

**Who Must File—FULL YEAR RESIDENTS**

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

| Marital & Filing Status       | Age as of December 31, 1993 | You must file if your gross income was: |
|-------------------------------|-----------------------------|---|
| Single or Head of Household,  | Under 65                    | \$1,750 or more                         |
| or Married Filing Separate    | 65 or older                 | \$3,150 or more                         |
| Married Filing a Joint Return | Both under 65 or older      | \$3,490 or more                         |
|                               | One spouse 65 or older      | \$4,890 or more                         |
|                               | Both spouses 65 or older    | \$6,290 or more                         |

**Residents of Montana (Full-Year).**

You are taxed on all income earned in 1993—regardless of where you earned it. You are a Montana resident if you live in Montana or if you maintain a permanent home in Montana. You don't lose your residency when you leave the state temporarily. You lose your Montana residency **only** when you establish permanent residence outside of Montana with no intentions of returning.

**Nonresidents and Part-Year Residents**

You must file a 1993 Montana individual income tax return if you had income from Montana source(s). Please see complete instructions on pages 13 and 14.

**Other Filing Information**

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

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

—Part of your Social Security benefits may be subject to Montana tax. Complete the worksheet in this booklet to determine taxable portion of Social Security.

—If you're responsible for the financial affairs of a deceased person, you must file a return for the deceased if his/her income prior to death exceeds the minimum filing requirements. If the deceased taxpayer was married, a joint return can be filed. This would include the income of the deceased spouse from the beginning of the year to the date of death and the income of the surviving spouse for the entire tax year.

—A Montana Fiduciary Return (Form FID-3) must be filed for the deceased person. This would include income received from the date of death for the balance of the estate tax year. An estate or trust cannot be filed on Form 2.

—Montana residents whose only North Dakota income is wages don't have to pay North Dakota income tax. North Dakota does require that you file an information return (Form NW-R). You can obtain Form NW-R from:

Office of State Tax Commissioner  
State Capitol  
Bismarck, North Dakota 58505

—North Dakota residents who had Montana state income tax withheld on income earned in Montana, can get a refund under the Montana-North Dakota Reciprocal Agreement. File a Montana income tax return (Form 2) with Montana NR-1 affidavit. You can get both forms from the Montana State Income Tax Division.

**S Corporation Election**

If you are a new Montana corporation and have elected Federal S Corporation status, you are treated as a small business corporation for Montana income tax purposes. Shareholders must include the net income or loss in Montana Adjusted Gross Income. (See page 5 of instructions for more information.)

**Amended Returns**

If you made an error or want to change your original filing, file an amended return on Montana Form 2X. You can only receive a refund on an amended return if the amended is filed within 5 years from the due date of the original return.

**Tax Preparer Contact**

To streamline resolving our questions related to your return, we have included an area for you to authorize the Department to contact your preparer. Your initials in the box(es) on the back of Form 2 and Form 2S significantly speed the processing of your return. If you are filing jointly or married filing separate on the same form, **both spouses** must initial the boxes. If you initial these boxes, the Department may contact the preparer or you for additional information. You will however, continue to receive notification of any formal adjustments made to your tax liability. The Department is implementing this new procedure at the request of the **Montanans' for Improving Tax Administration (MITA)**.

**Which form should I use?****Short Form**

You may file Form 2S (Short Form) if you answer "yes" to **all** of the following:

- You were a Montana resident for **all** of 1993.
- You are either single, head of household, or married filing a joint return.
- You wish to use **only** the standard deduction or federal income tax paid or withheld. (To itemize further use Forms 2 and 2A).
- The **only** tax credit you have is Homeowner/Renter Credit.
- Your **only** income is from one or more of the following: wages, pensions and annuities, interest and dividends, fees (such as jury duty), alimony, taxable unemployment pay, winnings, prizes, awards, other miscellaneous income.

**Long Form**

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

- You were a resident of Montana for **only part** of 1993.
- You were a nonresident of Montana with income from Montana sources.
- You are married, filing a separate return.
- You are using an itemized deduction schedule.
- Your income includes any of the following: income from business or profession, rents, royalties, partnerships, trust or S corporation income, capital gain(s), tax credits.

**When to File**

Your return for calendar year 1993 must be **postmarked** before midnight April 15, 1994. If you operate on a fiscal year, your return must be **postmarked** before midnight the 15th day of the fourth month following the close of your fiscal year.

**Where to File**

Income Tax Division  
 Montana Dept. of Revenue  
 P. O. Box 5805  
 Helena, MT 59604-5805

**Extension of Time to File**

**Note:** Legislation has changed the requirements to obtain a Montana extension. The law provides that to be granted an extension of time for filing a return, you must have paid by estimated tax payments, withholding tax, or a combination of both, either: 1) **95 percent** of your current year's total tax liability or 2) **100 percent** of your previous year's total tax liability. Detailed instructions on Form EXT-93.

A copy of the federal extension will not be accepted nor will telephone requests for extensions be accepted. A six month extension for filing must be obtained by submitting form EXT-93. Use of this form is necessary to report the amount you and/or your spouse expect to owe. If required, attach your remittance to the Montana extension form.

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

When filing a calendar year return, **your extension request must be postmarked on or before April 15, 1994.** For a fiscal year filer, extension requests must be postmarked by the 15th day of the fourth month following the close of your fiscal year.

**If You File or Pay Late**

You will be subject to a late file penalty of 5% of your unpaid tax (a minimum amount of \$5) on all late returns filed. In addition, you will be subject to a 10% late pay penalty on the unpaid tax (a minimum of \$5). When filing after the due date, you will be subject to interest charges at 3/4% per month (.0075) on the unpaid balance. These interest and penalty charges can be avoided by filing your return with full payment on or before April 15, 1994.

**Note:** If you and your spouse filed separately, penalties and interest are calculated on each separate tax liability.

**Underpayment Penalty of Estimated Tax**

**NEW**

Starting in 1993, you must have paid in through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current years tax liability after credits, or 2) 100% of your 1992 tax liability. If you did not do so, you may be subject to an underpayment penalty. You may use the short method to figure your penalty only if;

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

If you cannot use the short method call the Department at 444-2837 to order an underpayment penalty form.

**Short Method**

1. Enter your 1993 tax after all non-refundable credits from line 54 on Form 2 or line 34 on Form 2S (Total liability if married filing separate on the same form). \_\_\_\_\_
2. Multiply line 1 by 90% (.90) \_\_\_\_\_

3. Enter your total of Withholding, Estimated taxes and Homeowner Renter credit from line 58 on Form 2 or line 38 on Form 2S. (Total payments if married filing separate on the same form). \_\_\_\_\_
4. Subtract line 3 from line 2. If the result is \$500 or less, do not complete the rest of the form. You are not subject to the estimated taxes or the underpayment penalty. \_\_\_\_\_
5. Enter your 1992 tax (Line 54 of 1992 Form 2 or line 35 on 1992 Form 2S) (Total liability if married filing separate on the same form). \_\_\_\_\_
6. Enter the smaller of line 2 or line 5. \_\_\_\_\_
7. Enter the amount from line 3 on line 7. \_\_\_\_\_
8. **Total Underpayment for the year.** Subtract line 7 from line 6. (If zero or less, stop here: you do not owe the underpayment penalty) \_\_\_\_\_
9. Multiply line 8 by .05986. This is your **Underpayment Penalty** for 1993. Enter here and on line 64 of Form 2 or line 41 on Form 2S. \_\_\_\_\_

## Introductory

### Name, Address, and Social Security Number

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

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

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

### Filing Status (Check the appropriate box)

**Note:** Married persons with different residency statuses cannot file on the same form. For additional information please call the Department.

**Box 1 Single. Use Column A.**

**Box 2 Married, Filing Joint Return. Use Column A.**  
**Note:** (Married couples who both have taxable income normally receive a tax benefit by filing separate. See box 3 or 4.)

You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both.

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

If both you and your spouse had income in 1993, you can file separate returns. Each of you must claim your own income, deductions, and exemptions. If one itemizes deductions, so must the other. Be sure each signs the return.

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

If you and your spouse want to receive your own refund or pay your own tax, or if you have different residency status you must file separate returns on separate income tax forms.

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

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

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

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

### Residency Status (Check the appropriate box)

**Box 1 Full-Year Resident**

Check this box if you were a Montana resident in 1993 (even though you may have been out of the state temporarily during the year). Include income from all sources, both inside and outside of Montana.

**Box 2 Full-Year Nonresident**

Check this box if you were not a Montana resident for any of the 1993 tax year. (See instructions pages 13 and 14.)

**Box 3 Part-Year Resident**

Check this box if you permanently established or ended your Montana residency during the tax year. Be sure to give the date you changed your residency. (See instructions pages 13 and 14.)

## Exemptions

### Line 1—Yourself

You may take one exemption. (Students: take one exemption even though you are claimed as a dependent on your parents' return.) Two exemptions if blind or 65 or over, three exemptions if blind and 65 or over.

### Line 2—Your Spouse

If you file a joint return you may take one exemption for your spouse. Take two exemptions if your spouse is blind or 65 or over, three exemptions if your spouse is blind and 65 or over.

### Line 3—Children and Other Dependents NEW

You're entitled to one exemption for each person who qualifies as a dependent. The dependent schedule on line 3 must be completed. Additional dependents must be listed on a separate sheet and attached to the return. To qualify as a dependent, a person must meet the following requirements:

#### A. Income

The dependent must have less than \$1,400 gross income. This requirement doesn't have to be met if your child was under 19 or a full-time student under age 24 for at least five months of the year.

#### B. Support

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

#### C. Married Dependent

The dependent must not have filed a joint return with his/her spouse.

#### D. Citizenship or Residence

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

#### E. Relationship

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

1. Be related to you (or your spouse if you're filing a joint return) in one of the following ways:

|             |                |                   |
|-------------|----------------|-------------------|
| *Child      | Stepbrother    | Son-in-law        |
| Stepchild   | Stepsister     | Daughter-in-law   |
| Mother      | Stepmother     | or, if related by |
| Father      | Stepfather     | blood:            |
| Grandparent | Mother-in-law  | Uncle             |
| Brother     | Father-in-law  | Aunt              |
| Sister      | Brother-in-law | Nephew            |
| Grandchild  | Sister-in-law  | Niece             |

2. Must have lived in your home as a member of your household for the whole year (includes foster child).

\*Includes a child placed in your home by an authorized legal adoption agency.

#### Line 4—Handicapped dependent children

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

1. Claimed as a regular exemption; and
2. At least 50% permanently disabled as certified by a physician. A copy of the physician's certification must be submitted with your return each year.

**Line 5—Total number in boxes, columns A and B**

## RESIDENTS

### Line-By-Line Instructions for Form 2

Instructions for filing Form 2S see pages 11 and 12.

### Income Reported on Federal Return

#### Lines 6 through 18—

Enter all items of income you reported on your Federal Income Tax return. This includes the portion of Social Security income that is taxable for federal purposes. Attach copies of applicable federal schedules and forms.

Note: Married persons filing separate must prorate income, based on percentage of ownership.

#### Adjustments from Income—

Please specify the adjustment.

#### Line 19

**Individual Retirement Account (IRA)**—Enter the amounts from lines 24a and 24b of Federal 1040, or lines 15a and 15b of Federal 1040A on line 19 of Form 2.

If your filing status for Federal and State is the same no adjustment will be necessary on line 23 or line 32.

#### Note:

If your filing status on Federal is married filing joint, and on your Montana return you checked Box 3, 4 or 5, married and both filing separate, you may have to make an adjustment on line 23. Your allowable IRA deduction for Montana may be different than your Federal IRA deduction. See instructions for line 23, Form 2, page 4.

**One half of Self Employment Tax** — Enter amount from line 25 of Federal 1040.

**One half of Self Employment Health Insurance Deduction**—Enter amount from line 26 of Federal 1040. In 1992, the Self Employment Health Insurance deduction terminated on June 30, 1992. However the Revenue Reconciliation Act of 1993 retroactively allows the deduction from July 1 to December 31, 1992. To take this deduction a taxpayer is required to file an amended 1992 return with the Department.

**Keogh/SEP**—Enter amount from line 27 of Federal 1040.

**Penalty on early withdrawal of savings** enter amount from line 28 of Federal 1040.

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

**Line 20**—Subtract line 19 from line 18 to arrive at your Federal adjusted gross income. Total of column A and B must agree with Federal adjusted gross income.

## Modifications to Federal Adjusted

### Gross Income

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

#### Additions to Income

**Line 21**—Include interest income from bonds and other obligations of other states or their political subdivisions. Interest income from Montana bonds is *not* taxable.

**Line 22**—Your federal refund is income in 1993 if you itemized deductions on your Montana return last year, and used federal withholding/estimates as deduction(s) or filed a Form 2S in 1992 and used your federal tax as a deduction. Caution: Do not include any portion of your federal refund that is due to earned income credit.

#### Additions to Income (continued)

**Line 23**—Other Additions:

### Passive and Rental Income and Losses

Married couples who file a joint federal return and do not file a joint Montana return are required to make an adjustment if they deduct rental losses or other passive activity losses. Under federal law, married couples who lived together at anytime in 1993 and file separate Montana returns are not allowed to deduct rental/passive activity losses.

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

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

Any excess loss must be carried forward and applied against future rental/passive income. Your federal and Montana rental/passive loss carryforwards may be different if your filing status on Federal is different from Montana. It would be helpful to complete and attach a separate federal form 8582 for Montana when filing joint on federal and separate on state.

#### IRA Deductions

If you are married and file joint on both your federal and state returns, **no adjustments are required.**

If you filed separate on federal and joint on state use the federal worksheet. This will determine your allowable IRA deduction for Montana. Compare the amount from the federal worksheet with the amount on line 19 Form 2. If the amount on line 19 is greater, enter the difference on line 23. If the amount is less, enter the difference on line 32.

Note: You may wish to complete a separate Federal Form 8606 with information for Montana purposes. Keep this for your records.

If you filed married filing joint on your federal return and changed to married filing separate on your Montana return, and:

#### IF

1. You or your spouse are not covered by a retirement plan at work

#### YOUR IRA DEDUCTION IS:

The same as federal up to a maximum of \$2,000; except for the nonworking spousal IRA of which you must add back on Line 23.

#### OR IF

2. You or your spouse are covered by a retirement plan and:

A. Your Federal adjusted gross income is \$10,000 or over

**Zero**  
Your IRA deduction taken on line 19 must be added back on line 23. You are **not** allowed an IRA deduction.

B. Your Federal adjusted gross income is under \$10,000

Go to the worksheet

#### IRA Worksheet

- Phase out amount
- Enter: Your Federal adjusted gross income before federal IRA contributions.
- Subtract line 2 from line 1
- Multiply line 3 by 20% (.20)
- Maximum allowable IRA deduction. If the result is less than \$200, but more than zero, enter \$200.
- Enter: IRA amount from line 19, Form 2
- Enter: Lesser of line 5 or 6
- Subtract line 7 from line 6 and enter this amount on line 23, Form 2

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

This is the non deductible portion of your IRA for Montana purposes.

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

**Social Security**

Complete the **Social Security** worksheet, (Form SS) found in this booklet, after completing the retirement worksheet on page 6. If the portion of your benefits taxable to Montana is greater than the portion taxable to Federal, enter the difference on line 23 Form 2.

The Revenue Reconciliation Act of 1993 changes the way Social Security is taxed starting January 1, 1994. The provision may provide for a greater percentage of Social Security benefits to be included in income.

**Independent Liability Funds**

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

**Capital Loss**

If you and your spouse file separately, you must claim your own **capital loss** which is limited to \$1,500 each.

**S Corporation Income & Losses**

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

| IF   | YOUR MONTANA INCOME IS:  |
|--|--|
| 1. Your corporation is a federal S corporation which is doing business in Montana.   | Same as federal (no change)  |
| 2. Your corporation is a federal S corporation which is doing business in Montana and elected C corporation status for Montana purposes prior to 1/1/92. | Report only the dividends actually received and add back any income or losses included in line 18. |
| 3. Your S Corporation does not do business in Montana.   | Same as federal (no change)  |

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

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

**Montana Net Operating Losses**

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

Only those federal taxes paid on income that is taxable to Montana are allowed in the calculation of a Montana net operating loss.

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

**Reductions of Income**

**Line 26**—If you had an installment sale(s) of a capital asset(s) which you entered into before January 1, 1987 you may be able to take a capital gain exclusion of 40%. Compute your exclusion on the worksheet below.

If Federal Schedule D line 19 is negative, you are not allowed a capital gain exclusion. Do not proceed any further.

**Capital Gain Worksheet**

1. Enter the amounts from Federal Schedule D lines 12 and 13 which pertain to installment sales entered into before January 1, 1987. \_\_\_\_\_
2. Enter amount from line 17 of Federal Schedule D. \_\_\_\_\_
3. Divide line 1 by line 2 (cannot be greater than 100%) \_\_\_\_\_
4. Enter the smaller of line 17 or 18 from Federal Schedule D, but not less than zero. \_\_\_\_\_
5. Multiply the amount on line 4, times the percentage on line 3: \_\_\_\_\_ × \_\_\_\_\_ % = \_\_\_\_\_
6. Multiply amount on line 5 times 40% — this is your Montana capital gains deduction. Enter on line 26 Form 2. \_\_\_\_\_ 40 \_\_\_\_\_

**Line 27**—Interest Exclusion for Elderly—If you're 65 or older, and filing single, separately, or head of household, you may exclude up to \$800 of interest income. You may deduct up to \$1,600 if filing jointly.

Note: If you're married filing separately, only the spouse 65 or older can exclude up to \$800 interest. However, if you file a joint return you're allowed to exclude up to \$1,600 even if only one of you is 65 or older. If you're married and both 65 or older, you're each allowed to exclude up to \$800 interest when filing separately or jointly. **The amount on line 27 cannot exceed the total amounts on line 7 and line 21.**

**Line 28**—Exempt Interest Income—Interest income received on obligations of the United States Government is exempt from Montana income tax if the following conditions are met: the instruments must be written documents, bear interest, and contain a binding promise by the United States to pay **specified sums at specified dates**. They must also contain specific Congressional Authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest from the obligation is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

**Treatment of Retirement Income**

**Line 29—Exempt retirement income. Attach copy of Form 1099R.**

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

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

If you have a disability pension, use the disability pension worksheet Form DS-1. This worksheet is available by calling the Department of Revenue.

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

If your federal adjusted gross income on line 20 of Form 2 is larger than \$30,000, calculate your retirement exclusion using the worksheet below. If it is greater than \$31,800, you do not qualify for this exclusion.

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

**Retirement Worksheet**

|  | <u>COL A</u> | <u>COL B</u> |
|--|--------------|--------------|
| 1. Enter your federal adjusted gross income from line 20.  |              |              |
| 2. Phase-out limitation  | 30,000       | 30,000       |
| 3. If line 1 is smaller than line 2, enter on Form 2 line 29: the smaller of (A) retirement income or (B) \$3,600 for each person who has retirement income. <b>Stop Here</b> , you do not need to complete the remainder of this worksheet.<br>If line 1 is larger than line 2, subtract line 2 from line 1 & enter the result. |              |              |
| 4. <b>Fill Out Only One.</b><br>If your filing status is:  |              |              |
| a. <b>Single or Joint and</b> only one has retirement income; enter your retirement income or \$3,600, whichever is smaller.   |              |              |
| b. <b>Married Filing Separately</b> ; enter 1) each spouse's retirement income, or 2) \$3,600 in column A & B, whichever is smaller.   |              |              |
| c. <b>Joint</b> and both spouses have retirement incomes: <b>1st</b> , enter each spouse's total retirement income or \$3,600, whichever is smaller, on the following lines:<br>(His) _____ (Hers) _____<br><b>2nd</b> , enter the total of the two lines.   |              |              |
| 5. Multiply the amount on line 3 times two (×2) and enter the result.  |              |              |
| 6. <b>Retirement Exclusion.</b> Subtract line 5 from line 4a, 4b or 4c, whichever applies to you. If the result is zero or negative, you are not eligible for a retirement exclusion. If the number is positive, this is your retirement exclusion. Transfer this number to line 29 on Form 2.                                   |              |              |

**Treatment of Civil Service Amended Refunds**

Governor Racicot announced that Montana would pay refunds on 1988 amended returns since it has been determined the Department of Revenue provided incorrect advice on how to file that year's return. The Department encourages everyone who has not already filed a 1988 amended return to do so before April 15, 1994 which is the last day to file. The Governor will also present the question of whether refunds will be issued for tax years 1983 through 1987 to the Legislature since the U.S. Supreme Court case "Harper v. Virginia" left a question as to whether the State was obligated to pay refunds for 1983-1987.

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

**Line 31—Tip Income**

Your tip income is excludable if:

- 1) it is included in Federal adjusted gross income, and
- 2) received from a licensed business that provides food, beverages or lodging.

**Line 32—Other reductions** (Please be specific.)

**Montana State Refund**

If included on line 17, deduct it here. Only Montana state refunds are deductible if included on your Federal Adjusted Gross Income. All refunds from other states are taxable.

**Disability Income Exclusion**

You may subtract up to \$5,200 a year of your disability payments from your gross income.

You qualify for the exclusion if you:

- 1) are under 65;
- 2) have not reached mandatory retirement age;
- 3) retired on disability;
- 4) were permanently and totally disabled when you retired; and
- 5) have not chosen to treat your disability income as a pension or annuity.

The amount is limited to the disability pay you actually received or \$100 a week whichever is less. This also may have to be reduced by part of your adjusted gross income.

Use Form DS-1 to calculate your allowable deduction and attach to your return.

**Additional deduction for purchase of recyclable material**

Individuals may take an additional 10% deduction of the expenses related to the purchase of recycled products used within Montana in their business if the recycled products purchased contain at least 90% reclaimed material.

For a taxpayer paying individual income tax, the deduction is an adjustment to federal adjusted gross income for individual income tax. The deduction is available for tax years 1993 through 1995.

**Wages Covered by Federal Targeted Jobs Credit**

As an employer, you can deduct wages and salaries reduced by the amount of the federal targeted jobs credit or by work incentive program credits. Deduct this from your Montana adjusted gross income. The deduction must be taken in the year the wages and salaries are used to compute the federal credit.

**Land Sales to Beginning Farmers**

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

**Indian Reservation Income**

If you are an enrolled member of an American Indian tribe recognized by the Federal Government you may subtract any income if it is earned while both living and working on their reservation.

Any loss incurred on the reservation cannot be used to offset taxable income. Certification of enrollment (Form IND) and proof that the income was earned on the reservation must be attached to the return each year.

Note: Beginning January 1, 1994, Indians who do not reside and work on the reservation of the tribe in which they are enrolled will be subject to Montana tax on **all** income.

**Agent Orange**

Agent Orange payments are not taxable to Montana.

**Independent Liability Funds**

If your business qualifies as a small business under the criteria set up by the Federal Small Business Administration, you may deduct amounts contributed to your Independent Liability Fund.

**S Corporation Income**

Enter on line 32 any undistributed taxable income included in total income on line 18. You must be a shareholder in a Federal S Corporation that does business in Montana and is a C Corporation for Montana purposes.

**Exempt Military Pay**

The pay earned by members of the regular armed forces (Army, Navy, Marines, Air Force and Coast Guard), is **not** subject to tax.

All members of Guard and Reserve components are subject to tax on their pay including full time active duty wages.

**Social Security**

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

**Allocation of Income to Proprietor's Spouse**

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

Please attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 32 as a reduction of your income and on line 23 as an addition to your spouse's income.

**Montana Net Operating Losses**

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

Only those federal taxes paid on income that is taxable to Montana are allowed in the calculation of a Montana net operating loss. To compute your Montana net operating loss, complete and attach Form NOL-1.

**NOTE: MONTANA ADJUSTED GROSS INCOME MAY NOT BE REDUCED BY NON-MONTANA INCOME.**

**Deductions**

**NOTE: IF HUSBAND AND WIFE FILE SEPARATE RETURNS, EACH MUST ITEMIZE DEDUCTIONS OR EACH MUST CLAIM THE STANDARD DEDUCTION.**

**Line 36**—You can claim a standard deduction or itemize deductions. (See Form 2A, Schedule I and page 8 and 9 of the instructions if you itemize.)

**Standard Deduction****Single or Married Filing Separately**

Calculate 20% of the amount on line 35 (Montana adjusted gross income). If the amount calculated is less than **\$2,620** enter the calculated amount on line 36. If it is more, enter **\$2,620** on line 36.

**Married Filing Jointly or Head of Household**

Calculate 20% of the amount on line 35 (Montana adjusted gross income). If the amount calculated is less than **\$5,240** enter the calculated amount on line 36. If it is more, enter **\$5,240** on line 36.

**Line 38—Exemptions**

Multiply **\$1,400** by the number of exemptions in box 5 on the front side of Form 2.

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

**Tax Computation**

**Line 40**—Enter the tax from the table on back of form.

**NEW** **Line 41**—Surtax—multiply the amount on line 40 by 4.7% (.047).

**Line 42**—Tax on lump-sum distributions which haven't been included in adjusted gross income.

Enter 10% of the federal tax you paid on lump-sum distributions. Attach a copy of Federal Form 4972.

**Line 44**—Enter the total from Form 2A, Schedule II, line 108.

**Line 46—Recapture investment credit**

Use Form RIC available from the Income Tax Division.

**NEW** **Line 47**—Old Fund Liability Tax

The legislative session of 1993 replaced and expanded the Worker's Compensation Payroll Tax. The tax was expanded to include the reporting and paying of the tax by self-employed persons, sub chapter S shareholders and managers and members of a limited liability company and partnerships, on their individual income tax returns. (The tax also includes employees. Employee's portion of the tax is paid through the withholding system.) Persons reporting on Schedules C, F, and E (partnership and sub S Corporations), are required to pay the Old Fund Liability Tax beginning with tax year 1993. Complete and attach Form OFLT in this booklet. The tax rate is .2% (multiplier of .002). Since the effective date on other payors was July 1, 1993, self-employed taxpayers, sub chapter S shareholders and managers and members of a limited liability company and partnership are to use a .1% (multiplier of .001) for the tax year 1993. For tax year 1994 and thereafter, unless changed by legislation, the rate will be .2%. The tax is calculated on a per entity basis with a \$25.00 minimum per entity.

**Line 48**—You and/or your spouse can each contribute any amount to the program(s) of your choice. This is in addition to your existing tax liability. If you itemize deductions, the contribution may be claimed in the tax year being filed or the year paid.

**Line 49**—Nongame Wildlife Program  
Contributions will be used to ensure the well-being of many of Montana's watchable wildlife species, such as eagles, herons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.

**Line 50**—Child Abuse and Neglect Prevention Program  
Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

**Line 51**—Agriculture in Montana Schools Program  
Contributions will fund the development and presentation of educational programs. This ensures Montana's young people have a better understanding of agriculture in our state and the rest of the world.

**Line 55**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2) to return.

**Line 56**—Enter your total Montana estimated tax payments and payments sent with extension for 1993. Include applied overpayments from 1992.

**Line 57**—Elderly Homeowner or Renter Credit

Note: Detailed instructions are on Form 2EC to determine if you qualify.

### **Refund or Balance Due**

**Line 60**—Amount Overpaid (If line 59 is larger than line 54)  
Subtract line 54 from line 59. You can choose to have all or part of this amount refunded to you (line 62). The remainder, if any, can be applied to your estimated tax for 1994 (line 61). Only overpayments of more than \$1 will be refunded.

**Line 61**—Enter the amount of line 60 which you want applied to 1994 Estimated Tax.

**Line 62**—Enter the amount of line 60 you want refunded to you.

**Line 63**—Tax Due

(If line 54 is larger than line 59)

Subtract line 59 from line 54. This is the amount you owe. Submit payment with return.

Make your check or money order payable to the Department of Revenue. **Post dated checks** will be returned and the tax return will be treated as if no payment was received.

### **Income Tax Withholding for 1994**

If the amount you owe (line 63) or the amount you overpaid (line 60) is excessive, see your payroll office. Ask about filling out a new Form W-4 to change the amount of income tax to be withheld from your state wages. Your Federal withholding can remain unchanged.

### **Declaration and Payment of Estimated Tax For 1994**

If you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments in 1994.

If you owed and paid on previous years' return, that amount cannot be claimed as an estimated tax credit on line 56. Please submit all estimated payments with Form ESV to ensure proper credit.

### **Schedule I Form 2A Itemized Deductions**

You can take the same deductions allowed for federal income tax purposes except: 1. Montana income tax you paid. 2. Taxes claimed as a credit for income tax paid another state or country (see line 96).

#### **Medical and Dental Expenses**

**Lines 69-72**—Medical and dental expenses you paid during the tax year, if not paid by insurance, are deductible. The amount is subject to the same limitations used for your Federal medical and dental deductions. The cost for services by physicians, dentists, nurses, and hospitals are deductible. The cost of prescription medicine, drugs, medical or surgical appliances and eyeglasses, transportation for getting medical care and your health insurance premiums are included. Funeral expenses and the cost of illegal drugs are not deductible. Your allowable expenses are reduced by 7.5% of line 35.

#### **Line 73—Long Term Care Insurance**

Enter total amount of premium payments made for long term care insurance with benefits that meet or exceed the minimum standards as established by the Montana State Auditors Office; Insurance Commission Division.

#### **Taxes**

**Line 74**—Enter the amount of Federal estimated tax paid and/or the amount of Federal tax withheld from your salary during the tax year.

**Line 75**—Enter the balance of your 1992 Federal income tax paid in 1993.

**Line 76**—Enter any additional Federal income tax paid in 1993.

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

**Line 78**—Enter your motor vehicle taxes paid. You cannot deduct new car taxes, state income tax paid or withheld, OFLT, federal excise taxes, gasoline tax, Social Security tax (FICA), tax on alcoholic beverages or tobacco and selective and general sales taxes. Accommodation tax or license fees (hunting, fishing, driving, etc.) are also nondeductible.

#### **Interest Expense**

**Line 79**—Enter only home mortgage interest and deductible points allowed on your Federal return. If you pay interest to an individual, please provide their name, social security number and address.

**Line 80**—Enter Deductible Investment Interest (attach Federal Form 4952). If you filed separately, the deduction must be computed for each taxpayer.

Note: Interest expense related to exempt income is not deductible.



**Line 81—Contributions**

You can deduct what you gave to qualified organizations as authorized by Federal tax laws. Limitations should be based on Montana adjusted gross income from Line 35, not on the Federal adjusted gross income.

Payments to a charitable organization to purchase insurance naming the charitable institution as irrevocable beneficiary are allowed as contributions.

If you are a shareholder in an S corporation and the corporation donates computer equipment to a Montana school, you may take the deduction if the corporation has not.

You may deduct the fair market value, not to exceed 30% of your net income. The contribution must be made within five years after manufacture of the equipment. It must not be exchanged by the recipient for money, other property, or services.

**Line 82—Child and Dependent Care Expense**

Payments you made for child or disabled dependent care while you and your spouse both worked or looked for work may qualify for a deduction. To qualify you must maintain a home that included a child under 15 or dependent or spouse unable to care for himself/herself. You must also meet certain income requirements. If you are a licensed and registered day care operator providing day care for your own child and one additional child, please contact the department.

If the total of both spouses income (line 35, columns A & B):

|                |                 |            |
|----------------|-----------------|------------|
| <b>IS</b>      | <b>AND YOU</b>  | <b>YOU</b> |
| Under \$22,800 | Have 1 child    | Do qualify |
| Under \$25,200 | Have 2 children | Do qualify |
| Under \$27,600 | Have 3 or more  | Do qualify |

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

The deduction must be divided equally between spouses when they are filing separately.

**Line 83—Casualty or Theft loss**

Attach Federal Form 4684

You may deduct casualty and theft losses subject to the limitations established by federal tax laws. Use Montana adjusted gross income, line 35, in your computation on Schedule 4684. If you filed separately, the deduction must be computed for each taxpayer.

**Line 84—Moving Expense**—Attach Federal Form 3903.

**Miscellaneous Deductions**

**Line 85—Unreimbursed Business Expenses**

Attach Form 2106.

**Line 86**—You may deduct other miscellaneous items of expense subject to the limitations of Federal tax laws. Examples of the expenses you MAY deduct:

- Safety equipment, small tools and supplies needed for your job.
- Montana-produced organic fertilizer.
- Cost of education required to maintain or improve skills used in your present job, trade, or business.

Examples of expenses you MAY NOT deduct:

- Cost of education needed to meet minimum job standards, to obtain a new job, or to get a substantial advancement in employment.
- Cost of transportation to or from work.
- Cost of entertaining friends.
- Lump-sum alimony payments.
- Payments for the support of minor children.
- Commuting costs and expenses.
- Telephone, for personal use.

**Line 90**—Enter miscellaneous deductions not subject to 2% of adjusted gross income from your Federal return.

**Line 92**—People with higher incomes may not be able to deduct all of their itemized deductions. If the amount on Form 2, line 35, is more than \$108,450 (\$54,225 if married filing separately), use the worksheet below to figure the amount you may deduct.

| Itemized Deduction Worksheet |   | Col A | Col B |
|------------------------------|---|-------|-------|
| 1.                           | Enter the amount from Form 2A, line 91. (Total itemized deductions)   |       |       |
| 2.                           | Add the amounts on Form 2A, lines 72, 73, 74, 75, 76, 80, 82 & 83, plus any gambling losses included on line 90.  |       |       |
| 3.                           | Subtract line 2 from line 1. (If the result is zero, <b>Stop Here.</b> ) Enter the amount from line 1 above on Form 2, line 36.                                 |       |       |
| 4.                           | Multiply amount on line 3 above by 80% (.80).   |       |       |
| 5.                           | Enter the amount from Form 2, line 35.  |       |       |
| 6.                           | Enter \$108,450 (\$54,225 if married filing separately, even if filing on the same form)  |       |       |
| 7.                           | Subtract line 6 from line 5. (If the result is zero or less, <b>Stop Here.</b> ) Enter the amount from line 1 above on Form 2, line 36.                         |       |       |
| 8.                           | Multiply line 7 by 3% (.03).  |       |       |
| 9.                           | Compare the amount on lines 4 & 8 above. Enter the <b>Smaller</b> of the two amounts here.  |       |       |
| 10.                          | <b>Total Allowable Itemized Deductions.</b> Subtract amount on line 9 from amount on line 1. Enter the result here and on Form 2A, line 92 and Form 2, line 36. |       |       |

**Credits Against Tax**

**Line 93—Rural Physicians Credit**—A physician who commences practice in an area without a 60 bed hospital located within 30 miles, may claim a credit against individual income tax. Credit may be claimed for each of four consecutive years beginning with the year in which his/her practice starts in a qualifying area. Effective date of this credit is January 1, 1991. In order to qualify for this credit, a physician must have commenced rural practice after this date. The physician must maintain the practice for at least 9 months of the taxable year in which the credit is claimed. Credit may not be used for any taxable year in which the physician ceases to practice in an area described above.

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

The maximum amount of the credit is \$5,000 a year and may be used only to offset tax liability. Enter credit amount on line 93, Form 2A Schedule II.

**Line 94—College Contribution Credit—See Form CC for instructions.**

You may be entitled to a credit for deductible contributions made during 1993 to a general endowment fund of the Montana university system foundations or to a general endowment fund of a private Montana college or its foundation. The credit is 10% of the contribution with a maximum of \$500 and is not refundable. To be eligible for the credit the college must offer a baccalaureate degree level education program. The contribution may also be claimed as an itemized deduction on Form 2A, subject to the normal limitations.

**Line 95—Elderly Care Credit—see Form ECC for instructions.**

You may be eligible to receive a credit for paying certain expenses of an elderly family member who is 65 or older or has been determined disabled for Social Security purposes.

**Line 96—Credit Allowed for Income Tax Paid Other States or Countries. (Full year or part year resident)**

You are entitled to a credit for income tax liability paid to another state or country. Part-year residents who have income that was taxed in another state while a Montana resident may take the credit if the income from the other state(s) is included in Montana total income on Schedule III.

Part year residents please call the Department of Revenue for detailed instructions.

Compute the credit on Schedule V, Form 2A page 3. Enter the amount on line 96, Schedule II, Form 2A. The credit claimed must be supported by a copy of your tax return filed with the other state or country. A separate computation must be made for each state or country for which a credit is claimed. Your total credit cannot exceed your tax liability.

**Line 97—Contractor's Gross Receipts Tax Credit**

You're allowed a credit against Montana income tax liability for the public contractor's gross receipts tax you paid. If you report your income from contracts on a percentage-of-completion basis, the credit must be pro-rated accordingly. The allowable credit is the actual gross receipts tax paid after taking the personal property tax credit. This cannot be in excess of your tax liability. Attach schedule to return showing the contractor's name, date and amount of contract, primary contractor, subcontractor, and location of job.

**Line 98—Qualified Investment Credit**

You may claim a credit of 5% of your 1993 Federal investment tax credit. The property claimed for credit must have been placed in service in Montana and used in the production of Montana income. To take the credit, complete Schedule VI, Form 2A page 3, and attach a copy of Federal Form 3468 which shows a computation of the federal credit.

Credit for the taxable year may not exceed \$500. No unused portion of the credit earned in 1993 may be carried back or forward to other years. **For limitations applying to carryforwards of years prior to 1983 call the Department of Revenue at (406) 444-2837.**

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

The credit may not be allocated to your spouse if he or she is not a partner in the business, partnership or a shareholder in the S corporation.

If the property is used both inside and outside the state, the credit is pro-rated according to the number of days the property is used in Montana and the length of time owned during the year.

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

**Line 99—Credit for Installation of Biomass/Geothermal Energy Systems (Only residents of Montana can claim this credit.)**

You may claim a credit against tax liability if you're a resident who installs or acquires a low emissions wood, wood pellet, biomass combustion device or geothermal systems. See instructions on Form ENRG-B which must be completed and attached to claim this credit.

**Line 100—Credit for Energy Conservation Installations**

You may claim a credit against your tax liability for some of the cost of an investment for energy conservation purposes in a building. Montana law defines an eligible expense as "the installed cost of materials and equipment which reduce the waste or dissipation of energy or reduce the amount of energy required to accomplish a given amount of work."

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

**Line 101—Credit for Wind-powered Generation Equipment**

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

**Line 102—Recycling Credit—**Credit for investments in depreciable equipment or machinery to collect, process or manufacture a product from reclaimed material. Please see Form RCYL for complete instructions.

**Line 103—Alternative Fuel Credit**

You may claim a credit against your tax liability for conversion of a motor vehicle to an alternative fuel in 1993. See instructions on Form AFRC. Form AFRC must be completed and attached to the return.

**Line 104—Montana Capital Company Credit**

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

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

**Line 105—Dependent Care Assistance Credit (DCAC)**

An employer may claim a credit against his personal income taxes for amounts paid or incurred during the taxable year by the employer for dependent care assistance provided to employees. Fill out form DCAC available from the department.

**Line 106—Credit for Health Insurance for Uninsured Montanans (i.e. Health Insurance)**

This credit is available to employers who make disability insurance available to employees. See Form HI for details.

**Line 107—Enter any other allowable credits**

**Line 108—Add credits and enter total on line 44, Form 2.**

**Line-By-Line Instructions Form 2S****Full Year Residents only****Income Reported on Federal Return**

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

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

Enter the IRA deduction you and/or your spouse computed on your Federal IRA Worksheet. If you did not make payments to an IRA, do not make an entry on this line.

**Line 13**—Subtract line 12 from line 11 to arrive at your federal adjusted gross income.

**Modifications to Income****Additions to Income**

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

Your federal refund is income in 1993 if you:

1. Used federal income taxes paid or withheld on line 23B of 1992 Form 2S.
2. Itemized deductions on Montana return last year using federal withholding/estimates as a deduction.

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

**Reductions to Income**

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

**Taxation of Retirement Income**

The 1991 legislature changed the taxability of all retirement income. The only exception to this is Railroad Retirement benefits received from the Railroad Retirement Board. These benefits are fully exempt from Montana Taxation.

If you have a disability pension, use the disability pension worksheet which you can receive by calling the Department of Revenue.

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

Complete the following worksheet to determine your reduction.

**Retirement Worksheet**

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

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

**Line 17—Exempt Interest Income**

Interest income received on obligations of the United States Government is exempt from Montana Income Tax if all of the following conditions are met: the instruments must be written documents, bear interest, and contain a binding promise by the United States to pay **specified sums at specified dates**. It must contain specific Congressional Authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest from the obligations is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

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

**Line 19—Tip Income**

Your tip income is excludable if: 1) it is included in Federal adjusted gross income and 2) received from a licensed business that provides food, beverages or lodging.

**Line 20—Other reductions** (Please be specific)

**Montana State Refund**

If included on line 10, deduct it here.

**Exempt Military Pay**

The pay for members of the regular armed forces (Army, Navy, Marines, Air Force and Coast Guard) is not subject to tax.

All members of guard and reserve components are subject to tax on their pay, including full time active duty wages.

**Indian Reservation Income**

If you are an enrolled member of an American Indian tribe recognized by the Federal Government you may subtract any income if it is earned while both living and working on a reservation.

Any loss incurred on the reservation cannot be used to offset taxable income. Certification of enrollment (Form IND) and proof that the income was earned on the reservation must be attached to the return each year.

Note: Beginning January, 1994, Indians who do not reside on the reservation of the tribe in which they are enrolled will be subject to Montana tax on all income earned on or off the reservation.

**Disability Income Exclusion**

You may subtract up to \$5,200 a year of your disability payments from your gross income. You qualify for the exclusion if you: 1) are under 65; 2) have not reached mandatory retirement age; 3) retired on disability; 4) were permanently and totally disabled when you retired; and 5) have not chosen to treat your disability income as a pension or annuity.

Your exclusion is limited to the disability pay you actually received or \$100 a week whichever is less. This may have to be reduced by part of your adjusted gross income. Use Form DS1 (available from the Department) to calculate your allowable exclusion and attach to your return.

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

**Deductions**

**Line 23—Standard Deduction or Federal income tax paid or withheld**

**Single**

Calculate 20% of the amount on line 22 (Montana adjusted gross income). If the amount calculated is less than \$2,620 enter the calculated amount on line 23. If it is more, enter \$2,620 on line 23.

**Married Filing Jointly or Head of Household**

Calculate 20% of the amount on line 22 (Montana adjusted gross income). If the amount calculated is less than \$5,240 enter the calculated amount on line 23. If it is more, enter \$5,240 on line 23.

**You may use your federal income taxes paid, withheld and/or estimated in tax year 1993, if greater than your allowable standard deduction.** Check appropriate box. If you checked Box B, you may want to consider itemizing deductions on Form 2 and 2A.

**Line 24—Exemptions**

Multiply \$1,400 by the number of exemptions in box 5 at top of Form 2S and enter.

**Tax Computation**

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

**NEW**

**Line 28—Surtax**—multiply the amount on line 27 by 4.7% (.047).

**Line 29**—Enter total of lines 30, 31 and 32.

You and/or your spouse can each give any amount to the program(s) of your choice. This is in addition to your existing tax liability.

**Line 30—Nongame Wildlife Program**

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

**Line 31—Child Abuse and Neglect Prevention Program**

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

**Line 32—Agriculture in Montana Schools Program**

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

**Line 34**—Add amounts on lines 27, 28 and 29 for total tax.

**Line 35**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2) to return.

**Line 36**—Payments on 1993 estimated tax, amounts credited from previous year and/or payments made with extension.

**Line 37—Elderly Homeowner or Renter Credit**

**Note:** See detailed instructions on Form 2EC to determine if you qualify.

**Refund or Tax Due****Line 39—Amount Overpaid**

(If line 38 is greater than line 34)

Subtract line 34 from line 38. Only overpayments of more than \$1 will be refunded.

**Line 40—Tax Due**

(If line 34 is larger than line 38)

Subtract line 38 from line 34. This is the amount you owe, if the balance is \$1 or more. If any payment is due, make your check payable to the Department of Revenue. **Post dated checks** will be returned and the tax return will be treated as if no payment was received.

**Income Tax Withholding for 1994**

If the amount you owe (line 40) or the amount you overpaid (line 39) is excessive, see your payroll office. Ask about filling out a Form W-4 to change the amount of withholding.

**Declaration and Payment of Estimated Tax**

If you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments in 1994.

If you owed and paid on previous years' return, that amount cannot be claimed as an estimated tax credit on line 36. Please submit all estimated payments with Form FSV to ensure proper credit.

**Note: For tax years after December 31, 1992.** If you have a tax liability greater than \$500.00 you may be required to pay estimated taxes in four installments. Instructions and forms for 1994 are available from the Montana Department of Revenue.

## PART-YEAR RESIDENT AND NONRESIDENT RETURNS

For nonresidents and part-year residents, the July 1992 Special Legislative Session made significant changes to the Montana tax calculations.

If you were a part-year or a nonresident, use the Form 2. You will be required to complete Schedules III and IV on page 2, Form 2A.

**Attaching a copy of your Federal Return (pages 1 & 2) may reduce potential processing problems.**

**Legal Residence**

Your legal residence is determined by all the facts and circumstances in your case. If you have two or more residences, your legal residence is the one you regard as your true home or principal residence. You cannot choose to make your home in one place for the general purposes of life and in another for tax purposes. Your legal residence is usually the place where you maintain your most important family, social, economic, political and religious ties. A change of legal residence will not be accomplished by a temporary or prolonged absence from a place; you must have the intention not to return.

### Nonresidents

A nonresident of Montana is a person who did not consider Montana to be his home at any time during 1993, although he may have been temporarily living here. Examples are: students going to school in Montana and military personnel stationed in Montana.

Nonresident individuals are subject to Montana income tax on all income included in Federal gross income which is derived from or connected with Montana sources. Intangible income, not related to a Montana business, is nontaxable.

### Part-Year Resident

A part-year resident is a person who moved in or out of Montana during 1993 with the intention of establishing a new residence.

Part-year residents are subject to Montana tax on all income included in Federal gross income which is received while residing in Montana and on all income which is derived from or connected with Montana sources.

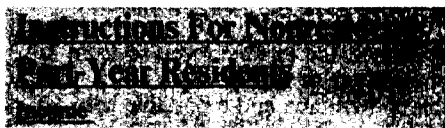
### Income Derived From Montana Sources

Schedule III will be used to identify income derived from Montana sources.

Examples of income:

1. Wages, salaries, tips and commissions paid for work performed in Montana.
2. Dividends and interest are normally taxable to the residence of the taxpayer unless earned in a business carried on in Montana. Interest income from installment sale(s) of Montana business property is taxable to Montana.
3. Business income is the amount of net income or loss from a business, trade, or profession carried on in Montana.
4. The sale of real property in Montana must be reported in the year of sale by part-year and non-residents. Interest income from installment sales of real or tangible commercial, business or investment property located in Montana must also be reported.

5. Farming income within Montana. (Attach Form OFLT)
6. Partnership income is your share of any partnership income and deductions derived from Montana. Income is one of two types—passive or nonpassive. The type of income depends upon whether or not you materially participated in the activities of the partnership. If the income is passive, you are required to fill out a separate Federal Form 8582 for Montana purposes. Your share of the partnership income includes income, capital gain and deductions from the partnership whether or not you actually received it.
7. S Corporation income is the shareholders' percentage of the corporations net income and deductions derived from Montana. (Attach Form OFLT)
8. Estate and trust income is the beneficiary's share of the income and deductions from a trust with nexus in Montana. (Attach Form OFLT)
- 9a. **Part-year Residents**—If gains on intangible property occurred when you were a Montana resident, they are taxable to Montana. Capital gains/losses derived from the disposition of tangible Montana property are includable in Montana adjusted gross income.
- 9b. **Nonresidents**—Capital gains/losses derived from the disposition of tangible Montana property are includable in Montana adjusted gross income.
10. Royalty income.
11. Rental income is the net amount derived from or connected with real or tangible personal property in Montana. Rental income is passive income. A separate Federal Form 8582 must be filled out for Montana passive income and losses to calculate the allowable losses. Use Montana income to figure the income limitations on Federal Form 8582. If filing separate, the income and losses must be split according to ownership in the property. (joint = 50%) See page 4, line 23 instructions.
12. Lottery winnings; if winning ticket was purchased from a Montana vendor.



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

**NEW**

**Old Fund Liability Tax** — For nonresidents and part-year residents, only those activities with Montana source income/loss are subject to the Old Fund Liability Tax. The legislative session of 1993 replaced and expanded the Worker's Compensation Payroll Tax. The tax was expanded to include the reporting and paying of the tax by self-employed persons, sub chapter S shareholders and managers and members of a limited liability company, on their individual income tax returns. (The tax also includes employees. Employee's portion of the tax is paid through the withholding system.) Persons reporting on Schedules C, F, and E (partnership and sub S corporation), are required to pay the Old Fund Liability Tax beginning with tax year 1993. Complete and attach Form OFLT in this booklet. The tax rate is .2% (multiplier of .002). Since the effective date on other payors was July 1, 1993, self-employed taxpayers, sub chapter S shareholders and managers and members of a limited liability company are to use a .1% (multiplier of .001) for the tax year 1993. For tax 1994 and thereafter, unless changed by legislation, the rate will be .2%. The tax is calculated on a per entity basis with a \$25.00 minimum per entity.

**Income Reportable to Montana****Schedule III, Form 2A, Page 2****Lines 109-119**

If you have income from Montana and from another source shown on the same schedule, you must attach a statement to the Montana return to identify the Montana income.

The following line by line instructions are for nonresidents and part-year residents with income reportable to Montana.

**Line 109****WAGES, SALARIES AND TIPS**

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

**Line 110****INTEREST INCOME**

If you are filing as a part-year resident enter the amount of interest income related to the time you were Montana resident(s).

If you are a nonresident, you must report interest income from installment sale(s) of real or tangible commercial or business property located in Montana.

Nonresident income from interest on bank deposits, notes, dividends on capital stock of corporations, royalties from patents and copyrights and all other income from intangible property is not taxable to Montana.

**Line 111****DIVIDEND INCOME**

Enter the amount of dividend income received while you were a Montana resident. As an example, if you were a resident for one half of the year, and you receive a 1099 from an account, 50% of the reported dividend income would be taxable to Montana and reportable here.

**Line 112****BUSINESS INCOME**

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

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

**Line 113****CAPITAL GAIN OR LOSS**

Enter the amount of gain or loss related to the sale(s) of Montana properties or assets. Remember, the gain from installment sales of Montana business/investment property is includable here and taxable to Montana.

If you are filing as a part-year resident or nonresident the gain is always taxable to Montana.

**Line 114****SUPPLEMENTAL GAIN OR LOSS**

Enter here any supplemental gain or loss attributed to Montana property(s). If you are filing as a part-year resident, report any supplemental gain received while you were a resident or any gain related to Montana property(s).

**Line 115****TAXABLE PORTION OF SOCIAL SECURITY**

If you are a part year resident, a portion of your Social Security benefits may be taxable to Montana.

Complete the Social Security worksheet to determine the amount of Social Security that is taxable for Montana. The amount taxable for Montana may differ from the taxable amount for Federal.

**Line 116****TAXABLE PENSIONS, ETC.**

If you are a part-year resident, enter the amount of pension income attributed to the time you resided in Montana. Remember, you must complete the pension exclusion worksheet on page 6 of the general instructions.

**Line 117****RENTS, ROYALTIES, PARTNERSHIPS, ETC.**

**Rental income** is the net amount derived from or connected with real or tangible personal Montana property.

**Partnership income** is your share of any partnership income and deductions derived from Montana. Income is one of two types—passive or nonpassive. The type of income depends upon whether or not you materially participated in the activities of the partnership. If the income is passive, you are required to fill out a separate Form 8582 for Montana purposes. Your share of the partnership income includes income, capital gain and deductions from the partnership whether you actually received it or not.

**S Corporation income** is the shareholders' percentage of the corporations' net income and deductions derived from Montana.

**Estate and trust income** is the beneficiary's share of the income and deductions from a trust with nexus in Montana. (Attach Form OFLT)

**Line 118****NET FARM INCOME OR LOSS**

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

**Line 119****OTHER INCOME OR LOSS (STATE REFUND, FEDERAL REFUND, ETC.)**

Enter any income attributed to Montana that is not identified on lines 109 through 118 here. If you claimed any Federal taxes paid or withheld on your 1992 Montana return, your Federal refund is includable in your total Montana income to the extent the deduction resulted in a reduction of Montana income tax liability.

**Line 120****MONTANA TOTAL INCOME**

Add lines 109 through 119 and enter the result here and on line 121, Schedule IV.

**Tax Computation — Schedule IV, Lines 121-126 and Form 2, Lines 40 and 41****Line 121**

Enter the amount from line 120, Schedule III.

**Line 122**

Total Income —Enter the total of lines 18, 21 and 22, Form 2.

**Line 123**

Divide the amount on line 121 by the amount on line 122. If your Montana total income is smaller than your Federal total income, you will arrive at a percent amount.

If your Montana total income is larger than your Federal total income, and the computed amount on line 123 is larger than 100%, use only 100%.

**Line 124**

Enter the amount from Form 2, line 39.

**Line 125**

Compute the tax on the amount shown on line 124, using the tax table on page 2, Form 2. Enter the tax on line 125.

**Line 126****NONRESIDENT/PART-YEAR RESIDENT TAX:**

Multiply the percentage on line 123 by the amount on line 125. Enter the amount from line 126 on line 40, Form 2. This is your Montana Tax Liability. See page 7, Tax Computations, for instructions to complete lines 41-58.