

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

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

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

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

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

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

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