



Montana Department of
REVENUE

MONTANA 2003

Forms included in this booklet:

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

INDIVIDUAL INCOME TAX BOOKLET

Dear Montana Taxpayer:

The Montana Department of Revenue is committed to providing the best possible service to the taxpayers of this great state.

To assist you in completing your 2003 tax return, this book notes important changes for the current tax year by displaying the **NEW** symbol. These changes include the licensed health care professional deduction, federal advance child credit, developmental disability account contribution credit, empowerment zone credit and new limitations to the qualified charitable endowment credit.

Filing Your Taxes

- We recommend electronic filing (E-filing) for the fastest and most accurate processing of your tax return and refund. Visit our website at www.discoveringmontana.com/revenue or consult your tax preparer for more information.
- You also can file the long form (Form 2), short form (Form 2S) or Elderly Homeowner/ Renter Credit (Form 2EC) online through Income Tax Express, available on our website.
- If you choose to file a paper return, you can help us process your return more efficiently by filing your return as early as possible and using your preprinted mailing label.

Paying Your Taxes

- When submitting a tax payment with a paper return, please use the enclosed scannable payment coupon.
- You can make tax payments online by credit card or electronic check through Income Tax Express, available on our website.

Remember that April 15, 2004 is the deadline for filing returns and/or extension payments. Our Customer Service Center can be reached at (406) 444-6900 for income tax assistance or to order forms and instructions. You'll also find helpful information, as well as downloadable forms and instructions, on our website.

By paying income taxes, you help support necessary activities in Montana. Your tax dollars provide services needed to make our state a wonderful place to live and work ... the place where we can live out our dreams.

Montana Department of Revenue



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

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File & Pay your Income Tax Online!

Available Forms:	Online Payment:	with Income Tax Express
<ul style="list-style-type: none"> • Form 2 • Short Form 2S • Form 2EC 	<ul style="list-style-type: none"> • Credit Card • eCheck 	
http://app.discoveringmontana.com/intax		

Helpful Tips for Filing Your Tax Return

This checklist will help you avoid common filing mistakes that may delay your tax refund or result in your tax return being sent back to you (for a signature, correction or missing form).

- Is your social security number provided?** If you are married filing a joint or separate return, include your spouse's social security number.
- Is your address current?** An outdated or incorrect address will delay your refund.
- If you owe taxes and are paying by check or money order, did you include the payment coupon from the Montana tax booklet?** Be sure to complete the coupon and to write "2003 income tax payment" (or some type of identifier) on the memo line of your check.
- Are applicable form(s) attached?** This includes your W-2 form(s), Form 2A if you are itemizing deductions, and the various federal or state forms required.
- Did you sign and date the tax return?** If you are married filing a joint or separate return, be sure your spouse also signs the return.

Listed below are the five most common errors made when calculating the tax liability/refunds on individual income tax:

- Math errors.
- Computing standard deduction.
- Computing the tax liability.
- Computing estimated tax payment.
- Payment not mailed in with return.

Be sure to

- print clearly,
- mark correct box for filing status (single, married joint, separate, etc.), and
- attach federal schedules where applicable.

Do not use the preaddressed label on the back of this booklet if your marital status, name or address have changed.

For Returns With Payments

Mail To:
Dept. of Revenue
PO Box 6308
Helena, MT 59604-6308

For All Other Returns

Including Refunds Mail To:
Dept. of Revenue
PO Box 6577
Helena, MT 59604-6577

Forms Included in Tax Booklet

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

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

Individual Income Tax Forms Available Upon Request

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

Form Name	Description
2	Individual Income Tax Return Long Form
2A-Pages 1 and 2	Itemized Deductions, Tax Credits, Nonresident and Part-Year Resident and Allocation of Income
2A-Page 3	Other State Credits
2S	Individual Income Tax Return Short Form
2EC	Elderly Homeowner/ Renter Credit
INSTR	Individual Income Tax Instructions
2X	Amended Montana Individual Income Tax Return
FID-3	Montana Fiduciary Return and Instructions
2101	W-2 Withholding Declaration
2441-M	Child and Dependent Care Expense Deduction
AEPC	Alternative Energy Production Credit
AFCR	Alternative Fuel Credit
CC	College Contribution Credit
DCAC	Dependent Care Assistance Credit
DS-1	Disability Income Exclusion Calculation Form
ECC	Elderly Care Credit
ENRG-B	Alternative Energy Systems Credit
ENRG-C	Energy Conservation Installation Credit
ESA	Estimated Tax Annualization Worksheet
EST-P	Underpayment of Estimated Tax Penalty Form
ESW	Estimated Individual Income Tax Worksheet
EXT-03 Worksheet	Extension Payment Worksheet
FTB	First-Time Home Buyer Savings Account
FRM	Farm and Ranch Risk Management Account
HI	Disability Insurance for Uninsured Montanans Credit
IND	Indian Certification
IT-EST	Estimated Individual Income Tax Booklet
MSA	Medical Care Savings Account
NOL	MT Net Operating Loss Worksheet (1998 and prior years)
NOL-99	MT Net Operating Loss Worksheet (1999 and subsequent years)
NR1	North Dakota Reciprocal Affidavit
NR2	Employee Certificate of North Dakota Residence
QEC	Qualified Endowment Credit
RIC	Recapture Investment Credit
RSCH	Increase Research and Development Activities Credit
RCYL	Recycle Credit
W	Worksheets for Standard Deduction, Taxable Refunds, Retirement Exclusion, Capital Gain Exclusion, IRA's, Social Security, Itemized Deduction Limitation and Under Payment Penalty, Short Method, and Tax Table

Who Must File

Applies to residents, part-year residents and nonresidents. Refer to the table below to see if you are required to file.

Marital and Filing Status	Age as of December 31, 2003	You must file if your Federal gross income was:
Single, Head of Household Married Filing Separate	Under 65.....	\$3,330
	65 or older.....	\$5,110 or more
Married Filing a Joint Return	Both under 65	\$6,660 or more
	One spouse 65 or older.....	\$8,440 or more
	Both spouses 65 or older..	\$10,220 or more
Increase federal gross income by \$1,780 if eligible for the blind exemption.		

Residents of Montana (Full-Year)

You must file a 2003 Montana individual income tax return if you have federal gross income (less unemployment compensation) equal to or greater than the minimum filing requirements outlined in the table above. You are taxed on all income earned in 2003 – regardless of whether it was earned inside or outside of Montana. To determine if you are a resident of Montana, refer to the Residency Status instructions found on page 2. If you have a Montana net operating loss or carryovers, you must file even if you do not meet the minimum filing requirements in order to perfect the losses.

Part-year Residents and Nonresidents

You must file a 2003 Montana individual income tax return if you have federal gross income (less unemployment compensation) from all sources, both inside and outside of Montana, equal to or greater than the minimum filing requirements outlined in the table above. To determine if you are a part-year resident or a nonresident, refer to the instructions on part-year and nonresident returns found on page 9.

Other Filing Information

Statute of Limitations. Generally the Montana statute of limitations is five years. Records should normally be kept during this time. Records for basis of property and carryovers 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. The statute of limitation does not allow for the payment of refunds if the delinquent return is filed more than five years after the due date of the return.

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

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

Injured Spouse Claim. You qualify as an injured spouse if all or part of your share of the refund was, or is expected to be applied against your spouse's past child support debt. To avoid confiscation of your refund, you must file using filing Status 4 (married filing separate on separate forms). Each spouse must claim his or her own income/losses, deductions, expenses and exemptions. This is the only way you can file an injured spouse claim. If you file with any filing status other than married filing separate on separate forms, your refund will be confiscated. If you have received a Letter of Offset on your tax refund from the Department of Revenue, please follow the letter's instructions to submit a written statement for the injured spouse claim or a copy of the federal form 8379 for injured spouses. Do not submit an amended return. Please contact the department for additional assistance.

Montana and North Dakota Reciprocal Agreement. Montana residents earning wages in North Dakota do not have to incur North Dakota income tax. All other income earned in North Dakota by Montana residents may be subject to North Dakota taxes. North Dakota requires that you file an information return (Form NW-R). You can obtain Form NW-R from the Office of State Tax Commissioner, State Capitol, Bismarck, North Dakota 58505.

North Dakota residents who have 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 a Montana NR-1 affidavit and a copy of your North Dakota return. You may obtain forms from the Montana Department of Revenue.

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

Montana encourages you to file your return electronically and does not limit the types of returns that can be filed electronically. If you are filing a return which requires one or more Montana forms to be attached, you can still file electronically. Do not mail a paper copy of your Montana income tax return or accompanying attachments. Maintain a complete copy of your return and attachments for future reference. The department will contact you if a paper copy of your return or attachments is needed.

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

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

Tax Preparer Contact. To streamline resolution questions related to your return, we have included an area for you to authorize the department to contact your preparer. By placing an "X" in the box marked yes under the heading "May the Department of Revenue discuss this return with the preparer shown above" on Form 2 and Form 2S significantly improves the processing of your return. If you check this box, the department may contact your preparer or you for additional information. You will, however, continue to receive notification of any formal tax liability adjustments made.

When to File

Your return for calendar year 2003 must be postmarked by midnight April 15, 2004. If you operate on a fiscal year, your return must be postmarked by midnight the 15th day of the fourth month following the close of your fiscal year.

Where to File

For returns without payments, including refunds - mail to:
Department of Revenue, PO Box 6577, Helena, MT 59604-6577

For returns with payments - mail to:
Department of Revenue, PO Box 6308, Helena, MT 59604-6308

Where's My Refund?

If you are expecting a refund from current or back year returns you can check the status of this refund by calling (406) 444-9840. This 24 hour-a-day service is accessible from both touch tone and rotary dial telephones. When calling to inquire about a refund, you will need to provide the following information:

- Social security number corresponding to the first name shown on your return.
- Amount of the refund requested as shown on the return.

The status of your refund will only be available after the tax return has been entered onto the department's computer system.

Which form should I use?

Short Form. You may file the short Form 2S if you answer "yes" to all of the following:

- You were a Montana resident for all of 2003.
- You are filing from a Montana address.
- You are filing single, head of household, or married filing a joint return.
- You wish to use only the standard deduction or federal income tax paid or withheld. (To itemize further, use Forms 2 and 2A).
- The only tax credit you may have is the Elderly Homeowner/Renter Credit (Form 2EC).
- Your only income is from one or more of the following: wages, pensions and annuities, interest and dividends, fees (such as jury duty), alimony, unemployment, winnings, prizes, awards or other miscellaneous income.
- You made no estimated tax payments.

Long Form. You must file the long Form 2 if you answer "yes" to any of the following:

- You were a resident of Montana for only part of 2003.
- 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 a business or profession, rents, royalties, partnerships, trust or S. corporation income, capital gain(s) or taxable social security.
- You are claiming tax credits.
- You made estimated tax payments.

Extension of Time to File

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

1. On or before the due date of the return, you have applied with the Internal Revenue Service for a four-month extension of time for filing your federal individual income tax return for the same year. 15-30-144(2)(a), MCA.

An additional 2-month extension of time for filing your return is automatically allowed provided that you have applied with the Internal Revenue Service for an additional two-month extension of time for filing your federal individual income tax return for the same tax year.
2. You paid by estimated tax payments, withholding tax, or a combination of estimated tax payments and withholding tax, 90% of your current year's tax liability or 100% of your previous year's tax liability. 15-30-144(2)(b), MCA.

A valid federal extension will not be considered valid for Montana income tax purposes unless you have met one of the payment requirements identified in item #2 on or before April 15, 2004. Complete the Montana EXT Worksheet "Four-Month Extension Payment Calculation" to determine if you have met the payment requirements. A Montana individual income tax payment coupon is included with the EXT Worksheet.

You must check the extension indicator box on Montana Form 2 and attach copies of your four-month and two-month federal extension forms to your completed Montana tax return. Do not send in copies of your federal extension prior to filing your return.

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

If You File or Pay Late

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

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

Extensions are not granted for additional time to pay.

Late Payment. If you owe tax, you are required to pay your tax on or before April 15, 2004. If you do not pay the full amount owed by

this date, you will be assessed a late payment penalty. The penalty is 1.5% per month or fraction of a calendar month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Interest. Any tax not paid by April 15, 2004, will be subject to interest at the rate of 12% (.12) per year accrued at 1% a month or fraction of a calendar month.

Additional Information. If you are unable to pay your tax in full, file your return by the due date and pay as much tax as you can with the return.

Send payment(s) as soon and as often as possible, prior to notification from the Department of Revenue. Refund returns are processed before tax due returns, so you may not receive immediate notification.

Making payments will not prevent the assessment of penalties and interest. However, paying as much as you can, as soon as you can, will minimize these assessments.

Be sure payments reflect the name and the social security number and tax year to which the payment is to be applied. If one payment is to be applied to more than one social security number, include a statement identifying how the payment is to be allocated between social security numbers.

If you are married filing separately, on the same tax form or on separate tax forms, you are assessed penalties and interest individually.

If you purposely failed to timely file or pay your Montana taxes, you may be assessed penalties and interest at higher rates than those rates stated above.

Line-By-Line Instructions for Form 2

Filing Status

(Check the appropriate box on form)

For additional information please call the department.

Box 1 - Single. Use Column A.

Box 2 - Married, Filing Joint Return. Use Column A. You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both spouses. Married couples who both have taxable income normally benefit by filing separately. See box 3 or 4.

Box 3 - Married, Filing Separate Returns on the Same Form (Form 2 only). Use Columns A and B. If both you and your spouse have income, you can file separate returns even if you filed a joint federal return. Each of you must claim your own income, deductions and exemptions. If one spouse itemizes deductions, so must the other. Be sure each spouse signs the return. Note: Married couples cannot file on the short form 2S. Married persons cannot file on the same form when one spouse is a resident and the other spouse is a nonresident.

Box 4 - Married, Filing Separate Returns on Separate Forms (Form 2 only). Use Column A. If you and your spouse want to receive your own refund or pay your own tax or if you have different residency statuses, you must file separate returns on separate income tax forms. Be sure to include your spouse's social security number on your return.

Box 5 - Married, Filing Separate Return and Spouse is not Filing (Form 2 only). Use Column A. If both you and your spouse are nonresidents you can use filing status 5 as long as your spouse has no Montana source income. If you are a resident and your spouse is a nonresident who has no Montana source income you can use filing status 5. If your spouse is claimed as a dependent by another taxpayer, you can use filing status 5 but you cannot claim your spouse as an exemption on your return.

Box 6 (Form 2) or Box 3 (Form 2S) - Head of Household. If you qualify for federal purposes you may file your Montana return as head of household. Attach Federal Form 1040 or 1040A pages 1 and 2.

Residency Status

(Check the appropriate box)

Only one residency status can be marked on a return.

If you claim Montana residency for any one purpose you are considered a resident for all other purposes. For example if you claim residency for the purpose of obtaining a resident hunting licenses or in-state tuition, you are considered a resident for income tax purposes.

Box 1 - Full-Year Resident. Check this box if you were a Montana resident in 2003. Include income from all sources, both inside and outside of Montana. You are a Montana resident if you live in Montana or if you maintain a permanent home in Montana. You do not lose your residency when you leave the state temporarily. You lose your Montana residency only when you establish permanent residency outside of Montana with no intention of returning.

Box 2 - Full-Year Nonresident. Check this box if you were not a Montana resident for any part of the tax year. (See instructions pages 9 and 10.)

Box 3 - Part-Year Resident. Check this box if you permanently established or ended your Montana residency during the tax year. Be sure to give the date you changed your residency and the state of residency. (See instructions pages 9 and 10.)

Exemptions

Line 1 - Yourself. You may take one exemption for yourself. Take one additional exemption if you are 65 or older and one additional exemption if you are blind. You are allowed one exemption even though you are claimed as a dependent on another return.

Line 2 - Your Spouse. If you file a joint return, you may take one exemption for your spouse. Take one additional exemption if your spouse is 65 or older and one additional exemption if your spouse is blind. If married filing separately, you can only claim your own exemption(s).

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

- **Income.** The dependent must have less than \$1,780 gross income. This requirement doesn't have to be met if your child was under 19 or a full-time student under age 24 for at least five months of the year.
- **Support.** The dependent must have received more than half of his/her support from you. If you file a joint return, the support can be from you or your spouse.
- **Married Dependent.** The dependent must not have filed a joint return with his/her spouse.
- **Citizenship or Residence.** The dependent must meet the federal requirement for citizenship or residence.
- **Relationship.** The dependent must meet at least one of the requirements listed below:

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

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

* Includes a foster child placed in your home by an authorized agency. This child must have lived in your home as a member of your household for the entire year.

Line 4 - Handicapped dependent children. You're entitled to an additional exemption for a handicapped child provided the handicapped child is

- claimed as a regular exemption and
- at least 50% permanently disabled as certified by a physician. The physician's certification must state that the child's

handicap constitutes a disability of greater than 50% to the body as a whole.

NEW If this is the first year you are claiming the handicapped exemption you must submit a physician's certification qualifying the disability. This certification remains in effect after the first year of qualification and is not required to be attached to subsequent returns unless there is a change in dependent's physical circumstances. You must inform the department of any changes in the dependent's eligibility.

Line 5. Total number of exemptions columns A and B.
See pages 10 and 11 for instructions for filing Form 2S.

Federal Adjusted Gross Income

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. Married persons filing separately must allocate income based on percentage of ownership. Attach copies of applicable federal schedules and forms.

Line 19 - Adjustments to Income.

- **Educator expenses.** Enter amount from line 23 of Federal 1040, or line 16 of Federal 1040A.
- **Individual Retirement Account (IRA).** Enter the amounts from line 24 of Federal 1040, or line 17 of Federal 1040A. If your filing status on your federal return is married filing jointly, and on your Montana return you checked Box 3, 4 or 5, married and filing separately, see IRA instructions on Form W, Page 12.
- **Student loan interest deduction.** Enter amount from Line 25 of Federal 1040 or line 18 of Federal 1040A.
- **Tuition and fees deduction.** Enter amount from line 26 of Federal 1040 or line 19 of Federal 1040A.
- **Moving expense.** Enter amount from line 27 of Federal 1040 and attach Federal Schedule 3903 or 3903-F.
- **Self employment tax.** Enter amount from line 28 of Federal Form 1040.
- **Self employment health insurance deduction.** Enter the amount from line 29 of Federal 1040.
- **Keogh/SEP.** Enter amount from line 30 of Federal 1040.
- **Penalty on early withdrawal of savings.** Enter amount from line 31 of Federal 1040.
- **Alimony.** Enter amount from line 32a of Federal 1040.
- **Other.** Refer to line 33 of the Federal 1040 instructions for a list of other adjustments to income. If you are filing a federal nonresident alien income tax return, include on line 19 exempt tax treaty income to the extent it is included in lines 6 through 17.

Line 20. Subtract line 19 from line 18 to arrive at your federal adjusted gross income. Total of columns A and B must agree with your federal adjusted gross income.

Additions to Income

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

Line 22. If you received refunds, rebates or reimbursements for any expense you previously deducted on Form 2A (itemized deductions), complete the Tax Benefit Rule Worksheet II on Form W, Page 12, to figure the amount to include in income. If you recovered amounts in the current year which are attributable to more than one prior year, (i.e. a federal income tax refund from 2001 and a reimbursement of medical expenses you deducted in 2000), complete a separate worksheet for each year. Use information from Form 2A for the year the expense was deducted.

If you and your spouse filed a joint federal return and are filing married filing separate state returns, you must each complete a separate Tax Benefit Rule worksheet. The federal refund must be prorated using the ratio of (1) federal tax reported as an itemized deduction on your prior year return by each spouse to (2) the total federal taxes deducted.

Line 23 - Other Additions. Please specify.

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

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

For each spouse, complete and attach federal Form 8582, Passive Activity Loss Limitations, using married filing separate rules to determine your allowable passive activity losses for Montana. Enter the difference between the passive losses reported on Form 2, line 12 under married filing joint rules and the allowable passive losses computed on Form 8582 under married filing separate rules on line 23. The unallowed losses added back on line 23 are carried forward to the following year or years until used (see line 35 instructions in this booklet to claim unallowed losses).

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

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

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

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

➤ **Allocation of Income.** See page 5, line 35.

➤ **Montana Net Operating Losses.** Use Form NOL-99 for calculating your net operating loss for tax years beginning after December 31, 1998. You must carry back the entire amount of a 2003 net operating loss to the two tax years before the net operating loss unless you have timely elected to forgo the two year carry back and elect to carry forward the NOL. The election must be made by the due date of the return and once it is made it is irrevocable.

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

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

➤ **Medical Care Savings Account or First Time Homebuyer Account.** Non-qualified withdrawals from your Montana Medical Care Savings Account or First Time Homebuyer Account must be reported as income on line 23. See line 49 instructions for penalties.

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

Reductions to Income

Line 26 - Farm and Ranch Risk Management Account. An individual or family farm corporation may exclude from adjusted gross income deposits into a farm and ranch risk management trust account. You are limited to one account for each individual or family farm corporation. You may exclude the lesser of 20% of your net income attributable to agricultural business included in your federal adjusted gross income or \$20,000 a year.

See Form FRM for detailed instructions. Complete Form FRM and attach it to your tax return

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

Line 28 - Interest Income. Interest income received on obligations of the United States Government is exempt from Montana income tax if the instruments are 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, but are not limited to, GNMMAs and FNMMAs.

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

The combination of line 27 and line 28 cannot exceed the amount included as income on line 7 and 21.

Line 29 - Treatment of Pension and Annuity Income. Attach copies of Form 1099R with distribution codes 2 or 7.

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

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

Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board are fully exempt from Montana taxation. Enter Tier I benefits reported on Line 15b as a reduction on line 35. Enter Tier II benefits reported on Line 14b as a reduction on line 29. If your federal adjusted gross income on line 20 of Form 2 is less than \$30,000, enter the smaller of your taxable pension and annuity income or \$3,600 on Form 2, line 29. If you filed married filing separately, the \$30,000 limit applies to each spouse separately.

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

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

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

Line 30 - State Unemployment Benefits. Unemployment benefits received from Montana or other states are not taxable in Montana.

Line 31 - Medical Care Savings Account. You and your spouse may establish a separately owned Medical Care Savings Account and exclude from adjusted gross income annual contributions of not more than \$3,000 plus interest or other income earned on the principal. Within certain limitations, the contributions to the account will be tax-free as long as they are used for eligible medical expenses. Eligible expenses paid with account funds can not be deducted elsewhere on the return. Non-qualified withdrawals are subject to tax and penalties. See Montana Form MSA for detailed instructions. Complete and attach Form MSA to your tax return.

Line 32 - Family Education Savings Account. You may deduct up to \$3,000 per year for contributions made to one or more accounts established under the Montana family education savings program. If married, you and your spouse are each entitled to the \$3,000 deduction. The contribution must be made to an account where the account owner is yourself, your spouse or your child or stepchild. Non-qualified withdrawals are subject to an 11% recapture tax. To establish a Family Education Savings Account and for additional information call (800) 888-2723.

Line 33 - First-Time Home Buyers Savings Account. If you are a qualifying individual you may exclude from income up to \$3,000 per year (\$6,000 if filing jointly) for contributions to a first-time home buyer's account. Interest earned on the principal is also excludable from income. Withdrawals from an account for eligible cost for the first-time purchase of a single-family residence is exempt from tax. Non-qualified withdrawal of funds not used in the purchase of a home is subject to a 10% penalty and taxed as ordinary income. See Montana Form FTB for detailed instructions. Complete Form FTB and attach it to your tax return.

NEW Line 34 – Health Care Professional Loan Payment

Exclusion. If you are a health care professional licensed in Montana, you may exclude from adjusted gross income up to \$5,000 for a loan payment made during the tax year on your behalf by a federal, state or qualified private loan repayment program. To qualify for the exclusion, you must be serving a significant portion of a designated geographic area, a special population, a federally designated health professional shortage area, a medically underserved area, or a federal nursing shortage county.

Line 35 - Other Reductions.

- **Capital gain exclusion.** 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 Worksheet III, Form W Page 12.
- **Health insurance paid by S. corporations.** If you are a shareholder, you are allowed to deduct health insurance premiums paid on your behalf by an S. corporation if the cost of the premiums are included in your federal adjusted income.
- **Child's income exclusion.** If you file Federal Form 8814 (Parents' Election to Report Child's Interest and Dividends), exclude from your income the amount reported as "Form 8814" income on the "Other income" line of your federal return and on line 17 of your Montana return. Your child must file a Montana return if he or she otherwise meets the income filing requirements listed on page 1.
- **Tip Income.** Tip income is excludable if it is included in your federal adjusted gross income, and received for services to patrons of a licensed business that provides food, beverages or lodging.
- **State Refunds.** If included on line 17, deduct state refunds here.
- **Disability Income Exclusion.** You may subtract from gross income up to \$5,200 a year of your disability payments, reported as distribution Code 3 on Form 1099R. Use Form DS-1 to calculate your deduction and attach it to your tax return.
- **Deduction for Purchase of Recycled Material.** You may take an additional 10% deduction of the expenses related to the purchase of recycled products used within Montana in your business if the recycled products purchased contain at least 90% reclaimed material.
- **Wages Covered by Federal Targeted Jobs Credit.** As an employer, you can deduct wages and salaries reduced by the amount of the federal targeted jobs credit or by work incentive program credits. Deduct the credit amount(s) from your Montana adjusted gross income. The deduction must be taken in the year the wages and salaries are used to compute the federal credit.
- **Land Sales to Beginning Farmers.** You can deduct from your taxable income the 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. 80-12-211, MCA.

➤ **Passive Loss Carryover.** You may be allowed to claim prior year disallowed passive activity losses if you have current year passive activity income or if you sell or exchange your entire interest in the activity in a fully taxable transaction to an unrelated party. Previously disallowed losses may also be claimed in the current tax year if you file a joint return. Complete Federal Form 8582, Passive Activity Loss Limitations, to determine the amount of passive loss carryover you can claim. If you qualify, enter the allowable passive loss carryover on line 35 and attach copies of Form 2, page 1, from previous years tax returns on which you reported unallowed losses.

➤ **Native American Income.** If you are a Native American living and working within the exterior boundaries of your reservation and are an enrolled tribal member, your income earned within the boundaries of your reservation is not taxable in Montana. If you reside and work outside the boundaries of your reservation, your income earned is taxable in Montana. You cannot offset your taxable income with losses generated on your reservation. You are required to file a Montana income tax return even though your income may not be taxable if you meet the filing requirements found in the table on page 1. Complete Form IND, Certification of Enrollment including proof your income was earned on your reservation, and attach it to your return.

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

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

➤ **Allocation of Income to Proprietor's Spouse.** If your spouse regularly performs substantial personal services in operating your business for which he or she is not paid a salary or wage, you can assign to your spouse reasonable pay for this service. Compensation must be determined on the basis of the reasonable rate of pay appropriate in your area for the particular type of personal services performed. Services performed by operating a household or services which are incidental to the operation of the business may not be used as a basis for this allocation. Attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 35 as a reduction of your income and on line 23 as an addition to your spouse's income.

➤ **Montana Net Operating Losses.** Use Form NOL-99 for calculating a net operating loss for tax years beginning after December 31, 1998. You must carry back the entire amount of a 2003 net operating loss to the two tax years before the net operating loss unless you have timely elected to forgo the two year carry back and elect to carry forward the NOL. The election must be made by the due date of the return and once it is made it is irrevocable.

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

Line 38 - Itemized and Standard Deductions.

Standard Deduction - See Form W, Worksheet V, page 13.
Itemized Deductions - See Page 6.

If you and your spouse file separate returns, you both must itemize deductions or you both must claim the standard deduction.

Line 40 - Exemptions. Multiply \$1,780 by the number of exemptions in box 5 on the front of Form 2.

Tax Computation

Line 43. Compute the tax using the table on the back of Form 2.

Line 44. Tax on lump-sum distributions which haven't been included in adjusted gross income. Enter 10% of the federal tax you paid on lump-sum distributions. Attach a copy of Federal Form 4972. Part-year residents must calculate the tax on all lump sum distributions received while residing in Montana.


Line 46 - Credits. Enter the total from Form 2A, Schedule II, line 113.


Line 48 - Recapture Investment Credit. Attach Form RIC.


NEW Line 49 – Recapture Tax and Withdrawal Penalties.

- **Family Education Savings Account Recapture Tax.** There is an 11% recapture tax for recapturable withdrawals from a family education savings account. A recapturable withdrawal is a withdrawal that is not used for qualified higher education expenses, or a withdrawal from an account within three years from the date opened. A recapturable withdrawal is not included in gross income. Calculate the 11% recapture tax and enter this amount on Line 49 and to the right of the title write "recapture tax."
- **First Time Home Buyer Savings Account 10% Penalty.** Amounts withdrawn from a First Time Home Buyer Savings Account for purposes other than eligible cost are subject to a 10% penalty on the amount of the withdraw unless they are withdrawn on the last business day of the account administrator's business year which means the last weekday in December. Complete Form FTB-P and enter the amount of the penalty on Line 49 and attach a copy of Form FTB-P to your return.
- **Medical Care Savings Account 10% Penalty.** Amounts withdrawn from a Medical Care Savings Account for purposes other than eligible medical expenses are subject to a 10% penalty on the amount of the withdraw unless they are withdrawn on the last business day of the account administrator's business year which means the last weekday in December. Complete Form MSA-P and enter the amount of the penalty on Line 49 and attach a copy of Form MSA-P to your return.

Lines 51-53 - Check-Offs. You can contribute any amount to the program(s) of your choice. A contribution will increase your existing tax liability. If you itemize deductions, the contribution may be claimed in the tax year being filed or the year paid.

 **Nongame Wildlife Program (line 51).** 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.

 **Child Abuse and Neglect Prevention Program (line 52).** Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

 **Agriculture in Montana Schools Program (line 53).** Contributions will fund the development and presentation of educational programs. This program ensures Montana's young people have a better understanding of agriculture in our state and the rest of the world.

Line 56. Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's and 1099R's) to your return.

Line 57. Enter your total Montana estimated tax payments for 2003. Include overpayments from 2002 which were credited to 2003. If you paid tax for a previous year, that amount cannot be claimed as an estimated tax credit on line 57.

Line 58. Enter payment made from the Four-Month Extension Payment Calculation, Form EXT-03 Worksheet.

Line 59 - Elderly Homeowner/ Renter Credit. To determine if you qualify, see detailed instructions on Form 2EC.

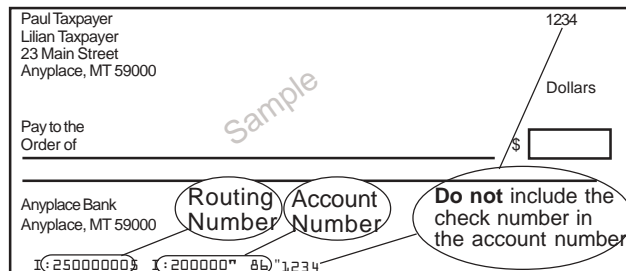
Refund or Balance Due

Line 62 - Amount Overpaid. If line 61 is larger than line 55, enter the difference. This is your overpayment. You can choose to have all or part of this amount refunded to you (line 64). The remainder, if any, can be applied to your estimated tax for 2004 (line 63). Only overpayments of more than \$1 will be refunded.

Line 63. Enter the amount from line 62 you want applied to Estimated Tax for year 2004.

Direct Deposit

Line 64. Enter the amount from line 62 you want refunded to you. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 64. The routing number must be nine digits. The account number can be up to 17 characters (both numbers and letters). The direct deposit will be rejected if the routing and accounting numbers are not correct. If the numbers are incorrect, a check will be mailed to you instead. See sample below.



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

- Payor: Paul Taxpayer, Lilian Taxpayer, 23 Main Street, Anyplace, MT 59000
- Pay to the Order of: [Blank]
- Amount: 1234 Dollars
- Bank: Anyplace Bank, Anyplace, MT 59000
- Routing Number: 125000000
- Account Number: 1200000861234
- A note states: "Do not include the check number in the account number"

Line 65 - Tax Due. If line 55 is larger than line 61, enter the difference. This is your tax due. Make your check or money order payable to the Department of Revenue. Be sure your social security number and tax year is on your check or money order. Send your payment with the coupon provided in this booklet along with your tax return.

If you wish to pay your tax due by credit card or electronic check visit Income Tax Express on our website at www.discoveringmontana.com/revenue. Only Mastercard and Visa are accepted. Be sure to write your confirmation number in the space provided on Form 2, page 2.

If you cannot pay all of your tax with your return, file your return and pay as much of the tax as possible.

Filing on time will prevent a late file penalty assessment. See Page 2.

Be sure to include a daytime phone number next to your signature on the tax form.

➤ **Income Tax Withholding for 2004.** If the amount you owe (line 65) or the amount you overpaid (line 62) is excessive, see your payroll office. Ask about filling out a new Form W-4 for Montana purposes to change the amount of income tax to be withheld from your state wages. Your federal withholding can remain unchanged.

Line 66. If you were required to make estimated tax payments and did not remit the required amounts, you must pay an underpayment penalty. Complete Worksheet VII, Form W Page 14, to calculate the penalty.

Line 67. If you file your return late, you must pay a late file penalty of \$50 or the amount of tax owing, whichever is smaller. There is no late file penalty if you owe no additional tax or you are receiving a refund.

Line 68. If you do not pay your tax by the due date of your return, you must pay a late pay penalty. The penalty is 1.5% per month or fraction of a month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Line 69. Interest will be assessed on any tax not paid by April 15, 2004. Interest is 12% per year accrued at 1% per month or fraction of a month. April is considered as one month, as a month is defined as a calendar month.

2004 Declaration and Payment of Estimated Tax

If you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you may need to make estimated tax payments in 2004. Contact the department to obtain estimated tax payment information and vouchers.

Schedule I Form 2A Itemized Deductions

Montana itemized deductions may be different than itemized deductions on your federal tax return. Complete Schedule I, Form 2A to calculate itemized deductions for Montana.

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

If you itemize deductions, you must mark box B on line 39, Form 2, and attach a copy of Form 2A to your return. If you fail to do either, the processing of your return will be delayed and your return may be adjusted.

Line 71 - Medical Insurance Premium. 100% of your qualifying medical insurance premiums are deductible. Do not include amounts reported on lines 19 and 35 of Form 2 and line 75 of Form 2A. Please read the following conditions to determine if your insurance premiums qualify:

- The premiums must be paid for health/medical insurance coverage (life insurance does not qualify).
- You must pay the premium. Premiums paid by your employer or someone else do not qualify unless the cost of the premium is included in taxable income.
- Premiums paid through a medical care savings account (MSA) are not deductible.
- Premiums must have been paid with after-tax dollars. Insurance premiums deducted from wages, but not subject to federal and state withholding tax or social security tax do not qualify for the deduction because the premiums are paid with pre-tax dollars. Earnings used to pay pre-tax premiums are not included as taxable wages in box 1 or box 3 of Form W-2. Most employers who have a health insurance plan for employees deduct insurance premiums from wages on a pre-tax basis. You may need to check with the employee benefits/payroll office where you work to determine if insurance premiums are deducted on a pre-tax or after-tax basis.
- Self employed persons and S. corporation shareholders who claim insurance deductions on lines 19 and 35 of Form 2, must reduce their total premiums by these amounts.
- Medicare B insurance premiums deducted from your social security benefits may be used to calculate the deduction.
- Medicare A premiums do not qualify for this deduction. Medicare tax withheld from wages or paid as part of self employment tax are not deductible.

Lines 72, 73 and 74 - Medical and Dental Expenses. On line 72, enter your deductible medical expenses. Montana allows the same items to be deducted that are deductible for federal income tax purposes. You must subtract from your federal medical care expenses any medical insurance premiums included on lines 19, 35 or 71. Medical expenses paid through a Montana medical care savings account are not deductible. Medical expenses on line 72 must be reduced by 7.5% (.075) of your Montana adjusted gross income (line 38). Enter the allowable medical expense deduction on line 74. Examples of allowable medical expenses include prescription medicines; doctor, dentist and hospital expenses; medical related transportation and lodging; hearing aids; dentures; and eye glasses.

Line 75 - Long Term Care Insurance. Enter the total amount of qualifying premium payments you made for long term care insurance. You may include the premiums you paid for yourself, your dependents, your parents or grandparents. Premiums deducted elsewhere on your return may not be claimed on this line. If you are claiming the Montana elderly care credit (Form ECC; line 100 of the Montana return), you may not claim this deduction. Premiums are deductible if they are paid for long term care insurance that provides coverage primarily for any qualified long term care service as defined in 26 U.S.C. 7702B(c).

Lines 76 - through 80 - Federal income tax paid. Do not include self-employment taxes paid.

Line 76a. Enter the amount of federal tax withheld from your wages and/or your pensions and annuities. Be sure to attach copies of your W-2's and 1099's to your return to verify the amounts claimed.

Line 76b. Enter the amount of federal estimated tax payments made in 2003. Attach copies of pages 1 and 2 of your federal return (Form 1040 or 1040A).

Line 77. Enter the balance of your 2002 federal income tax paid in 2003.

Line 78. Enter any additional federal income tax paid in 2003 for years prior to 2002.

NEW

Lines 79 - 2003 Federal Advance Child Credit. If you received the federal advance child credit payment in 2003, your federal tax deduction must be reduced by the amount of the advance payment received. If you elect to take the standard deduction, you do not have to recapture the amount of the advance payment, as you have not taken federal taxes paid as a deduction. Enter the amount of the advance child credit payment received, but not more than the sum of lines 76a, 76b, 77 and 78. If your filing status is married filing separate returns on the same form, either spouse may claim the advance payment.

Line 80. Add lines 76a, 76b, 77 and 78, then subtract line 79. Each column total must not be less than zero.

Line 81. Enter any taxes you paid on real estate and personal property.

Line 82. Enter your motor vehicle taxes and fees paid which are based on the value of your vehicle including the Montana light vehicle registration fee. Taxes and fees which are deductible on the Montana vehicle registration receipt include codes 02-DOTRAT, 07-AVTAX, 08-BKAVTX, 14-COOPT, 61-REGRAT and 62-BKRGRT.

You cannot deduct state income tax paid or withheld, federal excise taxes, gasoline tax, social security tax (FICA), tax on alcoholic beverages or tobacco, accommodations tax, license fees (hunting, fishing, driving, etc.), selective sales taxes and general sales taxes.

Line 83. Enter home mortgage interest and deductible points allowed on your federal return. If you pay interest to an individual, provide his or her name, social security number and address.

Line 84. Enter deductible investment interest and attach Federal Form 4952. If you file separately, the deduction must be computed for each taxpayer. Interest expense related to exempt income is not deductible.

Line 85 - Contributions. You can deduct what you gave to qualified organizations as authorized by federal law. Deduction limitations are based on Montana adjusted gross income and not on federal adjusted gross income. Contributions that are used in calculating the qualified endowment credit or the developmental disability account contribution credit are not deductible.

Line 86 - 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, and meet certain income requirements. The deduction must be divided equally between spouses when filing separately on the same form. If married filing on separate forms, you cannot take the credit. If you are a licensed and registered day care operator providing day care for your own child and one additional child, see instructions on Form 2441-M.

You qualify if the total Montana adjusted gross income of both spouses:

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

Complete Form 2441M and attach it to your tax return.

Line 87 - Casualty or Theft Loss. Attach Federal Form 4684. You may deduct casualty and theft losses subject to the limitations established by federal law. Use Montana adjusted gross income in your computation on Schedule 4684. If you file separately, the deduction must be computed for each taxpayer.

Miscellaneous Deductions

Line 88 - Unreimbursed Business Expenses. Attach Federal Form 2106.

Line 89. You may deduct other miscellaneous expenses subject to the limitations of federal tax law. In addition, Montana allows you to deduct up to \$100 in political contributions made during the tax

year. Only expenses which exceed 2% (.02) of your Montana adjusted gross income are deductible. Figure your limitation and allowable expenses on lines 91 and 92.

Line 93. Enter miscellaneous deductions not subject to 2% (.02) of adjusted gross income from your federal return. In addition to those miscellaneous deductions allowed for federal income tax purposes, Montana statute provides a deduction for the expense of purchasing organic fertilizer and inorganic fertilizer (produced as a by-product of mining or industrial operations in Montana).

You may not include expenses deducted elsewhere on your tax return.

Line 94 - Gambling Losses. Include gambling losses allowed by federal law. For married couples filing separate, gambling losses must be claimed by the spouse reporting the gambling income.

Line 95b. If the amount on Form 2, line 38 is more than \$139,500 (\$69,750 if married filing separately), you may not be able to deduct all of your itemized deductions. See Worksheet VI Form W, page 14 to figure the amount you may deduct.


Tax Credits

Line 97 - Rural Physician's Credit. If you are a physician who commences practice in an area without a 60 bed hospital located within a 30 mile radius, you may claim a credit against your individual income tax. The credit may be claimed for each of four consecutive years beginning with the year in which your practice starts. You must commence practice in the first year the credit is claimed and maintain the practice for at least 9 months of the taxable year to be eligible for the credit. The credit may not be used for any taxable year in which you cease to practice in an area described above. If you cease to practice in the rural area within 4 years following the taxable year in which the credit is allowed, you must repay to the state the amount of the credit claimed for that taxable year. Include with your return, a statement providing the following information:

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

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

Line 98 - College Contribution Credit. You may take a credit for deductible contributions made during the tax year to the general endowment funds of the Montana university system foundations or to the general endowment funds of a private Montana college or its foundation. The credit is 10% of the contribution with a maximum of \$500 and is non-refundable. 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. Complete Form CC and attach it to your tax return.

 **Line 99 - Qualified Endowment Credit.** You are allowed a credit for a percentage of the present value of a planned gift made during the tax year to a qualified Montana endowment or for your proportionate share of a charitable gift made by a pass-through entity. The credit may not exceed your tax liability, is non-refundable and may not be carried over. The value of the gift used in calculating the credit may not be claimed as an itemized contribution deduction. See Form QEC for detailed instructions, percentages and maximum credit amounts. Complete Form QEC and attach it to your tax return.

Line 100 - Elderly Care Credit. 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. See Form ECC for detailed instructions. Complete Form ECC and attach it to your tax return.

NEW Line 101 - Credit Allowed for Income Tax Paid to Other States. (Full year or part-year resident only) If you are a full year resident or a part year resident you may be entitled to a credit against your Montana income tax liability for income taxes you paid to another state or country on income which is also taxable by Montana. If you are a part-year resident, the income tax credit is allowed only on that portion of income tax paid to another state or country on income that is taxable by Montana and reported on Form 2A, page 2 Schedule III, line 125. Complete Form 2A, page

3, Schedule V if you are a full year resident. Complete Form 2A, page 3, Schedule VI if you are a part-year resident.

If you are a shareholder of an S. corporation or a partner of a partnership and your S. corporation or partnership pays an income tax to another state or country you may claim a credit for your share of these income taxes paid by the entity. In order to claim this credit the income tax paid must be measured by and imposed on net income and includes an excise tax or franchise tax that is imposed on and measured by net income. The credit is not allowed for other taxes paid by an entity, such as, but not limited to, franchise or license taxes or fees not measured on net income, gross receipt tax or gross sales tax. If you are claiming this credit for taxes paid by an entity you must add back to income on Form 2, line 23, your share of the entity's deduction for income tax paid, whether separately or non-separately stated on your Federal K-1.

A separate computation must be made for each state or country, and your total credit cannot exceed your tax liability. The credit must be supported by a copy of your tax return(s) filed with the other state or country.

You are not entitled to this credit if the other state or country allows you a credit against the taxes imposed by the other state or country for taxes paid or payable to Montana. You are not allowed to use penalties and interest paid in connection with an income tax when calculating this credit. Enter your credit on Form 2A, page 2, Schedule II.

Line 102 - Contractor's Gross Receipts Tax Credit. You are allowed a credit against your Montana income tax liability for the public contractor's gross receipts tax you paid. If you report your income from contracts on a percentage-of-completion basis, the credit must be pro-rated accordingly. The allowable credit is the actual gross receipts tax paid after taking the personal property tax credit. The credit cannot be in excess of your tax liability. Attach a schedule to the return showing contractor's name, date and amount of contract, primary contractor, subcontractor and location of job.

Line 103 - Alternative Energy Systems Credit. You may claim a credit for a percentage of the cost of installing a geothermal or an alternative energy system. Examples of these systems are solar energy, wind energy, and low emission wood or biomass combustion devices. See Form ENRG-B for detailed instructions. Complete Form ENRG-B and attach it to your tax return.

Line 104 - Energy Conservation Installations Credit. You may claim a credit for a percentage of the cost of an investment for energy conservation purposes in a building. An eligible expense is "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 is \$500 for investments in the physical attributes of a building or for investing in a water, heating or cooling system. See Form ENRG-C for detailed instructions. Complete Form ENRG-C and attach it to your tax return.

Line 105 - Alternative Energy Production Credit. You may claim a credit for a qualified investment of \$5,000 or more. The alternative energy system must be located in Montana. See Form AEPC for detailed instructions. Complete Form AEPC and attach it to your tax return.

Line 106 - Recycle Credit. You may claim a credit for investments in depreciable equipment or machinery used to collect, process or manufacture a product from reclaimed material. See Form RCYL for detailed instructions. Complete Form RCYL and attach it to your tax return.

Line 107 - Dependent Care Assistance Credit. If you are an employer you may claim a credit against personal income taxes for amounts paid or incurred during the taxable year for dependent care assistance provided to employees. This assistance may be in the form of:

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

- Providing information and referral services to assist employees within the state in obtaining dependent care.

See Form DCAC for detailed instructions. Complete Form DCAC and attach it to your tax return.

Line 108 - Disability Insurance for Uninsured Montanans Credit.

The credit is available to employers who make disability insurance available to employees. See Form HI for detailed instructions. Complete Form HI and attach it to your tax return.

Line 109 - Credit for the Preservation of Historic Property.


A credit equal to 25% of the federal rehabilitation credit provided for in IRC Section 47(a)(2) is allowed on qualifying historic buildings. Attach Federal Form 3468 to the return. As an alternative to the federal rehabilitation credit, you may take a credit equal to 20% of the cost of creating a conservation easement and for the diminishing value of historic property, including buildings and structures that result from placing a conservation easement on the property.

NEW Line 110 - Developmental Disability Account Contribution Credit.

An individual, corporation, partnership or small business corporation is allowed a credit equal to 30% of amounts donated during the year to the Montana Developmental Disability Service Account under 15-30-187, MCA. Each taxpayer may claim a maximum credit of \$10,000, not to exceed the tax liability. If you elect to apply your donation to this credit, you are not allowed to deduct the donation elsewhere on your return. There is no carryover provisions allowed and the credit must be applied in the year the donation is made.

NEW Line 111- Empowerment Zone Credit. For tax periods beginning on or after October 1, 2003, a credit is allowed for each new employee at a business in an empowerment zone under 15-30-182, MCA. The taxpayer must be certified by the Montana Department of Labor and Industry to receive the credit.

The credit may be carried forward seven years and carried back three years. The entire amount of the tax credit not used in the year earned must be carried first to the earliest tax year in which the credit may be applied and then to each succeeding tax year.

 **Line 112 - Other Credits.** If you are claiming any of the following six credits, enter the aggregate amount of the credit(s) on the Other Credits line on Form 2A, Schedule II.

- **Alternative Fuel Credit.** You may claim a credit for conversion of a motor vehicle to an alternative fuel. See Form AFCD for detailed instructions. Complete Form AFCD and attach it to your tax return.
- **Montana Capital Company Credit.** Carryovers only.
- **Infrastructure Users Fee Credit.** This provides a tax credit for new businesses located in Montana which create at least 15 jobs in the basic sector of the economy of a local community. The credit is calculated based on the infrastructure fees paid by the new business to the local government.
- **Increasing Research Activities Credit.** A credit is available for increases in qualified research expenses and basic research payments for research conducted in Montana. The credit is determined in accordance with Section 41 of the IRC, 26, U.S.C. 41, except the applicable percentage rate is 5% for Montana purposes. A completed form provided by the department must be attached to the return. Any unused credit cannot be refunded in the year reported, but may be carried back 2 years and carried forward 15 years.
- **Mineral Exploration Incentive Credit.** A credit may be claimed for certified expenditures of mining exploration activities (15-32-501, MCA), not to exceed 50% of the tax liability. Certified expenditures represent costs incurred for activities in direct support of exploration activity conducted at a specific exploration site. The credit applies to activities associated with both new mines and mines that are being reopened. A completed copy of Form MINE-CRED provided by the department must be attached to the return. To obtain the credit, you must first submit a request that details the work done and the expenses incurred. This must be done within 60 days following the end of the calendar year on a form provided by the department. The department then has until September 30 to certify whether the expenses qualify for the credit.
- **Affordable Housing Revolving Loan Account Credit.** You may be entitled to a tax credit for contributions made during the year

to the affordable housing revolving loan account established in 90-6-133, MCA. You are allowed a tax credit in an amount equal to 20% of the amount donated to this account. The maximum credit is \$10,000 and may not exceed your income tax liability. There are no carryover provisions allowed. You are not entitled to this credit if you have claimed the full amount of the contribution as an itemized deduction or if you have applied the contribution to the Qualified Endowment Credit.

Part-Year Resident, Nonresident Returns

How Do I Determine My Legal Residence (Domicile) for Montana Tax Purposes?

If you claim Montana residency for any purpose you are considered a Montana resident for all other purposes. If you have two or more residences, you cannot choose to make your home in one place for the general purposes of life and in another for tax purposes. Your legal residence is usually the place where you maintain your most important family, social, economic, political and religious ties. A change of legal residence will not be accomplished by a temporary or prolonged absence from a place; you must have the intention not to return.

Nonresident - You are a nonresident of Montana if you did not consider Montana to be your home at any time during the tax year, although you may have been temporarily living here. Examples are students going to school in Montana and military personnel stationed in Montana.

Part-Year Resident - You are a part-year resident if you moved into or out of Montana during the tax year with the intention of establishing a new residence.

Form 2 Instructions for Part-Year Residents, Nonresidents

Filing Requirement. The filing requirement for a part-year resident and nonresident are the same as for a resident. Refer to the table on page 1 for filing requirements.

If you are a part-year resident or a nonresident you must use the Montana Form 2 and attach the following items to your Montana return:

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

Lines 1 through 42.

Income. As a nonresident, you are subject to Montana income tax on all your income included in your federal gross income which is derived from or connected with Montana sources. Intangible income related to a Montana business or from the sale of real property is taxable.

As a part-year resident, you are subject to Montana tax on all income included in your federal gross income which is received while residing in Montana and on all income which is derived from or connected with Montana sources.

Complete lines 1 through 42 of Montana Form 2 using the instructions on pages 2-5 of this booklet. Report your Montana and non-Montana total income as shown on your federal income tax return. Line 20 of Form 2 must agree with your federal adjusted gross income reported on your federal income tax return. You are allowed to claim either the standard deduction or itemized deductions and at least one personal exemption. Once you have completed Form 2 through line 42, you must go to Form 2A Page 2, Schedules III and IV to prorate your Montana tax liability.

The computation of your tax liability is based on a proration of the tax liability computed on the total income shown on line 42, Form 2. The percentage of the total tax you are required to pay is based on the ratio of your Montana income to your total income for the year. For example, if 50% of your total income is attributable to Montana, your tax liability will be 50% of the tax computed on the total taxable income from line 42, Form 2.

You are not paying tax on income attributable to sources outside of Montana; however, the total income must be reported to compute your correct Montana tax liability.

Line 43. Complete Form 2A page 2, Schedules III and IV to calculate your tax liability.

Lines 44 through 70 - See full-year resident instructions on page 6.

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

Lines 114 through 125 - Nonresident/Part-Year Resident Allocation of Income. If you have income from Montana and from non-Montana sources shown on the same schedule, attach a statement to the Montana return identifying the Montana income. The following line by line instructions are for nonresidents and part-year residents with income reportable to Montana.

- **Wages, Salaries and Tips (line 114).** Enter the amount of your wages, salaries and/or tips that were derived from Montana sources or after you established Montana residency. These amounts should be shown on your W-2(s). Attach the W-2(s) to the front of Form 2.
- **Interest Income (line 115).** Include amounts from lines 7 and 21 of Form 2 for interest income received while you were a Montana resident. If you are a nonresident, you must report interest income from installment sale(s) of real property or tangible commercial or business property located in Montana. Nonresident income from interest on bank deposits, notes, dividends on capital stock of corporations, royalties from patents and copyrights and all other income from intangible property is not taxable to Montana.
- **Dividend Income (line 116).** Enter the amount of dividend income you received while you were a Montana resident. For 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.
- **Business Income (line 117).** If you are a nonresident, the net income received from any trade, business, profession, or occupation carried on in Montana is subject to Montana tax. For a part-year resident, your net income from any trade, business, profession, or occupation while a resident must be reported. If you have more than one business, complete a separate Federal Schedule C to show the Montana business activities.
- **Capital Gain or Loss (Line 118).** Enter the amount of gain or loss related to the sale(s) of your Montana properties or assets. Remember, the gain from installment sales of Montana property is taxable to Montana. Gains and losses from sources outside Montana must be reported on this line if they occurred while you were a Montana resident.
- **Supplemental Gain or Loss (line 119).** Enter here any supplemental gain or loss attributed to your 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).
- **Rents, Royalties, Partnerships, Etc. (line 120).** In the following paragraphs, income refers to profit or loss. Rental income is the net amount derived from or connected with the rental of real or tangible Montana property. Partnership income is the 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 you actually received it or not. Attach K-1(s). S. corporation income is a shareholder's percentage of the corporation's net income and deductions derived from Montana. Attach K-1(s). Estate and trust income is the beneficiary's share of the income and deductions from a trust with nexus in Montana. Attach K-1(s).
A partnership or S. corporation may be eligible to file a Montana composite tax return on behalf of its nonresident partners and shareholders. Refer to the Montana S. corporation or partnership booklet for detailed instructions.
- **Taxable Pensions, Etc. (line 121).** If you are a part-year resident, enter the amount of pension income attributed to the time you resided in Montana. Remember, you must complete the retirement pension worksheet. See line 29.
- **Taxable Portion of Social Security (line 122).** If you are a part-year resident, a portion of your social security benefits may be

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

- **Farm Income or Loss (line 123).** Report your farm income or loss attributed to Montana. Attach a separate Schedule F if necessary, showing only the Montana farm activities.
- **Other Income or Loss (line 124).** Enter any other income attributable to Montana that is not identified on lines 114 through 123. This includes lottery winnings, state and federal refunds, nonemployee compensation, etc. If you claimed any federal taxes paid or withheld on your 2002 Montana return, your federal refund must be included in your total Montana income to the extent the deduction resulted in a reduction of Montana income tax liability.

Line 125 - Montana Total Income. Add lines 114 through 124.

Tax Computation - Schedule IV, Lines 126-131

Line 126. Enter the amount from line 125, Schedule III.

Line 127 - Total Income. Enter the total of lines 18 and 24, Form 2.

Line 128. Divide the amount on line 126 by the amount on line 127. If your Montana total income is smaller than your federal total income, you will arrive at a percent amount. Carry the decimal to 4 places. If your Montana total income is larger than your federal total income, and the computed amount on line 128 is larger than 100% (1.0000), use only 100%.

Line 129. Enter your taxable income amount from Form 2, line 42.

Line 130. Compute the tax on the amount shown on line 129, using the tax table on page 2, Form 2. Enter the tax on line 130.

Line 131- Nonresident/Part-Year Resident Tax. Multiply the amount on line 130 by the percentage on line 128. Enter the amount from line 131 on line 43, Form 2. This is your Montana tax liability. Go to Form 2 and complete lines 44-70.

Line-by-Line Instructions for Form 2S

Introduction

Name, Address and Social Security Number. Only full-year Montana residents filing from a Montana address, can file on Form 2S. If you did not receive a booklet or a postcard with a removable label, print or type your name, address and social security number in the appropriate spaces. If you're married, fill in name and social security number for both you and your spouse. Montana law requires that each individual who files a tax return include a social security number.

Tax Preparer Contact. To streamline resolution to questions related to your return, we have included an area for you to authorize the department to contact the preparer. By placing an "X" in the box marked yes, under the heading "May the Department of Revenue discuss this return with the preparer shown above" on the back of Form 2 and Form 2S significantly improves the processing of your return. If you check this box, the department may contact the preparer or you for additional information. You will however, continue to receive notification of any formal tax liability adjustments made.

Filing Status (Check the appropriate box)

Box 1 - Single. Married persons cannot file separate short forms using the single filing status.

Box 2 - Married, Filing Joint Return. You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both spouses.

Box 3 - Head of Household. If you qualify for federal purposes, you may file your Montana return as head of household. Attach Federal Form 1040 or 1040A, pages 1 and 2.

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

Married persons cannot file separate short forms. You must file

Form 2. See page 2 "Which form should I use?"

Federal Adjusted Gross Income

Lines 6 through 12. Enter all items reported on your federal income tax return. Attach copies of applicable schedules.

Line 13. This amount must be the same as the federal adjusted gross income you reported on your federal return.

Additions to Income

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

Your federal refund is income in this tax year if you:

- Used federal income taxes paid or withheld on line 22(b) of the 2002 Form 2S.
- Itemized deductions on your Montana return last year using federal withholding/estimates as a deduction.

Do not include any portion of your federal refund that is due to earned income credit. Use the Tax Benefit Rule Worksheet II on page 12 of this booklet, to determine the taxable portion of your refund.

Reductions to Income

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

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

Line 17 - Exempt Interest Income. See instructions for line 28 of Form 2 on page 4 of this booklet.

Line 18 - Unemployment Benefits. Unemployment benefits received from Montana or other states are not taxable in Montana.

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

- **Medical Care Savings Account Contributions.** See instructions for line 31 on page 4 of this booklet.
- **Family Education Savings Account Contributions.** See instructions for line 32 on page 4 of this booklet.
- **Tip Income.** See instructions for line 35 on page 5 of this booklet.
- **Children's Income.** See instructions for line 35 on page 5 of this booklet.
- **Exempt Military Pay.** See instructions for line 35 on page 5 of this booklet.
- **Indian Reservation Income.** See instructions for line 35 on page 5 of this booklet.
- **Disability Income.** See instructions for line 35 on page 5 of this booklet.
- **State Income Tax Refund.** If any state refund was reported on line 10, subtract it here.

Line 21 - Add lines 13 and 14, and subtract line 20. This is your Montana adjusted gross income.

Line 22 - Standard Deduction or Federal Income Tax (if not claiming standard deduction). See Montana Form W-Page 13, Worksheet V. Complete only column A of the worksheet. You may use your federal income taxes withheld during the tax year, if greater than your allowable standard deduction. If you received the federal advance child credit payment in 2003, your federal tax deduction must be reduced by the amount of the advance payment received. If you elect to take the standard deduction, you do not have to recapture the amount of the advance payment. Enter the amount of the advance child credit payment received on line 22b(ii). Subtract line 22b(ii) from 22b(i) and enter the result, but not less than zero, on line 22b. Check appropriate box. If you check Box B, you may want to consider filing Form 2 and itemizing deductions on Form 2A.

Line 23 - Exemptions. Multiply \$1,780 by the number of exemptions in box 5 at top of Form 2S and enter the result here.

Line 26. Enter the tax from the tax table on the back of this booklet.

Line 27 - Contributions to Nongame Wildlife Program, Child Abuse and Agriculture in Montana Schools Program. See instructions for lines 50, 51, 52 and 53 on page 6 of this booklet.

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

Line 32. Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2, 1099R, etc.) to your return. Enter only Montana tax withheld from wages or pensions and annuities. Do not report estimated tax payments on this line. If you made estimated tax payments, you must file on Form 2 (long form).

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

Refund or Tax Due



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

Paul Taxpayer
Lilian Taxpayer
23 Main Street
Anyplace, MT 59000

1234
Dollars

Pay to the
Order of

Anyplace Bank
Anyplace, MT 59000

Routing Number: 25000005
Account Number: 2000000861234

Do not include the check number in the account number

The direct deposit will be rejected if the routing and accounting numbers are not correct. If the numbers are incorrect, a check will be mailed to you instead.

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

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

Income Tax Withholding for 2004. If the amount you owe (line 36) or the amount you overpaid (line 35) is excessive, see your payroll office. Ask about filling out a new Form W-4 to change the amount of withholding.

Payment by Credit Card. If you wish to pay your tax due by credit card, visit Income Tax Express on our website at www.discoveringmontana.com/revenue. Only Mastercard and Visa are accepted. Be sure to write your confirmation number in the space provided on Form 2S.

Declaration and Payment of Estimated Tax

If in 2004 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 2004 and will need to file on Form 2. Instructions and forms for making estimated tax payments are available by calling (406) 444-6900. Failure to make required estimated payments may result in an underpayment penalty.

2003 Individual Income Tax Worksheets

Worksheet I - IRA Deduction

If you file jointly on your federal tax return and separately (filing status 3, 4 or 5) on your Montana return, your deductible IRA for Montana purposes may be less than the amount allowed on your federal return.

If during the tax year, neither spouse was covered by a retirement plan where they worked, Montana and federal IRA deductions will be the same (maximum \$3,000 per spouse, or \$3,500 if 50 years old or older). If part of your IRA deduction is attributable to the IRA of a nonworking spouse, that amount must be added back on line 23 in the column of the nonworking spouse.

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



IRA Worksheet

	Column A	Column B
1. Phase out amount	1. \$10,000	\$10,000
2. Enter your federal adjusted gross income before federal IRA contributions.	2. _____	_____
3. Subtract line 2 from line 1	3. _____	_____
4. Maximum allowable IRA deduction. Multiply line 3 by 30% (.30) or by (35% (.35) in the column for the IRA of the individual who is age 50 or older at the end of 2003). If the result is \$200 or more, enter the result. If it is less than \$200 enter \$200.	4. _____	_____
5. Enter IRA amount from line 19, Form 2	5. _____	_____
6. Enter lesser of line 4 or line 5	6. _____	_____
7. Subtract line 6 from line 5 and enter this amount on line 23, Form 2. This is the nondeductible portion of your IRA for Montana purposes.	7. _____	_____

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

Worksheet II - Tax Benefit Rule (Taxable Refunds and Reimbursements)

	Column A	Column B
1. Total of all federal income tax refunds received. Do not include refundable federal credits or more than the amount deducted for the prior year.	1. _____	_____
2. All refunds and reimbursements of previously deducted itemized deductions. Example: In 2002 you deducted medical expenses not covered by insurance. In 2003 your insurance company determines that a portion of the denied expenses should have been paid by them. They send you a check. This amount may be taxable because you claimed it as an expense paid by you in the prior tax year.	2. _____	_____
3. Add lines 1 and 2 above.	3. _____	_____
4. Montana itemized deductions for prior year. If you took the standard deduction, stop here. None of the refund is taxable.	4. _____	_____
5. Enter prior year's Montana adjusted gross income.	5. _____	_____
6. If you are filing single or married filing separately, multiply line 5 by 20% (.20) If this amount is less than \$1,450, enter \$1,450. If more than \$3,260, enter \$3,260. If you are filing a joint return or filing as head of household, multiply line 5 by 20% (.20). If this amount is less than \$2,900, enter \$2,900. If more than \$6,520, enter \$6,520.	6. _____	_____
7. Subtract line 6 from line 4. If the result is zero, stop here. The amount on line 3 is not taxable.	7. _____	_____
8. Enter the smaller of line 3 or line 7.	8. _____	_____
9. Montana taxable income from prior year.	9. _____	_____
10. Enter the following amount on Form 2, line 22. If line 9 is zero or more, enter the amount from line 8. If less than zero, add lines 8 and 9 and enter the net amount (but not less than zero).	10. _____	_____

Worksheet III - Qualifying Capital Gain Exclusion

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

If Federal Schedule D line 18 is negative, you are not allowed a capital gain exclusion.
Do not proceed any further.

	Column A	Column B
1. Add the amounts from Federal Schedule D lines 11 and 12 which pertain to installment sales entered into before January 1, 1987, and enter here.	1. _____	_____
2. Add the amounts from Federal Schedule D lines 7b(f) and 16(f) and enter here.	2. _____	_____
3. Divide line 1 by line 2.	3. _____ %	_____ %
4. Enter the amount from line 17(a) of Federal Schedule D, but not less than zero.	4. _____	_____
5. Multiply the amount on line 4, times the % on line 3: _____ x _____ %	5. _____	_____
6. Multiply amount on line 5 times 40% (.40). This is your Montana capital gains exclusion. Enter on line 35 of Montana Form 2.	6. X .40	X .40

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



2003 Individual Income Tax Worksheets

Worksheet IV - Pension and Annuity Exclusion

Column A Column B

Short form filers use column A only.

1. Enter your federal adjusted gross income from line 20 of Form 2 or line 13 of Form 2S. 1. _____
2. Phase-out limitation. 2. 30,000 30,000
3. If line 1 is smaller than line 2, enter on Form 2 line 29 the smaller of a) pension and annuity income or b) \$3,600 for each person who has pension and annuity income. Stop here, you do not need to complete the remainder of this worksheet. If line 1 is larger than line 2, subtract line 2 from line 1 and enter the result. 3. _____
4. Fill out only one.
If your filing status is:
 - a. Single or joint and only one has pension and annuity income; enter your taxable pension and annuity income or \$3,600, whichever is smaller. 4a. _____
 - b. Married filing separately; enter 1) each spouse's taxable pension and annuity income, or 2) \$3,600 in columns A and B whichever is smaller. 4b. _____
 - c. Joint and both spouses have pension and annuity incomes: first, enter each spouse's taxable pension and annuity income or \$3,600, whichever is smaller, on the following lines: his _____ hers _____; second, enter the total of the two lines. 4c. _____
5. Double the amount on line 3 and enter the result. 5. _____
6. Pension and annuity exclusion. Subtract line 5 from line 4a, 4b or 4c, whichever applies to you. If the result is zero or negative, you are not eligible for an exclusion. If the number is positive, this is your exclusion. Transfer this number to line 29 on Form 2. 6. _____

Worksheet V - Standard Deduction

Column A Column B

Short form filers use column A only.

1. Enter amount from line 38 of Form 2 or line 21 of Form 2S 1. _____
2. Enter 20% (.20) of line 1. 2. _____
3. Enter the amount from below that corresponds to your filing status:

Single or separate (filing status 1, 3, 4 or 5) = \$3,330

Joint or head of household (filing status 2 or 6) = \$6,660 3. _____
4. Enter the amount from line 2 or line 3, whichever is smaller. 4. _____
5. Enter the amount from below that corresponds to your filing status:

Single or separate (filing status 1, 3, 4 or 5) = \$1,480

Joint or head of household (filing status 2 or 6) = \$2,960 5. _____
6. Enter the amount from line 4 or line 5, whichever is larger. This is your standard deduction. Transfer this amount to line 39, Form 2 (line 22, Form 2S) 6. _____

If Taxable Income is:				Tax Table				If Taxable Income is:			
Over	But not over	Multiply by	and Subtract =Tax	Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	\$ 2,200	X ... 2 %	\$ 0	\$17,800	\$22,200	X ... 7 %	\$ 466	\$17,800	\$22,200	X ... 7 %	\$ 466
\$ 2,200	\$ 4,400	X ... 3 %	\$ 22	\$22,200	\$31,100	X ... 8 %	\$ 688	\$22,200	\$31,100	X ... 8 %	\$ 688
\$ 4,400	\$ 8,900	X ... 4 %	\$ 66	\$31,100	\$44,500	X ... 9 %	\$ 999	\$31,100	\$44,500	X ... 9 %	\$ 999
\$ 8,900	\$13,300	X ... 5 %	\$155	\$44,500	\$77,800	X ... 10 %	\$1,444	\$44,500	\$77,800	X ... 10 %	\$1,444
\$13,300	\$17,800	X ... 6 %	\$288	\$77,800		X ... 11 %	\$2,222	\$77,800		X ... 11 %	\$2,222

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

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



2003 Individual Income Tax Worksheets

Worksheet VI - Itemized Deduction Worksheet

Column A

Column B

1. Enter the amount from Form 2A, line 95a (Total itemized deductions). 1. _____
2. Add the amounts on Form 2A, lines 71, 74, 75, 80, 84,
86, 87, and 94. 2. _____
3. Subtract line 2 from line 1. If the result is zero, enter the amount from line 1
above on Form 2, line 39. Stop Here. You do not need to complete this worksheet. 3. _____
4. Multiply amount on line 3 above by 80% (.80). 4. _____
5. Enter the amount from Form 2, line 38. 5. _____
6. Enter \$139,500 (\$69,750 if married filing separately, even if filing on the same form) 6. _____
7. Subtract line 6 from line 5. (If the result is zero or less, enter the amount from line 1 above on
Form 2, line 39. Stop Here. You do not need to complete this worksheet. 7. _____
8. Multiply line 7 by 3% (.03). 8. _____
9. Compare the amounts on lines 4 and 8 above. Enter the smaller of the two amounts here and
on Form 2A, line 95b. 9. _____

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

Underpayment Penalty of Estimated Tax

In 2003 you must have paid through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current year's tax liability after credits, or 2) an amount equal to 100% of your previous year's total tax liability. Payments made with extensions are not considered estimated payments. If you do not meet this requirement, you may be subject to an underpayment penalty.

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

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

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

A taxpayer who derives at least 2/3 of gross income from farming or ranching is not subject to estimated tax. Montana law does not provide for a "lookback" to the previous year when determining if a taxpayer is a qualifying farmer or rancher.

Short Method

1. Enter your 2003 tax from line 55 on Form 2 or line 31 on Form 2S (total liability if married filing separately on the same form). _____
2. Enter 90% of line 1 above. _____
3. Enter your total withholding from line 56, amount credited from prior year's tax included in line 57, and the elderly homeowner/renter credit from line 59 on Form 2 or line 34 on Form 2S. (If married filing separately enter the total payments). _____

4. Subtract line 3 from line 1. If the result is \$500 or less, do not complete the rest of the form. You do not owe the underpayment penalty. _____
5. Enter your 2002 tax (line 53 of 2002 Form 2 or line 31 on 2002 Form 2S). If married filing separately enter the total tax. _____
6. Enter the smaller of line 2 or line 5. _____
7. Enter the amount from line 3 plus any estimated payments included in line 57. _____
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 .07980 and enter the result. _____
10. If the amount on line 8 was paid on or after April 15, 2004, enter zero. If the amount on line 8 was paid before April 15, 2004, multiply amount on line 8 x number of days paid before April 15, 2004 x .0003288. _____
11. Underpayment interest penalty. Subtract line 10 from line 9. Enter the results here and on line 66 of Form 2 or line 37 of Form 2S or on line 51 of Form FID-3. **Total Due:** _____

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

2003 Individual Income Tax Worksheet

Worksheet VIII - Taxable Social Security

The portion of your social security benefits taxable to Montana may be different than what is taxable to federal. Complete Worksheet VIII, Form W to determine your Montana taxable social security.

None of your social security benefits are taxable to Montana if the only benefits you receive are from the Railroad Retirement Board. If you only received an RRB-1099 and have federal taxable social security reported on line 15b, exclude 100% of this amount of line 35.

Filing Status Check one	1. Single <input type="checkbox"/>	2. Married filing joint return <input type="checkbox"/>	3. Married and both filing separate returns on this form <input type="checkbox"/>	4. Married and both filing separate returns on separate forms <input type="checkbox"/>	5. Married filing separate return and spouse is not filing <input type="checkbox"/>	6. Head of Household <input type="checkbox"/>
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	Column A For single, joint separate or head of household	Column B For spouse only when filing separate and box 3 is checked
1. Enter the total amount from box 5 of all your SSA-1099 forms. Do not include amounts from Form RRB-1099	1.	1.
2. Enter one-half of line 1	2.	2.
3. Enter the total of the amounts from Form 2 lines 6 through 12, 13b, 14b, 16, and 17	3.	3.
4. Enter the amount, if any, from Form 2 lines 21 and 22, along with tax exempt interest reported on Federal Form 1040, line 8b not included of Form 2 line 21	4.	4.
5. Add lines 2, 3, and 4	5.	5.
6. Enter the total of the amounts from Form 2 lines 19 (excluding student loan interest and tuition and fees), 27, 29, 30 and the state refund, capital gains exclusion and tip deduction reported on line 35	6.	6.
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> No Stop here. None of your social security benefits are taxable. <input type="checkbox"/> Yes Subtract line 6 from line 5	7.	7.
8. Enter: \$32,000 in Column A if you checked Box 2. \$25,000 in Column A if you checked Box 1 or Box 6. \$16,000 in Column A and B if you checked Box 3, 4, or 5. }	8.	8.
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> No Stop here. None of your social security benefits are taxable. <input type="checkbox"/> Yes Subtract line 8 from line 7	9.	9.
10. Enter: \$12,000 in Column A if you checked Box 2. \$ 9,000 in Column A if you checked Box 1 or Box 6 \$ 6,000 in Column A and B if you checked Box 3, 4, or 5. }	10.	10.
11. Subtract line 10 from line 9, if zero or less, enter zero	11.	11.
12. Enter the smaller of line 9 or line 10	12.	12.
13. Enter one-half of line 12	13.	13.
14. Enter the smaller of line 2 or line 13	14.	14.
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter zero	15.	15.
16. Add lines 14 and 15	16.	16.
17. Multiply line 1 by 85% (.85)	17.	17.
18. Taxable social security benefits. Enter the smaller of line 16 or line 17.	18.	18.
19. Enter the amount of social security taxable on your federal return.	19.	19.
20. a. If line 19 is greater than line 18, enter the difference here and on line 35 of Form 2	20a.	20a.
b. If line 19 is less than line 18, enter the difference here and on line 23 of Form 2	20b.	20b.

If line 19 equals line 18, no adjustment is necessary.

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

Tax Table

If Taxable Income is:				If Taxable Income is:			
Over	But not over	Multiply by	and Subtract =Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	..... \$ 2,200.....	X ... 2 %.....	\$ 0	\$17,800	..... \$22,200	X ... 7 %	\$ 466
\$ 2,200	..... \$ 4,400.....	X ... 3 %.....	\$ 22	\$22,200	..... \$31,100	X ... 8 %	\$ 688
\$ 4,400	..... \$ 8,900.....	X ... 4 %.....	\$ 66	\$31,100	..... \$44,500	X ... 9 %	\$ 999
\$ 8,900	..... \$13,300.....	X ... 5 %	\$155	\$44,500	..... \$77,800	X ...10 %	\$ 1,444
\$13,300	..... \$17,800.....	X ... 6 %.....	\$288	\$77,800	..... X ...11 %		\$ 2,222

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

Important Numbers:

(These are not toll free numbers.)

Income tax assistance and problems— (406) 444-6900

TDD (Telephone Device for the Deaf) (406) 444-2830

Estimated tax requirements (406) 444-6900

Fax number—income tax. (406) 444-6642

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

Employer business tax questions. . . (406) 444-6900

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