. You should also attach a copy of the completed Form DS-1 to your income tax return.

**Line 14 – Exemption for Certain Taxed Tips and Gratuities.** You can subtract from your federal adjusted gross income any tips and gratuities that you have received from patrons while you worked in the food, beverage or lodging industry. These should be reported as part of your federal adjusted gross income. All other tips and gratuities that you received for providing services in other business industries are not excluded from your federal adjusted gross income in arriving at your Montana adjusted gross income.

**Line 15 – Exemption for Certain Income of Your Child Taxed to the Parents.** If your child is not required to file a Montana income tax return or if that child has filed his or her own Montana income tax return and has reported any unearned income, you can subtract from your own federal adjusted gross income any unearned income of your dependent child that is included in your federal adjusted gross income as determined on federal Form 8814.

**Line 16 – Exemption for Certain Health Insurance Premiums Taxed to Employee.** If you are a shareholder in

an S. corporation, you can subtract from your federal adjusted gross income to arrive at your Montana adjusted gross income the cost of your health insurance premiums to the extent they are included in your federal adjusted gross income.

**Line 17 – Exemption for Student Loan Repayments Taxed to A Health Care Professional.** If you are a health care professional licensed in Montana, you can exclude from your federal adjusted gross income up to \$5,000 of any health related student educational loan repayments that are paid on your behalf when this repayment is included in your federal adjusted gross income. In order for you to qualify for this exclusion you have to be a health care professional who:

- is licensed in Montana, and
- participates in a federal, state, or qualified private loan repayment program, and these repayment programs are generally through the U.S. Department of Health and Human Service Corp. and their Nursing Education Loan Repayment Program, the Montana Rural Physician Incentive Program, or a qualified private program with a licensed health care facility in Montana, and
- serves a significant portion of a designated geographic area, a special population, or a facility population in a federally designated health professional shortage area (HPSA), a medically underserved area (MUA), a medically underserved population (MUP), or a federal nursing shortage county.

You can determine if you are serving in an area listed above by contacting your employer or the Montana Department of Public Health and Human Services Primary Care Office at (406) 444-3934. To learn more about primary and preventative health care and ways to improve the health status of underserved and vulnerable populations visit the Montana Department of Health and Human Services Primary Care Office web site at <http://www.dphhs.mt.gov/PHSD/Primary-Care/primary-care-index.shtml>, or the U.S. Department of Health and Human Services Bureau of Health Professions at <http://bhpr.hrsa.gov/shortage>.

**Line 18 – Exempt Medical Care Savings Account (MSA) Deposits and Earnings.** To determine your Montana adjusted gross income you can subtract from your federal adjusted gross income the amounts that you deposited into a Montana medical care savings account. Please don't confuse this Montana MSA with the federal health savings account (HSA) that is deductible on Form 2, line 25 since you are allowed to participate in both programs. See your federal income tax instructions for information on your federal HSA.

Your Montana medical care savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to \$3,000 plus accumulated interest or other earnings on these funds annually. If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana MSA and you each can exclude up to \$3,000 plus accumulated interest or other earnings on this account

annually. To qualify for this exclusion, you will need to establish a separate account that is owned by you alone and is not jointly held with your spouse or any other individuals. In addition, you cannot commingle other funds with this account. Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the payment of qualified medical expenses for yourself, your spouse, or your dependent. Any of these funds withdrawn for other purposes are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana medical care savings account see Montana Forms MSA and MSA-P. When you claim this exclusion, you will need to attach a copy of Montana Form MSA to your income tax return.

**Line 19 – Exempt First-time Homebuyer Savings Account Deposits and Earnings.** To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts you deposited into a Montana first-time homebuyer savings account. Your Montana first-time homebuyer savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to \$3,000 plus accumulated interest or other earnings on these funds annually.

If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana first-time homebuyer savings account and you each can exclude up to \$3,000 plus accumulated interest or other earnings on this principal annually. To qualify for this exclusion, you will need to establish a separate or joint account with your spouse and contribute to your account(s) prior to purchasing your first-time home. If you file your income tax return separately with your spouse and if you have established a joint first-time homebuyer savings account with your spouse, you cannot take this exclusion. Therefore, we recommend that you and your spouse establish separate first-time homebuyer savings accounts instead of a jointly held account. These separate accounts will qualify both of you for the \$3,000 annual exclusion whether you file jointly or separately with your spouse.

Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the down payment and allowable closing cost for purchasing your single-family resident in Montana. If you withdraw any of these funds for other purposes, they are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana first-time homebuyer savings account see Montana Forms FTB and FTB-P. When you claim this exclusion, you will have to attach a copy of Montana Form FTB to your income tax return.

**Line 20 – Exempt Family Education Savings Account Deposits and Earnings.** When you determine your Montana adjusted gross income, you can subtract from your

federal adjusted gross income the lesser of the contributions that you made during 2005 to one or more Montana family education savings accounts or \$3,000. If you are married, both you and your spouse are entitled to exclude up to \$3,000 for contributions that you made to one or more Montana family education savings accounts. This exclusion is allowed only for contributions that you make to a Montana family education savings account that is owned by you, your spouse, your child or stepchild as long as your child or stepchild is a Montana resident. You cannot exclude contributions made to another state or private family education saving program.

Withdrawals of your contributions and earnings from a Montana family education savings account are not taxable to you if you withdraw them to pay for qualified higher educational expense defined under federal law. If you withdraw these contributions for purposes other than to pay for qualified higher educational expenses, they are subject to a recapture tax of 6.9%, which should be reported on Montana Form 2, line 52.

To establish your Montana family education savings account or for additional information, call the Montana Family Education Savings Program at (800) 888-2723 or visit their web site at <http://montana.collegesavings.com>.

**Line 21 – Exempt Farm and Ranch Risk Management Account Deposits.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of 20% of the net income that is attributable to your agricultural business or \$20,000 per year that you deposited into your Montana farm and ranch risk management trust account. This account is designed to be used as a risk management tool for your individual or family farm corporation's agricultural business. It is established as a Montana trust with your financial institution as the trustee.

Amounts that you contributed to your farm and ranch risk management account that were excluded from your Montana adjusted gross income in prior years are taxable to you and should be included in your Montana adjusted gross income when you distribute your funds. Amounts that you contributed to your farm and ranch risk management account that are not distributed before the last business day on the fifth year from the date that this contribution was deposited are considered distributed and are assessed a 10% penalty on the amount of tax resulting from the farm and ranch risk management account principal. For further instructions about the Montana farm and ranch risk management account see Montana Form FRM. When you claim this exclusion, you will need to attach a copy of Montana Form FRM to your income tax return.

**Line 22 – Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement.** Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana Form W, Worksheet VIII, found on page 42 of the instruction booklet.

After you have completed your social security worksheet and you find that your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, enter that difference as a subtraction to federal adjusted gross income on your Form 2A, Schedule II, line 22. If your social security benefits are greater than those that you reported on Form 2, line 20b, you should report that difference as an addition to federal adjusted gross income on your Form 2A, Schedule I, line 5.

**Line 23 – Subtraction for Federal Taxable Tier II Railroad Retirement Benefits.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income your taxable Tier II Railroad Retirement benefits included on your Montana Form 2, line 16b. Your taxable pension and annuity income may include your taxable portion of Tier II Railroad Retirement benefits that are paid by the railroad retirement board. These benefits are 100% exempt from Montana income tax.

**Lines 24a through 24c – Subtraction for Spouse Filing Joint Federal Return.** If you are married and if in a prior year you and your spouse have filed a federal income tax return jointly and a state income tax return separately, this year you may be eligible to subtract from your federal adjusted gross income the losses and deductions that were previously disallowed. This is because of the special rules found in the Internal Revenue Code that permit the deduction of the following expenses:

- **24a – Passive Loss Carryover Exclusion.** If you have filed a federal income tax return jointly with your spouse and a Montana income tax return separately with your spouse in a prior year, your Montana passive loss carryover may be different from your federal passive loss carryover. If you have passive activity income this year or if you have sold or exchanged your entire interest in a passive activity in a taxable transaction to an unrelated party or if you are filing jointly with your spouse, you can claim your carryover passive activity losses on line 24a. Complete your "Passive Activity Loss Limitation" federal Form 8582 to determine your 2005 passive loss carryover exclusion and then enter this result on Form 2A, Schedule II, line 24a. Attach a copy of your federal Form 8582 and a copy of your Montana Form 2, page 1 for the previous years for which you were not entitled to claim your passive loss.
- **24b – IRA Deduction Adjustment.** If in a prior year you have filed a federal income tax return jointly with your spouse and a Montana income tax return separately with your spouse, the basis for your IRA may be different for federal and state income tax purposes. If in the year that you made contributions to your IRA these contributions were deducted on your federal income tax return but you were not eligible to deduct your contributions on your Montana income tax return, you may not have to include your IRA distribution in Montana adjusted gross income. Exclude on Form 2A, Schedule II, line 24b any taxable distributions that you reported on Form 2, line 15b that were not originally excluded from Montana adjusted gross income in the year of your contribution.



- **24c – Capital Loss Adjustment.** If in a prior year you have filed a federal income tax return jointly with your spouse and a Montana income tax return separately with your spouse, you may have a capital loss carry forward for state income tax purposes that is different from what you have for federal income tax purposes. Enter on Form 2A, Schedule II, line 24c your capital loss carry forward that is not included on your Form 2, line 13. Remember that your total capital loss allowed in any one year is limited to \$3,000 if you file jointly with your spouse or to \$1,500 if you file married filing separately with your spouse.

**Line 25 – Subtraction of Sole Proprietor for Allocation of Compensation to Spouse.** If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report the full amount of your income in column A or column B when you determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. This allocation has to be based on an amount that is equivalent to the services that your spouse provides and is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

Services that your spouse provides for operating your household or service that are incidental to your operations cannot be used as a basis for allocating income to your spouse. When you claim this reduction to income, you should be prepared to provide us with verification of those services provided and the substantial contribution made by your spouse.

Subtract from your federal adjusted gross income Form 2A, Schedule II, line 25 the amount of income allocated to your spouse that is reported by your spouse as an addition to federal adjusted gross income on Form 2A, Schedule I, line 7.

**Line 26 – Montana Net Operating Loss Carry Over.** Your Montana net operating loss carryover may be different from the amount of your federal net operating loss carryover that you reported on Form 2, line 21. You should record the amount of the federal net operating loss carryover that you reported on your Form 2, line 21 on Form 2A, Schedule I, line 13 and then compute your Montana net operating loss carryover using Montana Form NOL. Report on Form 2A, Schedule II, line 26 your Montana net operating loss from Montana Form NOL.

If you have a 2005 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years preceding the loss year and then carry forward the balance of your 2005 net operating loss 20 years following the loss year. The federal special carry back rules apply for farm net operating losses and casualty losses. You can elect to forgo the carry back of your 2005 net operating loss and carry forward that loss. In order to forgo your carry back, you will have to make an election on

Montana Form NOL by April 15, 2006, or, if you have a valid extension, by October 15, 2006. Once you have made this election, it is irrevocable and you will not be able to reverse your election and carry back your 2005 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, you will need to use Montana Form NOL-Pre99 to determine your carryover amount.

**Line 27 – 40% Capital Gain Exclusion for Pre-1987 Installment Sales.** If you have an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be allowed to exclude 40% of this capital gain from your federal adjusted gross income when you determine your Montana adjusted gross income. Complete Montana Form W, Worksheet III, found on page 39 of the instruction booklet in order to determine your capital gain exclusion and then report this amount on Form 2A, Schedule II, line 27.

**Line 28 – Subtraction for Business Related Expenses for Purchasing Recycled Material.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income an additional 10% of the expenses that your business paid for purchasing recycling products. This additional deduction is allowed only to businesses within Montana and for products that they purchased that contain recycled material at a level consistent with industry standards and/or consistent with the standards established by the federal environmental protection agency. If you are a shareholder in an S. corporation, a partner in a partnership or a member or manager of a limited liability company, the share of this additional deduction allowed for your entity is based on the same proportion that you used to report your income or loss from your ownership in that entity for Montana income tax purposes.

**Line 29 – Subtraction for Sales of Land to Beginning Farmers.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income 100% of your income or capital gain (up to a maximum of \$50,000) that you recognized from the sale to a beginning farmer of at least 80 acres or more of land at 9% or less interest on a long-term contract. To qualify for this deduction, you need to apply to and be approved by the Agricultural Loan Authority of the Montana Department of Agriculture. You will need to attach a copy of this approval to your individual income tax return. To learn more about the Montana Beginning Farm/Ranch Loan Program, you can contact the Agricultural Finance Program Manager of the Montana Department of Agriculture at (406) 444-2402 or visit their web site at <http://www.agr.state.mt.us/business/bfrprog.asp>.

**Line 30 – Subtraction for Larger Federal Estate and Trust Taxable Distribution.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the difference between your federal taxable distribution from an estate or trust and the state taxable distribution of the same estate or trust as long as this distribution is for the same tax period. Enter the difference on Form 2A, Schedule II, line 30.



**Line 31 – Subtraction for Wage Deduction Reduced by the Federal Targeted Jobs Credit.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income all wages and salaries paid by your business that were reduced for federal income tax purposes because of the fact that you applied for the federal targeted jobs credit on your federal income tax return. This additional deduction should be claimed in the tax year that you paid the wages, using the salaries that you used to calculate your federal targeted jobs credit.

If you are a shareholder in an S. corporation, a partner in a partnership or a member or manager of a limited liability company, this additional deduction should first be applied at the entity level to determine the entity's Montana income or loss. For Montana tax purposes your share of this additional deduction applied at the entity level is based on the same proportion that you used to report the income or losses of your ownership in the entity.

**Line 32 – Subtraction for Certain Gains Recognized by a Liquidating Corporation.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income that portion of your gain from the liquidation of a reporting corporation to the extent that this gain is included in the gross income of the liquidating corporation's Montana corporate license tax return.

**Line 33 – Other Subtractions.** Enter on Form 2A, Schedule II, line 33 any other subtractions to federal adjusted gross income not described in lines 1 through 32.

## Form 2A, Schedule III – Montana Itemized Deductions

You should use Form 2A, Schedule III to figure your itemized deductions, but remember that your Montana itemized deductions may be different from your federal itemized deductions. There are federal deductions that are not allowed on your Montana income tax return and state deductions that are allowed only on the Montana income tax return.

If you are married and you are filing separately on the same form with your spouse or separately on separate forms, you should apply the following rules:

- Both spouses should either claim the standard deduction or itemize their deductions. You are not allowed to claim one method for one spouse and another method for the other spouse.
- Deductions that are attributable to only one spouse have to be claimed by that spouse. This includes, for example, your federal income tax withheld and your employee business expenses reported on federal Form 2106.
- Payments made from accounts owned by both spouses and that pertain to both spouses can be allocated to either spouse in any proportional amount.

**Line 1 – Medical Expenses.** Enter on line 1 your medical expenses paid in 2005 after you have deducted from these expenses any payments that you received from your

insurance company or other sources. These expenses are the same medical and dental expenses that are allowed under the Internal Revenue Code with the exception of the following expenses that are not deductible on line 1:

- medical insurance and long term care insurance premiums paid in 2005 that are claimed as a deduction on your Form 2A, Schedule III, lines 4 and 5.
- health insurance premiums paid by your employer and that are excluded from federal adjusted gross income in determining Montana adjusted gross income on your Form 2A, Schedule II, line 16.
- medical expenses paid with funds withdrawn from your Montana medical care savings account.

**Line 2 –** Your medical expenses reported on Form 2A, Schedule III, line 1 should be reduced by .075 (7.5%) of the Montana adjusted gross income that you reported on Form 2, line 40. Multiply the amount of the Montana adjusted gross income that you reported on your Form 2, line 40 by .075 (7.5%) and enter the result on your Form 2A, Schedule III, line 2.

**Line 4 – Medical Insurance Premiums.** If you pay your own medical insurance premiums for coverage for yourself and your family, you may be eligible to deduct 100% of these medical insurance premiums. To determine whether you can deduct 100% of your medical insurance premiums, you have to meet the following criteria:

- Your premiums have to be paid for health and medical insurance coverage. Your life insurance premiums are not deductible.
- Your premiums cannot have been paid through a federal or state medical care savings account, such as the federal Health Savings Account or the Montana Medical Care Savings Account.
- Your premiums cannot have been paid through an employer health benefit cafeteria plan in which your premium payments are considered "pre-taxed" payment and therefore not subject to federal or state income tax withholding, federal social security, or federal medicare payments. If you are unsure whether your employer has a health benefit cafeteria plan, you may want to check with your employer's payroll office to discover whether your medical insurance premiums are covered by a health benefit cafeteria plan.
- Your premiums cannot be deducted as a self-employed health insurance deduction on your Form 2, line 29, or as a subtraction to federal adjusted gross income on your Form 2A, Schedule II, line 16.
- Your premiums cannot be deducted as Medicare A premiums from your social security benefits. However, Medicare B premiums that are deducted from your social security benefits are 100% deductible on line 4.
- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on line 4.

**Line 5 – Long-term Care Insurance Premiums.** If you pay for long-term care insurance premiums, you may be eligible to deduct 100% of the long-term care insurance

premiums that you paid. To determine whether you can deduct 100% of your long-term care insurance premiums, you have to meet the following criteria:

- Your premiums have to be for long-term care coverage primarily for any qualified long-term care service that provides for the necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative service and personal care that is required for a chronically ill individual who is under the prescribed care of a licensed health care practitioner.
- Your premiums that you paid for long-term care for yourself, your dependents, your parents or your grandparents.
- Your premiums have not been deducted elsewhere on your return when you determined your Montana adjusted gross income.
- Your premiums have not been considered as qualified elderly care expenses when you claimed the elderly care credit that you reported on Form 2A, Schedule V, line 8.

**Lines 6a through 6f – Election for Federal Income Tax Paid or State and Local Sales Tax Paid in 2005.** You will have to elect on your Montana income tax return the same income tax or sales tax election that you made on your federal income tax return.

If you have taken your state income tax as a deduction on your federal income tax return, you will have to claim the federal income tax deduction on your Montana income tax return. If you have taken your state and local sales tax as a deduction on your federal return, you will have to claim your state and local sales tax as a deduction on your Montana income tax return. In no circumstance can you take both your federal income taxes paid and your state and local sales tax paid as a deduction on your Montana income tax return.

Complete line 6a through 6e to report your 2005 federal income tax paid. If you are taking your state and local sales taxes paid as a deduction, skip lines 6a through 6e and report your state and local sales tax deduction on line 6f.

- **Line 6a – Federal Income Tax Withheld.** Enter on line 6a the total amount of the federal income tax withheld that was reported to you on your federal Form W-2(s) and/or 1099(s). If you are married filing separately with your spouse, your federal income tax withheld should be reported by the spouse who earned the income. Do not include in this total the amount of the self-employment tax that you paid, since your self-employment tax is not a tax based on income.
- **Line 6b – Federal Estimated Tax Payment Paid in 2005.** Enter on line 6b the total amount of the federal estimated income tax payments that you made in 2005. When you claim federal estimated tax payments, you should attach a copy of your federal Form 1040 or 1040A pages 1 and 2.

- **Line 6c – 2004 Federal Income Taxes Paid in 2005.** Enter on line 6c the balance of the total amount of the 2004 federal income tax that you paid in 2005.
- **Line 6d – Additional Back Year Federal Income Taxes Paid in 2005.** Enter on line 6d the total amount of additional back year federal income taxes that you paid in 2005. For example, you may have paid additional 2003 federal income taxes in 2005.
- **Line 6e – Federal Income Tax Deduction.** Beginning with tax year 2005 your federal tax deduction is limited as follows:
  - If your filing status is single, married filing separately or as head of household, you should deduct the lesser of \$5,000 or the sum of lines 6a through 6d. If you are married filing separately on the same form or on separate forms, you each are limited to the \$5,000 federal tax deduction and you cannot arbitrarily allocate this deduction between spouses.
  - If you file your Montana income tax return jointly with your spouse, your federal income tax deduction is limited to the lesser of \$10,000 or the sum of lines 6a through 6d.
- **Line 6f – General State and Local Sales Tax Paid in 2005.** If you have elected to claim the state and local sales tax deduction on your federal income tax return, you will claim the state and local sales tax deduction on your Montana income tax return. Enter on line 6f the amount of state and local sales taxes that you paid in 2005 and that you reported as a deduction on your federal income tax return. Remember, you cannot claim both the federal income tax deduction and the general state and local sales tax deduction.

**Line 7 – Local Income Taxes Paid in 2005.** Enter on Form 2A, Schedule III, line 7 any local income taxes that you paid in 2005.

**Line 8 – Real Estate Taxes Paid in 2005.** Enter on Form 2A, Schedule III, line 8 any real estate taxes that you paid in 2005 on real estate that you own and that was not used for business. If you qualify and then apply for the elderly homeowner/renter credit, do not confuse this amount with the amount of your property tax billed that is used to determine the amount of your elderly homeowner/renter credit. See Montana Form 2EC for information on the Montana elderly homeowner/renter credit.

**Line 9 – Personal Property Taxes Paid in 2005.** Enter on Form 2A, Schedule III, line 9 any personal property taxes that you paid in 2005. In order to claim this deduction, these personal property taxes have to be based on value and charged on a yearly basis.

Your motor vehicle taxes that are based on the vehicle's value are considered a personal property tax and are deductible on line 9. Your motor vehicle fees that are not based on the vehicle's value are not deductible with the exception of the Montana light vehicle registration fee that

is deductible – even though it is based not on the vehicle’s value, but on the age of the vehicle. However, any light vehicle registration fee that you pay to another state is not deductible on your Montana return. The taxes and fees that are listed on your Montana vehicle registration receipt that are deductible on line 9 include codes 02-DOTRAT, 07-AVTAX, 08-BKAVTX, 14-COOPT, 61-REGRAT and 62-BKRGRT.

**Line 10 – Other Deductible Taxes.** Enter on Form 2A, Schedule III, line 10 any other deductible taxes that you paid in 2005 and that you did not report on lines 6a through 9. When you claim these other deductible taxes, list on line 10 the type and amount of tax that you paid.

You cannot take a deduction on your Montana individual income tax return for the following taxes that you paid in 2005: state income tax, federal excise tax, social security tax, medicare tax, gasoline tax, lodging tax, alcoholic beverage tax, cigarette and tobacco taxes or selective sales taxes. Also, you cannot take a deduction for certain license fees paid in 2005 – such as a hunting, fishing or drivers license fee.

**Line 11 – Home Mortgage Interest.** Enter on Form 2A, Schedule III, line 11 your home mortgage interest and points allowed by federal law that was reported to you on your federal Form 1098.

**Line 12 – Home Mortgage Interest Not Reported on Federal Form 1098.** Enter on Form 2A, Schedule III, line 12 any home mortgage interest that you paid that was not reported on your federal Form 1098. If you bought your home from another person, write that person’s name, social security number and address in the space provided on line 12.

**Line 13 – Points Not Reported to You on Federal Form 1098.** Enter on Form 2A, Schedule III, line 13 any points that you paid that were not reported to you on federal Form 1098.

**Line 14 – Investment Interest.** Enter on Form 2A, Schedule III, line 14 the investment interest deduction that you computed on your federal Form 4952. If you and your spouse are filing separately, you should compute your investment interest deduction on federal Form 4952 separately. You cannot use your interest expense that is related to exempt income when you compute your investment interest deduction.

**Lines 15a and 15b – Contributions Made by Cash or Check.** The contributions allowed as a deduction in computing your net income for Montana income tax purposes are those same contributions allowed as a deduction for federal income tax purposes – with the following exceptions:

- Your contributions made in 2005 to the Montana veterans’ service special revenue account, the Montana state veterans’ cemetery program, or the surcharge for the purchasing of the Montana patriotic specialty license plate are included as an itemized deduction on your Montana income tax return as long as you did not already include these contributions as part of your

federal contribution deduction. For further instructions about this contribution see Montana Form VT.

- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contribution that are allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.
- Any portion of a contribution that you used to calculate your developmental disability account contribution cannot also be claimed as a contribution deduction.

Enter your total contributions made by cash or check on Form 2A, Schedule III, line 15a. Enter your contributions made by cash or check after August 27, 2005 that you elect to treat as qualified contributions on line 15b.

**Line 16 – Contributions Made Other Than by Cash or Check.** Your non-cash contributions allowed as a deduction for Montana income tax purposes are those same non-cash contributions that are allowed as a deduction for federal income tax purposes – with the following exceptions:

- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contribution that is allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.

Enter the contributions that you made by other than cash on Form 2A, Schedule III, line 16.

**Line 17 – Contribution Carryover From the Prior Year.** Enter on Form 2A, Schedule III, line 17 any contribution carryover amounts that you were not allowed to deduct in an earlier year because they exceeded your Montana adjusted gross income limitation.

**Line 18 – Child and Dependent Care Expense.** If you pay for household or dependent care services for a child under the age of 15 or for a disabled dependent while you are searching for gainful employment or while you and your spouse both were at work, you can qualify for a child and dependent care expense deduction.

To qualify for this deduction, you have to maintain a household for a child under the age of 15 or for a dependent or spouse who is unable to care for himself or herself. You also have to meet the following income level requirements.

If you and/or your spouse’s total Montana adjusted gross income is:		
Under	And You Have	Then you
\$22,800	1 child	qualify
\$25,200	2 children	qualify
\$27,600	3 or more children	qualify

If you are married filing separately on the same form with your spouse, your deduction has to be divided equally between both spouses. If you are married filing separately



on separate forms or your spouse is not filing, you cannot qualify for this deduction.

If you are a licensed and registered daycare operator who operates a family daycare home or a group daycare home and if you care for your own child in addition to at least one other unrelated child, you can deduct the employment related expenses considered to have been paid by you for the care of your own child.

For further information on the child and dependent care expense deduction, see the instructions on Montana Form 2441M. When you claim this deduction, complete Montana Form 2441M and attach a copy of it to your Montana income tax return.

**Line 19 – Casualty and Theft Loss.** If you have a casualty and theft loss, you should complete federal Form 4684 to figure the amount of the Montana loss that you can enter on Form 2A, Schedule III, line 19. To determine your casualty and theft loss, you should use your Montana adjusted gross income in place of the federal adjusted gross income. And if you are filing separately with your spouse, you each should complete a separate federal Form 4684 to determine the amount of your separate casualty and theft loss.

**Line 20 – Unreimbursed Employee Business Expenses.** When you deduct the unreimbursed employee business expenses on your Montana income tax return, you should use the same expenses that are allowed on your federal income tax return. To claim these expenses, you will need to complete federal Form 2106 or 2106EZ. Because you can claim only your own unreimbursed employee business expenses and not those of your spouse, when you and your spouse file your returns separately you should report your own employee business expenses in the column that is associated with your income and expenses.

**Line 21 – Other Expenses.** Enter on Form 2A, Schedule III, line 22 other expenses that are allowed on your federal income tax return. Examples of these expenses include, but are not limited to, your tax preparation fee, certain legal and accounting fees, clerical help, and office rent and custodial fees.

**Lines 23 –** Your unreimbursed employee business expenses and other expenses reported on lines 20 and 21 are only deductible to the extent these expenses exceed 2% of the Montana adjusted gross income that you reported on your Form 2, line 40. Multiply the amount on Form 2, line 40 by .20 (20%) and enter the result on line 23.

**Line 24 –** Subtract line 23 from 22 and enter the result on line 24. This is the amount of your unreimbursed employee business expenses and other expenses that are deductible in computing your net income.

**Line 25 – Political Contributions.** When you compute your net income, you can take a deduction for political contributions that you made during the year. These contributions are limited to a total of \$100 for yourself and, if married, a total of \$100 for your spouse. To qualify for this deduction, your contribution of money has to be made to:

- An individual who is a candidate for nomination or election to any federal, state, or local public office in a primary, general or special election;
- Any committee, association, or organization set up to campaign for the nomination or election to any federal, state, or local public office in a primary, general or special election;
- A national committee or a national political party;
- A state committee of a national political party; or
- A local committee of a national political party.

**Line 26 – Other Miscellaneous Deductions Not Subject to 2% of Montana Adjusted Gross Income.** When you compute your net income, you can take a deduction for other miscellaneous expenses that are not subject to 2% of your Montana adjusted gross income. These deductions are the same deductions that are allowed on your federal income tax return. They include a deduction for expenses paid in purchasing organic fertilizer and inorganic fertilizer that is produced as a by-product of mining or industrial operations in Montana.

**Line 27 – Gambling Losses.** You can take a deduction for gambling losses that you incurred during the year. These losses are allowed only in relation to the gambling winnings that you have reported on Form 2, line 21. If you are married and you and your spouse are filing your Montana return separately, the spouse who claims the gambling winnings on Form 2, line 21 should report the gambling losses on Form 2A, Schedule III, line 27.

**Line 29 – Itemized Deduction Worksheet.** If the Montana adjusted gross income that you reported on Form 2, line 40 is more than \$145,950 or more than \$72,975 when you are married and you and your spouse are filing your returns separately, your total itemized deductions reported on Form 2A, Schedule III, line 28 may be limited. Complete Form W, Worksheet VI on page 40 in your instruction booklet to determine the portion of the itemized deductions that you reported on Form 2A, Schedule III, line 28 that are not deductible because you exceeded the Montana adjusted gross income limitations above.

**Line 30 – Allowable Itemized Deductions.** The amount of your allowable itemized deductions is the result of subtracting line 29, which is the total of your disallowed itemized deduction, from line 28, which is your total itemized deductions. Enter this result on Form 2, line 42.

## Form 2A, Schedule IV – Nonresident Part-year Resident Tax

If you are a nonresident or a part-year resident, you are subject to the same filing requirements as a resident unless you are specifically exempt. If you are unsure of your residency status, see page 2 of the instructions to determine whether you are a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes. These instructions will also show how you can determine your legal residence for Montana income tax purposes.



When you file your Montana income tax return as a nonresident or as a part-year resident, you should complete your Montana Form 2, lines 1 through 48 and Form 2A, Schedules I, II, and III as though you were a resident reporting your total Montana and non-Montana source income. It is not until after you have determined your preliminary "resident tax after capital gains tax credit" on Form 2, line 48 that you should complete Form 2A, Schedule IV to determine your "nonresident, part-year resident tax after capital gains tax credit."

As a part-year resident you are considered a resident of Montana once you establish your Montana residency or, up until the time you relinquish your Montana residency and establish residency in another state. For the period of time that you are considered a resident, all of your income is taxable to Montana no matter where you earn it. For the period of time that you are considered a nonresident, only your income that is considered Montana source income is taxable to Montana.

- For example: Suppose you relocated to Montana and established your residency July 1, 2005. You are filing your 2005 Montana income tax return as a part-year resident of Montana reporting wages earned both within and outside of Montana, along with interest and dividends that you earned throughout the year. For the period of January 1<sup>st</sup> through June 30<sup>th</sup>, your wages, interest and dividends are not considered Montana source income. The wages, interest and dividends that you received after July 1, 2005 are Montana source income and are taxable to Montana.

If you are a nonresident servicemember of the United States armed forces living in Montana solely by reason of compliance with your military orders, the Servicemembers Civil Relief Act allows you and your spouse to maintain your original state of residency and it does not require you to establish residency in Montana. Any compensation that you received for military service is not Montana source income and should not be used to determine your nonresident, part-year resident tax after capital gain tax credit. Refer to the instructions for Form 2A, Schedule II, line 9 for the treatment of your military income.

## Lines 1 through 16 – Reporting of your Montana Source Income.

In general, as a nonresident of Montana your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

In general, as a part-year resident, for the part of the year that you are a nonresident your Montana source income is all the income that you receive for work that you perform in Montana, income that you received from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

For the part of the year that you are a resident all of your income that you receive, no matter where you earn it, is Montana source income.

**Line 1 – Montana Source Wages, Salaries, Tips, etc.** If you are a nonresident, enter on line 1 that portion of your wages, salaries, tips and other compensation for services that you performed in Montana and that are included in your total on Form 2, line 7.

If you are a part-year resident, enter on line 1 all of your wages, salaries, tips and other compensation that you earned during the part of the year that you were a resident. Also include, where applicable, that portion of your wages, salaries, tips and other compensation that you received for services in Montana during the part of the year that you were a nonresident.

**Line 2 – Montana Source Taxable Interest.** If you are a nonresident, enter on line 2 that portion of your interest that you received from an installment sale of real property in Montana. Also include any interest that you received from your business or commercial property that is located in Montana and that is included in your total on Form 2, line 8. As a nonresident you do not have to include as Montana source income all of the interest that you received from financial institutions, notes, dividends on capital stock, royalties from patents and copyrights and other income from intangible property.

If you are a part-year resident, enter on line 2 all of the interest that you received or accrued during the period of time that you were a resident and that is included in the totals on Form 2, line 8a and Form 2A, Schedule I, line 1.

**Line 3 – Montana Source Ordinary Dividends.** If you are a nonresident, generally your dividends are not considered Montana source income and should not be included on line 3.

If you are a part-year resident, enter on line 3 all of the dividends that you received or accrued during the period of time that you were a Montana resident in 2005 and that are included in your total on Form 2, line 9a.

**Line 4 – Montana Source Taxable Refunds or Other Recoveries.** If you are a nonresident or a part-year resident and you have a taxable federal income tax refund or a recovery of an amount deducted in 2004 that is reported on Form 2A, Schedule I, line 3 enter on Form 2A, Schedule IV, line 4 that portion of your federal income tax refund and/or recovery that is determined to be Montana source income.

To determine that portion of your federal refund and/or recovery that is Montana source income use the ratio of your Montana source income to total income that was reported on your 2004 Form 2A, Schedule IV, line 127. If you did not have any Montana source income in 2004 and you were not required to file a 2004 Montana income tax return, your federal income tax refund and/or recovery is not Montana source income.

If you received in 2005 a taxable federal refund and/or recovery of a prior year deduction from a year other than tax year 2004 use the ratio of your Montana source income to total income that was determine in the year of the deduction.

**Line 5 – Montana Source Alimony Received.** If you are a nonresident, the alimony that you reported on Form 2, line 11 is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter on line 5 that portion of the alimony that you received during the period that you were a Montana resident in 2005 and that is included in your federal adjusted gross income on Form 2, line 11.

**Line 6 – Montana Source Business Income or (Loss).** If you are a nonresident, enter on line 6 that portion of your net income or loss that is reported on Form 2, line 12 that you received from a trade, business, profession, or occupation that you carried on in Montana.

If you are a part-year resident, enter on line 6 the net income or loss that you included in your total on Form 2, line 12 that you received from any trade, business, profession, or occupation during the period that you were a resident. Also include, where applicable, that portion of any net income or loss that you received from a trade, business, profession, or occupation that is carried on in Montana during that period of time you were a nonresident.

**Line 7 – Montana Source Capital Gain or (Loss).** If you are a nonresident, enter on line 7 that portion of your gains or losses that are included in your total on Form 2, line 13 that you received on the sale or transfer of your tangible property located in Montana or for your tangible property that is used or held in connection with your trade, business or occupation that is carried on in Montana.

If you are a part-year resident, enter on line 7 all of your gains or losses that are included in your total on Form 2, line 13, that you received during the part of the year that you were a resident. Also, where applicable, include that portion of any gains or losses that you received during the part of the year in which you were a nonresident for the sale or transfer of your tangible property that is located in Montana or for the sale or transfer of any tangible property that is used or held in connection with your trade, business or occupation that is carried on in Montana.

**Line 8 – Montana Source Other Gains or (Losses).** If you are a nonresident, enter on line 8 that portion of your gains or losses that are included in your total on Form 2, line 14 related to what you received from the sale or exchange of business property located in Montana and reported on your federal Form 4797.

If you are a part-year resident, enter on line 7 all of the gains and losses that you included in your total on Form 2, line 14 that you received during the part of the year that you were a resident. Also include, where applicable, that portion of any gains or losses from the sale or exchange of business property located in Montana during the period of time that you were a nonresident.

**Line 9 – Montana Source Taxable IRA Distribution.** If you are a nonresident, the IRA distribution that you reported on Form 2, line 15b is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter on line 9 all of the taxable IRA distributions that you included in your total on Form 2, line 15b that you received during the part of the year that you were a resident.

**Line 10 – Montana Source Taxable Pension and Annuities.** If you are a nonresident, the taxable pension and annuities that you reported on Form 2, line 16b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter on line 10 all of the taxable pensions and annuities that you included in your total on Form 2, line 16b for the part of the year that you received them as a resident.

**Line 11 – Montana Source Rental Real Estate, Royalties, Partnerships, S. corporations, Trust, etc.** If you are a nonresident, enter on line 11 that portion of the following income or losses that you included in your total on Form 2, line 17:

- Net rental income or loss from real property and tangible personal property located in Montana.
- Net royalties from real property and tangible real property to the extent that this property is used in Montana.
- Patent royalties to the extent that the income that you received is for the production, fabrication, manufacturing, or other processing in Montana, or the patented product is produced in Montana.
- Net copyright royalties to the extent that the printing and other publication originated in Montana.
- Partnership income derived from a trade, business, occupation or profession carried on in Montana.
- S. Corporation income derived from a trade, business, occupation or profession carried on in Montana.
- Trust income derived from a trade, business, occupation or profession carried on in Montana.

If you are a part-year resident, enter on line 11 all of the income or losses included in your total on Form 2, line 17 that you received during the part of the year that you were a resident and, where applicable, include that portion of any income or loss that is attributable to Montana (as described in the preceding paragraph) during the period of time that you were a nonresident.

**Line 12 – Montana Source Farm Income or Loss.** If you are a nonresident, enter on line 12 that portion of your net income or loss that you reported on Form 2, line 18 that you received from the farming activity that you carried on in Montana.

If you are a part-year resident, enter on line 12 your net income or loss that you included in your total on Form 2, line 18 that you received from any farming activity during the period that you were a resident. Also include, where applicable, that portion of any net income or loss that you

received from the farming activity that you carried on in Montana during the period of time that you were a nonresident.

**Line 13 – Montana Source Taxable Social Security Benefits.** If you are a nonresident, the taxable social security benefits that you reported on Form 2, line 20b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter on line 13 only that portion of the taxable social security benefits that you received during the part of the year that you were a resident and that are included in your total on Form 2, line 20b. You should calculate your portion of taxable social security benefits by dividing the amount that you reported on Form 2, line 20b by 12 months and then multiply this result by the number of months that you were a resident of Montana in 2005. You will need to complete the social security Worksheet VIII on page 42 in order to determine your Montana source taxable social security benefits.

**Line 14 – Montana Source Other Income.** If you are a nonresident, enter on line 14 any other amounts of your income not included above that are derived from Montana sources. This includes, but is not limited to:

- Montana lottery winnings
- Non-employee compensation

**Line 15 – Montana Source Additions to Income Reported on Form 2A, Schedule I.** If you are a nonresident, enter on line 15 any amount of income not included above that you reported on Form 2A, Schedule I that was derived from Montana sources. This includes, but is not limited to:

- Federal tax refunds. If you received a federal income tax refund in 2005 and now are required to include this refund as income on Form 2A, Schedule I, line 3, a portion of this refund may be considered Montana source income. To determine this portion, multiply the amount of the taxable federal refund that you reported on Form 2A, Schedule I, line 3 by the percentage of your Montana source income divided by your total income from all of the sources that you reported on Form 2A, Schedule IV, line 127 of your 2004 Montana individual income tax return.
- Recapture of a prior year tax benefit. If you received a refund in 2005 of an amount that you claimed as a deduction in a prior year, you are now required to include this amount as income on Form 2A, Schedule I, line 4. A portion of this refund may be considered Montana source income. To determine this portion, multiply the amount on your Form 2A, Schedule I, line 4 by the percentage of your Montana source income divided by your total income from all sources that you reported on Form 2A, Schedule IV, for the year in which you claimed this deduction.
- Medical care savings account nonqualified withdrawals. The amount that you deposited into your Montana medical care savings account while you were a resident maintains its character as Montana source income as

long as you don't withdraw it to pay for eligible medical expenses prior to the time that you establish your residency elsewhere.

- First-time homebuyer savings account nonqualified withdrawals. The amount that you deposited into your Montana first-time homebuyer savings account while you were a resident maintains its character as Montana source income. If you have not used these funds to purchase a home in Montana prior to establishing residency elsewhere, these funds are Montana source income and taxable to Montana.

**Line 17 – Total Income From All Sources.** For both nonresidents and part-year residents enter on line 17 the sum of Form 2, lines 22 and 38.

If you are a nonresident military service person who has Montana source income, you should add the amounts on Form 2, lines 22 and 38 and then subtract from this total the nonresident exempt military compensation that you reported on Form 2A, Schedule II, line 9.

**Line 20 – Nonresident, Part-year Resident Tax After Capital Gains Tax Credit.** After you have finished completing Form 2A, Schedule IV and have determined the amount of your nonresident, part-year resident tax after capital gains tax credit, enter that amount on Form 2, line 48a and then proceed to line 49. The instructions for line 49 through 74 begin on page 10.

## Form 2A, Schedule V – Montana Tax Credits

There are three categories of credits available on your Montana individual income tax return. We have listed the 27 Montana tax credits available to you under these three categories to assist you in managing these credits. With the exception of the capital gains credit, which is required to be applied before any other credit, (refer to Form 2, line 47) you are not required to apply any of the other tax credits in a particular order.

- **Nonrefundable single-year credits.** Your nonrefundable single-year credits can only be used to offset your 2005 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion of your nonrefundable single-year credits that exceeded your 2005 income tax liability are lost and are unable to be used in future years.
- **Nonrefundable carryover credit.** Your nonrefundable carryover credits can be used to offset your 2005 resident, nonresident, or part-year resident tax after capital gains credit. It cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2005 income tax liability can be carried over and used to offset future year tax liabilities.
- **Refundable credits.** Your refundable credits are applied against your income tax liability with any unused credit refunded to you.



**Nonrefundable Single-Year Credits  
Form 2A, Schedule V, Lines 1 through 12**

**Line 1 – Credit for An Income Tax Paid to Another State or Country.** You can only use this credit if you are filing as a full-year and part-year resident.

If you are a resident and you paid an income tax to another state or country on income that is also taxed to Montana, you may be entitled to a credit against your Montana income tax liability for these income taxes paid to another state or country. To determine if you have a credit, you will need to complete Form 2A, Schedule VI.

If you are a part-year resident and you paid an income tax to another state or country on income that is also taxed to Montana and if you included it as Montana source income on Form 2A, Schedule IV, lines 1 through 16, you may be entitled to a credit against your Montana part-year resident income tax liability for these income taxes paid to another state or country. To determine if you have a credit, you will need to complete Form 2A, Schedule VII.

If you are a shareholder of an S. corporation or a partner in a partnership and your S. corporation or partnership pays an income tax to another state or country, you can claim a credit for your share of these income taxes paid by the entity. In order for you to claim this credit, however, the income tax paid by the S. corporation or partnership has to be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the S. corporation or partnership as long as they are imposed on and measured by net income. However, you are not allowed to use other taxes paid by your S. corporation or partnership such as, but not limited to, franchise or license taxes or fees that are not imposed on or measured by net income, gross receipt taxes or gross sales taxes. When you claim this credit for the taxes paid by your S. corporation or partnership, you will have to add back to your federal adjusted gross income in determining your Montana adjusted gross income, on Form 2A, Schedule I, line 14, your share of the S. corporation's or partnership's federal tax deduction that is included in your total on Form 2, line 17. This is required whether or not your S. corporation or partnership separately or non-separately stated the income tax deduction on your federal Form K-1.

If you are required to file an income tax return in more than one state or country and you are entitled to this credit, you will have to complete a separate Form 2, Schedule VI or VII for each state or country in which you filed an income tax return and paid an income tax on income that is also taxed to Montana.

You will not be entitled to this credit if the other state or country in which you have filed an income tax return has allowed you a credit against the taxes that they have imposed on your net income because you are also subject to tax on the same income by Montana.

When calculating this credit on Form 2A, Schedule VI, you cannot include in your income tax liability paid to the other

state or country on line 4 any penalties and interest that you paid to the other state or country.

**Line 2 – College Contribution Credit.** You can claim a credit against your income tax liability for contributions that you made in 2005 to a general endowment fund of the Montana University System foundations or a private Montana college, or its foundation. Your credit is equal to 10% of the contribution that you made with a maximum credit allowed of \$500.

In order for you to qualify for this credit, your contribution has to be made to a Montana college or university that offers a baccalaureate degree level education program. In addition to this credit, your contribution may also be claimed as an itemized deduction on Form 2A, Schedule III, line 15.

For further instructions on the college contribution credit, and to calculate this credit, see Montana Form CC. When you claim this credit, you will have to attach a copy of Montana Form CC to your income tax return.

**Line 3 – Qualified Endowment Credit.** You can claim a credit against your income tax liability for contributions made to a qualified Montana endowment held by a Montana corporation or established organization that is tax-exempt under 26 U.S.C. 501(c)(3) or is held by a bank or trust company in Montana on behalf of the tax-exempt organization.

Your credit is equal to 40% of the present value of a planned gift that you personally made during the year to the qualified Montana endowment. If you are a shareholder in an S. corporation, a partner in a partnership, or a member or manager of a limited liability company and your entity made a contribution to a qualified Montana endowment, you are entitled to a credit equal to 20% of your share of the entity's contribution. In no case can your credit be larger than \$10,000 for your contribution and, when applicable, \$10,000 for your spouse. When claiming this credit, you cannot claim a charitable contribution on Form 2A, Schedule III for the amount of the contribution that you used to calculate this credit.

For further instructions on the qualified endowment credit, and to calculate this credit, see Montana Form QEC. To learn more about the endowments state-wide visit the Governor's Task Force on Endowed Philanthropy website at [www.endowmontana.org](http://www.endowmontana.org).

When you claim this credit, you will have to attach a copy of Montana Form QEC to your income tax return.

**Line 4 – Energy Conservation Installation Credit.** If you are a resident of Montana you can claim a credit against your income tax liability for energy conservation investments that you made to your home or other buildings. Your credit is equal to 25% of your expenses for a maximum credit of up to \$500 for the capital investments you made to your home or another building for energy conservation purposes or for the installation or replacement of a hot water heater or household heating or cooling system. If you are married, your spouse may also qualify



for this credit as long as the building in which the investment is made is owned by both spouses.

In order to qualify for this credit you will have to show, and provide to us upon request, verification of your expenditures and that your investment will reduce the waste or dissipation of energy or reduce the amount of energy that is required to accomplish a given amount of work. If you are unable to provide this documentation and verification you will not be allowed to take this credit.

For further instructions on the energy conservation credit and to calculate this credit, see Montana Form ENRG-C. When you claim this credit, you will have to attach a copy of Montana Form ENRG-C to your income tax return.

**Line 5 – Alternative Fuel Credit.** You can claim a credit against your income tax liability for the cost of converting your motor vehicle to operate on an alternative fuel. Your credit is equal to 50% of the cost to convert your motor vehicle for a maximum credit of up to \$1,000.

In order to qualify for this credit, your motor vehicle has to be licensed in Montana and the conversion has to be from gasoline to an alternative fuel, such as natural gas, liquefied petroleum gas, liquefied natural gas, hydrogen, electricity, or other combinations. This credit should not be confused with the federal deduction for the purchase of a qualified clean-air vehicle.

For further instructions on the alternative fuel credit and to calculate this credit, see Montana Form AFCR. When you claim this credit, you will have to attach a copy of Montana Form AFCR to your income tax return.

**Line 6 – Rural Physician’s Credit.** You can claim a credit against your income tax liability if you are a licensed physician practicing in a rural area. Your credit is up to \$5,000 a year and is limited to \$20,000 for four consecutive years.

In order to qualify for the entire \$20,000 credit, you are required to locate or relocate your principal practice to a rural area and provide medical services to the general public for a period of eight years. The rural area that you service cannot be within a 30 mile radius of a hospital that has at least 60 beds.

You are required to begin your practice at least 9 months before the end of your tax year to be eligible for the credit your first year and you cannot claim the credit in the year that you cease your practice. If you close your practice in the rural area within four years of claiming this credit, you will be required to repay to the state the amount of the credit that you claimed in the prior year(s) (see instructions for Form 2, line 54 for the repayment of the rural physician’s credit).

When taking this credit, attach to your Montana income tax return a statement providing the following information:

- The date your practice began.
- The street address and city of the location where you began your practice.

- The professional area of your medical practice, for example “family practice.”
- The location of the nearest hospital.

**Line 7 – Health Insurance for Uninsured Montanans Credit.** If you own a business and you pay your employees health insurance premiums you can claim a credit against your income tax liability for these premiums paid for your employees. Your credit is a percentage of the premium payments that you made throughout the year for a maximum credit of up to \$3,000 per year.

In order to qualify for this credit, as an employer you should meet the following criteria:

- You have been in business in Montana for at least 12 months; and
- You employ 20 or fewer employees who work at least 20 hours a week; and
- You pay at least 50% of each of your employee’s health insurance premiums.

Your credit is limited to a maximum of 10 employees and should include small employer group health insurance under the Small Employer Health Insurance Availability Act.

For further instructions on the health insurance for uninsured Montanan’s credit, and to calculate this credit, see Montana Form HI. When you claim this credit, you will have to attach a copy of Montana Form HI to your income tax return.

**Line 8 – Elderly Care Credit.** You can claim a credit against your income tax liability for paying certain expenses in order to provide care to an elderly family member. Your credit cannot exceed \$10,000 in one tax year for the care of two or more family members.

In order to qualify for this credit, you need to care for an elderly family member who is at least 65 years of age, who has been determined to be disabled by the Social Security Administration; and who has a family income of \$15,000 or less if not married, or \$30,000 or less if married.

For further instructions on the elderly care credit and to calculate this credit, see Montana Form ECC. When you claim this credit, you will have to attach a copy of Montana Form ECC to your income tax return.

**Line 9 – Developmental Disability Account Contribution Credit.** You can claim a credit against your income tax liability for contributions that you made to the Montana Developmental Disability Service Account administered by the Montana Department of Public Health and Human Services. Your credit is equal to 30% of the contributions that you made during the year but your credited contribution cannot exceed \$10,000 in any one tax year.

In order to qualify for this credit, your contribution should be made to the Montana Department of Public Health and Human Service Developmental Disability Service Account. Any other contribution to another program that provides services to the developmental disabled does not qualify for this credit. When you claim this credit, you cannot take a

charitable contribution deduction for this contribution elsewhere on your return.

For further information on the developmental disability account contribution you can call the Montana Department of Public Health and Human Services at (406) 444-2995 or visit their web site at [www.dphhs.mt.gov/dsd](http://www.dphhs.mt.gov/dsd).

**Line 10 – Recycle Credit.** You can claim a credit against your income tax liability for the investment that your business makes in depreciable equipment or machinery that you use to collect, process, or manufacture a product from reclaimed material. Your credit is equal to 25% of the first \$250,000 invested in the property, 15% of the next \$250,000 invested, and 5% of the next \$500,000 invested. You are not entitled to any additional credit for property that exceeds \$1 million.

For further instruction on the recycle credit, and to calculate this credit, see Montana Form RCYL. When you claim this credit, you will have to attach a copy of Montana Form RCYL to your income tax return.

**Line 11 – Oil Seed Crushing and Biodiesel Production Facility Credit.** You can claim a credit against your income tax liability for the investment that your business makes in depreciable property in Montana to crush oilseed crops for the production of biodiesel. Your credit is equal to 15% of your cost in the property, up to a maximum credit of \$500,000. It will be applied against your income tax liability in the tax year that your facility begins processing the oilseed or manufacturing a product from the oilseed.

You can also claim a credit against your income tax liability for the cost of constructing and equipping your Montana business to produce biodiesel. Your credit is equal to 15% of the cost of the facility or the property that you installed in the facility.

For further instructions on the oil seed crushing and biodiesel production facility credit and to calculate this credit, see Montana Form OSC. When you claim this credit, you will have to attach a copy of Montana Form OSC to your income tax return.

**Line 12 – Biodiesel Blending and Storage Tank Credit.** You can claim a credit against your income tax liability for the investment that your business makes in the purchasing of storage and blending equipment that is used to blend biodiesel with petroleum diesel. Your credit is equal to 15% of the cost of purchasing the storage and blending equipment. It may not exceed \$7,500 and should be claimed in the year that you begin blending the biodiesel for fuel.

In addition, if you are a special fuel distributor or an owner or operator of a motor fuel outlet, you can claim a credit against your income tax liability for the cost of installing any storage and blending equipment. This credit is available only in the year that you begin blending biodiesel. Your credit is equal to 15% of your cost of purchasing the storage and blending equipment and may not exceed \$52,500. It has to be claimed in the year that you begin blending biodiesel.

For further instructions on the biodiesel blending and storage tank credit and to calculate this credit, see Montana Form BBSC. When you claim this credit, you will have to attach a copy of Montana Form BBSC to your income tax return.

## Nonrefundable Carryover Credits Form 2A, Schedule V, Lines 14 through 25

**Line 14 – Contractor's Gross Receipts Tax Credit.** You can claim a credit against your income tax liability for the public contractor's gross receipt tax that your business paid. Your credit is the gross receipts tax you paid throughout the year after you have applied your gross receipts tax against your personal property taxes.

If you report your income from your contracts on the percentage-of-completion method, your credit will need to be prorated accordingly. Your credit cannot exceed your tax liability and any credit balance remaining can be carried forward up to five subsequent years.

When you claim this credit, attach to your income tax return a schedule that identifies the contractor's name, the date and the amount of the contract, the primary contractor, the subcontractor and the location of the job.

**Line 15 – Geothermal Systems Credit.** If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing a geothermal system in your principal home. The amount of the credit cannot exceed \$1,500 and is applied in the year that you installed your geothermal system. The balance of your credit that is not used in 2005 can be carried forward and applied against subsequent income tax liabilities for a period of seven years.

For further instructions on the geothermal systems credit, and to calculate this credit, see Montana Form ENRG-A. When you claim this credit, you will have to attach a copy of Montana Form ENRG-A to your income tax return.

**Line 16 – Alternative Energy Systems Credit.** If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system that uses a recognized nonfossil form of energy such as, but not limited to, solar energy, wind energy, solid waste, and organic waste in your principal home. Your credit cannot exceed \$500 and any balance of your credit that is not used in 2005 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system using a low emission wood or biomass combustion device, such as a pellet or wood stove in your principal home. Your credit cannot exceed \$500 and any balance of your credit that is not used in 2005 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

For further instructions on the alternative energy system credit, and to calculate this credit, see Montana Form

ENRG-B. When you claim this credit, you will have to attach a copy of Montana Form ENRG-B to your income tax return.

**Line 17 – Alternative Energy Production Credit.** You can claim a credit against your income tax liability for an investment of \$5,000 or more that your business makes in depreciable property for the use of a commercial system or a net metering system that is located in Montana and that generates energy by means of an alternative renewable energy source.

The amount of your credit is limited to 35% of the eligible cost associated with the purchasing, installing and upgrading of the alternative energy system. Your credit is further limited in that it can only be applied against the tax liability due as a consequence of the alternative energy system generating taxable or net income. Your credit cannot exceed that portion of your tax liability that results from taxable or net income generated as a result of the system. Your unused credit can be carried forward and applied to future income tax liabilities for a period of seven years. An exception to the seven year carry forward period applies when your investment is located within the exterior boundaries of a Montana Indian reservation.

For further instructions on the alternative energy production credit and to calculate this credit, see Montana Form AEPC. When you claim this credit, you will have to attach a copy of Montana Form AEPC to your income tax return.

**Line 18 – Dependent Care Assistance Credit.** If you are an employer in Montana, you can claim a credit against your income tax liability for the amount that you paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available to you that qualify for this credit, including:

- A day care facilities credit
- A dependent care assistance credit, and
- A dependent care information and referral service credit.

For further instructions about the amount of the credit that is available, the carry forward provisions and how to calculate these credits see Montana Form DCAC. When you claim these credits, you will have to attach a copy of Montana Form DCAC to your income tax return.

**Line 19 – Historic Property Preservation Credit.** You can claim a credit against your income tax liability equal to 25% of your federal rehabilitation credit that is provided in IRC Section 47(a)(2) for the preservation of a qualified historic building. When you claim this credit, you will have to attach a copy of your federal Form 3468 to your income tax return.

As an alternative to the percentage of your federal rehabilitation credit, you can claim a credit against your income tax liability equal to 20% of the cost of creating a conservation easement and for the diminishing value of the historic property, including its buildings and structures that resulted from placing a conservation easement on the property.

**Line 20 – Montana Capital Company Credit.** You can claim a credit against your income tax liability if you have a Montana capital company credit carryover. No new credits are available at this time. This credit is available if you invested in a qualified Montana capital company within four years of July 1, 1987 or in a qualified Montana small business investment capital company within four years of July 1, 1991. Report your carryover Montana capital company credit on Form 2A, Schedule V, line 20.

**Line 21 – Infrastructure User's Fee Credit.** You can claim a credit against your income tax liability for the infrastructure user's fee paid to a local government. Your credit is calculated based on the infrastructure fees paid by your new business to a local government.

When you claim this credit, you will have to attach a statement from the county certifying the amount of the infrastructure user's fee that you paid and the timeliness of your payment. You can carry back three years or carry forward seven years any of your unused infrastructure user's fee credit.

**Line 22 – Empowerment Zone Credit.** You can claim a credit against your income tax liability if you are an employer who has a business in an empowerment zone. The credit is based on the number of qualifying new employees and is equal to \$500 for each qualifying employee in the 1<sup>st</sup> year of employment, \$1,000 for each qualifying employee in the 2<sup>nd</sup> year of employment, and \$1,500 for each qualifying employee in the 3<sup>rd</sup> year of employment.

Your credit can be carried back three years and carried forward seven years. The entire amount of your credit that is not used in the year that you earned it has to be carried first to the earliest tax year that the credit can be applied and then to each succeeding tax year.

**Line 23 – Increasing Research Activities Credit.** You can claim a credit against your income tax liability for the increase in qualified research expenses and basic research payments that your business conducted in Montana. Your credit is determined in accordance with Section 41 of the Internal Revenue Code, except that the applicable percentage rate for your Montana credit is 5%.

For further instructions on the increasing research activities credit and to calculate this credit, see Montana Form RSCH. When you claim this credit, you will have to attach a copy of Montana Form RSCH to your income tax return.

**Line 24 – Mineral Exploration Incentive Credit.** You can claim a credit against your income tax liability for the certified expenditures for mining exploration activities involving mineral and coal deposits. Your credit cannot exceed 50% of that portion of your tax liability that is related to the production from the mining operation for which the exploration activity occurred.

In determining your credit, your qualified expenditures include those costs that you incurred for activities that directly support the exploration at a specific site.



For further instructions on the mineral exploration incentive credit, see Montana Form MINE-CRED. To qualify for this credit, you will first have to submit a request to us detailing the work performed and the expenses incurred. This request should be made within 60 days following the end of the calendar year. The department has until September 30<sup>th</sup> to certify your expenses.

**Line 25 – Film Employment Production Credit.** You can claim a credit against your income tax liability for employing residents of Montana in a state-certified production. The credit is equal to the sum of 12% of the first \$50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

When you claim this credit, you should make a one-time election by either:

- Applying the credit against your income tax liability by reporting it on Form 2A, Schedule V, line 25 and carrying forward any unused credit to be applied against your income tax liability in subsequent years, or;
- Applying the credit against your income tax liability by reporting it on Form 2A, Schedule V, line 28 in which any unused credit is refunded to you.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to attach a copy of Montana Form FPC to your income tax return.

### Refundable Credits Form 2A, Schedule V, Lines 27 through 29

**Line 27 – Elderly Homeowner/Renter Credit.** You can receive a refundable residential property tax credit if you can answer yes to the following four statements:

- I was age 62 or older as of December 31, 2005.
- I resided in Montana for nine months or more during 2005.
- I occupied a Montana residence as an owner or renter for a total of six months or more during 2005.
- My gross household income was less than \$45,000 in 2005.

If you answered yes to these four statements, see Montana Form 2EC for further instructions and about how to calculate your 2005 elderly homeowner/renter credit.

After you have completed Form 2EC and when you file a Montana income tax return, Form 2, enter the amount of your elderly homeowner/renter credit from Form 2EC, line 19, on Form 2A, Schedule V, line 27. If you are filing Form 2S, you should enter your elderly homeowner/renter credit on line 21.

**Line 28 – Film Employment Production Credit.** You can receive a refundable film employment production credit if you made the one time election to apply the credit against your income tax liability and requested a refund of the unused credit by reporting it on Form 2A, Schedule V, line 28. You can also elect to carry forward your credit. If you

have made this election, see Form 2A, Schedule V, line 25 for further details and instructions.

The film employment production credit is equal to the sum of 12% of the first \$50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to attach a copy of Montana Form FPC to your income tax return.

**Line 29 – Film Qualified Expenditures Credit.** You can receive a refundable film qualified expenditure credit for expenditures made in Montana in connection with your state-certified production. Your credit is equal to 8% of the total qualified expenses that you incurred in connection with your production.

Expenses that qualify for the calculation of this credit are expenses that occur in Montana by your production company and that are directly related to your production. These expenses include lodging expenses, restaurant and food expenses, location fees, lumber and construction materials, rental or production equipment and vehicles and supplies and materials that are used in the production.

For further instructions on the film qualified expenditures production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to attach a copy of Montana Form FPC to your income tax return.

### Form 2A, Schedules VI and VII – Credit For An Income Tax Liability Paid To Another State Or Country

See the instruction for Form 2A, Schedule V, line 1 on page 28 of this instruction booklet and the instructions on Form 2A, Schedules VI and VII, page 6 to determine the amount of your credit for an income tax paid to another state or country on income that is also taxed to Montana.

### Form 2A, Schedule VIII – Reporting Of Special Transactions

You will complete Form 2A, Schedule VIII only if you and/or your spouse were required to complete for federal income tax purposes one or more of the federal forms that are identified on this schedule. If you are required to complete this schedule because you have answered “yes” to one or more of the statements you will need to attach a copy of your federal income tax return, Form 1040 to your Montana income tax return.

For further information on the reporting of special transactions see Form 2A, Schedule VIII.

### Form 2S Instructions

To use Montana Short Form 2S, you should be able to answer, “yes” to ALL of the following:



- I was a Montana resident for all of 2005.
- I am filing from a Montana address.
- I am filing as a single person, head of household, or as a married person filing a joint return.
- My only income is from wages, pensions, annuities, interest, dividends, fees, alimony, unemployment, winnings, prizes, awards, or other miscellaneous income.
- I am claiming the standard deduction.
- I have not made estimated income tax payments.
- The only tax credit that I am claiming is the Elderly Homeowner/Renter Credit on Montana Form 2EC.

**Heading** – Print your name, address, and social security number in the spaces provided. If you are married enter your spouse’s name and social security number.

If either the primary taxpayer or the spouse is deceased during the tax year, check the appropriate box in the heading of the return.

**Filing Status – (Check only one box).**

**Box 1 – Single.** You can claim this filing status if on December 31, 2005 you:

- are single;
- were legally separated according to your state law under a decree of divorce or separate maintenance; or,
- were widowed before January 1, 2005 and you did not remarry in 2005.

If you are married you cannot file separate Form 2S short forms. You will have to file a joint return with your spouse on Form 2S or file separately using Form 2.

**Box 2 – Married Filing Jointly.** You can claim this filing status if:

- you were married as of December 31, 2005, even if you did not live with your spouse at the end of 2005; or
- your spouse died in 2005 and you did not remarry in 2005; or
- you were married as of December 31, 2005 and your spouse died in 2006 before filing a 2005 return.

You and your spouse can file a joint return even though one of you has no income or deductions but please note that both spouses have to sign the return.

**Box 3 – Head of Household.** You can qualify to file as head of household on your Montana income tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, attach your federal Form 1040 or 1040A pages 1 and 2 to your Montana income tax return.

**Exemptions**

**Line 4a – Yourself.** Since you are allowed one exemption for yourself, we have placed an “X” in the first box on line 4a for you. Even though you are claimed as a dependent on another person’s income tax return, you are still entitled to your one personal exemption. You are also entitled to an

additional exemption if you are age 65 or older at the end of the tax year and an additional exemption if you are blind.

**Line 4b – Spouse.** If you are married and are filing jointly with your spouse, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year and an additional exemption if he or she is blind.

**Line 4c – Dependents.** You can claim a dependent exemption for each person who qualifies as your dependent. For any individual who is considered your dependent you should complete the schedule on line 4c listing the dependent’s first name, last name, social security number and his or her relationship to you. If you have more than three dependents, you will need to attach a separate schedule that lists these additional dependents and then include these additional dependents in the total on line 4c.

To determine who is your dependent refer to the detailed instructions for Form 2, line 6c found on page 7 of these instructions.

**Disabled Dependent Child Exemption** – In addition to the dependent exemption above, you are entitled to an additional exemption for a child who is disabled. If your child is disabled and you qualify for this additional exemption, place an “X” in the column and row of the disabled child and add an additional exemption to your total on line 4c.

To determine if you are eligible for the disabled dependent exemption refer to the detailed instructions for Form 2, line 6c found on page 7 of these instructions.

**Line 4d** – Add lines 4a through 4c and enter the total number on line 4d. These are your total exemptions.

Federal Adjusted Gross Income Line 5 through 12.

**Lines 5 through 11** – Your income on your Montana individual income tax return begins with your federal adjusted gross income. On lines 5 through 11 enter the amount corresponding to your federal individual income tax return Form 1040, 1040A, or 1040EZ.

Detailed instructions for lines 5 through 12 are not provided. You will need to refer to your federal income tax instructions for detailed information on lines 5 through 12. In completing lines 5 through 12 you should include with your Form 2S the applicable federal schedules that are identified on Form 2S.

**Line 12 – Federal Adjusted Gross Income.** Subtract line 11 from line 10 and enter the result on line 12. This amount should correspond to the amount of the federal adjusted gross income that you reported on your federal income tax return Form 1040, 1040A, or 1040EZ.

**Line 13 – Additions.** You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Enter the following items of income on line 13.

- The interest and dividend income that you received from bonds and obligations of another state or territory

or county, municipality, district or other political subdivision of another state. Do not include Interest and dividend income that you received from Montana bonds and obligations as they are not taxable to Montana.

- The 2004 federal income tax refund you received in 2005 if you claimed federal income taxes paid as an itemized deduction and this deduction reduced your 2004 Montana income tax liability. In order to determine whether your 2004 federal income tax deduction reduced your 2004 tax liability, complete Form W, Worksheet II, Tax Benefit Rule Worksheet found on page 38 of these instructions. When completing this worksheet you do not have to include that portion of your federal refund that is attributable to the federal earned income credit.

**Lines 14a through 14e – Subtractions.**

**Line 14a – Partial Pension and Annuity Income**

**Exemption.** For detailed instructions on the partial pension and annuity income exemption see the instructions for Form 2A, Schedule II, line 11 on page 16 of this instruction booklet and complete Form W, Worksheet IV on page 39 to determine your partial pension and annuity income exemption.

**Line 14b – Partial Interest Exemption for Taxpayers 65 and older.**

For detailed instructions on the partial interest exemption for taxpayers 65 and older see the instructions for Form 2A, Schedule II, line 12 on page 17 of this instruction booklet.

**Line 14c – Exempt Interest and Mutual Fund Dividends from Federal Bonds, Notes and Obligations.**

For detailed instructions on exempt interest and mutual fund dividends see the instructions for Form 2A, Schedule II, line 1 on page 15 of this instruction booklet.

**Line 14d – Exempt Unemployment Compensation.**

If you have received unemployment benefits from Montana or from another state, these benefits are not taxable to Montana. If you reported taxable unemployment benefits on your Form 2S, line 9, enter the amount of these benefits on line 14d.

**Line 14e – Other Exclusions.** You can only subtract from your federal adjusted gross income in arriving at your Montana adjusted gross income on line 14e the following items of income:

- **State Tax Refunds.** If you are required to include your state tax refund in your federal adjusted gross income on Form 2S, line 9, you can exclude this amount on line 14e. Montana state income tax refunds and state income tax refunds received from another state are not taxable to Montana.
- **Partial Retirement Disability Income Exemption for Taxpayers Under Age 65.** For detailed instructions on the partial retirement disability income exemption see the instructions for Form 2A, Schedule II, line 13 on page 17 of this instruction booklet.

- **Exemption for Certain Taxed Tips and Gratuities.** For detailed instructions on the exemption of certain tips and gratuities see the instructions for Form 2A, Schedule II, line 14 on page 17 of this instruction booklet.
- **Exemption of Certain Income of Your Child Taxed to the Parent.** For detailed instructions on the exemption of certain income of your child see the instructions for Form 2A, Schedule II, line 15 on page 17 of this instruction booklet.
- **Exempt Medical Care Savings Account (MSA) Deposits and Earnings.** For detailed instructions on the exempt medical care savings account deposits and earnings see the instructions for Form 2A, Schedule II, line 18 on page 18 of this instruction booklet.

**Line 15 –** Add lines 12 and 13 then subtract line 14 and enter the result on line 15. This is your Montana adjusted gross income.

**Line 16 – Standard Deduction.** You are entitled to a standard deduction. To determine your standard deduction complete Form W, Worksheet V on page 40 or this instruction booklet or the worksheet found on the back of Form 2S. When using the standard deduction worksheet, Form W, Worksheet V complete column A only.

**Line 17 – Exemption.** You are entitled to at least one exemption (your own) and possibly even more. Multiply \$1,900 times the number of exemptions that you have claimed on Form 2S, line 4d and enter the result on line 17.

**Line 18 – Taxable Income.** To compute your taxable income, subtract lines 16 and 17 from line 15 and enter the result on line 18.

**Tax Computation**

**Line 19 –** Compute your tax using the tax table below.

2005 Tax Brackets and Table			
If your taxable income on Form 2, line 45 or Form 2S, line 18 is:			
At least	But less than	Then your tax is	Less:
0	\$2,300	1% of your taxable income	
\$2,300	\$4,100	2% of your taxable income	(\$23)
\$4,100	\$6,200	3% of your taxable income	(\$64)
\$6,200	\$8,400	4% of your taxable income	(\$126)
\$8,400	\$10,800	5% of your taxable income	(\$210)
\$10,800	\$13,900	6% of your taxable income	(\$318)
\$13,900		6.9% of your taxable income	(\$443)

For Example: Taxable income \$4,000 X .02(2%) = \$80.  
\$80 minus \$23 = \$57 tax.

**Payments and Offsets**

**Line 20 – Montana Income Tax Withheld.** Enter on Form 2S, line 20 the amount of the Montana income tax withheld from your income and reported in box 17 of your federal Form W-2, or in box 10 of your federal Form 1099R. When you claim Montana income tax withheld, you are required to attach to your return a copy of your withholding statement(s) (federal Forms W-2 or 1099R's), which show the amount(s) of Montana income tax that was withheld from your payments. If you do not attach your withholding

statement(s) to your return, this will delay our processing of your return.

**Line 21 – Elderly Homeowner/Renter Credit.** For detailed instructions on the elderly homeowner/renter credit and to calculate this credit see Form 2EC.

After you have completed Form 2EC, enter the amount of your elderly homeowner/renter credit on Form 2S, line 21.

### The Amount You Owe

#### Line 23 – Penalties and Interest.

- **Line 23a – Interest on Underpayment of Estimated Taxes.** For detailed instructions on your interest on the underpayment of estimated taxes see the instructions for Form 2, line 64a on page 11 of this instruction booklet.
- **Line 23b – Late File Penalty.** For detailed instructions on your late file penalty see the instructions for Form 2, line 64b on page 11 of this instruction booklet.
- **Line 23c – Late Pay Penalty.** For detailed instructions on your late pay penalty see the instructions for Form 2, line 64c on page 11 of this instruction booklet.
- **Line 23d – Interest.** For detailed instructions on your interest see the instructions for Form 2, line 64d on page 11 of this instruction booklet.

### Montana Check-offs

#### Line 24 – Contributions to Montana Check-Offs.

Montana’s tax statutes provide you with the opportunity to contribute, via your income tax return contributions to the Nongame Wildlife Program, Child Abuse Prevention Program and the Agriculture in Schools Program. You can contribute any amount to any one of these three programs. Your contribution will increase the amount you owe or reduce the amount of your refund.

Enter on line 24 the sum of your contributions to the Montana check-off programs from lines 24a through 24c. Refer to the instructions for Form 2, line 66 on pages 11 and 12 of this instruction booklet for a detailed explanation of these check-offs.

**Line 25 –** Add lines 19, 23, and 24 and enter the result on line 25. This is the sum of your tax, penalty, interest and contributions.

**Line 26 – Amount That You Owe.** If the amount on line 25 is more than line 22 enter the difference on line 26. This is the amount that you owe with your 2005 Montana individual income tax return.

You can pay the amount you owe by personal check, money order, cashier’s check, credit card or E-check. When you send your payment, make it payable to the Montana Department of Revenue and use the coupon we that we have provided to you with this income tax booklet. When you pay by personal check, money order, or cashier’s check, please write your social security number and the tax year 2005 on the memo line of your check.

If you wish to pay the amount that you owe by credit card or E-check visit our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) and access Income Tax Express. We accept only Visa or Mastercard when you use a credit card.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as you can. By filing and paying as much as you can by April 17, 2006, you will not be assessed a late file penalty and you can reduce the amount of your late pay penalties and interest that is assessed against your outstanding balance. If you need to establish a payment plan with us, call our customer service center at (406) 444-6900 as soon as possible to discuss your options and make payment arrangements.

### Your Refund

**Line 27 –** If line 25 is less than line 22 enter the difference on Form 2S, line 27.

This is the amount of your refund. Only refunds greater than \$1.00 will be issued. If you wish to use direct deposit, in the space provided enter your financial institution’s routing number (RTN#), your account number (ACCT#) and whether this account is your checking or savings account. Your routing number will be nine digits and your account can be up to 17 characters (both numeric and alpha). Your direct deposit will be rejected if the routing number or account number is incorrectly listed. If your direct deposit is rejected, we will have to mail you a check instead. A sample check is provided for your convenience.

The image shows a sample check form with the following details:

- Payee: John Taxpayer, Jane Taxpayer, 23 Main Street, Anyplace, MT 59000
- Pay to the Order of: \_\_\_\_\_
- Amount: \$ 1234 Dollars
- Bank: Anyplace Bank, Anyplace, MT 59000
- Routing Number: 250000005 (circled)
- Account Number: 00000000 86 (circled)
- Check Number: 1234
- Instruction: Do not include the check number in the account number (circled)





**Worksheet I – IRA Deduction**

If you are using the same filing status for Montana income tax purposes as you are using for your federal income tax return, stop here, you do not have to complete this worksheet. Your 2005 Montana IRA deduction is the amount you reported on Form 2, line 32. You will use this worksheet only when you have claimed an IRA deduction on Form 2, line 32 and you are filing your Montana income tax return separately with your spouse (filing status 3a, 3b, 3c, 4, or 5) and your federal income tax return jointly with your spouse.

If you and your spouse were not covered by a retirement plan during the year, you and your spouse's Montana and federal IRA deductions will be the same (maximum \$4,000 per spouse, or \$4,500 if 50 years old or older). If part of your IRA deduction is attributable to the IRA of a nonworking spouse, add this amount back on Form 2A, Schedule I, line 6c in the column of the nonworking spouse.

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

		Column A (for the spouse who has an IRA deduction on Form 2, line 32, column A)	Column B (for the spouse who has an IRA deduction on Form 2, line 32, column B)	
<b>1</b>	Married filing separately and you lived with your spouse at any time in 2005. .	\$10,000	\$10,000	<b>1</b>
<b>2</b>	Enter the amount from Form 2, line 22. ....			<b>2</b>
<b>3</b>	Enter the total of the amounts from Form 2, lines 23 through 31a, plus any write-in adjustments you entered on the dotted line next to line 36. ....			<b>3</b>
<b>4</b>	Subtract line 3 from line 2 and enter the result here. This is your modified adjusted gross income from traditional IRA purposes. ....			<b>4</b>
<b>5</b>	Is the amount on line 4 less than the amount on line 1? <input type="checkbox"/> <b>No.</b> If your answer is no, none of your IRA contributions are deductible. Enter zero in line 6 and go to line 7. <input type="checkbox"/> <b>Yes.</b> If your answer is yes, subtract line 4 from line 1. If your result is \$10,000 or more, enter \$4,000 (\$4,500 if you are age 50 or older at the end of 2005) on line 6, and then proceed to line 7. ....			<b>5</b>
<b>6</b>	Multiply line 5 by .40 (40%). But if the person using the column is age 50 or older, multiply line 5 by .45 (45%). If your result is \$200 or more, enter that result. But if your result is less than \$200, enter \$200, since this is the minimum amount allowed. ....			<b>6</b>
<b>7</b>	Enter your federal IRA deduction from Form 2, line 32. ....			<b>7</b>
<b>8</b>	Enter the lesser of line 6 or line 7. ....			<b>8</b>
<b>9</b>	Subtract line 8 from line 7 and enter the amount here and on Form 2A, Schedule I, line 6c. <b>This is your nondeductible IRA portion for Montana.</b> .			<b>9</b>

**Worksheet II – Tax Benefit Rule for Federal Income Tax Refund**

If you received a federal income tax refund in 2005 and you did not itemize deductions in 2004, stop here, none of your federal income tax refund is taxable to Montana.

You can only use Worksheet II to determine how much of your federal income tax refund is taxable to Montana if the only refund or reimbursement you received in 2005 is for federal income taxes that you claimed as an itemized deduction in 2004.

You cannot use Worksheet II if you received any of the following refunds or reimbursements in 2005. Instead you should use Form W, Worksheet IX, "Tax Benefit Rule Recovery of Itemized Deductions."

- A federal income tax refund in 2005 for a federal tax deduction claimed in a year prior to 2004;
- A refund or reimbursement other than a federal income tax refund, such as a real property tax refund; or
- Your itemized deductions were limited in 2004 because of the excess adjusted gross income test.

You can obtain Form W, Worksheet IX by visiting our web site at [www.mt.gov/revenue](http://www.mt.gov/revenue) or by calling us at (406) 444-6900.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b> Enter the total of all the 2004 federal income tax refunds that you received in 2005. Do not include your refundable credits that you may have received or more than the amount of your 2004 federal income tax deducted on Form 2A, line 79, or Form 2S, line 22b. .... <b>1</b>		
<b>2</b> Enter your total allowable Montana itemized deductions from your 2004 Form 2A, Itemized Deductions, line 95. If you took the standard deduction, stop here, your refund(s) is not taxable. .... <b>2</b>		
<b>3</b> Enter your 2004 Montana adjusted gross income from Form 2, line 38 or Form 2S, line 21. .... <b>3</b>		
<b>4</b> 2004 standard deduction. Enter the amount corresponding to your 2004 Montana individual income tax filing status. <ul style="list-style-type: none"> <li>• If your filing status was single or married filing separately, enter .20 (20%) of line 3, but not less than \$1,530, or more than \$3,440.</li> <li>• If your filing status was married filing jointly, or head of household, enter .20 (20%) of line 3, but not less than \$3,060, or more than \$6,880. .... <b>4</b></li> </ul>		
<b>5</b> Is the amount on line 4 less than the amount on line 2? <ul style="list-style-type: none"> <li>• If the answer is "no", stop here, none of your refund is taxable.</li> <li>• If the answer is "yes", subtract line 4 from line 2 and enter result here. .... <b>5</b></li> </ul>		
<b>6</b> Enter the smaller of line 1 or line 5 here. .... <b>6</b>		
<b>7</b> Enter here your 2004 Montana taxable income from Form 2, line 42 or Form 2S, line 25. If your amount is less than zero enter this amount as a negative amount. .... <b>7</b>		
<b>8</b> If line 7 is zero or more enter the amount from line 6 here and on Form 2A, Schedule I, line 3. <b>This is your taxable federal income tax refund.</b>  If line 7 is less than zero (a negative amount), add lines 6 and 7. <ul style="list-style-type: none"> <li>• If your result remains less than zero (a negative amount) enter zero and stop here; none of your federal refund is taxable to Montana.</li> <li>• If your result is greater than zero (a positive amount) enter that amount here and on Form 2A, Schedule I, line 3. <b>This is your taxable federal income tax refund.</b> .... <b>8</b></li> </ul>		



**Worksheet III – Qualified Capital Gain Exclusion**

If you had an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be eligible for a 40% capital gain exclusion. Complete Worksheet III to determine the amount of your capital gain exclusion.

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
<b>1</b>	Enter the total amounts from your federal Schedule D line 11 and 12 that pertain to installment sales entered into before January 1, 1987. ....			<b>1</b>
<b>2</b>	Enter the total amounts from federal Schedule D lines 7 and 15. ....			<b>2</b>
<b>3</b>	Divide line 1 by line 2 and enter the percentage here. ....			<b>3</b>
<b>4</b>	Enter the amount from federal Schedule D, line 16, but not less than zero. ...			<b>4</b>
<b>5</b>	Multiply the amount on line 4 by the percentage (%) on line 3. _____ X _____ % .....			<b>5</b>
<b>6</b>	Multiply the amount on line 5 times .40 (40%). Enter here and on Form 2A, Schedule II, line 27. <b>This is your Montana capital gain exclusion.</b> .....			<b>6</b>

**Worksheet IV – Partial Pension and Annuity Income Exemption**

If you have reported taxable pension and annuity income on your Form 2, line 16b, or Form 2S, line 8, you may be entitled to a partial exemption of this income. Complete Worksheet IV to determine the amount of your pension and annuity income exemption. If you are filing Montana Form 2S, complete column A only.

If you receive Tier II Railroad Retirement benefits, see the instructions for Form 2A, Schedule II, line 23 on page 19.

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
<b>1</b>	Enter your federal adjusted gross income from Form 2, line 37, or from Form 2S, line 12 here. ....			<b>1</b>
<b>2</b>	Federal adjusted gross income limitation amount. .... If line 1 is smaller than line 2, enter on Form 2A, Schedule II, line 11, the smaller of your pension and annuity income, or \$3,600 for each person who has pension and annuity income. Stop here; do not complete the remainder of this worksheet.	\$30,000	\$30,000	<b>2</b>
<b>3</b>	If line 1 is larger than line 2, subtract line 2 from line 1 and enter the result here. ....			<b>3</b>
<b>4</b>	Fill out only one of the following. If your filing status is:			
<b>4a</b>	a. Single or jointly and only one spouse has pension and annuity income. Enter the smaller of that spouse's taxable pension and annuity income or \$3,600. ....			<b>4a</b>
<b>4b</b>	b. Married filing separately. Enter the smaller of each spouse's taxable pension and annuity income or \$3,600 in columns A and B. ....			<b>4b</b>
<b>4c</b>	c. Joint and both spouses have pension and annuity income. Enter the smaller of each spouse's taxable pension and annuity income or \$3,600 in the following space: his _____ hers _____; then enter the total of his and her total pension and annuity income in Column A, line 4c. ....			<b>4c</b>
<b>5</b>	Double the amount on line 3 and enter the result here. ....			<b>5</b>
<b>6</b>	Pension and annuity exclusion. Subtract line 5 from line 4a, 4b, or 4c, whichever applies. If the result is zero or negative, you are not eligible for the pension and annuity exclusion. If the number is positive, enter the result here and on Form 2A, Schedule II, line 11. <b>This is your partial pension and annuity exemption.</b> .....			<b>6</b>

**Worksheet V – Standard Deduction**

If you are filing your Montana individual income tax return Form 2 using filing status 3a, “married filing separately on the same form,” both spouses have to complete columns A and B of the standard deduction worksheet. If you are filing Montana Form 2S, you have to complete column A only.

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b>	Enter your Montana adjusted gross income from Form 2, line 40 or Form 2S, line 15 here. ....		
<b>2</b>	Multiply the amount on line 1 by .20 (20%) and enter the result here. ....		
<b>3</b>	Enter here the amount below that corresponds to your filing status. .... <ul style="list-style-type: none"> <li>If your filing status is single or separately (filing status 1, 3a, 3b, or 3c) enter \$3,560. <b>This is your maximum standard deduction.</b></li> <li>If your filing status is joint or head of household (filing status 2 or 4) enter \$7,120. <b>This is your maximum standard deduction.</b></li> </ul>		
<b>4</b>	Enter here the amount from line 2 or 3, whichever is smaller. ....		
<b>5</b>	Enter here the amount below that corresponds to your filing status. .... <ul style="list-style-type: none"> <li>If your filing status is single or separately (filing status 1, 3a, 3b, or 3c) enter \$1,580. <b>This is your minimum standard deduction.</b></li> <li>If your filing status is joint or head of household (filing status 2 or 4) enter \$3,160. <b>This is your minimum standard deduction.</b></li> </ul>		
<b>6</b>	Enter here and on Form 2, line 42, or Form 2S, line 16 the amount from lines 4 or 5, whichever is larger. <b>This is your standard deduction.</b> .....		

**Worksheet VI – Itemized Deduction Worksheet**

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b>	Enter your total itemized deductions from Form 2A, Schedule III, line 28 here. ....		
<b>2</b>	From Form 2A, Schedule III, add lines 3, 4, 5, 6e, 14, 15b, 18, 19, 25 and 27 and enter the result here. ....		
<b>3</b>	Subtract line 2 from line 1 and enter the result here. If the result is zero, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ....		
<b>4</b>	Multiply the amount on line 3 above by .80 (80%) and enter the result here. .		
<b>5</b>	Enter your Montana adjusted gross income from Form 2, line 40 here. ....		
<b>6</b>	Enter here \$145,950 or \$72,975 if married filing separately. ....		
<b>7</b>	Subtract line 6 from line 5. If the result is zero or less, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ....		
<b>8</b>	Multiply line 7 by .03 (3%) and enter the result here. ....		
<b>9</b>	Enter the smaller of the amounts on line 4 or line 8 here and on Form 2A, Schedule III, line 29. <b>This is the amount of your itemized deductions not allowed.</b> .....		

**Worksheet VII – Calculation of Interest on Underpayment of Estimated Taxes – Short Method**

You are required to pay your income tax liability throughout the year. You can make your payments through employer withholding, through installment payments of estimated taxes, or through a combination of employer withholding and estimated tax payments.

You are not required to make estimated tax payments if one of the following conditions relate to you:

- Your combined tax liability after you applied your withholding and estimated tax payments is less than \$500.
- You did not have a 2004 income tax liability and you were a citizen or resident of the United States the entire year.
- Your underpayment was due to a casualty, disaster, or another unusual circumstance.
- You retired in either 2004 or 2005 after reaching the age of 62.
- You become disabled in either 2004 or 2005.
- You are a farmer or rancher and 66 2/3% of your 2005 gross income is derived from your farming and ranching operation. Your 66 2/3% farming and ranching income is determined annually and is based on your 2005 gross income. Please note that Montana does not use the same “look back” period that the Internal Revenue Service uses to determine the percentage of your farming and ranching income for federal income tax purposes.

If you did not pay in advance at least 90% of your 2005 income tax liability (after applying your credits) or 100% of your 2004 income tax liability (after applying your credits) you may have to pay interest on the underpayment of your estimated taxes.

If you are required to pay interest on your underpayment, you can use this short method to determine your interest, but you can use this short method only if:

- You made non-estimated tax payments or your payments were only Montana withholding, or;
- You made four equal estimated payments by the required due date.

If you are not eligible to use this short method to calculate your interest on your underpayment, use Montana Form EST-I, “Interest on Underpayment of Estimated Tax Payments.” You can access this form by visiting our website at [www.mt.gov/revenue](http://www.mt.gov/revenue) or by calling us at (406) 444-6900.

		Calculation of Interest on Underpayment of Estimated Tax	
<b>1</b>	Enter your 2005 combined total tax due reported on Form 2, line 57, or Form 2S, line 19 here. ....		<b>1</b>
<b>2</b>	Multiply line 1 by .90 (90%) and enter the result here. ....		<b>2</b>
<b>3</b>	Combine the amounts on Form 2, line 58, that portion of line 59 that includes amounts credited from prior year's tax refunds, and line 61. (If you are “married filing separately on the same form”, enter the sum of columns A and B). If you are filing Form 2S, combine lines 20 and 21. Enter the results here. ....		<b>3</b>
<b>4</b>	Subtract line 3 from line 1 and enter the result here. If your result is \$500 or less, stop here, you do not owe interest on your underpayment. ....		<b>4</b>
<b>5</b>	Enter here the 2004 income tax liability that you reported on your 2004 Form 2, line 54, or Form 2S, line 31 here. ....		<b>5</b>
<b>6</b>	Enter the smaller of line 2 or line 5 here. ....		<b>6</b>
<b>7</b>	Combine the amount on line 3 above with the estimated tax payments that you reported on your 2005 Form 2, line 59. Enter the result here. ....		<b>7</b>
<b>8</b>	Subtract line 7 from line 6. If the result is zero or less, stop here, you do not owe interest on your underpayment. <b>This is your total underpayment for 2005.</b> ....		<b>8</b>
<b>9</b>	Multiply line 8 by .07980 and enter the result here. ....		<b>9</b>
<b>10</b>	If you paid the amount on line 8 on or after April 17, 2006, enter zero. If you paid the amount on line 8 before April 17, 2006, multiply the amount on line 8 by the number of days you paid before April 17, 2006 x .0003288 and enter the amount here. ....		<b>10</b>
<b>11</b>	Subtract line 10 from line 9 and enter the result here and on Form 2, line 64a or Form 2S, line 23a. <b>This is your interest on the underpayment of estimated taxes.</b> ....		<b>11</b>



**Worksheet VIII– Social Security Benefits**

Your social security benefits taxable to Montana may be different from what is taxable to the federal government. Complete this worksheet to determine your Montana taxable social security.

Tier I Railroad Retirement benefits are not taxable to Montana. If the only social security benefits that you receive are from Tier I Railroad Retirement benefits and if you reported a portion of these benefits on your Form 2, line 20b as taxable benefit, enter this amount on Form 2A, Schedule II, line 23.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b> Enter the total amount from box 5 of all your federal Form SSA-1099... .. <b>1</b>		
<b>2</b> Multiply line 1 by .50 (50%) and enter result here..... <b>2</b>		
<b>3</b> Add the amounts on Form 2, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19 and 21 and enter the result here..... <b>3</b>		
<b>4</b> Add the amount on Form 2A, Schedule I, lines 1 through 4, 6a through 6c, and 7 through 16, along with tax exempt interest that you reported on Form 2, line 8b, which is not included on Form 2A, Schedule I, line 1..... <b>4</b>		
<b>5</b> Add lines 2, 3 and 4 and enter the result here..... <b>5</b>		
<b>6</b> Add the amounts on Form 2, lines 23 through 32, plus any write-in adjustments on line 36 with the amounts on your Form 2A, Schedule II, lines 2 through 21, 23, 24a through 24c, and 25 through 33, and enter the result here. .... <b>6</b>		
<b>7</b> Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No</b> None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. <input type="checkbox"/> <b>Yes</b> Subtract line 6 from line 5 and enter the result here..... <b>7</b>		
<b>8</b> Enter the amount that corresponds to the filing status that you checked on Form 2, page 1, lines 1 through 4. \$32,000 in column A if you checked box 2. \$25,000 in column A if you checked boxes 1 or 4. \$16,000 in columns A and B if you checked boxes 3a, 3b, or 3c. <b>8</b>		
<b>9</b> Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No</b> None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. <input type="checkbox"/> <b>Yes</b> Subtract line 8 from line 7 and enter the result here..... <b>9</b>		
<b>10</b> Enter the amount that corresponds to the filing status that you checked on Form 2, page 1, lines 1 through 4. \$12,000 in column A if you checked box 2. \$ 9,000 in column A if you checked boxes 1 or 4. \$ 6,000 in columns A and B if you checked boxes 3a, 3b, or 3c. <b>10</b>		
<b>11</b> Subtract line 10 from line 9 and enter the result here. If less than zero enter zero..... <b>11</b>		
<b>12</b> Enter here the smaller of line 9 or line 10..... <b>12</b>		
<b>13</b> Multiply line 12 by .50 (50%) and enter the result here..... <b>13</b>		
<b>14</b> Enter the smaller of line 2 or line 13..... <b>14</b>		
<b>15</b> Multiply line 11 by .85 (85%) and enter result here. If line 11 is zero, enter zero..... <b>15</b>		
<b>16</b> Add lines 14 and 15 and enter the result here..... <b>16</b>		
<b>17</b> Multiply line 1 by .85 (85%) and enter result here..... <b>17</b>		
<b>18</b> Enter the smaller of line 16 or 17. <b>This is your Montana taxable social security benefits</b> ..... <b>18</b>		
<b>19</b> Enter the federal taxable amount of social security benefits that you reported on Form 2, line 20b..... <b>19</b>		
<b>20</b> a. If line 19 equals line 18, the amount of the federal taxable social security benefits that you reported on Form 2, line 20b is the same amount that is taxable to Montana. No adjustment is necessary. b. If line 19 is less than line 18, enter the difference here and on Form 2A, Schedule I, line 5. <b>This is the portion of your social security benefits that are exempt from federal tax and not included on Form 2, line 20b that are taxable to Montana</b> ..... <b>20b</b> c. If line 19 is greater than line 18, enter the difference here and on Form 2A, Schedule II, line 22. <b>This is the portion of your federal taxable social security benefits that are included on Form 2, line 20b that are not taxable to Montana</b> ..... <b>20c</b>		

2005

Montana Individual Income Tax Return

Form 2 Montana

For the year Jan 1 - Dec 31, 2005 or the tax year beginning ,2005, ending ,20

Amended Return, Your first name and initial, Last name, Deceased, Your social security number, Spouse's first name and initial, Last name, Deceased, Spouse's social security number, Home address (number and street), City, State, Zip+4

Filing Status (check only one box) 1 Single, 2 Married filing jointly, 3a Married filing separately on the same form, 3b Married filing separately on separate forms, 3c Married filing separately and spouse not filing, 4 Head of household, Spouse's SSN:

Residency Status (check only one box) 5a Resident full year, 5b Nonresident full year, 5c Resident part-year, Date of change, State moved to, State moved from:

Exemptions section with columns for Column A (for single, joint, separate, or head of household) and Column B (for spouse when filing separately using filing status 3a). Includes rows 6a, 6b, 6c, 6d.




Enter amounts corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

Income section (lines 7-22) including Wages, salaries, tips, etc. (7); Taxable interest (8a, 8b); Dividends (9a, 9b); Taxable refunds (10); Alimony received (11); Business income (12); Capital gain (13); Other gains (14); IRA distribution (15a, 15b); Pensions and annuities (16a, 16b); Rental real estate (17); Farm income (18); Unemployment compensation (19); Social security benefits (20a, 20b); Other income (21); Total income (22).

Adjusted Gross Income section (lines 23-37) including Educator expenses (23); Business expenses (24); Health savings account deduction (25); Moving expenses (26); Self-employment tax (27); Self-employed SEP, SIMPLE, and qualified plans (28); Self-employed health insurance deduction (29); Penalty on early withdrawal (30); Alimony paid (31a, 31b); IRA deduction (32); Student loan interest deduction (33); Tuition and fees deduction (34); Domestic production activities deduction (35); Subtractions (36, 37).

Final calculation lines 37a-40: 37a Combine amounts on line 37 columns A and B; 38 Enter Montana additions to federal AGI; 39 Enter Montana subtractions from federal AGI; 40 Add lines 37 and 38, then subtract line 39. This is your Montana adjusted gross income.

ATTACH WITHHOLDING STATEMENTS HERE

Form 2, Page 2 – 2005 Social Security Number: _____				Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
41	Enter here Montana adjusted gross income from line 40. ....			41	41	
<b>Deductions</b>				<b>Check only one</b>		
42	(A) Standard Deduction: (A) <input type="checkbox"/>		(B) Itemized Deductions (from Form 2A, Schedule III, line 30): (B) <input type="checkbox"/>	42	42	
43	Subtract line 42 from line 41 and enter amount here. ....			43	43	
<b>Exemptions</b> (all individuals are entitled to at least one exemption)						
44	Multiply \$1,900 by the number of exemptions on line 6d and enter result here. ....			44	44	
45	Subtract line 44 from line 43. Enter result here, but not less than zero. <b>This is your taxable income.</b> .....			45	45	
46	Enter tax from the tax table on page 9. If line 45 is less than zero, enter zero. ....			46	46	
47	Enter your 1% capital gains tax credit here. ....			47	47	
48	Subtract line 47 from line 46 and enter result here, but not less than zero. <b>This is your resident tax after capital gains tax credit.</b> .....			48	48	
48a	<b>Non-resident, part-year resident tax after capital gains tax credit.</b> Enter here the amount from Form 2A, Schedule IV, line 20, but not less than zero. ....			48a	48a	
49	Enter nonrefundable single-year credits from Form 2A, Schedule V, line 13. ....			49	49	
50	Enter nonrefundable carryover credits from Form 2A, Schedule V, line 26. ....			50	50	
51	Add lines 49 and 50 and subtract this total from line 48 or 48a and enter result here, but not less than zero. <b>This is your total tax after nonrefundable credits...</b>			51	51	
52	Enter family education savings account recapture tax. ....			52	52	
53	Enter endowment credit recapture tax. ....			53	53	
54	Enter rural physician's credit recapture tax. ....			54	54	
55	Add lines 52 through 54 and enter result here. <b>This is your total recapture tax.</b> ..			55	55	
56	Add lines 51 and 55 and enter result here. <b>This is your total tax due.</b> .....			56	56	
57	Combine amounts on line 56 columns A and B and enter result here. <b>This is your combined total tax due.</b>			57	57	
58	Enter Montana income tax withheld. Attach federal Form(s) W-2 and 1099. ....			58	58	
59	Enter estimated tax payments here. ....			59	59	
60	Enter extension payment here. ....			60	60	
61	Enter refundable credits from Form 2A, Schedule V, line 30. ....			61	61	
62	Add lines 58 through 61 and enter here. <b>These are your total payments/offsets.</b> ..			62	62	
63	Combine amounts on line 62 columns A and B. <b>These are your combined payments and offsets.</b> .....			63	63	
64	Interest on underpayment 64a)	Late file penalty 64b)	Late pay penalty 64c)	Interest 64d)	Enter the sum of 64a thru 64d here. ....	64
65	Enter other penalties here. ....				65	65
66	 Nongame wildlife program 66a)	 Child abuse prevention 66b)	 Agriculture in schools 66c)	<b>Check-off Contribution</b> Total .....		66
67	Add lines 57, 64, 65, and 66 and enter result here. <b>This is the sum of your total tax, penalties, interest and contributions.</b> .....				67	67
68	If line 67 is more than line 63, enter the difference here. <b>This is the amount you owe.</b> Make check payable to MONTANA DEPARTMENT OF REVENUE or visit our website at <a href="http://www.mt.gov/revenue">www.mt.gov/revenue</a> to pay by credit card or E-check. ....				68	68
69	If line 67 is less than line 63, enter the difference here. ....				69	69
70	Enter the amount of line 69 you want applied to your 2006 estimated tax. ....				70	70
71	Subtract lines 70 from line 69 and enter result here. <b>This is your refund.</b> .....				71	71
If you wish to use direct deposit enter your RTN# and ACCT # below. See instructions.				<input type="checkbox"/> checking	<input type="checkbox"/> savings	
RTN#	ACCT#					
<b>If applicable, check appropriate box.</b>		Name, address and telephone number of paid preparer.			<input type="checkbox"/> Extension – Check this box and attach a copy of your federal Form 4868 to receive your Montana extension.	
2/3 <sup>rd</sup> farming gross income <input type="checkbox"/>						
Annualized estimated payments <input type="checkbox"/>						
Do not mail 2006 forms and instructions <input type="checkbox"/>		SSN or FEIN: _____				
May the DOR discuss this return with your tax preparer? Yes <input type="checkbox"/> No <input type="checkbox"/>				Questions? Call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired		
<b>X</b>		<b>X</b>				
Your signature is required		Date	Daytime telephone number	Spouse's signature		Date
I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.						



<b>Amended Return Reconciliation</b> <b>(Use this reconciliation only when you are completing an amended return.)</b>	Round to the nearest dollar
Check this box if you are filing this amended return to carry back a net operating loss <input style="width: 40px; height: 20px;" type="checkbox"/>	
<b>1</b> Enter your amended liability (line 68) or your amended refund (line 71) here. ....	<b>1</b>
<b>2</b> Enter your total 2005 refund previously received here. ....	<b>2</b>
<b>3</b> Enter your total 2005 payments previously made which are not included in line 63 here. ....	<b>3</b>
<b>4</b> Add lines 1 and 2, and then subtract line 3. <b>This is your amended return underpayment or overpayment.</b> .....	<b>4</b>

Describe your amended adjustments here. Add additional pages if necessary.

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<b>Schedule I: Montana Additions to Federal Adjusted Gross Income</b>	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b> Enter interest and mutual fund dividends from other states' state, county, or municipal bonds. ....	<b>1</b>	<b>1</b>
<b>2</b> Enter dividends not included in federal adjusted gross income. ....	<b>2</b>	<b>2</b>
<b>3</b> Enter taxable federal refunds. ....	<b>3</b>	<b>3</b>
<b>4</b> Enter other recoveries of amounts deducted in earlier years that reduced Montana taxable income. ....	<b>4</b>	<b>4</b>
<b>5</b> Enter addition to federal taxable social security/railroad retirement. ....	<b>5</b>	<b>5</b>
<b>6</b> Additions for spouse filing joint federal return.		
<b>6a</b> Enter passive and rental income or loss adjustment. ....	<b>6a</b>	<b>6a</b>
<b>6b</b> Enter capital loss adjustment. ....	<b>6b</b>	<b>6b</b>
<b>6c</b> Enter IRA deduction adjustment. ....	<b>6c</b>	<b>6c</b>
<b>6d</b> Enter student loan interest adjustment. ....	<b>6d</b>	<b>6d</b>
<b>6e</b> Enter tuition and fee adjustment. ....	<b>6e</b>	<b>6e</b>
<b>7</b> Enter sole proprietor's allocation of compensation to spouse. ....	<b>7</b>	<b>7</b>
<b>8</b> Enter medical care savings account nonqualified withdrawals. ....	<b>8</b>	<b>8</b>
<b>9</b> Enter first-time home buyer savings account nonqualified withdrawals. ....	<b>9</b>	<b>9</b>
<b>10</b> Enter farm and ranch risk management account taxable distributions. ....	<b>10</b>	<b>10</b>
<b>11</b> Enter addition for dependent care assistance credit adjustment. ....	<b>11</b>	<b>11</b>
<b>12</b> Enter addition for smaller federal estate and trust taxable distributions. ....	<b>12</b>	<b>12</b>
<b>13</b> Enter federal net operating loss carryover reported on Form 2, line 21. ....	<b>13</b>	<b>13</b>
<b>14</b> Enter share of federal income taxes paid by your S. corporation. ....	<b>14</b>	<b>14</b>
<b>15</b> Enter title plant depreciation or amortization. ....	<b>15</b>	<b>15</b>
<b>16</b> Enter other additions. Specify: _____	<b>16</b>	<b>16</b>
<b>17</b> Add lines 1 through 16. Enter total here and on Form 2, line 38. <b>These are your total Montana additions to federal adjusted gross income.</b> ..	<b>17</b>	<b>17</b>

<b>Schedule II: Montana Subtractions from Federal Adjusted Gross Income</b>		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b>	Enter exempt interest and dividends from federal bonds, notes, and obligations. ....		<b>1</b>
<b>2</b>	Enter exempt tribal income. ....		<b>2</b>
<b>3</b>	Enter exempt unemployment compensation. ....		<b>3</b>
<b>4</b>	Enter exempt workers' compensation benefits. ....		<b>4</b>
<b>5</b>	Enter exempt capital gains and dividends from small business investment companies. ....		<b>5</b>
<b>6</b>	Enter state tax refunds included in Montana Form 2, line 10. ....		<b>6</b>
<b>7</b>	Enter recoveries of amounts deducted in earlier years that did not reduce Montana income. ....		<b>7</b>
<b>8</b>	Enter exempt military salary of residents on active duty. ....		<b>8</b>
<b>9</b>	Enter exempt income of nonresident military servicepersons and spouses. ....		<b>9</b>
<b>10</b>	Enter exempt life-insurance premiums reimbursement for National Guard and Reservist. ....		<b>10</b>
<b>11</b>	Enter partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below. ....		<b>11</b>
<b>12</b>	Enter partial interest exemption for taxpayers 65 and older. ....		<b>12</b>
<b>13</b>	Enter partial retirement disability income exemption for taxpayers under age 65. ....		<b>13</b>
<b>14</b>	Enter exemption for certain taxed tips and gratuities. ....		<b>14</b>
<b>15</b>	Enter exemption for certain income of child taxed to parent. ....		<b>15</b>
<b>16</b>	Enter exemption for certain health insurance premiums taxed to employee. ....		<b>16</b>
<b>17</b>	Enter exemption for student loan repayments taxed to health care professional. ....		<b>17</b>
<b>18</b>	Enter exempt medical care savings account deposits and earnings. ....		<b>18</b>
<b>19</b>	Enter exempt first-time home buyer savings account deposits and earnings. ....		<b>19</b>
<b>20</b>	Enter exempt family education savings account deposits and earnings. ....		<b>20</b>
<b>21</b>	Enter exempt farm and ranch risk management account deposits. ....		<b>21</b>
<b>22</b>	Enter subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b. ....		<b>22</b>
<b>23</b>	Enter subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b. ....		<b>23</b>
<b>24</b>	Subtractions for spouse filing joint federal return.		
<b>24a</b>	Enter passive loss carryover exclusion. ....		<b>24a</b>
<b>24b</b>	Enter IRA deduction adjustment. ....		<b>24b</b>
<b>24c</b>	Enter capital loss adjustment. ....		<b>24c</b>
<b>25</b>	Enter subtraction of sole proprietor for allocation of compensation to spouse. ....		<b>25</b>
<b>26</b>	Enter Montana net operating loss carry over from Montana NOL Form Schedule B. ....		<b>26</b>
<b>27</b>	Enter 40% capital gain exclusion for pre-1987 installment sales. ....		<b>27</b>
<b>28</b>	Enter subtraction for business related expenses for purchasing recycled material. ....		<b>28</b>
<b>29</b>	Enter subtraction for sales of land to beginning farmers. ....		<b>29</b>
<b>30</b>	Enter subtraction for larger federal estate and trust taxable distribution. ....		<b>30</b>
<b>31</b>	Enter subtraction for wage deduction reduced by federal targeted jobs credit. ....		<b>31</b>
<b>32</b>	Enter subtraction for certain gains recognized by liquidating corporation. ....		<b>32</b>
<b>33</b>	Enter other subtractions. Specify: _____		<b>33</b>
<b>34</b>	Add lines 1 through 33, enter total here and on Form 2, line 39. <b>These are your total Montana subtractions from federal adjusted gross income.</b>		<b>34</b>

<b>Schedule III: Montana Itemized Deductions</b>		Column A (for single, joint, separate or head of household)	Column B (for spouse when filing separately using filing status 3a)
<b>1</b>	Enter medical expenses. See instructions.....	<b>1</b>	<b>1</b>
<b>2</b>	Multiply the amount on Form 2, line 40 by .075 (7.5%) and enter the result here ....	<b>2</b>	<b>2</b>
<b>3</b>	Subtract line 2 from line 1 and enter result here but not less than zero, <b>This is your deductible medical and dental expense.</b> .....	<b>3</b>	<b>3</b>
<b>4</b>	Enter medical insurance premiums not deducted elsewhere on your return. ....	<b>4</b>	<b>4</b>
<b>5</b>	Enter long term care insurance premiums not deducted elsewhere on your return. ....	<b>5</b>	<b>5</b>
<p>You have to elect on your Montana income tax return the same income tax or general sales tax election you made on your federal income tax return. Complete lines 6a through 6e if you elected to deduct income taxes or 6f if you elected to deduct general sales taxes on your federal income tax return. You can not deduct your self-employment taxes paid on lines 6a through 6e.</p>			
<b>6a</b>	Enter your federal income tax withheld in 2005. ....	<b>6a</b>	<b>6a</b>
<b>6b</b>	Enter your federal estimated tax payments paid in 2005. ....	<b>6b</b>	<b>6b</b>
<b>6c</b>	Enter the amount of your 2004 federal income taxes paid in 2005. ....	<b>6c</b>	<b>6c</b>
<b>6d</b>	Enter additional back year federal income taxes you paid in 2005. ....	<b>6d</b>	<b>6d</b>
<b>6e</b>	Add lines 6a through 6d and enter result here, but not more than \$5,000 if you are filing single, married filing separately, or head of household, or \$10,000 if filing a joint return with your spouse. <b>This is your federal income tax deduction.</b> .....	<b>6e</b>	<b>6e</b>
<b>6f</b>	Enter your general state and local sales taxes paid in 2005. See instructions. ....	<b>6f</b>	<b>6f</b>
<b>7</b>	Enter your local income taxes paid in 2005. ....	<b>7</b>	<b>7</b>
<b>8</b>	Enter your real estate taxes paid in 2005. ....	<b>8</b>	<b>8</b>
<b>9</b>	Enter your personal property taxes paid in 2005. ....	<b>9</b>	<b>9</b>
<b>10</b>	Enter other deductible taxes. List type and amount: _____	<b>10</b>	<b>10</b>
<b>11</b>	Enter home mortgage interest and points reported to you on federal Form 1098 ....	<b>11</b>	<b>11</b>
<b>12</b>	Enter home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. ..	<b>12</b>	<b>12</b>
<b>13</b>	Enter points not reported to you on federal Form 1098. ....	<b>13</b>	<b>13</b>
<b>14</b>	Enter your investment interest and attach federal Form 4952. ....	<b>14</b>	<b>14</b>
<b>15a</b>	Enter your total contributions made by cash or check during 2005 .....	<b>15a</b>	<b>15a</b>
<b>15b</b>	Enter your contributions included in line 15a made by cash or check after August 27, 2005 that you elect to treat as qualified contributions. ....	<b>15b</b>	<b>15b</b>
<b>16</b>	Enter your contributions made other than by cash or check. ....	<b>16</b>	<b>16</b>
<b>17</b>	Enter your contribution carryover from the prior year. ....	<b>17</b>	<b>17</b>
<b>18</b>	Enter your child and dependent care expenses and attach Montana Form 2441M. ....	<b>18</b>	<b>18</b>
<b>19</b>	Enter your casualty and theft loss(es) and attach federal Form 4684. ....	<b>19</b>	<b>19</b>
<b>20</b>	Enter unreimbursed employee business expenses. Attach Form 2106 or 2106EZ. ....	<b>20</b>	<b>20</b>
<b>21</b>	Enter other expenses. List type and amount: _____	<b>21</b>	<b>21</b>
<b>22</b>	Add lines 20 and 21 and enter result here. ....	<b>22</b>	<b>22</b>
<b>23</b>	Multiply the amount on Form 2, line 40 by .02 (2%) and enter the result here. ....	<b>23</b>	<b>23</b>
<b>24</b>	Subtract line 23 from line 22 and enter the result here, but not less than zero. ....	<b>24</b>	<b>24</b>
<b>25</b>	Enter your political contributions (limited to \$100 per taxpayer). ....	<b>25</b>	<b>25</b>
<b>26</b>	Enter other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: _____	<b>26</b>	<b>26</b>
<b>27</b>	Enter your gambling losses allowed under federal law. ....	<b>27</b>	<b>27</b>
<b>28</b>	Add lines 3 through 5; 6e through 15a; 16 through 19; and 24 through 27 and enter result here. ....	<b>28</b>	<b>28</b>
<p>If the amount on Form 2, line 40 is more than \$145,950, or more than \$72,975 if married filing separately, you must complete the itemized deduction worksheet, Form W, Worksheet VI, in the Form 2 instruction booklet and then continue to line 29; otherwise, go to line 30 below.</p>			
<b>29</b>	Enter the amount from the itemized deduction worksheet Form W, Worksheet VI, line 9. This is the amount of your itemized deductions not allowed. ....	<b>29</b>	<b>29</b>
<b>30</b>	Subtract line 29 from line 28 and enter the result here and on Form 2, line 42. <b>These are your allowable itemized deductions.</b> .....	<b>30</b>	<b>30</b>



<b>Schedule IV: Non-resident/Part-year Resident Tax</b>		Column A (for single, joint, separate, or head of household)	Column B (for spouse, when filing separately using filing status 3a)
<b>1</b> Enter Montana source wages, salaries, tips, etc. ....	<b>1</b>		<b>1</b>
<b>2</b> Enter Montana source taxable interest. ....	<b>2</b>		<b>2</b>
<b>3</b> Enter Montana source ordinary dividends. ....	<b>3</b>		<b>3</b>
<b>4</b> Enter Montana source taxable refunds or other recoveries. ....	<b>4</b>		<b>4</b>
<b>5</b> Enter Montana source alimony received. ....	<b>5</b>		<b>5</b>
<b>6</b> Enter Montana source business income or (loss). ....	<b>6</b>		<b>6</b>
<b>7</b> Enter Montana source capital gain or (loss). ....	<b>7</b>		<b>7</b>
<b>8</b> Enter Montana source other gains or (losses). ....	<b>8</b>		<b>8</b>
<b>9</b> Enter Montana source taxable IRA distribution. ....	<b>9</b>		<b>9</b>
<b>10</b> Enter Montana source taxable pension and annuities ....	<b>10</b>		<b>10</b>
<b>11</b> Enter Montana source rental real estate, royalties, partnerships, S. corporations, trust, etc. ....	<b>11</b>		<b>11</b>
<b>12</b> Enter Montana source farm income or (loss). ....	<b>12</b>		<b>12</b>
<b>13</b> Enter Montana source taxable social security benefits. ....	<b>13</b>		<b>13</b>
<b>14</b> Enter Montana source other income. ....	<b>14</b>		<b>14</b>
<b>15</b> Enter Montana source additions to income reported on Form 2A, Schedule I...	<b>15</b>		<b>15</b>
<b>16</b> Add lines 1 through 15 and enter result here. <b>This is your Montana source income.</b> ....	<b>16</b>		<b>16</b>
<b>17</b> From Form 2, add lines 22 and 38 and enter result here. <b>This is your total income from all sources.</b> Non-resident military service persons and spouses who have Montana source income will add from Form 2, lines 22 and 38, then subtract from this sum exempt income reported on Form 2A, Schedule II, line 9. ....	<b>17</b>		<b>17</b>
<b>18</b> Divide the amount on line 16 by the amount on line 17 and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000. ....	<b>18</b>		<b>18</b>
<b>19</b> Enter your resident tax after capital gains tax credit from Form 2, line 48. ....	<b>19</b>		<b>19</b>
<b>20</b> Multiply the tax on line 19 by the percentage on line 18 and enter the result here and on Form 2, line 48a. <b>This is your non-resident, part-year resident tax after capital gains tax credit.</b> ....	<b>20</b>		<b>20</b>

**How do I determine what is my Montana source income when I am a non-resident of Montana?**

In general, as a non-resident of Montana your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

**How do I determine what is my Montana source income when I am a part-year resident of Montana?**

As a part-year resident you are considered a resident for part of the year and a non-resident for the other part of the year.

In general, for the part of the year that you are a non-resident your Montana source income is all the income that you receive for work that you perform in Montana, income that you received from real or

personal property that is located in Montana, and income that you receive from a business conducted in Montana.

For the part of the year that you are a resident all of your income that you receive, no matter where you earn it, is Montana source income.

**Where can I find further information on what is my Montana source income?**

For further information and a line by line description of what is Montana source income, refer to pages 24 through 27 of the instruction booklet for Form 2A, Schedule IV.

<b>Schedule V: Montana Tax Credits</b>		Column A (for single, joint, separate, or head of household)	Column B (for spouse, when filing separately using filing status 3a)
<b>Nonrefundable credits that are single-year credits and HAVE NO carryover provision.</b>			
<b>1</b>	Enter your credit for an income tax liability paid to another state or country from Form 2A, Schedules VI, line 10 or VII, line 10. Attach Form 2A, Schedules VI and VII to your income tax return. ....	<b>1</b>	<b>1</b>
<b>2</b>	Enter college contribution credit and attach Form CC. ....	<b>2</b>	<b>2</b>
<b>3</b>	Enter qualified endowment credit and attach Form QEC. ....	<b>3</b>	<b>3</b>
<b>4</b>	Enter energy conservation installation credit and attach Form ENRG-C. ....	<b>4</b>	<b>4</b>
<b>5</b>	Enter alternative fuel credit and attach Form AFCR. ....	<b>5</b>	<b>5</b>
<b>6</b>	Enter rural physician's credit. ....	<b>6</b>	<b>6</b>
<b>7</b>	Enter health insurance for uninsured Montanans credit and attach Form HI. ....	<b>7</b>	<b>7</b>
<b>8</b>	Enter elderly care credit and attach Form ECC. ....	<b>8</b>	<b>8</b>
<b>9</b>	Enter developmental disability account contribution credit. ....	<b>9</b>	<b>9</b>
<b>10</b>	Enter recycle credit and attach Form RCYL. ....	<b>10</b>	<b>10</b>
<b>11</b>	Enter oil seed crushing and biodiesel production facility credit and attach Form OSC. ....	<b>11</b>	<b>11</b>
<b>12</b>	Enter biodiesel blending and storage tank credit and attach Form BBSC. ....	<b>12</b>	<b>12</b>
<b>13</b>	Add lines 1 through 12 and enter result here and on Form 2, line 49. <b>These are your total nonrefundable single-year credits.</b> ....	<b>13</b>	<b>13</b>
<b>Nonrefundable credits that HAVE a carryover provision.</b>			
<b>14</b>	Enter the amount of your 2005 contractor's gross receipts tax credit. ....	<b>14</b>	<b>14</b>
<b>15</b>	Enter geothermal systems credit and attach Form ENRG-A. ....	<b>15</b>	<b>15</b>
<b>16</b>	Enter alternative energy systems credit and attach Form ENRG-B. ....	<b>16</b>	<b>16</b>
<b>17</b>	Enter alternative energy production credit and attach Form AEPC. ....	<b>17</b>	<b>17</b>
<b>18</b>	Enter dependent care assistance credit and attach Form DCAC. ....	<b>18</b>	<b>18</b>
<b>19</b>	Enter historic property preservation credit and attach federal Form 3468. ....	<b>19</b>	<b>19</b>
<b>20</b>	Enter Montana capital company credit. ....	<b>20</b>	<b>20</b>
<b>21</b>	Enter infrastructure user's fee credit. ....	<b>21</b>	<b>21</b>
<b>22</b>	Enter empowerment zone credit. ....	<b>22</b>	<b>22</b>
<b>23</b>	Enter increasing research activities credit and attach Form RSCH. ....	<b>23</b>	<b>23</b>
<b>24</b>	Enter mineral exploration incentive credit and attach Form MINE-CRED. ....	<b>24</b>	<b>24</b>
<b>25</b>	Enter film employment production credit and attach Form FPC. Report your credit on this line if you have made the one-time four year carry forward election. ....	<b>25</b>	<b>25</b>
<b>26</b>	Add line 14 through 25 and enter result here and on Form 2, line 50. <b>These are your total nonrefundable carryover credits.</b> ....	<b>26</b>	<b>26</b>
<b>Refundable credits.</b>			
<b>27</b>	Enter your elderly homeowner/renter credit and attach Form 2EC. ....	<b>27</b>	<b>27</b>
<b>28</b>	Enter film employment production credit and attach Form FPC. ....	<b>28</b>	<b>28</b>
<b>29</b>	Enter film qualified expenditure credit and attach Form FPC. ....	<b>29</b>	<b>29</b>
<b>30</b>	Add lines 27 through 29 and enter result here and on Form 2, line 61. <b>These are your total refundable credits.</b> ....	<b>30</b>	<b>30</b>

### MONTANA TAX CREDITS

There are three categories of credits available to you on your Montana individual income tax return and we have listed the 27 Montana tax credits under these three categories. With the exception to the capital gains tax credit, which is required to be applied before any other credit, (refer to the instructions for Form 2, line 47) you are not required to apply any of the 27 other tax credits against your income tax liability in any particular order.

- **Nonrefundable single-year credits.** Your nonrefundable single-year credits can only be used to offset your 2005 resident, non-resident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused

portion of your nonrefundable single-year credits that exceeded your 2005 income tax liability are lost and are unable to be used in future years.

- **Nonrefundable carryover credit.** Your nonrefundable carryover credits can be used to offset your 2005 resident, non-resident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. Your excess nonrefundable credits that were not applied against your 2005 income tax liability can be carried over and used to offset future year tax liabilities.
- **Refundable credits.** Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

**Instructions:** You may claim a credit for an income tax liability paid to another state or country by yourself, your S. corporation or your partnership. If you claim this credit for an income tax paid by your S. corporation or partnership, you will need to include as an addition to federal adjusted gross income on Form 2A, Schedule I, line 16 your share of the S. corporation's or partnership's deduction for income tax paid, whether separately or non-separately stated on your federal K-1.

- Your credit is limited to an income tax liability paid on income that is also taxed by Montana.
- Your income taxes paid include excise taxes or franchise taxes that are imposed on and measured by the net income of your S. corporation or partnership.
- This is a nonrefundable credit and cannot reduce your Montana tax liability below zero.
- This is a nonrefundable single year credit. No unused credit amount can be carried forward.
- You will need to complete a separate Schedule VI or VII for each state or country that you have paid an income tax liability to. You cannot combine payments on one schedule.
- If you are a part-year resident, you have to allocate your income using Form 2A, Schedule IV before completing Form 2A, Schedule VII.

<b>Schedule VI: Credit for an Income Tax Liability Paid to Another State or Country. Full-year resident only.</b>	Column A (for single, joint, separate, or head of household)	Column B (for spouse, when filing separately using filing status 3a)
<b>1</b> Enter your income taxable to another state or country that is included in Montana adjusted gross income on Form 2, line 40. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S. corporation or partnership. .... <b>1</b>		
<b>2</b> Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. .... <b>2</b>		
<b>3</b> Enter your total Montana adjusted gross income from Form 2, line 40. Where applicable, this includes your share of income taxes paid that are claimed as a deduction by your S. corporation or partnership. .... <b>3</b>		
<b>4</b> Enter your total income tax liability paid to the other state or country. .... <b>4</b>		
<b>5</b> Enter your Montana tax liability from Form 2, line 48. .... <b>5</b>		
<b>6</b> Divide line 1 by line 2. Enter the percentage here, but not greater than 100%. .... <b>6</b>		
<b>7</b> Multiply line 4 by line 6 and enter the result here. .... <b>7</b>		
<b>8</b> Divide line 1 by line 3. Enter the percentage here, but not greater than 100%. .... <b>8</b>		
<b>9</b> Multiply line 5 by line 8 and enter the result here. .... <b>9</b>		
<b>10</b> Enter here and on Form 2A, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. <b>This is your credit for an income tax paid to another state or country.</b> .... <b>10</b>		
<b>Schedule VII: Credit for an Income Tax Liability Paid to Another State or Country. Part-year resident only.</b>	Column A (for single, joint, separate, or head of household)	Column B (for spouse, when filing separately using filing status 3a)
<b>1</b> Enter your income taxable to another state or country that is included in Montana source income on Form 2A, Schedule IV, line 16, total Montana source income. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S. corporation or partnership. .... <b>1</b>		
<b>2</b> Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. .... <b>2</b>		
<b>3</b> Enter your total Montana source income from Form 2A, Schedule IV, line 16. Where applicable, this includes the share of income taxes paid that are claimed as a deduction by your S. corporation or partnership. .... <b>3</b>		
<b>4</b> Enter your total income tax liability paid to the other state or country. .... <b>4</b>		
<b>5</b> Enter your Montana tax liability from Form 2, line 48a. .... <b>5</b>		
<b>6</b> Divide line 1 by line 2. Enter the percentage here, but not greater than 100%. .... <b>6</b>		
<b>7</b> Multiply line 4 by line 6 and enter the result here. .... <b>7</b>		
<b>8</b> Divide line 1 by line 3. Enter the percentage here, but not greater than 100%. .... <b>8</b>		
<b>9</b> Multiply line 5 by line 8 and enter the result here. .... <b>9</b>		
<b>10</b> Enter here and on Form 2A, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. <b>This is your credit for an income tax paid to another state or country.</b> .... <b>10</b>		

Schedule VIII: Reporting of Special Transactions	Transaction
<p>Complete Schedule VIII only if you and/or your spouse were required to complete for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) were required to be filed with your federal income tax return. If your answer is "yes" to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.</p>	<p>Check "yes" if you are required to file any of the following forms with the Internal Revenue Service.</p>
<p><b>1 I am required to file federal Form 8264 – Application for Registration of a Tax Shelter with the Internal Revenue Service.</b></p> <p>Form 8264 is required to be filed to register a tax shelter. Upon filing Form 8264, you receive a tax shelter registration number from the Internal Revenue Service. This tax shelter number is provided to investors in the tax shelter.</p>	<p>1 <input type="checkbox"/> YES</p>
<p><b>2 I am required to file federal Form 8271 – Investor Reporting of Tax Shelter Registration Number with the Internal Revenue Service.</b></p> <p>Form 8271 is used to report the tax shelter registration number that the Internal Revenue Service assigns to certain tax shelters required to be registered under 26 USC 6111 and to report the name and identifying number of the tax shelter.</p>	<p>2 <input type="checkbox"/> YES</p>
<p><b>3 I am required to file federal Form 8824 – Like-Kind Exchanges with the Internal Revenue Service.</b></p> <p><b>NOTE: Check "yes" if your like-kind exchange includes Montana property. Non-residents do not have to report a like-kind exchange if the properties involved do not include Montana property.</b></p> <p>Form 8824 is used to report each exchange of business or investment property for property of a like kind.</p>	<p>3 <input type="checkbox"/> YES</p>
<p><b>4 I am required to file federal Form 8865 – Return of U.S. Persons With Respect to Certain Foreign Partnerships with the Internal Revenue Service.</b></p> <p>Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest).</p>	<p>4 <input type="checkbox"/> YES</p>
<p><b>5 I am required to file federal Form 8886 – Reportable Transaction Disclosure Statement with the Internal Revenue Service.</b></p> <p>Form 8886 is used to disclose information for each reportable transaction in which you participated.</p>	<p>5 <input type="checkbox"/> YES</p>
<p><b>6 I am required to file federal Form 13586 – Additional Information and Documentation for Announcement 2004-46, Settlement Initiative – 60-Day Response with the Internal Revenue Service.</b></p> <p>Form 13586 is required for each year you derive a benefit from a Notice 2000-44 (or substantially similar) transaction.</p>	<p>6 <input type="checkbox"/> YES</p>
<p><b>7 I am required to file federal Form 13656 – Notice of Election by Executive and Related Person to Participate in Announcement 2005-19 Settlement Initiative with the Internal Revenue Service.</b></p> <p>Form 13656 is an election to participate in the settlement initiative as described in Announcement 2005-19 and as contained in Internal Revenue Bulletin 2005-11 dated March 14, 2005.</p>	<p>7 <input type="checkbox"/> YES</p>





Amended Return <input type="checkbox"/>	Your first name and initial	Last name	Your social security number	If deceased, date of death
	Spouse's first name and initial	Last name	Spouse's social security number	If deceased, date of death
Home address (number and street)		City	State	Zip+4

**Part I Qualifications**

<ul style="list-style-type: none"> <li>I was age 62 or older as of December 31, 2005. <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>I resided in Montana for 9 months or more during 2005. <input type="checkbox"/> Yes <input type="checkbox"/> No</li> </ul>	<ul style="list-style-type: none"> <li>I occupied a Montana residence as an owner or renter for a total of 6 months or more during 2005. <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>My gross household income was less than \$45,000 in 2005. <input type="checkbox"/> Yes <input type="checkbox"/> No</li> </ul>
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To qualify for this credit you will answer "yes" to all four statements above. A "no" answer means you are not eligible for this credit.

**Part II Household Income**

1 Enter here your total household income received from wages, fees bonuses, capital gains, dividends, interest, and other ordinary income. Do not include your losses in your total.	1	
2 Enter here your total household income from a business, partnership, rent, royalties, etc. Do not include your losses in this total.	2	
3 Enter here your total household income payments and interest on federal, state, county and municipal bonds.	3	
4 Enter here any alimony, public assistance, unemployment, state and federal tax refunds, prior year 2EC refunds, and other income that your household received during the year.	4	
5 Enter here your total household pension, annuities, IRA distributions, benefits from railroad retirement, public employee's retirement, veteran's disability and social security.	5	
6 Add lines 1 through 5 and enter the result here. If the sum is greater than \$45,000, stop here, because you do not qualify for the elderly homeowner/renter credit. <b>This is your gross household income.</b>	6	
7 Entered here for you is your standard exclusion.	7	\$6,300
8 Subtract line 7 from line 6 and enter result here, but not less than zero. <b>This is your total household income.</b>	8	

**Part III Credit Computation**

9 If you are a homeowner, enter the property tax that you were billed for 2005. This includes fees, special assessments, and SIDs on your residence and land not to exceed one acre. <b>This is your property tax billed.</b>	9	
10 If you rent your residence, enter the rent that you paid in 2005 on this residence.	10	
11 Multiply line 10 by .15 (15%) and enter the result here. <b>This is your rent equivalent tax paid.</b>	11	
12 Add lines 9 and 11 and enter the result here.	12	
13 Enter here your total household income reported on line 8.	13	
14 Enter here your multiplier rate from the Household Income Reduction Table located on the reverse side of Form 2EC.	14	
15 Multiply line 13 by line 14 and enter the result here. <b>This is your net household income.</b>	15	
16 Subtract line 15 from line 12 and enter the result here. If the amount is zero or less, stop here. You cannot take the elderly homeowner/renter credit.	16	
17 Enter here the lesser of line 16 or \$1,000.	17	
18 • If your gross household income reported on line 6 is less than \$35,000, skip line 18 and enter the amount from line 17 on line 19 below. • If your gross household income reported on line 6 is \$35,000 or more, enter on line 18 the percentage multiplier listed below that corresponds to your gross household income reported on line 6.	18	

If the amount on line 6 is	then	Enter this percentage amount on line 18	If the amount on line 6 is	then	Enter this percentage amount on line 18
\$35,000 - \$37,500		.40 (40%)	\$42,501 - \$44,999		.10 (10%)
\$37,501 - \$40,000		.30 (30%)	\$45,000 - and over		.00 (00%)
\$40,001 - \$42,500		.20 (20%)			

19 Enter the amount from line 17, or where applicable, multiply line 17 by the percentage reported on line 18 and enter result here. **This is your elderly homeowner/renter credit.**

- If you are filing Montana Form 2, enter on Form 2A, Schedule V, line 27, the amount on line 19 above.
- If you are filing Montana Form 2S, enter on Form 2S, line 21, the amount on line 19 above.
- If you are not required to file Montana Form 2 or 2S, mail your Form 2EC separately to the Montana Department of Revenue, PO Box 6577, Helena, MT 59604-6577.

If you wish to use direct deposit, enter your RTN# and ACCT# below.

RTN#																				ACCT#																				Checking <input type="checkbox"/>	Savings <input type="checkbox"/>
------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	-------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	-----------------------------------	----------------------------------

Name, address and telephone number of paid preparer \_\_\_\_\_ Preparer SSN or FEIN \_\_\_\_\_

May the DOR discuss this return with your tax preparer? Yes  No  Questions? Call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired

Your signature is required \_\_\_\_\_ Date \_\_\_\_\_ Daytime telephone number \_\_\_\_\_ Spouse's signature \_\_\_\_\_ Date \_\_\_\_\_

I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.

# Elderly Homeowner/Renter Credit Instructions

## What is the Montana elderly homeowner/renter credit and how can I determine if the credit is available to me?

- The Montana elderly homeowner/renter credit is a property tax relief program that provides you with a refundable credit if you are age 62 or older, have lived in Montana for at least 9 months during the year, occupied a Montana residence for at least 6 months during the year, and your gross household income is less than \$45,000.

## How can I find out more about this credit?

- If you need additional information on this credit or other tax issues, you can contact us at our customer service center at (406) 444-6900 or TDD (406) 444-2830, or visit our website at [www.mt.gov/revenue](http://www.mt.gov/revenue).

## Since I am filing my income tax return electronically, do I have to submit a copy of my property tax bill or rent receipts?

- If you are claiming this credit on your electronically filed return, please do not send us your property tax bill or rent receipts. When you file electronically, you represent that you have completed Form 2EC and have all the required documentation.

## Heading

Write your name, address, and social security number in the space provided. If you are married, enter your spouse's name and social security number. If either spouse is deceased during the claim year, enter the date of death in the appropriate box. If you are filing this credit with your Montana income tax return, Form 2 or 2A, enter the name, address and social security number as it appears on your Form 2 or 2A.

## Part I Qualifications

You'll need to answer all four statements before you apply for your elderly homeowner/renter credit. If you answer "yes" to ALL these statements, you are eligible for this credit and you should continue to complete this form. Any "no" answer means that you are not eligible for the credit.

- Age 62 test** – If you are married and both spouses own or rent your residence, only one of you have to meet the age requirement.
- Nine month test** – If you are the personal representative of the estate of an eligible individual who died during the year, you cannot claim this credit if that individual died before October 1, 2005. You cannot claim this credit if you are married filing this return with your spouse and your spouse died before October 1, 2005 and was the only eligible individual. You can claim this credit only if, as a surviving spouse, you are age 62 or older and you can continue to answer yes to the remaining three questions.
- Six month test** – You can answer "yes" to this question as long as you have occupied one or more residences as an owner and/or renter during the year.
- Gross household income** – Your gross household income includes all income received by all individuals in the household.

## Part II Household Income

Enter on lines 1 through 5 your total household income. Your total household income is all the income received, taxable and nontaxable, by all individuals who live in your household. It includes:

- Pension and annuity income. (This includes railroad retirement and veterans' disability benefits.)

- Capital gain income minus your return on the capital, along with any capital gains that you excluded from your adjusted gross income
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds to the extent the refund reduced your tax liability in a prior year
- State income tax refunds and elderly homeowner/renter credits taken.

Do not reduce your household income by any losses that you included in your federal adjusted gross income, or your basis that you may have in any of your household income.

**Part III Credit Computation.** You will need to attach a copy of your 2005 property tax bill and/or your signed rent receipts.

**Line 9 – Property Tax Billed.** Your property tax billed is your November, 2005 property tax statement of taxes assessed against your home and it includes your special assessments and fees. Do not use the amount of property taxes that you paid in 2005 or any taxes that you may have claimed in the past and in the current year as an itemized deduction.

You are allowed only the property tax billed on your primary residence and up to one-acre of land that is associated with this residence. If the one-acre farmstead or primary acre is not separately identified on your tax bill and if your ownership is less than 20 acres, you can calculate your credit by dividing the total amount of property tax billed on the land by the total acres in order to arrive at your property tax billed.

If your property tax bill is on property that you held in a revocable trust and if you are the grantor(s) and trustee(s) of that property, you can qualify for this credit. If your property taxes are billed to your living trust or life estate, you can qualify for this credit. Property tax that is billed to an irrevocable or family trust qualifies as rent only.

**Line 10 – Rent Equivalent Paid.** Your rent is only the amount of money that you paid to occupy your home. It does not include amenities such as meals, housekeeping, nursing care, etc.

If you live in a health care, long-term care, personal care or residential care facility, the rent allowed is the actual out of pocket rent that you paid. If the facility does not provide you with an adequate breakdown between your "rent" and "amenities", your rent is limited to \$20 a day and it cannot exceed \$7,300 a year.

If you want your credit to be deposited directly, you will need to enter your routing number and account number. If either the routing number or account number is incorrect, we cannot credit your account. If your direct deposit is returned to us, we will mail you a check.

Household Income Reduction Table					
If your household income on line 8 is:					
At least	But not more than	Your multiplier is:	At least	But not more than	Your multiplier is:
\$0	\$1,999	0	\$7,000	\$7,999	0.035
\$2,000	\$2,999	0.006	\$8,000	\$8,999	0.039
\$3,000	\$3,999	0.016	\$9,000	\$9,999	0.042
\$4,000	\$4,999	0.024	\$10,000	\$10,999	0.045
\$5,000	\$5,999	0.028	\$11,000	\$11,999	0.048
\$6,000	\$6,999	0.032	\$12,000	and over	0.050

2005

Montana Individual Income Tax Return – Short Form

Form 2S

Only full year residents may elect to use Form 2S

Montana

Amended Return, Your first name and initial, Last name, Deceased, Your social security number, Spouse's first name and initial, Last name, Deceased, Spouse's social security number, Home address (number and street), City, State, Zip+4, MT

Filing Status (check only one box) 1 Single 2 Married filing jointly 3 Head of Household

Exemptions 4a X Yourself, 65 or older, Blind, Enter number checked, 4a, 4b Spouse, 65 or older, Blind, Enter number checked, 4b, 4c Dependent's First Name, Last Name, SSN, Relationship, Disability, Enter the total of line 4c, 4c, 4d If additional dependents, see instructions. Add lines 4a thru 4c and enter total exemptions here. 4d

Enter amounts corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

5 Enter wages, salaries, tips, etc. Attach federal Form(s) W-2. 5, 6 Enter taxable interest. Attach federal Schedule B if required. 6, 7 Enter ordinary dividends. Attach federal Schedule B if required. 7, 8 Enter taxable pension, IRA distributions, and annuities. Attach federal Form(s) 1099R. 8, 9 Enter unemployment, alimony, state refund, etc. Specify: 9, 10 Add and enter amounts in the far right column for lines 5 through 9. This is your total income. 10, 11 Adjustments: Moving expense, IRA, alimony, student loan interest, etc. Specify: 11, 12 Subtract line 11 from line 10. This is your federal adjusted gross income. 12, 13 Additions: Enter interest and dividends from other state, county, or municipal bonds, and federal refund. 13, 14a Enter partial pension and annuity income exemption from Form W, Worksheet IV, line 6. 14a, 14b Enter partial interest exemption for taxpayers 65 and older. 14b, 14c Enter exempt interest and mutual fund dividends from federal bonds, notes, and obligations. 14c, 14d Enter exempt unemployment compensation. 14d, 14e Enter other exclusions. Certain taxed tips and gratuities, etc. 14e, 14 Add lines 14a through 14e and enter result here. This is your total subtractions. 14, 15 Add lines 12 and 13 then subtract line 14. This is your Montana adjusted gross income. 15

16 Enter your standard deduction from Form W, Worksheet V or the worksheet on the back of this form. 16, 17 Multiply \$1,900 by the number of exemptions on line 4d and enter result here. 17, 18 Subtract the total of lines 16 and 17 from line 15 and enter here, but not less than zero. This is your taxable income. 18, 19 Enter your tax from the tax table. If line 18 is less than zero, enter zero. This is your total tax due. 19, 20 Enter your Montana income tax withheld. Attach federal Form(s) W-2 and 1099. 20, 21 Enter your refundable elderly/homeowner renter credit from Form 2EC. 21, 22 Add lines 20 and 21. This is your total payments and offsets. 22

23 Interest on underpayment, Late file penalty, Late pay penalty, Interest, Enter the sum of 23a thru 23d here. 23, 24 Nongame wildlife program, Child abuse prevention, Agriculture in Schools, Check-off Total. 24, 25 Add lines 19, 23 and 24 and enter result here. This is the sum of your tax, penalty, interest and contributions. 25, 26 If line 25 is more than line 22, enter the difference here. This is the amount you owe. Make check payable to MONTANA DEPARTMENT OF REVENUE or visit our website at www.mt.gov/revenue to pay by credit card or E-Check. 26, 27 If line 25 is less than line 22, enter the difference here. This is your refund. If you wish to use direct deposit, enter your RTN# and ACCT# below. RTN#, ACCT#, checking, savings 27

Check the box here if you do need forms and instructions mailed to you next year. Name, address and telephone number of paid preparer, Extension-Check this box and attach a copy of your federal Form 4868 to receive your Montana extension. SSN or FEIN:

May the DOR discuss this return with your tax preparer? Yes No Questions? Call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired.

Your signature is required Date Daytime telephone number Spouse's signature Date I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.



<b>Amended Return Reconciliation</b>		Round to the nearest dollar
(Use this reconciliation only when you are completing an amended return.)		
<b>1</b>	Enter your amended liability (line 26) or your amended refund (line 27) here. ....	<b>1</b>
<b>2</b>	Enter your total 2005 refund previously received here. ....	<b>2</b>
<b>3</b>	Enter your total 2005 payments previously made which are not included in line 22 here. ....	<b>3</b>
<b>4</b>	Add lines 1 and 2, and then subtract line 3. <b>This is your amended return underpayment or overpayment.</b> .....	<b>4</b>
Describe your amended adjustments here. Add additional pages if necessary.		

**2005 Montana Individual Income Tax Table**

If Taxable Income is Over	But not Over	Multiply by	and	Subtract	= Tax	If Taxable Income is Over	But not Over	Multiply by	and	Subtract	= Tax
\$ 0	\$ 2,300	X 1%		\$ 0		\$ 8,400	\$ 10,800	X 5%		\$ 210	
\$ 2,300	\$ 4,100	X 2%		\$ 23		\$ 10,800	\$ 13,900	X 6%		\$ 318	
\$ 4,100	\$ 6,200	X 3%		\$ 64		\$ 13,900		X 6.9%		\$ 443	
\$ 6,200	\$ 8,400	X 4%		\$ 126							

Example: taxable income \$4000 x .02 (2%) = \$80; subtract \$23 = \$57 tax

<b>Standard Deduction Worksheet For Form 2S</b>		Calculation of Your Standard Deduction
<b>1</b>	Enter your Montana adjusted gross income from Form 2S, line 15 here. ....	<b>1</b>
<b>2</b>	Multiply the amount on line 1 by .20 (20%) and enter the result here. ....	<b>2</b>
<b>3</b>	Enter here the amount below that corresponds to your filing status that you claimed on your Form 2S. ....	<b>3</b>
	<ul style="list-style-type: none"> <li>If your filing status is single (filing status 1) enter \$3,560. <b>This is your maximum standard deduction.</b></li> <li>If your filing status is joint or head of household (filing status 2 or 3) enter \$7,120. <b>This is your maximum standard deduction.</b></li> </ul>	
<b>4</b>	Enter here the amount from line 2 or 3, whichever is smaller. ....	<b>4</b>
<b>5</b>	Enter here the amount below that corresponds to your filing status that you claimed on your Form 2S. ....	<b>5</b>
	<ul style="list-style-type: none"> <li>If your filing status is single (filing status 1) enter \$1,580. <b>This is your minimum standard deduction.</b></li> <li>If your filing status is joint or head of household (filing status 2 or 3) enter \$3,160. <b>This is your minimum standard deduction.</b></li> </ul>	
<b>6</b>	Enter here and on Form 2S, line 16 the amount from line 4 or 5, whichever is larger. <b>This is your standard deduction.</b> .....	<b>6</b>