

# 2008 Montana Form 2

## Individual Income Tax Forms and Instructions



Montana Department of  
**REVENUE**

### Inside this booklet...

- Form 2
- Form 2EC
- Form 2 Worksheets

### If you need help...



[mt.gov/revenue](http://mt.gov/revenue)



(866) 859-2254 (toll free)  
(406) 444-6900 (Helena area)  
(406) 444-2830 TDD



**For more information on filing electronically, please see page 4.**

**Tax Filing Deadline  
is April 15, 2009**

Need to check the status of your refund?  
Refer to "Where's My Refund?"  
information on page i.

### This year, make it easy on yourself.

- **File early.**  
*The earlier you file, the better service we can provide in getting your tax return processed.*
- **File electronically.**  
*It's simple, secure and convenient. Some options are available at no cost to you. See details inside on page 4.*
- **If you expect a refund, choose direct deposit.**  
*This simple option will reduce the time it takes for you to receive your refund.*
- **Pay electronically.**  
*Whether you file your tax return electronically or by paper, there are simple, secure and convenient electronic payment options available to you. See details inside on page 22.*
- **Find the answers you need.**  
*Please take some time to visit our website at [mt.gov/revenue](http://mt.gov/revenue), where you'll find tax season updates, frequently asked questions and other helpful filing information.*



# Dear Montana Taxpayers:

Thank you, Montanans, for filing your individual income tax returns—you do a great job! By working together, you help make Montana a great place to live, work and raise a family.

Your Montana Department of Revenue is committed to providing the best possible tax services to the citizens of our great state. We've worked hard to make filing and paying your individual income taxes even more convenient than in past years.

- We strongly encourage you to file and pay electronically, if possible. We continue to expand the direct online services available to you for filing and payment. These options—available to you at no-cost or low-cost—are simple, secure and convenient.

Form 2 will be available for direct electronic filing—at no cost to you—for the tax year 2008 filing season. As of the printing of this booklet, we hadn't set an exact start date but we are working hard to make the direct electronic filing of Form 2 available to you as early in the tax season as possible. To check availability of this service, please visit our website at [mt.gov/revenue](http://mt.gov/revenue).

If you use our direct electronic filing service, you'll have the option to request direct deposit if you have a refund due, or make an electronic payment if you have a tax obligation.

- We've changed the design of this booklet to use a color-coded, step-by-step approach to guide you through the task of filing your tax return. We hope these changes to the booklet will make the task of completing your tax return easier, whether you are filing electronically or by paper.
- We've compiled a list of "What's New" on page 1 of this booklet, so you'll be aware of tax law changes, filing updates and new tax credits. Please review this information before you file your tax return.

As always, we promise to do the best we can to provide you with the most accurate and timely assistance to help you file your tax returns, and to ensure that all citizens and businesses pay their fair share of Montana taxes—no more and no less. Together, we're making our tax system work for all Montanans!

Best regards,

Dan Bucks, Director  
Montana Department of Revenue

# Where's My Refund?



[mt.gov/revenue](http://mt.gov/revenue)

Click on "Where's My Refund" icon



(406) 444-9840

# Your Tax Dollars at Work

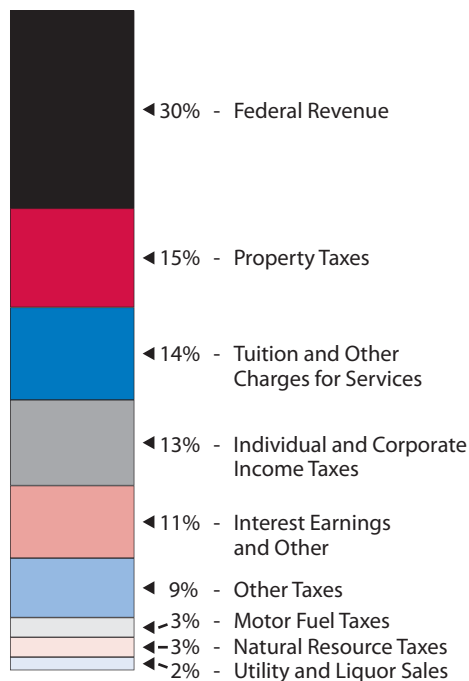
The table to the right shows where your individual and corporate income tax dollars (about 13% of total state and local revenues) were spent in 2007. For the charts below, the left chart shows the sources of revenue for both state and local governments in Montana for 2006, the most recent year for which totals are compiled. The right chart shows state and local spending.

## Where Your Income Tax Dollar Goes

|                                     |             |
|-------------------------------------|-------------|
| Education .....                     | 49%         |
| Health and Human Services .....     | 20%         |
| Public Safety and Corrections.....  | 11%         |
| Transfers to Local Governments..... | 6%          |
| General Government Operations.....  | 9%          |
| Other .....                         | 5%          |
| <b>Total Spending .....</b>         | <b>100%</b> |

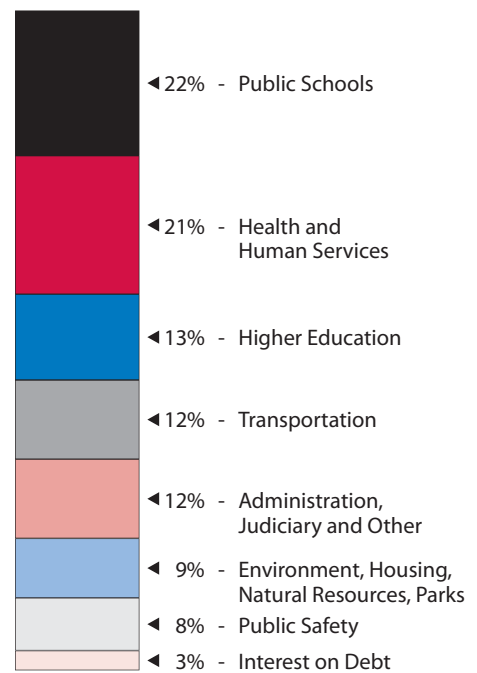
## What are Montana's Public Revenues?

Total Montana State and Local Revenue, Fiscal Year Ending 2006



## Where Do Your Public Dollars Go?

Total State and Local Spending in Montana, Fiscal Year Ending 2006



## Individual Income Tax Forms Available Upon Request

These forms may be available at your local bank, courthouse, library or post office. You may also order your forms by calling us toll free (866) 859-2254 (in Helena, 444-6900), or by visiting our website at [mt.gov/revenue](http://mt.gov/revenue).

| Form Name        | Description  | Form Name          | Description  |
|------------------|--|--------------------|--|
| 2EZ Booklet..... | 2008 Individual Income Tax Form 2EZ with Instructions        | IND .....          | Indian Certification   |
| 2M Booklet.....  | 2008 Individual Income Tax Form 2M with Instructions         | IT-EST .....       | Estimated Individual Income Tax Booklet                                    |
| 2 Booklet.....   | 2008 Individual Income Tax Form 2 with Instructions          | MINE-CRED .....    | Mineral Exploration Incentive Credit                                       |
| 2EC.....         | Montana Elderly Homeowner/Renter Credit                      | MSA.....           | Medical Care Savings Account   |
| 2101.....        | W-2 Withholding Declaration                                  | MSA-P .....        | Medical Care Savings Account Penalty                                       |
| 2441-M .....     | Child and Dependent Care Expense Deduction                   | NOL .....          | Montana Net Operating Loss Worksheet (1999 and subsequent years)           |
| AEPC.....        | Alternative Energy Production Credit                         | NOL-Pre 99 .....   | Montana Net Operating Loss Worksheet (1998 and prior years)                |
| AFCR.....        | Alternative Fuel Credit                                      | NR-1 .....         | North Dakota Reciprocal Affidavit  |
| BBSC.....        | Biodiesel Blending and Storage Credit                        | NR-2 .....         | Employee Certificate of North Dakota Residence                             |
| CC .....         | College Contribution Credit                                  | OSC.....           | Oilseed Crushing and Biodiesel/<br>Biolubricant Production Facility Credit |
| DCAC .....       | Dependent Care Assistance Credit                             | QEC.....           | Qualified Endowment Credit   |
| DS-1 .....       | Disability Income Exclusion Calculation                      | RSCH .....         | Increase Research and Development Activities Credit                        |
| ECC.....         | Elderly Care Credit  | RCYL.....          | Recycle Credit   |
| ENRG-A.....      | Geothermal Systems Credit                                    | TELC .....         | Temporary Emergency Lodging Credit <b>NEW</b>                              |
| ENRG-B.....      | Alternative Energy Systems Credit                            | VT.....            | Veteran's Contribution   |
| ENRG-C .....     | Energy Conservation Installation Credit                      | Worksheet VIII ... | Taxable Social Security Benefits   |
| ESA .....        | Estimated Tax Annualization Worksheet                        | Worksheet IX.....  | Tax Benefit Rule for Recoveries of Itemized Deductions                     |
| EST-I .....      | Interest on Underpayment of Estimated Tax                    |                    |  |
| ESW .....        | Estimated Individual Income Tax Worksheet                    |                    |  |
| EXT-08 .....     | Extension Payment Worksheet                                  |                    |  |
| FPC .....        | Film Employment Production and Qualified Expenditures Credit |                    |  |
| FTB.....         | First-Time Home Buyer Savings Account                        |                    |  |
| FTB-P .....      | First-Time Home Buyer Savings Account Penalty                |                    |  |
| FRM.....         | Farm and Ranch Risk Management Account                       |                    |  |
| HI.....          | Health Insurance for Uninsured Montanans Credit              |                    |  |

### Mail your individual income tax return to:

#### ***If you have a refund or no payment due:***

Montana Department of Revenue  
PO Box 6577  
Helena, MT 59604-6577

#### ***If you are sending a payment and voucher:***

Montana Department of Revenue  
PO Box 6308  
Helena, MT 59604-6308

### Important Numbers

Tax Questions and Assistance ..... toll free (866) 859-2254 (in Helena, 444-6900)  
Forms Request..... toll free (866) 859-2254 (in Helena, 444-6900)  
For the Hearing Impaired ..... (406) 444-2830  
Fax ..... (406) 444-6642



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**For your convenience, there are two copies of the following forms at the back of this booklet:**

- 2008 Montana Form 2
- 2008 Montana Form 2, Schedules I-VIII
- 2008 Montana Form 2EC

## What's New For 2008

**Federal Economic Stimulus Package Rebate.** The economic stimulus payment you received from the Internal Revenue Service in 2008 is not taxable for either federal or state income tax purposes. However, if you itemize deductions on your 2008 Montana income tax return, your "federal income taxes paid" deduction may be reduced because of this rebate. Please see the instructions for *Schedule III*, line 7e on page 33 for more information.

**Direct Electronic Filing – At No Cost to You.** We continue to expand the options available to you for direct electronic filing and payment. Using our direct electronic filing option, you can file your tax return, as well as make an electronic payment or direct-deposit your tax refund. Please note that this service only applies to your Montana tax forms; you may still have a filing obligation for federal purposes.

At the time this booklet went to print, we were working hard to make Form 2 available for direct electronic filing as early in the tax season as possible. To check the availability this service, please visit our website at [mt.gov/revenue](http://mt.gov/revenue) during the regular tax season. For your convenience, we've designed this Form 2 booklet to guide you in completing your tax return electronically, if you choose to use our direct electronic service.

If you claim the elderly homeowner/renter tax credit, you'll find that Form 2EC continues to be available for direct electronic filing at [mt.gov/revenue](http://mt.gov/revenue).

**Voluntary Check-Off Contribution for Montana Military Family Relief Fund.** Please consider helping Montana military families by making a voluntary contribution to this fund as you file your tax return. The relief fund provides grants that aid Montana families in defraying the costs of food, housing, utilities, medical services, and other expenses when a wage earner has been called to active military duty. As always, we encourage you to consider all the worthy programs included in the voluntary check-off contributions on page 3 of Form 2.

**Redesigned Form and Instructions for the Elderly Homeowner/Renter Tax Credit.** The Form 2EC and instructions are now easier to understand and complete. We have reduced the number of lines on the form and included additional information to help you calculate the credit. Please see page 47 for more information.

**Montana Mineral Royalty Tax Withholding.** Effective January 1, 2008, royalty payments made to owners of Montana mineral rights are subject to state income tax withholding if certain thresholds are met. This amount should not be confused with the production taxes that are also subtracted from your royalty payments. If the mineral rights are held by a partnership or S corporation and you have an ownership interest in that entity, enter the amount

reported to you as your share of the withholding. Please see the complete instructions for line 55 on page 18.

**Temporary Emergency Lodging Credit.** For tax years beginning on or after January 1, 2008, there is a refundable credit available for licensed establishments that provide short-term emergency lodging under the Temporary Emergency Lodging Program. The program helps provide lodging for individuals or families who have been displaced from their residence and have been referred to the establishment by a charitable organization approved by the Montana Department of Public Health and Human Services. The credit is equal to \$30 for each day of lodging provided in Montana and is limited to a maximum of five nights' lodging for each individual. Complete instructions for this credit are located on *Schedule V*, line 29, on page 45.

*Please Note As Well...*

**Interest on Unpaid Individual Income Tax Liabilities.** The current interest rate of 8% will continue to be in effect through December 31, 2009. Under Montana law, the daily accrual interest rate for all unpaid individual income taxes depends on the rate set by the Internal Revenue Service and may fluctuate each year, but will not be less than 8%.

**Married Taxpayers Filing Separately on the Same Form – Allocation of Estimated Payments and State Tax Refunds.** If you are married filing separately on the same form, we encourage you to consider how you and your spouse should allocate any estimated payments.

- If you have made estimated payments, you might consider allocating the payments claimed by each spouse so that you don't encounter the situation where one spouse owes tax and the other is due a refund. You may wish to contact us before filing your tax return to verify that estimated payments are being applied to the intended spouse. Please note that only estimated payments can be allocated; withholding must be reported by the spouse whose name appears on the Form W-2 or Form 1099.
- In past years, the net refund issued to married taxpayers filing separately on the same form may have been different than the amount reported to the Internal Revenue Service. This situation occurs because federal law treats these individuals as separate taxpayers even though they have received a single state refund check. To help ensure that the most appropriate amount is reported on federal Form 1099-G for each spouse, please allocate the payments in relationship to each spouse's separate tax liability. Additional information regarding this issue is included on page 18 with the instructions for lines 56, 62 and 63.



**Amended Tax Return.** Based on your feedback, we have added two new lines on Form 2 to assist you when filing an amended return. These lines have been added so that

you can show any payment you made with your original return or any refunds previously issued to you. Please see the instructions for lines 59 and 60 on page 19.

## Getting Started

These simple steps will help you complete and file your Montana individual income tax return.

- Complete your federal income tax return.
- Determine if you are a Montana resident, nonresident or part-year resident. See page 3.
- If you are a nonresident, complete the income tax return for your state of residency, if required. See page 3.
- Determine which Montana tax form is right for you. See below.

- Decide if you will file electronically or use a paper tax return. This booklet is designed to help you file by whichever method you choose.
- File your Montana income tax return or request an extension (include your payment, if taxes are due) by April 15, 2009. See page 3 for information on filing an extension.
- Remember to sign your tax return.
- When finished, please accept our thanks for a job well done!

## General Information

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

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

| IF your filing status is...   | AND at the end of 2008 you were... | THEN you should file a return if your federal gross income, excluding unemployment compensation was at least... |
|---|------------------------------------|---|
| Single, or married filing separately  | Under 65                           | \$3,920   |
|   | 65 or older                        | \$6,060   |
| Head of household   | Under 65                           | \$5,700   |
|   | 65 or older                        | \$7,840   |
| Married filing jointly with your spouse   | Both under 65                      | \$7,840   |
|   | One spouse 65 or older             | \$9,980   |
|   | Both spouses 65 or older           | \$12,120  |
| You are entitled to an additional exemption if you are blind or your spouse is blind. Increase your federal gross income by \$2,140 to determine if you are required to file. |                                    |   |

### I am required to file a Montana individual income tax return. Which form is appropriate for me and my situation?

**To use Montana Form 2EZ**, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2008.

- I am filing as a single person or as a married person filing a joint return.
- My spouse and I were under 65 and not blind at the end of 2008.
- I am claiming no dependents.
- My only income is from wages, interest, dividends, or unemployment.
- I am claiming the standard deduction rather than itemizing deductions

**To use Montana Form 2M**, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2008.
- I am filing as a single person, head of household, or as a married person filing a joint return.
- My only income is from wages, interest, dividends, capital gains, IRA distributions, pensions, annuities, unemployment, social security benefits or refunds.
- The only tax credit that I may be claiming is one (or more) of the following:
  - Adoption Credit
  - Elderly Homeowner/Renter Credit (Form 2EC)
  - College Contribution Credit (Form CC)
  - Energy Conservation Installation Credit (Form ENRG-C)
  - Elderly Care Credit (Form ECC)
  - Alternative Energy Systems Credit (Form ENRG-B)

**You will have to use the Montana Form 2** if you answer yes to any of the following:

- I was a resident of Montana for only part of 2008.

- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate Montana income tax return.
- My income includes income from a business or profession, farm or ranch, rents, royalties, partnerships, S corporation or trust.
- My tax year ended on a date other than December 31, 2008.
- I am claiming the tax withheld from my Montana mineral royalty payments.

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

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

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

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

**Please note:** A nonresident or part-year resident required to file a Montana tax return must use Form 2.

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

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

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

Your 2008 Form 2 tax return has to be filed by April 15, 2009. If you operate on a fiscal year, your return has to be filed by the 15th day of the 4th month following the close of your fiscal year. If you file after this date, you may have to pay penalties and interest.

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

First of all, it should be clear that any extension of time to file your Montana income tax return is not an extension of time to pay your income tax liability. If you have a valid Montana extension but have not paid your complete income tax liability by April 15, 2009, you are relieved of late file penalties but you are not relieved of late payment penalties and interest on your outstanding Montana income tax liability.

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

1. By April 15, 2009, you have applied to the Internal Revenue Service by filing federal Form 4868 for an automatic six-month extension to file your federal income tax return.
2. You have paid 90% of your 2008 Montana income tax liability or 100% of your 2007 Montana income tax liability through your estimated tax payments, your withholding tax, or a combination of both your estimated and withholding tax payments.

Even though you have applied for an automatic six-month federal extension, this does not guarantee that you have a Montana extension unless you have met one of the requirements listed in number 2 above on or before April 15, 2009. You should examine and use the Montana EXT-08, which is the Extension Payment Worksheet, in order to determine whether you have a Montana extension payment requirement. You can get a copy of this form by visiting our website at [mt.gov/revenue](http://mt.gov/revenue) or calling us toll free at (866) 859-2254 (in Helena, 444-6900).

If you are required to make an extension payment, please use the tax payment coupon found on this worksheet.

In order to complete your Montana extension, you have to check the extension indicator box found on the bottom right hand corner of Form 2, page 2 and attach a copy of your federal Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, to your Montana income tax return. If you file electronically, you do not have to send the federal Form 4868 to us but you should keep a copy for your records. Please do not send us a copy of your federal Form 4868 prior to filing your Montana income tax return.

It is important that you follow the requirements stated above, or your extension will not be accepted and a late file penalty will be applied.

**I am on active duty in the regular armed forces and currently serving in an area designated as a “combat zone” or “contingency operation.” I am unable to file my Montana individual income tax return by April 15,**

### 2009. Can I (and my spouse) obtain an extension to file my 2008 Montana individual income tax return?

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

If you are filing a return under the Servicemembers Civil Relief Act, clearly write on the top of Montana Form 2, using red ink, "combat zone or contingency operations extension," and file your return within 180 days after being discharged from service. In addition, if you file within 180 days of being discharged you are not assessed any penalties or interest.

### What happens if I'm late in filing my Montana individual income tax return?

If you file your return late, you will be assessed a late file penalty of \$50 or the amount of tax due, whichever is less. If you file a late return for which you are receiving a refund, you will not be charged a late fee.

### What happens if my payment is late?

If you do not pay the full amount of your tax liability on or before April 15, 2009, you will be charged a late payment penalty. This penalty is 1.2% per month or fraction of a calendar month on the unpaid tax. This penalty cannot exceed 12% of the tax due.

If you do not pay your tax liability by April 15, 2009, you will also be charged interest at a rate of 8% per year accrued daily. If you can't pay your tax in full, you should file your return by the due date and pay as much as possible with your return. If you wish to set up a payment plan with us, please call us toll free at (866) 859-2254 (in Helena, 444-6900) to discuss payment options and make arrangements to pay.

When you file as *married filing separately* on the same form or on separate forms and both spouses owe tax, penalties and interest need to be calculated separately for each spouse.

Penalties and interest are set at a higher rate than the rates noted above if you purposely and knowingly do not file a return timely or pay your Montana income tax liability timely.

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

payment that indicates how you want your payment to be allocated.

### Where do I mail my Montana individual income tax return?

If you choose not to file electronically, we have two different addresses for individual income tax returns. We do this so that if you are asking for a refund, we can get your refund processed and to you more quickly and efficiently.

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

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

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

Yes, you can—and we encourage you to do so.



Electronically filing your tax return is simple, secure, and convenient. Some filing options may be free or low-cost to use. Montana has several e-file options.

- File select tax forms through our website, at no cost to you. For further information on this direct electronic filing option, please visit [mt.gov/revenue](http://mt.gov/revenue). This option allows you to file your Montana forms only; you may still have a filing obligation for federal purposes.
- File online through the federal/state electronic filing program, a cooperative effort between the Internal Revenue Service (IRS) and state tax revenue agencies at [www.irs.gov](http://www.irs.gov). You can also find information regarding online filing at [mt.gov/revenue](http://mt.gov/revenue). This option allows you to electronically file your federal and state tax return at the same time. Some of the services offered may be free or low-cost to use.
- Purchase software to prepare and e-file your federal and state tax return at the same time. Some of the services offered may be free or low-cost to use.

E-filing your return has many benefits.

- Quicker refund—for the fastest refund use Direct Deposit.
- Increased accuracy—most software includes math edits and up-to-date tax law changes.
- Proof or acknowledgement and/or confirmation your e-filed return was received.

- Nothing to mail—e-file at your convenience, 24 hours a day, seven days a week.
- Ability to file now and pay later—if you are using the joint federal/state e-file program you can indicate your payment when e-filing and use an electronic funds withdrawal scheduled for a future date. To avoid penalties, please pay by April 15th.
- Environmentally friendly—uses less paper.

**If I file electronically, do I have to send to the department a copy of my income tax return, supporting schedules, copies of my federal Forms W-2 and 1099 or signature verification?**

No, you do not. If you file electronically, you don't have to mail in a paper copy of your return, any accompanying federal Forms W-2 and 1099, or any Montana supplemental forms. When you file your return electronically, you represent that you have kept all the documents required as your tax record and that you will provide copies of these to the department if we ask for them.

You also don't have to sign a copy of your tax return and submit it to the department. The act of completing and filing your income tax return electronically is considered an authorized signature.

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

If you are expecting a refund, you can check the status of this refund by calling our 24-hour service at (406) 444-9840. We will be glad to tell you the status of your refund once it has been entered into the department's computer system.

You can also check the status of your refund online. Visit our website at [mt.gov/revenue](http://mt.gov/revenue) under Online Services and go to the *Where's My Refund?* section.

To check the status of your refund either by phone or online, you will need to provide the following information:

- The social security number of the first taxpayer listed on your tax return
- The amount of the refund requested as shown on your tax return

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

If you discover that your income tax return was incorrect, you have five years from the due date of the original return to file an amended Montana income tax return and to correct any mistake on your previous return. When you file this amended return, you will need to complete a new Montana form that reflects the corrections that you are making to your previously filed return. For tax years 2004 and earlier, you will also need to clearly write the words "Amended Return" on the face of your return. For tax years 2005 and later you should check the "Amended Return" box found in the upper left hand corner of

your Montana forms. Include copies of any schedules submitted with the original filing even if none of the amounts previously reported have changed.

If you are amending your return to carry back a net operating loss, please check the "NOL" box found in the upper left hand corner of your Form 2.

Montana Form AMD is available to assist you in reconciling the amendments to the original return. This form is for your information and records. You do not need to send this to the department. The Form AMD can be found on our website at [mt.gov/revenue](http://mt.gov/revenue) under "Downloadable Forms." Please note that forms 2M and 2EZ cannot be used to amend years prior to tax year 2006.

We have added two new lines on Form 2 to assist you when filing an amended tax return. These lines have been added so that you can show any payment you made with your original tax return or any refunds previously issued to you.

**Please Note:** If you file an amended return that reflects an increased tax liability, you may have the late payment penalty waived. Simply check the "Amended Return" box on the top left-hand corner of the tax form and pay the tax and applicable interest in full. By checking this box, you are requesting a waiver of the late payment penalty.

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

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

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

Yes, you can. We have included a place on your return for you to authorize this. Place an "X" in the box marked "Yes" next to "May the DOR discuss this return with your tax preparer?" It appears at the bottom of all forms near the signature block on the return. If you check this box, we may contact your tax preparer or you for additional information for this tax year only. You, not the preparer, will be informed of any formal tax adjustments that

we make. This authorizes the department to discuss this year's tax return only. It does not authorize the department to discuss any other tax return or tax issue with your preparer.

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

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

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

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

If your Montana employer has withheld Montana income tax from your wages and you wish to get a refund for it, you should file a Montana Form 2, attaching Montana Form NR-1, North Dakota Reciprocal Affidavit, along with a copy of your North Dakota income tax return and mail these to the Montana Department of Revenue by April 15, 2009.

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

You are considered an "injured spouse" if you are a taxpayer who does not owe a child support obligation but who has reported income on a joint return with a taxpayer who does owe a past due child support obligation. If you do not want your refund to be applied against your

spouse's child support obligation, you will have to file your Montana income tax return using filing status 3b, which is "married filing separately on separate forms." When filing under this filing status, each spouse claims his or her own income/loss, deductions, expenses and exemptions.

If you have filed a joint return with your spouse and you are considered an injured spouse, as defined above, you need to contact us within 30 days after you and/or your spouse have received notice of the offset. We will then work with you to have the correct tax return(s) filed.

### **A mental or physical disability prevents me from completing and submitting a tax return. What can I do?**

If you have a filing obligation but are unable to complete and submit a tax return because of a mental or physical disability, the return can be prepared by your authorized agent, guardian or person responsible for your care and property.

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

If you are responsible for the financial affairs of a deceased person, you'll have to file a return for that person if his or her income exceeds the minimum filing requirements found on page 2 of these instructions. If you and the deceased person were married, you can file a joint return. If you are filing a joint return, or are married filing separately on the same form, and you are the surviving spouse, that is all that is required. All other filers requesting the deceased taxpayer's refund must file the return and attach a Federal Form 1310 as well any court documents appointing a personal representative.

This tax return has to include the income of that deceased spouse from the beginning of the year to the date of death in addition to the income of the surviving spouse for the entire year. A deceased taxpayer's information should not be included on an individual tax return after the year of death.

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

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





**Form 2 - Step 1 Taxpayer Information**

**STEP 1**

| 2008 Montana Individual Income Tax Return   |                                 |  |                |                |                |  |                                 |  |  | Form 2                     |   |
|---|---------------------------------|--|----------------|----------------|----------------|--|---------------------------------|--|--|----------------------------|---|
| For the year Jan 1 – Dec 31, 2008 or the tax year beginning [                      ], 2008, ending [                      ], 20[                      ]   |                                 |  |                |                |                |  |                                 |  |  |                            |   |
| <input type="checkbox"/> Check this box if this is an amended return.<br><br><input type="checkbox"/> Check here if this is a NOL Carryback.  | First name and initial          |  |                | Last name      |                |  | Social security number          |  |  | If deceased, date of death |   |
|   | Spouse's first name and initial |  |                | Last name      |                |  | Spouse's social security number |  |  | If deceased, date of death |   |
| Mailing address   |                                 |  |                |                | City           |  | State                           |  | Zip+4  |                            |   |
| <b>Filing Status</b> (check only one box) <input type="checkbox"/> 1 Single <input type="checkbox"/> 2 Married filing jointly <input type="checkbox"/> 3a Married filing separately on the same form <input type="checkbox"/> 4 Head of household |                                 |  |                |                |                |  |                                 |  |  |                            |   |
| 3b Married filing separately on separate forms.   |                                 |  |                | Spouse's SSN ▶ |                |  |                                 |  |  |                            |   |
| 3c Married filing separately and spouse not filing.   |                                 |  |                | Spouse's SSN ▶ |                |  |                                 |  |  |                            |   |
| <b>Residency Status</b> (check only one box) <input type="checkbox"/> 5a Resident full year <input type="checkbox"/> 5b Nonresident full year <input type="checkbox"/> 5c Resident part-year ▶  |                                 |  |                |                |                |  |                                 |  |  |                            |   |
|   |                                 |  | Date of Change |                | State moved to |  | State moved from                |  | Column A (for single, joint, separate, or head of household) |                            | Column B (for spouse when filing separately using filing status 3a) |
|   |                                 |  |                |                | (abr.) ▶       |  | (abr.) ▶                        |  | ▼  |                            | ▼   |

**Direct electronic filers:** Please remember to save your tax information often.

- A copy of your income tax returns filed with your home state and any other state.

► **Are You Ready?** For the first part of Step 1, you will be completing the “taxpayer information” at the top of the tax return. Please have your 2008 federal tax return available, as well as any updated personal information.

Residents, part-year residents, or nonresidents of Montana can file Montana Form 2. You can use Form 2 if: you are married filing separately with your spouse, you claim itemized deductions or the standard deduction, you claim a nonrefundable Montana tax credit, you made estimated tax payments, or you are applying your 2007 refund to your 2008 income tax liability.

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

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

- A copy of your federal income tax return including all federal forms and schedules.
- W-2s issued for all wages reported on Form 2, line 7. This includes your W-2s for wages earned in Montana and for wages earned outside of Montana.
- Montana Form 2, *Schedule IV*.
- Other Montana schedules, as applicable.

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

If either the primary taxpayer or the spouse died during the tax year, enter the date of death in the field next to his or her name. Please attach a copy of federal Form 1310.

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

**Box 1 – Single.** You can claim this filing status if on December 31, 2008 you:

- were single,
- were legally separated according to your state law under a decree of divorce or separate maintenance, or
- were widowed before January 1, 2008 and you did not remarry in 2008.

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



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

- you were married as of December 31, 2008, even if you did not live with your spouse at the end of 2008; or
- your spouse died in 2008 and you did not remarry in 2008; or
- you were married as of December 31, 2008 and your spouse died in 2009 before filing a 2008 return.

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

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

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

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

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

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

**Please note:** Although submitted on the same *form*, married taxpayers electing to file using this status are submitting *two returns*. If both taxpayers are entitled to refunds, two separate checks or direct deposits will be issued. In the event both spouses owe additional tax, penalties or interest, we will mail separate Statements of Account. If you are entitled to a refund and your spouse owes, and you file separate returns on the same form, you are directing the Department of Revenue to apply your refund to the amount owed by your spouse.

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

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

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

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

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

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

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

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

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

# Form 2 - Step 1 Exemptions

**STEP 1**

|                   |   |  |                                      |                                |                        | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |   |
|-------------------|---|--|--------------------------------------|--------------------------------|------------------------|--|---|---|
| <b>Exemptions</b> | 6a  | <input checked="" type="checkbox"/> Yourself | <input type="checkbox"/> 65 or older | <input type="checkbox"/> Blind | Enter number checked   | 6a   |   |   |
|                   | 6b  | <input type="checkbox"/> Spouse              | <input type="checkbox"/> 65 or older | <input type="checkbox"/> Blind | Enter number checked   | 6b   |   |   |
|                   | 6c  | Dependents                                   | First name                           | Last name                      | Social security number | Relationship   | Disabled  | Enter the total number of dependents in line 6c. If additional dependents, see instructions on page 11. |
|                   |   |  |                                      |                                |                        |  | Yes   |   |
|                   |   |  |                                      |                                |                        |  | Yes   |   |
|                   |   |  |                                      |                                |                        |  | Yes   |   |
| 6d                | Add lines 6a thru 6c and enter total exemptions here. |  |                                      |                                |                        | 6d   |   |   |

**Are You Ready?** For the second part of Step 1, you will be calculating your number of exemptions. Generally, the number should be same as reported on your 2008 federal tax return. However, differences in laws may mean that someone qualifies as a dependent on your federal tax return but not your Montana tax return - or vice versa. Pay particular attention to the instructions for line 6c.

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

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

**Line 6c – Dependents.** You can claim a dependent exemption for each person who qualifies as your dependent. Please complete the table on line 6c, listing each dependent’s first name, last name, social security number and his or her relationship to you. If you have more than four dependents, you will need to attach a separate list of these additional dependents and then include these additional dependents in the total on line 6c, columns A or B.

A person who meets the following requirements is considered your dependent for Montana income tax purposes. Since Montana’s dependency requirements are different from the federal dependency requirements, you

will need to meet *all* of the following requirements in order to claim a dependent on your Montana income tax return.

Your dependent is a person:

- for whom you have provided over half of his or her support during the tax year, and
- who does not have gross income of more than \$800,
  - unless the dependent who is your child
    - has not reached the age of 19 at the close of your tax year, or
    - is a full-time student during five calendar months during your tax year at an educational institution or is pursuing a supervised on-farm training institutional program, and
- who is not filing a joint return with his or her spouse during the same tax year.

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

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

|             |             |                 |
|-------------|-------------|-----------------|
| Child       | Mother      | Aunt            |
| Stepchild   | Grandparent | Son-in-law      |
| Grandchild  | Stepfather  | Daughter-in-law |
| Brother     | Stepmother  | Father-in-law   |
| Sister      | Nephew      | Mother-in-law   |
| Stepbrother | Niece       | Brother-in-law  |
| Stepsister  | Uncle       | Sister-in-law   |
| Father      |             |                 |

- an individual who for the tax year has shared your home as his or her principal home, and has been considered a member of your household.
- an individual who is a descendant of your uncle or aunt, or
- an individual who is receiving institutional care as a result of a physical or mental disability.

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

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

- You provide more than half the disabled child’s support.
- Your home is the disabled child’s principal home.
- The disabled child has a permanent disability constituting 50% or more of the body as a whole. Deafness and blindness do not meet this requirement.
- A licensed physician has certified the child’s disability.

If you meet all the requirements above and this is the first year that you are claiming the additional exemption for this child, you will need to file a physician’s certification of this qualifying disability with your income tax return.

This physician’s certification filed with us during the first year of eligibility remains in effect in subsequent years and we do not require you to file it annually unless the circumstances of your disabled child change.

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

**Form 2 - Step 2 Federal Income**

|                |     |  |                       |     |  |     |
|----------------|-----|--|-----------------------|-----|--|-----|
| Federal Income | 7   | Wages, salaries, tips, etc. Attach federal Form(s) W-2.  | ▶                     | 7   |  | 7   |
|                | 8a  | Taxable interest. Attach federal Schedule B if required.                                       | ▶                     | 8a  |  | 8a  |
|                | 8b  | Tax-exempt interest. Do not include on line 8a. ▶ 8b   |                       | 8b  |  |     |
|                | 9a  | Ordinary dividends. Attach federal Schedule B if required.                                     | ▶                     | 9a  |  | 9a  |
|                | 9b  | Qualified dividends. ▶ 9b  |                       | 9b  |  |     |
|                | 10  | Taxable refunds, credits, or offsets of state and local income taxes.                          | ▶                     | 10  |  | 10  |
|                | 11  | Alimony received.  | ▶                     | 11  |  | 11  |
|                | 12  | Business income or (loss). Attach federal Schedule C or C-EZ. NAICS: ▶                         | ▶                     | 12  |  | 12  |
|                | 13  | Capital gain or (loss). Attach federal Schedule D if required.                                 | ▶                     | 13  |  | 13  |
|                | 14  | Other gains or (losses). Attach federal Schedule 4797.   | ▶                     | 14  |  | 14  |
|                | 15a | IRA distributions. ▶ 15a   | 15a Taxable amount. ▶ | 15b |  | 15b |
|                | 16a | Pensions and annuities. ▶ 16a  | 16a Taxable amount. ▶ | 16b |  | 16b |
|                | 17  | Rental real estate, royalties, partnerships, S corporations, trust. Attach federal Schedule E. | ▶                     | 17  |  | 17  |
|                | 18  | Farm income or (loss). Attach federal Schedule F.  | ▶                     | 18  |  | 18  |
|                | 19  | Unemployment compensation.   | ▶                     | 19  |  | 19  |
|                | 20a | Social security benefits. ▶ 20a  | 20a Taxable amount. ▶ | 20b |  | 20b |
|                | 21  | Other income, list type. ▶   | Amount. ▶             | 21  |  | 21  |
|                | 22  | Add the amounts in columns A and B for lines 7 thru 21. <b>This is your total income.</b> ▶    | ▶                     | 22  |  | 22  |

STEP 2

▶ **Are You Ready?** For the first part of Step 2, you will be calculating your “federal income,” which is the starting point for calculating your Montana taxable income. Please have your 2008 federal tax return available so you may enter the corresponding amount from that return.

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

allocate the income and deductions between you and your spouse:

- If you are married and filing separately with your spouse on the same form or on separate forms, you should each report your own adjusted gross income. You cannot arbitrarily assign income from one spouse to another.
- Income from wages, salaries, bonuses, commissions and other income that is earned in the act of

providing personal services as an employee or as an independent contractor should be reported by the spouse who earned it.

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

If you were required to complete and attach a federal schedule for any of the items on these lines, you should

also attach those schedules when you submit your Montana return.

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

*Last fall, new federal legislation extended several tax provisions that had previously expired. As of the printing of this tax booklet in early October, the Internal Revenue Service had not released its final tax forms incorporating the legislation. Due to our printing deadline, we made changes based on preliminary IRS information. The changes, on lines 23 and 34 of Form 2, should closely reflect the final federal tax forms. Please visit our website at [mt.gov/revenue](http://mt.gov/revenue) during the tax season for updated information on this situation.*

## STEP 2

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

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

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

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

**Line 13 – Capital Gain or (Loss).** Enter here the same amount of your capital gain or loss that you reported on your federal income tax return. For married taxpayers filing separate Montana tax returns, the amount of gain or loss is reported by the spouse to whom it is attributable. If the gain or loss is not clearly attributable to one spouse, the amount is split equally.

**Lines 15a and 15b – IRA Distribution.** Enter here the same amount of your IRA distribution that you reported on your federal income tax return. If your Montana basis for your IRA is different from your federal basis, you should adjust your taxable amount on Form 2, *Schedule I*, line 16 or Form 2, *Schedule II*, line 34.

**Lines 16a and 16b – Pensions and Annuities.** Enter here the same amount of your pension and annuity income that you reported on your federal income tax return. However, a portion may be exempt from Montana tax. Complete Form 2, *Worksheet IV* to determine if you are entitled to a partial exemption.

**Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts.** Enter here the same amount of your income or loss that you reported on your federal Schedule E. For married taxpayers filing separate Montana returns, the amount of gain or loss is reported by the spouse to whom it is attributable. If the gain or loss is not clearly attributable to one spouse, the amount is split equally.

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

**Line 20b – Taxable Social Security Benefits.** Enter here the same amount of the taxable social security benefits that you reported on your federal income tax return. Montana taxable social security benefits may be different from your federal taxable social security benefits. You will need to complete *Worksheet VIII* on page 55 in order to determine your Montana taxable social security benefits. If your taxable benefits are higher or lower than your federal taxable benefits, you should either include or exclude the difference on Form 2, *Schedule I*, line 5, or Form 2, *Schedule II*, line 22.

**Form 2 - Step 2 Federal Adjusted Gross Income**

|                               |   |  |   |     |  |            |     |
|-------------------------------|---|--|---|-----|--|------------|-----|
| Federal Adjusted Gross Income | 23  | Educator expenses  | ▶ | 23  |  |            | 23  |
|                               | 24  | Certain business expenses of reservist, etc. Attach Form 2106 or 2106EZ.                       | ▶ | 24  |  |            | 24  |
|                               | 25  | Health savings account deduction. Attach federal Form 8889.                                    | ▶ | 25  |  |            | 25  |
|                               | 26  | Moving expenses. Attach federal Form 3903.   | ▶ | 26  |  |            | 26  |
|                               | 27  | One-half of self-employment tax. Attach federal Schedule SE.                                   | ▶ | 27  |  |            | 27  |
|                               | 28  | Self-employed SEP, SIMPLE, and qualified plans.  | ▶ | 28  |  |            | 28  |
|                               | 29  | Self-employed health insurance deduction.  | ▶ | 29  |  |            | 29  |
|                               | 30  | Penalty on early withdrawal of savings.  | ▶ | 30  |  |            | 30  |
|                               | 31a   | Alimony paid.  | ▶ | 31a |  |            | 31a |
|                               | 31b   | Recipient's SSN. ▶ 31b   |   |     |  |            | 31b |
|                               | 32  | IRA deduction.   | ▶ | 32  |  |            | 32  |
|                               | 33  | Student loan interest deduction.   | ▶ | 33  |  |            | 33  |
|                               | 34  | Tuition and fees deduction. Attach Form 8917.  | ▶ | 34  |  |            | 34  |
|                               | 35  | Domestic production activities deduction. Attach federal Form 8903.                            | ▶ | 35  |  |            | 35  |
|                               | 36  | Add lines 23 through 35 and enter the result here. <input type="checkbox"/> Federal write-ins. | ▶ | 36  |  |            | 36  |
|                               | 37  | Subtract line 36 from line 22 and enter result here.   | ▶ | 37  |  |            | 37  |
| 37a                           | Combine amounts on line 37 columns A and B and enter here. <b>This is your federal adjusted gross income.</b> ▶ |  |   |     |  | <b>37a</b> |     |

▶ **Are You Ready?** For the second part of Step 2, you will be deducting expenses from your federal income to arrive at your "federal adjusted gross income." Again, please have your 2008 federal tax return available so you may enter the corresponding amount from that return.

**Please Note:**

Lines 23 through 37a. Before completing this section, please make sure you have read the instructions on the bottom of page 12 in the highlighted box.

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

**Line 32 – IRA Deduction.** Enter here the same IRA deduction that you reported on your federal income tax return. For tax years beginning after December 31, 2006, you are no longer required to recompute the allowable deduction if you filed a joint federal tax return but are filing separate Montana tax returns.

**Line 33 – Student Loan Interest Deduction.** Enter here the same amount of the student loan interest deduction that you reported on your federal income tax return. For tax years beginning after December 31, 2006, you are allowed this deduction if you filed a joint federal return but are filing separate Montana returns.

**Line 34 - Tuition and Fees Deduction.** Enter here the same amount of tuition and fees deduction that you reported on your federal income tax return. If you claimed an education credit and did not take this deduction on

your federal return, you cannot take this deduction on your Montana tax return.

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

**Federal Write-Ins Checkbox** – Check this box if either spouse included federal write-in adjustments in the total on line 36.

**Nonresident Aliens:** If you are a nonresident alien who has earned income in Montana and you have filed a federal nonresident alien income tax return (Form 1040NR or 1040NR-EZ) and you are now filing a Montana income tax return in which your income is exempt under a federal tax treaty, exclude your income on line 36, to the extent it was included as wages in line 7, and write on the dotted line next to line 36 "nonresident alien tax treaty."

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

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

**STEP 2**

income tax return plus your spouse's federal adjusted gross income reported on a separate Montana income tax return, or that is not reported, should correspond to the amount of your combined federal adjusted gross income that you reported for federal income tax purposes.

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

## Form 2 - Step 3 Montana Adjusted Gross Income

|                    |    |  |   |    |  |  |    |
|--------------------|----|--|---|----|--|--|----|
| <b>Montana AGI</b> | 38 | Enter Montana additions to federal AGI from Form 2, page 3, Schedule I, line 17. Attach Form 2, page 3, Schedule I.        | ▶ | 38 |  |  | 38 |
|                    | 39 | Enter Montana subtractions from federal AGI from Form 2, page 4, Schedule II, line 35. Attach Form 2, page 4, Schedule II. | ▶ | 39 |  |  | 39 |
|                    | 40 | Add lines 37 and 38; subtract line 39. <b>This is your Montana adjusted gross income.</b>                                  | ▶ | 40 |  |  | 40 |

**STEP 3**

**► Are You Ready?** For the first part of Step 3, you will be calculating your "Montana adjusted gross income." Montana law allows for certain additions or deductions from your federal adjusted gross income when calculating your Montana adjusted gross income. Please complete Schedule I, Montana Additions to Federal Adjusted Gross Income and Schedule II, Montana Subtractions from Federal Adjusted Gross Income. You will need the forms and supporting documents for Montana-specific adjustments such as the First-Time Homebuyers Account or Montana Medical Savings Account.

**Line 38 – Montana Additions to Federal Adjusted Gross Income.** You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, *Schedule I* to determine the amount of additions to enter on this line. Refer to the section of instructions

on Montana additions to federal adjusted gross income beginning on page 23 for a detailed explanation of these additions.

**Line 39 – Montana Subtractions from Federal Adjusted Gross Income.** You may be eligible to subtract items of income from your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, *Schedule II* to determine the amount of your subtractions that you need to enter on this line. Refer to the section of instructions on Montana subtractions from federal adjusted gross income beginning on page 25 for a detailed explanation of these subtractions.

**Line 40 – Montana Adjusted Gross Income.** Add lines 37 and 38, then subtract line 39; enter the result on this line. This is your Montana adjusted gross income. Transfer this amount to Form 2, page 2, line 41.

**Caution:** Do not include in your calculation the amount that you reported on line 37a.

## Form 2 - Step 3 Taxable Income

Form 2, Page 2 - 2008      Social Security Number:

Questions? Call us toll free at (866) 859-2254 or in Helena at 444-6900 or TDD (406) 444-2830 for hearing impaired.

|                       |    | Column A (for single, joint, separate, or head of household)  | Column B (for spouse when filing separately using filing status 3a) |  |  |    |
|-----------------------|----|---|---|--|--|----|
| <b>Taxable Income</b> | 41 | Montana adjusted gross income from line 40.   | ▶ 41  |  |  | 41 |
|                       | 42 | <b>Deductions</b> (check only one box) <input type="checkbox"/> Standard Deduction (see Worksheet V on page 53). <input type="checkbox"/> Itemized Deductions from Form 2, Schedule III, line 33. | ▶ 42  |  |  | 42 |
|                       |    |   | ▶ 43  |  |  | 43 |
|                       | 44 | <b>Exemptions</b> (All individuals are entitled to at least one exemption.) Multiply \$2,140 by the number of exemptions on line 6d and enter result here.  | ▶ 44  |  |  | 44 |
|                       | 45 | Subtract line 44 from line 43 and enter result here. If zero or less, enter zero. <b>This is your taxable income.</b>   | ▶ 45  |  |  | 45 |

**Direct electronic filers:** We recommend saving the tax information that you have entered so far.

► **Are You Ready?** For the second part of Step 3, you will be calculating your “taxable income,” which will involve either subtracting the standard deduction or your itemized deductions from your Montana adjusted gross income, as well as subtracting your number of exemptions multiplied by \$2,140. You will need receipts and supporting documents for deductible expenses, such as property tax statements and receipts for medical expenses, if completing Schedule III, Montana Itemized Deductions.

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

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

the appropriate box, this will delay the processing of your return.

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

- **Standard Deduction.** To calculate your standard deduction, complete *Worksheet V* on page 53.
- **Itemized Deductions.** To figure your itemized deductions, complete Form 2, *Schedule III*. You can find the instructions for Form 2, *Schedule III* on page 32 of this instruction booklet.

**Line 44 – Exemption.** You are entitled to at least one exemption (your own). Multiply \$2,140 times the number of exemptions that you have claimed on Form 2, line 6d and enter the result on this line.

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

### Form 2 - Step 4 Tax

|     |     |   |        |     |      |     |
|-----|-----|---|--------|-----|------|-----|
| Tax | 46  | Tax from the tax table on page 16 or Form 2, page 3. If line 45 is zero, enter zero.  | ▶      | 46  |      | 46  |
|     | 47  | 2% capital gains tax credit.  | ▶      | 47  |      | 47  |
|     | 48  | Subtract line 47 from line 46 and enter the result here, but not less than zero.<br><b>This is your resident tax after capital gains tax credit.</b>      | ▶      | 48  |      | 48  |
|     | 48a | Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 21, but not less than zero.      |        | 48a |      | 48a |
|     | 49  | Tax on lump-sum distributions. Attach federal Form 4972.  | ▶      | 49  |      | 49  |
|     | 50  | Add lines 48 or 48a and 49 and enter the result here. <b>This is your total tax.</b>  | ▶      | 50  |      | 50  |
|     | 51  | Enter the amount from Schedule V, line 24, but do not enter an amount larger than the amount on line 50. <b>This is your total nonrefundable credits.</b> | ▶      | 51  |      | 51  |
|     | 52  | Recapture tax(es) (see instructions on page 17).  | ▶ Code |     | Code | 52  |
|     | 53  | Add lines 50 and 52, then subtract the amount on line 51 and enter the result here. <b>This is your 2008 tax liability.</b>                               | ▶      | 53  |      | 53  |

**Direct electronic filers:** We recommend saving the tax information that you have entered so far.

► **Are You Ready?** For Step 4, you will be calculating your “tax liability.” If you are a nonresident, this will involve completing Schedule IV, Nonresident/Part-Year Resident Tax. In addition, please review Schedule V to determine if you are entitled to any nonrefundable credits.

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

| 2008 Tax Brackets and Table                   |                   |                             |         |
|---|-------------------|-----------------------------|---------|
| If your taxable income on Form 2, line 45 is: |                   |                             |         |
| More than                                     | But not more than | Then your tax is            | Less:   |
| \$0   | \$2,600           | 1% of your taxable income   | (\$0)   |
| \$2,600                                       | \$4,600           | 2% of your taxable income   | (\$26)  |
| \$4,600                                       | \$7,000           | 3% of your taxable income   | (\$72)  |
| \$7,000                                       | \$9,500           | 4% of your taxable income   | (\$142) |
| \$9,500                                       | \$12,200          | 5% of your taxable income   | (\$237) |
| \$12,200                                      | \$15,600          | 6% of your taxable income   | (\$359) |
| \$15,600 or more                              |                   | 6.9% of your taxable income | (\$499) |

For Example: Taxable Income \$6,800 X 3% (0.03) = \$204;  
\$204 Minus \$72 = \$132 Tax.

**Line 47 – Capital Gains Tax Credit.** You can claim a capital gains credit against your Montana income tax of up to 2% of your net capital gains. Your net capital gains is the amount you reported on Form 2, line 13 less any amounts reported on *Schedule II*, line 25 or line 28. This credit is nonrefundable and it cannot reduce this liability below zero. This credit is applied before any other credits and cannot be carried back or carried forward.

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

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

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

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

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

**Line 48a – Nonresident, Part-Year Resident Tax After Capital Gains Tax Credit.** If you are a nonresident or a part-year resident, you will need to go to Form 2, *Schedule IV*, to calculate your nonresident, part-year resident tax after capital gains credit. Enter the result of this calculation on this line. See the instructions for Form 2, *Schedule IV* on page 36.

**Line 49 – Tax on Lump-Sum Distributions.** If you qualify on your federal return for special averaging of your lump-sum distribution and have not included it as ordinary pension income in federal adjusted gross income, you must pay Montana income tax on this distribution. Your Montana tax liability on the lump-sum distribution is 10% of the federal tax calculated on federal Form 4972. Part-year residents must calculate the tax on all lump sum distributions received while residing in Montana. Attach a copy of federal Form 4972.

**Line 50** – If you are a resident, add lines 48 and 49; enter the result on this line. If you are a nonresident or part-year resident, add lines 48a and 49; enter the result here.

**Line 51 – Total Nonrefundable Credits.** Enter the amount from *Schedule V*, line 24, but do not enter an amount larger than the amount on line 50. This is your total nonrefundable credits.

### Recapture Taxes

**Line 52** – Some deductions and tax credits have provisions requiring a recapture of the tax benefit you received in an earlier tax year (if you do not meet certain requirements in subsequent tax years). If you are required to report a recapture, report the appropriate two-

letter code and amount on this line. The three possible recapture taxes are the following:

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

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

Multiply your recapturable withdrawal by 6.9%, enter the result on this line, and enter the code 'FE' in the space indicated. This is your family education savings account recapture tax.

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

On this line, enter the amount of your endowment credit recapture tax and enter the code 'EC' in the space indicated. If, in addition to your recapture tax, part of the amount that is recaptured was claimed as a charitable contribution in a prior year, you will have to include in your income on Form 2, *Schedule I*, line 4 any recoveries of this prior year deduction that reduced your tax liability in the year of that deduction. Complete *Worksheet IX* to determine if you will have to recapture any amount of your prior year deduction. You can download *Worksheet IX* from our website at [mt.gov/revenue](http://mt.gov/revenue) or call us toll free at (866) 859-2254 (in Helena, 444-6900)

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

For example, if you claimed four consecutive \$5,000 rural physician's credits for a total of \$20,000 in years 2002, 2003, 2004 and 2005 and then in 2008 you ended your practice in the rural area that qualified you for that credit, you are required to pay back \$10,000 of your previous credits that you claimed in 2004 and 2005. You are entitled to the 2002 and 2003 credits since you maintained your practice in the rural area for at least four additional years after becoming eligible for this credit.

On this line, enter the amount of your rural physician's credit recapture tax and enter the code 'RP' in the space indicated.



If you are married filing separately on the same form and each spouse has a recapture, enter the amount and code in the appropriate column. If you are reporting more than

one recapture in one column, enter the total recapture amount for both and the code for the higher recapture.

## Form 2 - Step 5 Payments and Refundable Credits

|          |    |  |   |    |  |    |
|----------|----|--|---|----|--|----|
| Payments | 54 | Montana income tax withheld. Attach federal Form(s) W-2 and 1099.  | ▶ | 54 |  | 54 |
|          | 55 | Montana mineral royalty tax withheld. Attach Form(s) 1099 and supporting schedule if any.                                      | ▶ | 55 |  | 55 |
|          | 56 | 2008 estimated tax payments and amount applied from your 2007 return.  | ▶ | 56 |  | 56 |
|          | 57 | 2008 extension payments from Form EXT-08.  | ▶ | 57 |  | 57 |
|          | 58 | Refundable credits from Form 2, Schedule V, line 30.   | ▶ | 58 |  | 58 |
|          | 59 | <b>If filing an amended return:</b> Payments made with original return.  | ▶ | 59 |  | 59 |
|          | 60 | <b>If filing an amended return:</b> Previously issued refunds.   | ▶ | 60 |  | 60 |
|          | 61 | Add lines 54 through 59. Subtract line 60, enter the result here. <b>This is your total payments.</b>                          | ▶ | 61 |  | 61 |
|          | 62 | If line 53 is greater than line 61, subtract line 61 from line 53. <b>This is your tax due.</b>                                | ▶ | 62 |  | 62 |
|          | 63 | If line 61 is greater than line 53, subtract line 53 from line 61 and enter the result here. <b>This is your tax overpaid.</b> | ▶ | 63 |  | 63 |

**Direct electronic filers:** Remember to save the tax information that you have entered.

▶ **Are You Ready?** For Step 5, you will be reporting any “payments” that were withheld from you or previously paid by you. Please have your Form W-2 and other withholding and payment information available. In addition, please review Schedule V to determine if you are entitled to any refundable credits. If you are filing an amended tax return, you will need a copy of your original tax return.

**Line 54 – Montana Income Tax Withheld.** Enter the amount of the Montana income tax withheld from your income and reported in Box 17 of your federal Form W-2, or in Box 10 of your federal Form 1099-R. When you claim Montana income tax withheld, you are required to attach to your return a copy of your withholding statement(s) (federal Forms W-2 or 1099-R). Do not report amounts that are reported to you on Montana Form PT-WH or Montana Mineral Royalty Withholding on this line.

**NEW** **Line 55 – Montana Mineral Royalty Tax Withheld.** Effective January 1, 2008, royalty payments made to owners of Montana mineral rights are subject to state income tax withholding if certain thresholds are met. This amount should not be confused with the production taxes that are also subtracted from your royalty payments. Enter the amount of the Montana income tax withheld from royalty payments received during the year. This is generally reported to you on federal Form 1099. If the mineral rights are held by a partnership, S corporation, estate or trust for which you have an ownership interest or from which you receive a

distribution, enter the amount reported to you as your share of the withholding. Attach a copy of the Form 1099 issued to the partnership, S corporation, estate or trust and a schedule detailing the calculation of your portion of the withholding. For more information, please visit the “Mineral Royalty Withholding” icon at [mt.gov/revenue](http://mt.gov/revenue).

**Line 56 – Estimated Tax Payments.** If you have made estimated income tax payments for tax year 2008, enter the amount of these estimated tax payments. Include in this amount the 2007 refund that you requested us to apply to your 2008 estimated income tax payments and any amounts that are reported to you on Montana Form PT-WH from your ownership in an S corporation, partnership or disregarded entity. Do not include in this total any income taxes paid for a previous year since these are not estimated taxes paid for tax year 2008.

**Important:** If you are married filing separately on the same form and have made estimated payments, you might consider allocating the payments claimed by each spouse so that one spouse does not owe tax and the other is due a refund. You may wish to contact the department before filing your return to verify that estimated payments are applied to the intended spouse. Only estimated payments can be allocated. Withholding must be reported by the spouse whose name appears on the federal Forms W-2 or 1099.

**Line 57 – Extension Payment.** If you paid an extension payment on or before April 15, 2009 in order to qualify for an automatic six-month extension to file your income tax return, enter that amount on this line. To determine whether you need to make an extension payment, complete the Extension Payment Worksheet, Montana Form EXT-08.

**Line 58 – Refundable Credits.** You may be eligible for one or more of the five refundable credits that are available on your Montana income tax return. Complete Form 2, *Schedule V*, lines 25 through 30 to determine the amount of the refundable credits to enter on this line. Refer to the section of instructions on Montana tax credits found on page 45 for a detailed explanation of these refundable credits.

**Amended Return.** Use lines 59 and 60 only when filing an amended tax return. If you are filing an original tax return, proceed to line 61.

**Line 59 – Payments with Original Return.** Enter any payments made when you filed your original return and any subsequent payments that were applied to your 2008 tax liability.

**Line 60 – Previously Issued Refunds.** Enter any refunds previously issued to you. This includes refunds that may have been applied to another debt such as a prior tax year or child support debt. Do not include the overpayment amount you requested to be applied to your 2009 estimated tax payments.

**Line 61 – Total Payments and Refundable Credits.** Add lines 54 through 59, and then subtract line 60. Enter the result on this line. This is your total payments and refundable credits.

**Line 62 – Tax Due.** If line 53 is greater than line 61, subtract line 61 from line 53. This is your tax due.

**Line 63 – Tax Overpaid.** If line 61 is greater than line 53, subtract line 53 from line 61. This is your tax overpaid.

**Please note:** For married taxpayers filing separately in situations where both taxpayers have an overpayment, the amount of each overpayment will be reported to the Internal Revenue Service. In situations where one spouse owes and the other has an overpayment, the amount reported to the Internal Revenue Service will be the gross overpayment amount for the spouse with the overpayment before netting the two columns. For example, if spouse A has an overpayment of \$600 and spouse B owes \$200, the amount reported for spouse A on federal Form 1099-G will be \$600 even though the net refund check issued is \$400.

Many taxpayers will not find this result acceptable because it may affect their federal taxable income for the following year. To try to minimize the difference between the amount reported on the 1099-G and the net state income tax refund received, please see the instructions for line 56 for reallocating the estimated payments.

**Form 2 - Step 6 Penalties, Interest and Contributions**

|  |    |   |   |    |    |
|--|----|---|---|----|----|
| Penalties, Interest & Contributions                                  | 64 | Interest on underpayment of estimated taxes (see instructions on page 19).                      | ▶ | 64 |    |
|  | 65 | Late file, late payment penalties and interest (see instructions and table on pages 19 and 20). | ▶ | 65 |    |
|  | 66 | Other penalties (see instructions on page 20).  | ▶ | 66 |    |
|  | 67 | Voluntary checkoff contributions from Form 2, page 3.   | ▶ | 67 |    |
|  | 68 | Add lines 64 through 67 and enter the result here.  | ▶ | 68 |    |
| This is the sum of your total penalties, interest and contributions. |    |   |   | ▶  | 68 |

**Direct electronic filers:** Remember to save the tax information that you have entered.

▶ **Are You Ready?** For the first part of Step 6, you will need to calculate any “penalties and interest” if applicable. In addition, you will be reporting any “contributions” to the five voluntary check-off programs.

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

If you did not pay in advance at least 90% of your 2008 income tax liability (after applying your credits) or 100% of your 2007 income tax liability (after applying your credits),

you may have to pay interest on the underpayment of your estimated tax.

To calculate your interest, please complete either *Worksheet VII*, or Form EST-I, 2008 Underpayment of Estimated Tax by Individuals and Fiduciaries. You can access this form by visiting our website at [mt.gov/revenue](http://mt.gov/revenue) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

**Line 65 – Late File Penalty, Late Payment Penalty and Interest.**

**Please note:** If you and your spouse are filing on separate returns, penalties and interest are based on the amount that each spouse owes. In order to simplify calculations for the form, married taxpayers filing separately on the same form will compute penalties and interest on the combined tax due. In the event that both spouses owe additional tax, penalties or interest, they will

receive individual Statements of Account for the amount they owe. When one spouse owes tax but the other is overpaid, penalties and interest are based on the unpaid tax after applying the overpayment from the other spouse.

- **Late File Penalty.** If you file your return after April 15, 2009—or October 15, 2009 if you have a valid extension—you will be assessed a late file penalty if there is tax due on line 62. The penalty is equal to the lesser of \$50 or the amount of tax you owe. If you are filing your return late and you have a refund, you are not assessed a late file penalty.

To calculate your late file penalty, compare the amount on line 62 to \$50. Your late file penalty is the lesser of these amounts. If you and your spouse elect the filing status “married filing separately on the same form” and both of you owe tax and do not have a valid extension, the late file penalty will be assessed to both of you.

- **Late Payment Penalty.** If you have not paid 100% of your income tax liability by April 15, 2009, you are liable for a late payment penalty. Your late payment penalty is equal to 1.2% per month or fraction of a calendar month on the unpaid balance from April 15, 2009 until it is paid. For example, if you do not pay your tax due until May 10, 2009, your late payment penalty will be 2.4% (two months or fractions of a month X 1.2%) of the unpaid tax. Please remember that an extension to file your return does not give you an extension to pay your tax.

To calculate your late payment penalty, multiply the amount on line 62 by 1.2% per month or fraction of a calendar month your payment is late. In no instance will your late payment penalty exceed 12% (10 months X 1.2%) of the unpaid tax.

- **Interest.** If you have not paid 100% of your income tax liability by April 15, 2009, you will have to pay 8% annual interest, computed daily, on your unpaid balance. As with the late payment penalty, an extension of time to file your return does not extend the due date for paying your income tax. Interest accrues from the original due date.

To calculate your interest, multiply the amount on line 62 by 0.002192% (0.0002192) times the number of days after April 15, 2009 your tax is paid.

If you owe more than one of the items listed above, enter each applicable amount in the following worksheet.

| Type                 | Amount |
|----------------------|--------|
| Late file penalty    |        |
| Late payment penalty |        |
| Interest             |        |
| <b>Total</b>         |        |

Enter the total on line 65. You may wish to keep this information as part of your records for future reference.

**Line 66 – Other Penalties.** Include on this line any of the following other penalties if they apply to your situation. You can get a copy of any of these forms by visiting our website at [mt.gov/revenue](http://mt.gov/revenue) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900)

- **First-Time Home Buyer Savings Account 10% Penalty.** If you withdrew funds from your first-time home buyer savings account for purposes other than to pay for eligible costs for the purchase of a single-family residence, you are required to pay a 10% penalty on this withdrawal unless this withdrawal is on the last business day of your business year, which is the last weekday in December. Complete Montana Form FTB-P, 2008 First-Time Home Buyers Savings Account Penalty Calculation. Enter the amount of the penalty on this line and attach a copy of Form FTB-P to your income tax return.
- **Medical Care Savings Account 10% Penalty.** If you withdrew funds from your medical care savings account for purposes other than to pay for eligible medical costs, you are required to pay a 10% penalty on this withdrawal unless you made this withdrawal on the last business day of your business year, which is the last weekday in December. Complete Form MSA-P, 2008 Medical Care Savings Account Penalty Calculation. Enter the amount of the penalty on this line and attach a copy of Form MSA-P to your income tax return.
- **Farm and Ranch Risk Management Account 10% Penalty.** If you have not distributed your deposits and income from your farm and ranch risk management account within five years, they are considered distributed. You are required to pay a 10% penalty on the amount of tax due on this amount that is considered distributed. On this line, enter the amount of your farm and ranch risk management account 10% penalty.

If you are required to pay more than one of the penalties listed above, enter on line 66 the sum of your other penalties.

**Line 67 – Montana Voluntary Check-Off Contribution Programs.** Montana law provides you with the opportunity to contribute, via your income tax return, to the following programs. You can contribute any amount to any one of these five programs. Your contribution will increase the amount you owe or reduce the amount of your refund.



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



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



- **End-Stage Renal Disease Program.** Your contributions fund a program for persons suffering from end-stage renal disease. This program assists persons suffering from chronic renal disease in obtaining the medical, nursing, pharmaceutical and technical services necessary to care for the disease.



- **Agriculture in Montana Schools Program.** Your contributions to this program fund the development and presentation of educational programs. This program ensures Montana's young people have a better understanding of agriculture in our state and how it relates to the rest of the world.



- **Montana Military Family Relief Fund.** Your contributions to this program help provide funding for grants that aid Montana families in defraying the costs of food, housing, utilities, medical services, and other expenses when a wage earner has been called to active military duty.

**Line 68 – Total Penalties, Interest and Contributions.**

Add the amounts on lines 64 through 67, and then enter the result on this line. This is your total penalties, interest and voluntary check-off program contributions.

**Form 2 - Step 6 Amount You Owe or Your Refund**

|  |  |  |                         |  |
|--|--|--|-------------------------|--|
| Amount You Owe or Your Refund  | 69   | If you have tax due (amount on line 62), add lines 62 and 68 OR, if you have a tax overpayment (amount on line 63) and it is less than line 68, subtract line 63 from line 68. Enter either result here. If married filing separately and there are amounts on lines 62 and 63, please see instructions on pages 21 and 22. <b>This is the amount you owe.</b> | 69                      |  |
|  | Visit our website at <a href="http://mt.gov/revenue">mt.gov/revenue</a> to pay by credit card or E-check, or make a check payable to MONTANA DEPARTMENT OF REVENUE |  |                         |  |
|  | 70   | If you have a tax overpayment (amount on line 63) and it is greater than line 68, subtract line 68 from line 63 and enter the result here. This is your overpayment. <b>This is your overpayment.</b>  | 70                      |  |
|  | 71   | Enter the amount on line 70 that you want applied to your 2009 estimated taxes. <b>This is your refund.</b>  | 71                      |  |
| 72   | Subtract line 71 from line 70 and enter the amount here. <b>This is your refund.</b>   | 72   |                         |  |
| If you wish to use direct deposit, enter your financial institution's ROUTING# and ACCOUNT# below. See instructions on page 22.                            |  |  |                         |  |
| ROUTING#   |  | Please check one box. Checking. Savings.   |                         |  |
| ACCOUNT#   |  | Name, address and telephone number of paid preparer.   |                         |  |
| If applicable, check appropriate box. 2/3 <sup>rd</sup> farming gross income. Annualized estimated payments. Do not mail forms and instructions next year. |  | Preparer SSN, FEIN or PTIN.  |                         |  |
| May the DOR discuss this return with your tax preparer? Yes No   |  | Check this box and attach a copy of your federal Form 4868 to receive your Montana extension.  |                         |  |
| Your signature is required   | Date   | Daytime telephone number   | Spouse's signature Date |  |
| x  |  |  | x                       |  |

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

**Direct electronic filers:** Remember to save the tax information that you have entered.

**Line 69 – Amount You Owe.** If you have tax due (amount on line 62), add lines 62 and 68 OR, if you have a tax overpayment (amount on line 63) and it is less than line 68, subtract line 63 from line 68. Enter the result here.

Married taxpayers filing separately on the same form should determine the amount to report on this line as follows:

**If both taxpayers have tax due (line 62) -**

Add both spouses' tax due amounts to the total on line 68, and enter the result on this line.

**STEP 6**

► **Are You Ready?** For the second part of Step 6, you will determine the "amount you owe" or "your refund." If you will be receiving a refund and would like the money to be direct-deposited into your checking or savings account, you will need to have information available about your bank or financial institution. Be sure to sign your tax return. If you are married filing a joint return or filing separately on the same form, your spouse must also sign the return.

**If one taxpayer has tax due (line 62) and the other has a tax overpayment (line 63) -**

Compare the two amounts and:

- If the tax due is larger than the tax overpaid, subtract line 63 from line 62, add the result to the amount on line 68, and enter the total on this line.
- If the tax overpaid is larger than the tax due, subtract line 62 from line 63 and compare the result to the amount on line 68. If the remaining overpayment is less than the amount on line 68, subtract the overpayment from line 68 and enter the result on this line. Otherwise, proceed to line 70.

**If both taxpayers have a tax overpayment (line 63) -**

Add both spouses' tax overpayment amounts and compare the total to line 68.

- If the combined overpayment of tax is smaller than the amount on line 68, subtract the overpayment from line 68 and enter the result on this line.
- If the combined tax overpayment is larger than the amount on line 68, proceed to line 70.

You can pay the amount you owe by:

- Electronic funds withdrawal when e-filing your joint federal/state tax return.
- E-check or credit card—if you wish to pay the amount that you owe by e-check or credit card, please visit our website at [mt.gov/revenue](http://mt.gov/revenue) under Online Services for Individuals, File and Pay Taxes. There is no fee for an e-check payment; a small fee is applied for a credit card payment.
- Personal check, money order, or cashier's check—please use the voucher that we have provided with this income tax booklet. Make your check payable to the Montana Department of Revenue. Please sign your check, and write your social security number and "Tax Year 2008" on the memo line.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as possible. By filing and paying as much as you can by April 15, 2009, you will not be assessed a late file penalty and you can reduce the amount of your late payment penalty and interest that is assessed against your outstanding balance. If you need to establish a payment plan, please call us toll free at (866) 859-2254 (in Helena, 444-6900) as soon as possible to discuss your options and make payment arrangements.

**Line 70 – Your Overpayment.** If there is a tax overpayment (amount on line 63) and it is greater than the amount on line 68, subtract line 68 from line 63 and enter the result on this line.

Married couples filing separately may have a combined overpayment. This results when either both spouses report a tax overpayment (line 63), or one spouse reports a tax overpayment (line 63) that is greater than the other spouse's tax due (line 62). If this is true for you, and the combined overpayment is greater than the amount on line 68, subtract line 68 from line 63 and enter the result on this line.

**Line 71** – Enter the amount of your overpayment from line 70, that you want to be applied to your 2009 estimated taxes.

**Line 72 – Your Refund.** Subtract line 71 from line 70 and enter the result on this line. This is the amount of your refund. Only refunds more than \$1.00 will be issued.

If you wish to use direct deposit, enter your financial institution's routing number (RTN#) and your account number (ACCT#) in the space provided, and indicate whether this account is your checking or savings account. Your routing number will be nine digits and your account can be up to 17 characters (both numeric and alpha). A sample of a personal check is provided for your convenience. If your financial institution is unable to accept the direct deposit, we will mail you a refund check.

John Taxpayer  
Jane Taxpayer  
23 Main Street  
Anyplace, MT 59000  
Pay to the  
Order of \_\_\_\_\_ \$ 1234 Dollars

Anyplace Bank  
Anyplace, MT 59000

Routing Number: 250000009  
Account Number: 20000086

**Do not** include the check number in the account number

Please note that if both spouses are due a refund, each will be mailed a check or two deposits will be made if you are electing to have your refund directly deposited.

**Form 2 - Schedule I - Montana Additions to Federal Adjusted Gross Income**

| Schedule I - Montana Additions to Federal Adjusted Gross Income<br>Enter on the corresponding line your additions to federal adjusted gross income.<br>File Schedule I with your Montana Form 2. |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|--|---|
| 1  | Interest and mutual fund dividends from state, county, or municipal bonds from other states.   | 1  | 1   |
| 2  | Dividends not included in federal adjusted gross income.   | 2  | 2   |
| 3  | Taxable federal refunds. Complete Worksheet II on page 49.   | 3  | 3   |
| 4  | Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at <a href="http://mt.gov/revenue">mt.gov/revenue</a> ). | 4  | 4   |
| 5  | Addition to federal taxable social security and railroad retirement.   |  |   |

**Line 1 – Interest and Mutual Fund Dividends from Other States’ State, County, or Municipal Bonds.**

Enter the interest and dividend income that you received from bonds and obligations of another state, territory or county; municipality; district or other political subdivision of another state.

**Line 2 – Dividends Not Included in Federal Adjusted Gross Income.**

Enter the amount of the dividends that you received as Montana source income that are not already included in your federal adjusted gross income. Please do not include your qualified dividends reported on Montana Form 2, line 9b, since these dividends are already in the total of your ordinary dividends reported on line 9a.

**Line 3 – Taxable Federal Refund.** If you received a 2007 federal income tax refund in 2008 and you claimed federal income taxes paid as an itemized deduction on your 2007 Montana tax return, you may need to report a portion or all of your federal refund as income on your 2008 Montana tax return. This is called the *Tax Benefit Rule*.

To the extent that the federal tax deduction that you claimed on your 2007 Montana income tax return reduced the amount of your 2007 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received it.

**Please Note:** Do not include the federal economic stimulus package rebate you may have received in 2008 as part of your federal refund for the 2007 tax year.

You will need to complete *Worksheet II, Tax Benefit Rule for Federal Income Tax Refund*, to determine whether your federal income tax refund is taxable in 2008, unless one of the following scenarios applies to you:

- If you received a federal income tax refund in 2008 and did not itemize deductions in 2007, none of your federal income tax refund is taxable. Stop here, you do not need to complete *Worksheet II*.
- Your deduction for federal taxes paid in 2007 may have been limited on your Montana tax return to \$5,000 (\$10,000 if filing a joint return). Because of this limitation, your refund may or may not be taxable. A simple way to check this is to subtract the refund that

you received in 2008 from the total federal income taxes paid in 2007 (Form 2, *Schedule III*, lines 7a through 7d or Form 2M, *Schedule I*, lines 7a through 7d). If the result is more than \$5,000 (\$10,000 if you filed a joint return), none of the refund is taxable. Stop here, you do not need to complete *Worksheet II*.

If the result is less than \$5,000 (\$10,000 if you filed a joint return), please complete *Worksheet II* to determine whether your federal income tax refund is taxable.

If you and your spouse filed your federal tax return jointly and are now filing your Montana return separately, you will each need to complete a separate tax benefit rule worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2007 federal income tax deduction to the total federal tax deducted.

**Line 4 – Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income.**

If in 2008, you received a reimbursement of an amount that you previously deducted on your Montana income tax return and this deduction originally reduced the amount of your Montana income tax liability in the year of the deduction, you may need to report as income a portion or all of the reimbursement that you received on your 2008 Montana income tax return. For example, you may have recovered amounts from more than one year, such as a federal income tax refund from 2004 and a casualty loss reimbursement from 2003.

To the extent that these deductions reduced your income tax liability in 2003 and 2004, you are required to include these reimbursements as income in 2008. If you have a reimbursement from a prior year deduction other than your 2007 federal income tax refund, please call us toll free at (866) 859-2254 (in Helena, 444-6900) to get *Worksheet IX, Tax Benefit Rule for Recoveries of Itemized Deductions* or you can download this worksheet from our website at [mt.gov/revenue](http://mt.gov/revenue).

**Line 5 – Addition to Federal Taxable Social Security/ Railroad Retirement.**

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social

security benefits by completing *Worksheet VIII* found on page 55 of this booklet. Before you can complete your social security worksheet, you will need to complete your partial pension and annuity income worksheet, *Worksheet IV* found on page 52.

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

**Line 6 – Sole Proprietor’s Allocation of Compensation to Spouse.** If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report the full amount of your income in column A or B to determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. This allocation will be based on an amount that is equivalent to the services that your spouse provides. It is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

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

Report on this line the amount of income allocated to your spouse and report the offsetting subtraction on *Schedule II*, line 26 in your spouse’s column.

**Line 7 – Medical Care Savings Account Nonqualified Withdrawals.** Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for detailed instructions. You should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions on Form 2, line 66, page 20 and on Form MSA-P for the Montana medical care savings account 10% penalty.

**Line 8 – First-Time Home Buyer Savings Account Nonqualified Withdrawals.** Your nonqualified withdrawal from a Montana first-time home buyer savings account is a withdrawal that you made during the tax year for

any purpose other than to pay for the eligible cost of purchasing your single family residence. You can refer to Montana Form FTB for further detailed instructions. You should report any nonqualified withdrawals from your Montana first-time home buyer savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions for Form 2, line 66, page 20, and on Form FTB-P for the Montana first-time home buyer savings account 10% penalty.

**Line 9 – Farm and Ranch Risk Management Account Taxable Distributions.** The distribution from your Montana farm and ranch risk management account is taxable if that distribution is from a fund that is previously excluded from Montana adjusted gross income as a farm and ranch risk management account deposit or if that distribution was not distributed within five years from the date that your original deposit was made. You can refer to Montana Form RFM for detailed instructions. You should report your Montana farm and ranch risk management account taxable distributions as an addition to federal adjusted gross income on this line.

You may also be subject to a penalty on your farm and ranch management account distribution if it is not distributed within five years from the date of the original deposit. See the instructions for Form 2, line 66, page 20, for the farm and ranch risk management account 10% penalty.

**Line 10 – Dependent Care Assistance Credit Adjustment.** If you have claimed business expenses for providing dependent care assistance on your federal Schedules C, E or F and now are claiming the Montana dependent care assistance credits on *Schedule V*, line 16, you will have to add the amount of the dependent care assistance expenses used to calculate your Montana dependent care assistance credits on Form DCAC as an addition to federal adjusted gross income on this line.

**Line 11 – Addition for Smaller Federal Estate and Trust Taxable Distributions.** Differences between Montana’s laws and the federal laws may mean that the Montana taxable distribution that you received from an estate or trust is greater than your federal taxable distribution from the same estate or trust. If so, the difference is an addition to federal adjusted gross income and you should report it on this line.

**Line 12 – Federal Net Operating Loss Carryover.** The federal net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your Montana net operating loss carryover. On this line, you should record the amount of your federal net operating loss carryover that you reported on line 21, and then compute your Montana net operating loss carryover using Montana Form NOL.

If you have a 2008 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years preceding the loss year and then carry forward the balance of your 2008 net operating loss 20 years following the loss year. The federal special carry back rules apply for farm net operating losses and casualty losses. You may elect to forgo the carry back of your 2008 net operating loss and carry forward that loss. In order to forgo your carry back, you are required to make an election on Montana Form NOL by April 15, 2009—or by October 15, 2009, if you have a valid extension. Once you have made this election, it is irrevocable and you will not be able to carry back your 2008 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, you will need to use Montana Form NOL-Pre-99 to determine your carryover amount.

**Line 13 – Share of Federal Income Taxes Paid by Your S Corporation.** If you are a shareholder in an S corporation that is required to pay a federal income tax on its income, you will have to add to your federal adjusted gross income that portion of your income that has been reduced by the federal income taxes paid by your S corporation. Refer to your federal Schedule K-1 to determine the amount of income that you are required to include as an addition to your federal adjusted gross income.

**Line 14 – Title Plant Depreciation or Amortization.** If you are taking a federal deduction for depreciation or amortization on a title plant, you should add back to your federal adjusted gross income the amount of this

depreciation or amortization when you determine your Montana adjusted gross income.

**Line 15 – Premiums for Insure Montana Credit.** If you were the owner of a business that received a tax credit from the Insure Montana Small Business Health Insurance program, you are not allowed a deduction for the premiums used to calculate the credit. Because the credit cannot exceed 50% of the premiums, multiply the amount of credit you are claiming by two and enter the result this line.

**Line 16 – Other Additions.** Enter any other additions to federal adjusted gross income not described in lines 1 through 15. Some examples of other additions include:

- You may have a passive or rental loss carryover that is larger for federal purposes than for Montana purposes because of differences in state and federal filings in prior years. If this results in a larger passive or rental income reportable on your state return, enter the additional amount here.
- You may have a larger capital loss carryover for federal purposes than for Montana purposes for a similar reason. If this results in larger reportable capital gains, enter the additional amount. Please note that when computing your Montana adjusted gross income, you are allowed to carryover capital losses incurred prior to becoming a Montana resident.
- Compensation and expenditures used to compute the film production credit have to be included in taxable income in the year that the compensation and expenditures were incurred.

**Form 2 - Schedule II - Montana Subtractions from Federal Adjusted Gross Income**

| Schedule II - Montana Subtractions from Federal Adjusted Gross Income<br>Enter on the corresponding line your subtractions from federal adjusted gross income.<br>File Schedule II with your Montana Form 2. |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|--|---|
| 1  | Exempt interest and dividends from federal bonds, notes, and obligations.    | 1  | 1   |
| 2  | Exempt tribal income. Attach Montana Form IND.                               | 2  | 2   |
| 3  | Exempt unemployment compensation.  | 3  | 3   |
| 4  | Exempt workers' compensation benefits.                                       | 4  | 4   |
| 5  | Exempt capital gains and dividends from small business investment companies. | 5  | 5   |
|  | State income tax refunds from Montana Form 2, line 10                        |  |   |

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

amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2, page 1.

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



this interest or mutual fund dividends since they are not exempt under federal law.

United States obligations that are exempt include:

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

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

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

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

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

**Line 3 – Exempt Unemployment Compensation.** If you have received unemployment benefits from Montana or from another state, these benefits are not taxable to Montana. If you reported taxable unemployment benefits on your Form 2, line 19, enter the amount of these benefits on this line.

**Line 4 – Exempt Workers' Compensation Benefits.** Benefits received under the workers' compensation laws are not taxed by Montana. If you reported taxable workers' compensation benefits in your federal adjusted gross income, enter the amount of these benefits on this line.

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

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

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

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

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

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

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

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

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

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

If you and/or your spouse have received any other income that is considered Montana source income (such as wages for services performed in Montana or Montana business income), this income is taxable. You should complete a nonresident Montana income tax return and report both your Montana source and non-Montana source income and then prorate your Montana tax liability on *Schedule IV, Nonresident/Part Year Resident Tax*.

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

The reimbursement that you received is considered a bonus and is included in taxable income for federal income tax purposes. In order to exempt this reimbursement, you will need to have paid the premiums and have served on active duty in a contingency operation after February 28, 2006. The maximum amount of premium reimbursement that you are entitled to exempt cannot exceed \$17.50 a month for each month that you are on active duty in a contingency operation.

**Line 11 – Partial Pension and Annuity (Retirement) Income Exemption.** If you have reported taxable retirement income on your Form 2, lines 15b and/or 16b, you may be entitled to a partial exemption of this income. Before we determine if any of this retirement income is

excluded, we want to first find out if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on *Schedule II*, line 23.

Premature distributions and early withdrawals of your retirement income do not qualify for the retirement income exclusion. Early distributions which required payment of the federal 10% additional tax do not qualify for this exemption. Also, if you have received a disability pension, which is identified as a distribution code 3 on your federal Form 1099-R, you should use Montana Form DS-1, 2008 Disability Income Exemption, to determine your deduction instead of the retirement income exclusion.

If you have received retirement income other than Tier II Railroad Retirement benefits, you should complete *Worksheet IV* on page 52 in order to determine the amount of your exclusion. Your retirement exclusion is limited to the lesser of your taxable retirement income that you have received or \$3,600, as long as your federal adjusted gross income is \$30,000 or less and you are filing a single return, filing jointly with your spouse and only one of you has taxable retirement income, or filing as head of household. If you are filing jointly with your spouse, both of you have retirement income, and your federal adjusted gross income is \$30,000 or less, you both can exclude the lesser of your taxable retirement income that you receive personally or \$3,600 each for a maximum of \$7,200.

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

When your federal adjusted gross income exceeds \$30,000, your retirement exclusion is reduced \$2.00 for every \$1.00 that your federal adjusted gross income is over \$30,000. For example, if your federal adjusted gross income is \$31,000, your retirement exclusion is \$1,600 ( $\$3,600 - (\$1,000 \times \$2.00) = \$1,600$ ). You are not entitled to this retirement income exclusion if your federal adjusted gross income is greater than \$31,800 ( $\$3,600 - (\$1,800 \times \$2.00) = \$0$ ) if you are filing single, married filing separately, or head of household. If you are married and filing jointly, and both spouses have retirement income, then your retirement exclusion is phased out when your federal adjusted gross income is greater than \$33,600 because your maximum retirement exclusion is \$7,200 ( $(\$3,600 - (\$1,800 \times \$2.00)) + (\$3,600 - (\$1,800 \times \$2.00)) = \$0$ ). You should complete *Worksheet IV* on page 52 to determine your partial pension and annuity income exemption.

**Line 12 – Partial Interest Exemption for Taxpayers 65 and Older.** If you are single and are age 65 or older at the end of 2008, you can exempt up to \$800 of the

interest income that you reported in your Montana adjusted gross income.

If you are married and are filing a joint return with your spouse and at least one of you is age 65 or older at the end of 2008, you can exempt up to \$1,600 of the interest income that you reported in your Montana adjusted gross income.

If you are married and filing your return separately and are age 65 or older at the end of 2008, you can exempt up to \$800 of the interest income that you reported in your Montana adjusted gross income. Please note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

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

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

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

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

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

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

**Line 15 – Exemption for Certain Income of Your Child Taxed to the Parents.** If your federal adjusted gross

income included unearned income of a dependent child as determined on federal Form 8814, you may be able to exclude the unearned income from your Montana adjusted gross income. You can exclude the unearned income from your adjusted gross income if your child's gross income does not exceed \$3,920 or they file their own Montana income tax return.

**Line 16 – Exemption for Certain Health Insurance Premiums Taxed to Employee.** If you are a shareholder in an S corporation, you can subtract from your federal adjusted gross income to arrive at your Montana adjusted gross income the cost of your health insurance premiums to the extent they are included in your federal adjusted gross income.

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

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

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

**Line 18 – Exempt Medical Care Savings Account (MSA) Deposits and Earnings.** To determine your Montana adjusted gross income you can subtract from your federal adjusted gross income the amounts that you deposited into a Montana medical care savings

account. Please don't confuse this Montana MSA with the federal health savings account (HSA) that is deductible on Form 2, line 25. You are allowed to participate in both programs. See your federal income tax instructions for information on your federal HSA.

Your Montana medical care savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to \$3,000 plus accumulated interest or other earnings on these funds annually. If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana MSA and you each can exclude up to \$3,000 plus accumulated interest or other earnings on this account annually. To qualify for this exclusion, you will need to establish a separate account that is owned by you alone and is not jointly held with your spouse or any other individuals. In addition, you cannot commingle other funds with this account. Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the payment of qualified medical expenses for you, your spouse or your dependent. Any of these funds withdrawn for other purposes are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

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

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

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

Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the down payment and allowable closing costs for purchasing your single-family residence in Montana. Examples of eligible expenses include down payment, closing costs, realtor's fees, appraisal costs, credit history report, points, prorated property taxes and loan origination fees. If you withdraw any of these funds for other purposes, they are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

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

**Line 20 – Exempt Family Education Savings Account Deposits and Earnings.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of the contributions that you made during 2008 to one or more Montana family education savings accounts or \$3,000. If you are married, both you and your spouse are entitled to exclude up to \$3,000 for contributions that you made to one or more Montana family education savings accounts. This exclusion is allowed only for contributions that you make to a Montana family education savings account that is owned by you, your spouse, your child or stepchild as long as your child or stepchild is a Montana resident. You can not exclude contributions made to another state or private family education saving program.

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

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

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

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

**Line 22 – Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement.** Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana *Worksheet VIII*, found on page 55 of these instructions.

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

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

**Line 24 – Passive Loss Carryover Exclusion Adjustment.** Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were required to recompute the amount of allowable passive loss. This may have resulted in a larger passive loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of passive loss allowed using the federal rules for a married couple filing a joint return. If you have state passive loss carryover from a previous tax year that you can now use under the federal rules, report the adjustment on this line.

**Line 25 – Capital Loss Carryover Adjustment.** Prior to tax year 2007, married taxpayers who filed a joint

federal return, but filed separate Montana returns, were only allowed to claim a capital loss of \$1,500. This may have resulted in a larger capital loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of capital loss allowed using the federal rules for a married couple filing a joint return. If you have state capital loss carryover from a previous tax year that was previously absorbed on your federal return, report the adjustment on this line. The total capital losses that can be claimed is still limited to \$3,000, so a married couple cannot each claim \$3,000.

**Line 26 – Subtraction of Sole Proprietor for Allocation of Compensation to Spouse.** If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report the full amount of your income in column A or B when you determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. This allocation has to be based on an amount that is equivalent to the services that your spouse provides and is considered taxable income to your spouse. This allocation will reduce your taxable income as the sole proprietor of the business.

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

On this line, subtract from your federal adjusted gross income the amount of income allocated to your spouse that is reported by your spouse as an addition to federal adjusted gross income on *Schedule I*, line 6 in his or her column.

**Line 27 – Montana Net Operating Loss Carryover.** The Montana net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your federal net operating loss carryover. You should record the amount of the federal net operating loss carryover that you reported on your Form 2, line 21 on *Schedule I*, line 12 and then compute your Montana net operating loss carryover using Montana Form NOL. Report on this line your Montana net operating loss from Montana Form NOL.

If you have a 2008 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years preceding the loss year and then carry forward the balance of your 2008 net operating loss 20 years following the loss year. The federal special carryback rules apply for farm net operating losses and casualty losses. You can elect to forgo the carryback of your 2008 net operating loss and carry forward that loss.

In order to forgo your carry back, you will have to make an election on Montana Form NOL by April 15, 2009, or, if you have a valid extension, by October 15, 2009. Once you have made this election, it is irrevocable and you will not be able to reverse your election and carry back your 2008 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, use Montana Form NOL-Pre-99 to determine your carryover amount.

**Line 28 – 40% Capital Gain Exclusion for Pre-1987 Installment Sales.** If you have an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be allowed to exclude 40% of this capital gain from your federal adjusted gross income when you determine your Montana adjusted gross income. Complete *Worksheet III*, found on page 52, to determine your capital gain exclusion and then report the amount here.

**Line 29 – Subtraction for Business Related Expenses for Purchasing Recycled Material.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income 10% of the expenses that your business paid for purchasing recycled products. This deduction is allowed only to businesses within Montana. It applies to products purchased that contain recycled material at a level consistent with industry standards and/or consistent with the standards established by the federal Environmental Protection Agency. If you are a shareholder in an S corporation, a partner in a partnership, or a member or manager of a limited liability company, the share of this additional deduction allowed for your entity is based on the same proportion that you used to report your income or loss from your ownership in that entity for Montana income tax purposes.

**Line 30 – Subtraction for Sales of Land to Beginning Farmers.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income 100% of your income or capital gain (up to a maximum of \$50,000) that you recognized from the sale to a beginning farmer of at least 80 acres or more of land at 9% or less interest on a long-term contract. To qualify for this deduction, you need to apply to and be approved by the Agricultural Loan Authority of the Montana Department of Agriculture. You will need to attach a copy of this approval to your individual income tax return. To learn more about the Montana Beginning Farm/Ranch Loan Program, you can call the agricultural finance program manager of the Montana Department of Agriculture at (406) 444-2402 or visit the website at [agr.mt.gov/business/bfrprog.asp](http://agr.mt.gov/business/bfrprog.asp).

**Line 31 – Subtraction for Larger Federal Estate and Trust Taxable Distribution.** Differences between Montana law and federal law may mean that the Montana taxable distribution that you received from an estate or trust is less than your federal taxable distribution from the

same estate or trust. If so, the difference is a subtraction from federal adjusted gross income, and you should report it on this line.

**Line 32 – Subtraction for Wage Deduction Reduced by the Federal Targeted Jobs Credit.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income all wages and salaries paid by your business that were reduced for federal income tax purposes because of the fact that you applied for the federal targeted jobs credit on your federal income tax return. This additional deduction should be claimed in the tax year that you paid the wages, using the salaries that you used to calculate your federal targeted jobs credit.

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

**Line 33 – Subtraction for Certain Gains Recognized by a Liquidating Corporation.** When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income that portion of your gain from the liquidation of a reporting corporation to the extent that this gain is included in the gross income of the liquidating corporation's Montana corporate license tax return.

**Line 34 – Other Subtractions.** Enter any other subtractions to federal adjusted gross income not described in lines 1 through 33. For example, if you received a death benefit payment from the Montana Department of Military Affairs because you are the survivor of a member of the National Guard who died while on state active duty orders, that amount is exempt from state taxes in Montana. Enter the amount that was included in your federal adjusted gross income.

## Form 2 - Schedule III - Montana Itemized Deductions

| Schedule III - Montana Itemized Deductions   |   |   |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|---|---|---|--|---|
| Enter on the corresponding line your itemized deductions.<br>File Schedule III with your Montana Form 2. |   |   |   |  |   |
| 1  | Medical and dental expenses.  | ▶ | 1 |  |   |
| 2  | Enter amount from Form 2, line 41.  | ▶ | 2 |  |   |
| 3  | Multiply line 2 by 0.075 (7.5%).  | ▶ | 3 |  |   |
| 4  | Subtract line 3 from line 1 and enter result here but not less than zero.<br>This is your deductible medical and dental expense subject to 7.5% of Montana AGI. | ▶ | 4 |  |   |
| 5  | Medical insurance premiums not deducted elsewhere on your return.   | ▶ | 5 |  |   |

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

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

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

**Line 1 – Medical and Dental Expenses.** Enter your medical and dental expenses paid in 2008 after you have deducted from these expenses any payments that you received from your insurance company or other sources. These expenses are the same medical and dental expenses that are allowed under the Internal Revenue Code with the exception of the following expenses that are not deductible on line 1:

- medical insurance and long-term care insurance premiums paid in 2008 that are claimed as a deduction on *Schedule III*, lines 5 and 6
- health insurance premiums that are paid by your employer and are excluded from federal adjusted gross income in determining Montana adjusted gross income on *Schedule II*, line 16
- medical and dental expenses paid with funds withdrawn from your Montana medical care savings account

**Lines 2 and 3** – Your medical and dental expenses reported on *Schedule III*, line 1, should be reduced by 7.5% of your Montana adjusted gross income. Enter on line 2, the amount that you reported on Form 2, line 41. Multiply the amount on line 2 by 7.5% (0.075) and enter the result on line 3.

**Line 4 – Deductible Medical and Dental Expenses.**

Subtract line 3 from line 1 and enter the result on line 4, but do not enter an amount less than zero. This is your allowable deduction for medical and dental expenses.

**Line 5 – Medical Insurance Premiums.** If you pay your own medical insurance premiums for coverage for yourself and your family, you may be eligible to deduct 100% of these medical insurance premiums. To determine whether you can deduct 100% of your medical insurance premiums, you have to meet the following criteria:

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

social security benefits are 100% deductible on this line.

- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on this line.

**Line 6 – Long-Term Care Insurance Premiums.** If you pay for long-term care insurance premiums, you may be eligible to deduct 100% of the long-term care insurance premiums that you paid. In order to deduct 100% of your long-term care insurance premiums, you have to meet the following criteria:

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

**Lines 7a through 7e – Federal Income Tax Deduction.**

Montana allows federal income taxes paid during the year as an itemized deduction. This does not include any state income taxes you may have paid to Montana or any other state even if you were able to deduct them on your federal return. Additionally, this does not include any self-employment taxes you have paid during the year.

As described below, the amount you can claim may be limited based on your filing status.

Complete lines 7a through 7e if you are electing to claim a deduction for federal income taxes paid in 2008.

**Line 7a – Federal Income Tax Withheld.** Enter the total amount of federal income tax withheld that was reported to you on your federal Forms W-2 and/or 1099. If you are married filing separately with your spouse, your federal income tax withheld should be reported by the spouse who earned the income. Do not include in this total the amount of the self-employment tax that you paid.

**Line 7b – Federal Estimated Tax Payment Paid in 2008.** Enter the total amount of the federal estimated income tax payments that you made in 2008. When you claim federal estimated tax payments, you should attach a copy of your federal Form 1040 or 1040A, pages 1 and 2.

**Line 7c – 2007 Federal Income Taxes Paid in 2008.**

Enter the balance of the total amount of the 2007 federal income tax that you paid in 2008.

**Line 7d – Additional Back Year Federal Income Taxes Paid in 2008.**

Enter the total amount of additional back year federal income taxes that you paid in 2008. For example, you may have paid additional 2006 federal income taxes in 2008.

**Line 7e – Federal Economic Stimulus Package Rebate.**

Enter the federal economic stimulus payment you received in 2008.

The economic stimulus payment you received in tax year 2008 is not taxable for federal or state income tax purposes. Please note however that if you itemize your deductions for state income tax purposes for tax year 2008, your *federal income taxes paid* deduction may be reduced because of this rebate.

Here are a couple of scenarios to help you determine if the federal tax rebate will impact your Montana income tax situation. Please keep in mind that the maximum allowable deduction for federal income taxes paid for Montana individual income tax purposes is \$5,000 for single, head of household, or married filing separately, and \$10,000 for married filing jointly.

- If your itemized deduction for federal income taxes paid is below the threshold for your filing status, your deduction for federal income taxes paid on your state tax return will be reduced by the amount of the rebate.
- If your itemized deduction for federal income taxes paid exceeds the threshold for your filing status, your deduction for federal taxes paid on your state tax return most likely will not be impacted because your deduction has already surpassed the maximum allowable amount. The exception would be if the federal tax rebate decreases the amount of your itemized deduction so that it now falls below the threshold for your filing status.

**Line 7f – Federal Income Tax.** Add lines 7a through 7d and then subtract line 7e. If the result is greater than \$10,000 and you file your Montana return jointly with your spouse, or the result is greater than \$5,000 and you file your return using another filing status, the following limitations apply. If the limitations do not apply, enter the result but not less than zero.

Your federal tax deduction is limited as follows:

- If your filing status is single, married filing separately or head of household, you should deduct the lesser of \$5,000 or the sum of lines 7a through 7d minus line 7e. If you are married filing separately on the same form or on separate forms, you each are limited to the \$5,000 federal tax deduction and you cannot arbitrarily allocate this deduction between spouses.



- If you file your Montana income tax return jointly with your spouse, your federal income tax deduction is limited to the lesser of \$10,000 or the sum of lines 7a through 7d minus line 7e.

**Line 8 – Local Income Taxes Paid in 2008.** Enter any local income taxes that you paid in 2008. No city in Montana imposes a local income tax so a Montana resident would be unlikely to take this deduction.

**Line 9 – Real Estate Taxes Paid in 2008.** Enter any real estate taxes that you paid in 2008 on real estate that you own and that was not used for business. If you qualify and then apply for the elderly homeowner/renter credit, do not confuse this amount with the amount of your property tax billed that is used to determine the amount of your elderly homeowner/renter credit. See Montana Form 2EC for information on the Montana elderly homeowner/renter credit.

**Line 10 – Personal Property Taxes Paid in 2008.** Enter any personal property taxes that you paid in 2008. In order to claim this deduction, these personal property taxes have to be based on value and charged on a yearly basis.

Your motor vehicle taxes that are based on the vehicle's value are considered a personal property tax and are deductible on this line. Your motor vehicle fees that are not based on the vehicle's value are not deductible with the exception of the Montana light vehicle registration fee that is deductible—even though it is based not on the vehicle's value, but on the age of the vehicle. However, any light vehicle registration fee that you pay to another state is not deductible on your Montana return. The taxes and fees that are listed on your Montana vehicle registration receipt that are deductible on this line include codes 14-COOPT and 61-LVREG.

**Line 11 – Other Deductible Taxes.** Enter any other deductible taxes that you paid in 2008 and that you did not report on lines 7a through 10. When you claim these other deductible taxes, list on this line the type and amount of tax that you paid.

Taxes you may be able to deduct include state and local sales taxes, generation skipping transfer taxes imposed on income distributions, and taxes paid to a foreign country. Please note that you can only deduct state and local sales taxes and foreign taxes on your Montana return if you elected to claim them as a deduction on your federal return. Also, none of the resort, accommodations or similar taxes collected in Montana qualify as a general sales tax under the federal definitions so they cannot be deducted.

You cannot take a deduction on your Montana individual income tax return for the following taxes that you paid in 2008: state income, federal excise, social security, Medicare, gasoline, lodging, alcoholic beverage, cigarette, tobacco, or selective sales taxes. Also, you

cannot take a deduction for certain license fees paid in 2008—such as hunting, fishing or driver's license fees.

**Line 12 – Home Mortgage Interest.** Enter your home mortgage interest and points allowed by federal law that were reported to you on your federal Form 1098.

**Line 13 – Home Mortgage Interest Not Reported on Federal Form 1098.** Enter any home mortgage interest that you paid that was not reported on your federal Form 1098. If you bought your home from another person, write that person's name, social security number and address in the space provided.

**Line 14 – Points Not Reported to You on Federal Form 1098.** Enter any points that you paid that were not reported to you on federal Form 1098.

**Line 15 – Qualified Mortgage Insurance Premiums.** Individuals who entered into a contract issued after December 31, 2006 for qualified mortgage insurance are allowed to claim the premiums paid during the year as an itemized deduction. Qualified mortgage insurance means insurance provided by the Veterans Administration, the Federal Housing Administration, the Rural Housing Administration or private mortgage insurance. In order to be eligible, the loan must have been issued after 2006 for you to buy or build your primary residence and the loan must be secured by that residence. Insurance on a loan not used to build or buy a residence such as an equity loan used to consolidate debt is not eligible even if the loan is secured by your residence. Mortgage insurance premiums you paid or accrued after December 31, 2006, or that are properly allocable to any period after December 31, 2006 are deductible as home mortgage interest.

The deduction amount you can claim on your Montana tax return is the same amount you can claim on your federal tax return. If you did not itemize your deductions on your federal return, complete the [Qualified Mortgage Insurance Premium Worksheet](#) on page 53 to determine the amount you can deduct. Married taxpayers filing separately in Montana may allocate the total allowable amount between both spouses.

**Line 16 – Investment Interest.** Enter the investment interest deduction that you computed on your federal Form 4952. If you and your spouse are filing separately, you should compute your investment interest deduction on federal Form 4952 separately. You cannot use your interest expense that is related to exempt income when you compute your investment interest deduction.

**Line 17 – Contributions Made by Cash or Check.** The contributions allowed as a deduction in computing your net income for Montana income tax purposes are those same contributions allowed as a deduction for federal income tax purposes—with the following exceptions:

- Your contributions made in 2008 to the Montana veterans' service special revenue account, the Montana state veterans' cemetery program, or the surcharge for the purchasing of the Montana patriotic specialty license plate are included as an itemized deduction on your Montana income tax return as long as you did not already include these contributions as part of your federal contribution deduction. For further instructions about this contribution, see Montana Form VT. This form is available at [mt.gov/revenue](http://mt.gov/revenue).
- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contributions that are allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.
- Any portion of a contribution that you used to calculate your developmental disability account contribution cannot also be claimed as a contribution deduction.

Enter your contributions made by cash or check on this line.

**Line 18 – Contributions Made Other Than by Cash or Check.** Your non-cash contributions allowed as a deduction for Montana income tax purposes are those same non-cash contributions that are allowed as a deduction for federal income tax purposes—with the following exceptions:

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

Enter your non-cash contributions on this line.

**Line 19 – Contribution Carryover From the Prior Year.** Enter any contribution carryover amounts that you were not allowed to deduct in an earlier year because they exceeded your Montana adjusted gross income limitation.

**Line 20 – Child and Dependent Care Expense.** If you pay for household or dependent care services for a child under the age of 15, or for a disabled dependent while you are searching for gainful employment, or while you and your spouse both were at work, you can qualify for a child and dependent care expense deduction.

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

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

If you are married and filing separately on the same form with your spouse, your deduction has to be divided equally between both spouses. If you are married and filing separately on separate forms, or your spouse is not filing, you cannot qualify for this deduction.

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

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

**Line 21 – Casualty and Theft Loss.** If you have a casualty and/or theft loss, you should complete federal Form 4684 to figure the amount of the Montana loss that you can enter on this line. To determine your casualty and/or theft loss, you should use your Montana adjusted gross income in place of the federal adjusted gross income. And if you are filing separately with your spouse, you each should complete a separate federal Form 4684 to determine the amount of your separate casualty and/or theft loss.

**Line 22 – Unreimbursed Employee Business Expenses.** When you deduct unreimbursed employee business expenses on your Montana income tax return, you should use the same expenses that are allowed on your federal income tax return. To claim these expenses, complete federal Form 2106 or 2106EZ. Because you can claim only your own unreimbursed employee business expenses and not those of your spouse, when you and your spouse file your returns separately, you should report your own employee business expenses in the column that is associated with your income and expenses.

**Line 23 – Other Expenses.** Enter other expenses that are allowed on your federal income tax return. Examples of these expenses include, but are not limited to, your tax preparation fee, certain legal and accounting fees, clerical help, office rent, and custodial fees.

**Line 24** – Add lines 22 and 23; enter the result on this line.

**Lines 25 and 26** – Your unreimbursed employee business expenses and other expenses reported on lines

22 and 23 are deductible only to the extent that these expenses exceed 2% of your Montana adjusted gross income. Enter on line 25 the amount that you reported on Form 2, line 41. Multiply the amount on line 25 by 2% (0.02) and enter the result on line 26.

**Line 27** – Subtract line 26 from line 24 and enter the result on this line, but not less than zero. This is the amount of your unreimbursed employee business expenses and other expenses that are deductible in computing your net income.

**Line 28 – Political Contributions.** When you compute your net income, you can take a deduction for political contributions that you made during the year. These contributions are limited to a total of \$100 for yourself and, if married, a total of \$100 for your spouse. To qualify for this deduction, your contribution of money has to be made to:

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

**Line 29 – Other Miscellaneous Deductions Not Subject to 2% of Montana Adjusted Gross Income.**

When you compute your net income, you can take a deduction for other miscellaneous expenses that are not subject to 2% of your Montana adjusted gross income.

These deductions are the same deductions that are allowed on your federal income tax return. They include a deduction for expenses paid in purchasing organic fertilizer and inorganic fertilizer that is produced as a by-product of mining or industrial operations in Montana. Other deductions you may be allowed are per capita livestock fees imposed for enforcement of the livestock laws of the state and for the payment of bounties on wild animals.

**Line 30 – Gambling Losses.** You can take a deduction for gambling losses that you incurred during the year. These losses are allowed only to the extent of the gambling winnings that you have reported on Form 2, line 21. If you are married and you and your spouse are filing your Montana return separately, the spouse who claims the gambling winnings on Form 2, line 21 should report the gambling losses on this line.

**Line 32 – Itemized Deduction Worksheet.** If the Montana adjusted gross income that you reported on Form 2, line 41 is more than \$159,950 (or more than \$79,975 when you are married filing your returns separately), your total itemized deductions reported on line 31 may be limited. Complete *Worksheet VI* on page 53 in these instructions to determine the portion of the itemized deductions that you reported on line 31 that are not deductible because you exceeded the Montana adjusted gross income limitations above.

**Line 33 – Allowable Itemized Deductions.** The amount of your allowable itemized deductions is the result of subtracting line 32, which is the total of your disallowed itemized deductions, from line 31, which is your total itemized deductions. Enter this result on Form 2, line 42.

**Form 2 - Schedule IV - Nonresident/Part-Year Resident Tax**

| Schedule IV - Nonresident/Part-year Resident Tax  |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|---|---|--|---|
| Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and line 38. |   |  |   |
| File Schedule IV with your Montana Form 2.  |   |  |   |
| 1   | Montana wages, salaries, tips, etc. included on Form 2, line 7.   | 1  | 1   |
| 2   | Montana taxable interest included on Form 2, line 8a.   | 2  | 2   |
| 3   | Montana ordinary dividends included on Form 2, line 9a.   | 3  | 3   |
| 4   | Montana taxable refunds, credits, or offsets of state and local income taxes included on Form 2, line 10. |  |   |

If you are a nonresident or a part-year resident, you are subject to the same filing requirements as a resident unless you are specifically exempt. If you are unsure of your residency status, see page 3 of the instructions to determine whether you are a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes. These instructions will also show how you can determine your legal residence for Montana income tax purposes.

When you file your Montana income tax return as a nonresident or as a part-year resident, you should complete your Montana Form 2, lines 1 through 48, and Form 2, *Schedules I, II and III* as though you were a resident reporting your total Montana and non-Montana source income. After you have determined your preliminary resident tax after capital gains tax credit on Form 2, line 48, you should complete Form 2,

**Schedule IV** to determine your nonresident, part-year resident tax after capital gains tax credit.

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

**For example:** Suppose you relocated to Montana and established your residency July 1, 2008. You are filing your 2008 Montana income tax return as a part-year resident of Montana reporting wages earned both within and outside of Montana, along with interest and dividends that you earned throughout the year. For the period of January 1 through June 30, your wages, interest and dividends are not considered Montana source income. The wages, interest and dividends that you received on or after July 1, 2008 are Montana source income and are taxable to Montana.

If you are a nonresident servicemember of the United States armed forces living in Montana solely by reason of compliance with your military orders, the Servicemembers Civil Relief Act allows you and your spouse to maintain your original state of residency and it does not require you to establish residency in Montana. Any compensation that you received for military service is not Montana source income and should not be used to determine your nonresident, part-year resident tax after capital gain tax credit. Refer to the instructions for Form 2, **Schedule II**, line 9 on page 27, for the treatment of your military income.

### Reporting Your Montana Source Income

**Lines 1 through 16** – In general, as a nonresident of Montana, your Montana source income is all the income that you received for work that you performed in Montana, income that you received from real or personal property that is located in Montana, and income that you received from a business conducted in Montana.

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

Only report amounts included in the calculation of adjusted gross income for the current year when you complete **Schedule IV**. A loss incurred in a prior year affects the amounts reported only if it is included in a carryover amount that reduces income in the current year.

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

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

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

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

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

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

If you are a part-year resident, enter all of the dividends that you received or accrued during the period of time that you were a Montana resident in 2008 and that are included in your total on Form 2, line 9a.

**Line 4 – Montana Source Taxable Refunds or Other Recoveries.** If you are a nonresident or a part-year resident and you have a taxable federal income tax refund or a recovery of an amount deducted in 2007 that is reported on Form 2, **Schedule I**, line 3, enter that portion of your federal income tax refund and/or recovery that is determined to be Montana source income.

To determine that portion of your federal refund and/or recovery that is Montana source income, use the ratio of your Montana source income to total income that was reported on your **2007 Schedule IV**, line 19. If you did not have any Montana source income in 2007 and you were not required to file a 2007 Montana income tax return, your federal income tax refund and/or recovery is not Montana source income.

If, in 2008, you received a taxable federal refund and/or recovery of a prior year deduction from a year other than tax year 2007, use the ratio of your Montana source income to total income that was determined in the year of the deduction.

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

If you are a part-year resident, enter that portion of the alimony that you received during the period that you were a Montana resident in 2008 and that is included in your federal adjusted gross income on Form 2, line 11.

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

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

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

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

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

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

located in Montana during the period of time that you were a nonresident.

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

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

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

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

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

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

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

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

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

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

If you are a part-year resident, enter only the portion of the taxable social security benefits received during the part of the year that you were a resident and that are included in your total on Form 2, line 20b. You should calculate your portion of taxable social security benefits by dividing the amount reported on Form 2, line 20b, by 12 months and then multiply this result by the number of months you were a resident of Montana in 2008. You will need to complete the social security *Worksheet VIII* on page 55 in order to determine your Montana source taxable social security benefits.

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

- Montana lottery winnings
- Non-employee compensation

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

- **Federal tax refunds.** If you received a federal income tax refund in 2008 and are now required to include this refund as income on Form 2, *Schedule I*, line 3, a portion of this refund may be considered Montana source income. To determine this portion, multiply the amount of the taxable federal refund that you reported on Form 2, *Schedule I*, line 3 by the percentage that you reported on Form 2, *Schedule IV*, line 19 of your 2007 Montana individual income tax return.
- **Recapture of a prior year tax benefit.** If you received a refund in 2008 of an amount that you claimed as a deduction in a prior year, you are now required to include this amount as income on Form 2, *Schedule I*, line 4. A portion of this refund may be considered Montana source income. To determine this portion, multiply the amount on your Form 2, *Schedule I*, line 4 by the percentage of your Montana source income divided by your total income from all sources that you reported on Form 2, *Schedule IV*, for the year in which you claimed this deduction.

- **Medical care savings account nonqualified withdrawals.** The amount that you deposited into your Montana medical care savings account while you were a resident maintains its character as Montana source income as long as you don't withdraw it to pay for eligible medical expenses prior to the time that you establish your residency elsewhere.
- **First-time home buyer savings account nonqualified withdrawals.** The amount that you deposited into your Montana first-time home buyer savings account while you were a resident maintains its character as Montana source income. If you have not used these funds to purchase a home in Montana prior to establishing residency elsewhere, these funds are Montana source income and taxable to Montana.

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

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

**Line 21 – Nonresident, Part-Year Resident Tax after Capital Gains Tax Credit.** After you have finished completing Form 2, *Schedule IV* and have determined the amount of your nonresident, part-year resident tax after capital gains tax credit, enter that amount on Form 2, line 48a and then proceed to line 49. The instructions for lines 49 through 72 begin on page 17.

## Form 2 - Schedule V - Montana Tax Credits

| Schedule V - Montana Tax Credits   |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|---|--|---|
| Enter on the corresponding line your Montana tax credits.<br>File Schedule V with your Montana Form 2. |   |  |   |
| Nonrefundable credits that are single-year credits and HAVE NO carryover provision                     |   |  |   |
| 1  | Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10. | 1  | 1   |
| 2  | College contribution credit. Attach Form CC.  | 2  | 2   |
| 3  | Qualified endowment credit. Attach Form QEC.  | 3  | 3   |
| 4  | Energy conservation installation credit. Attach Form ENRG-C.  | 4  | 4   |

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

- **Nonrefundable single-year credits.** Your nonrefundable single-year credits can only be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion of your nonrefundable single-year credits that exceeded your 2008 income tax liability cannot be carried forward or carried backward to other tax years.
- **Nonrefundable carryover credit.** Your nonrefundable carryover credits can be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit. These credits cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2008 income tax liability can be carried and used to offset future year tax liabilities.
- **Refundable credits.** Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

### Nonrefundable Single-Year Credits, Lines 1 through 11

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

If you are a full-year resident and you paid an income tax to another state or country on income that is also taxable to Montana, you may be entitled to a credit against your Montana income tax liability for these income taxes paid to another state or country. If you claimed the foreign tax credit on your federal tax return, you can claim this credit for foreign taxes on your Montana tax return only if you have unused federal credit that is not eligible to be carried back or carried forward to another tax year. If

you are a resident and have unused federal credit or paid tax to another state, you will need to complete Form 2, **Schedule VI** to determine your available credit.

If you are a part-year resident and you paid an income tax to another state or country on income that is also taxable to Montana and if you included it as Montana source income on Form 2, **Schedule IV**, lines 1 through 16, you may be entitled to a credit against your Montana part-year resident income tax liability for these income taxes paid to another state or country. If you claimed the foreign tax credit on your federal tax return, you can claim this credit for foreign taxes on your Montana tax return only if you have unused federal credit that is not eligible to be carried back or carried forward to another tax year. If you are a part-year resident and have unused federal credit or paid tax to another state, you will need to complete Form 2, **Schedule VII** to determine your available credit.

If you are a shareholder of an S corporation or a partner in a partnership and your S corporation or partnership pays an income tax to another state or country, you can claim a credit for your share of these income taxes paid by the entity. In order for you to claim this credit, however, the income tax paid by the S corporation or partnership has to be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the S corporation or partnership as long as they are imposed on and measured by net income. However, you are not allowed to use other taxes paid by your S corporation or partnership such as, but not limited to, franchise or license taxes or fees that are not imposed on or measured by net income, gross receipt taxes or gross sales taxes. When you claim this credit for the taxes paid by your S corporation or partnership, you will have to add back to your federal adjusted gross income in determining your Montana adjusted gross income, on Form 2, **Schedule I**, line 13, your share of the S corporation's or partnership's federal tax deduction that is included in your total on Form 2, line 17. This is required whether or not your S corporation or partnership separately or non-separately stated the income tax deduction on your federal Form K-1.

If you are required to file an income tax return in more than one state or country and you are entitled to this

credit, you will have to complete a separate Form 2, *Schedule VI or VII* for each state or country in which you filed an income tax return and paid an income tax on income that is also taxed to Montana.

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

When calculating this credit on Form 2, *Schedule VI*, you cannot include in your income tax liability paid to the other state or country on line 4, any penalties and interest that you paid to the other state or country.

**Line 2 – College Contribution Credit.** You can claim a credit against your income tax liability for contributions that you made in 2008 to a general endowment fund of the Montana University System foundations, or a Montana private college or its foundation. Your credit is equal to 10% of the contribution that you made with a maximum credit allowed of \$500.

In order to qualify for this credit, your contribution has to be made to a Montana college or university that offers a baccalaureate degree level education program. In addition to this credit, your contribution may also be claimed as an itemized deduction on Form 2, *Schedule III*, line 18.

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

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

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

For further instructions on the qualified endowment credit, and to calculate this credit, see Montana Form QEC. Visit the Governor's Task Force on Endowed Philanthropy

website at [endowmentmontana.org](http://endowmentmontana.org) to learn more about the endowments statewide. When you claim this credit, you will have to attach a copy of Montana Form QEC to your income tax return.

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

In order to qualify for this credit, you will have to show that the investments make your home or building use energy more efficiently. It does not mean simply switching to an energy source that is less expensive or free (investments of this nature may qualify for the alternative energy system credit). If you are unable to provide this documentation and verification, you will not be allowed to take this credit.

For further instructions and a list of investments that qualify for the energy conservation credit, see Montana Form ENRG-C. In addition, please refer to our website at [mt.gov/revenue](http://mt.gov/revenue) and look for the "Energy Related Tax Relief" icon for information such as specific examples of what investments may or may not qualify. When you claim this credit, you will have to attach a copy of Montana Form ENRG-C to your income tax return.

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

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

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

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



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

You are required to begin your practice at least nine months before the end of your tax year to be eligible for the credit your first year and you cannot claim the credit in the year that you cease your practice. If you close your practice in the rural area within four years of claiming this credit, you will be required to repay to the state the amount of the credit that you claimed in the prior year(s). See instructions on page 17 for Form 2, line 52 for the repayment of the rural physician's credit.

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

- Date your practice began
- Street address and city of the location where you began your practice
- Professional area of your medical practice, for example "family practice"
- Location of the nearest hospital

**Important:** The 2007 Montana Legislature enacted legislation impacting this credit. As a result of the changes, 2007 was the last year you could have established a practice that would qualify for the credit. You can continue to claim the credit after 2007, but only if you began your practice before January 1, 2008.

**Line 7 – Health Insurance for Uninsured Montanans Credit.** You can claim a credit against your income tax liability if your business provides health insurance coverage for its employees. Your credit is a percentage of the premium payments that you made throughout the year for a maximum credit of up to \$3,000 per year.

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

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

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

**Please note:** If you are using insurance premiums to calculate the Insure Montana small business health credit (which is a separate credit), these premium payments

cannot be used to calculate the health insurance for this credit.

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

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

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

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

**Line 9 – Recycle Credit.** You can claim a credit against your income tax liability for the investment that your business makes in depreciable equipment or machinery that you use to collect, process or manufacture a product from reclaimed material. Your credit is equal to 25% of the first \$250,000 invested in the property, 15% of the next \$250,000 invested, and 5% of the next \$500,000 invested. You are not entitled to any additional credit for property that exceeds \$1 million.

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

**Line 10 – Oilseed Crushing and Biodiesel/ Biolubricant Production Facility Credit.** You can claim a credit for the cost of investments in qualifying depreciable property used to crush oilseed crops for the purpose of making biodiesel fuel or biolubricant, or used to construct or equip a facility in Montana to be used for producing biodiesel or biolubricant. This credit can be carried over for seven succeeding years if the facility is crushing oilseed during that tax period. If the facility for which the credit is claimed ceases operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. For detailed instructions, see Form OSC. If this credit is claimed, attach a copy of Form OSC to the tax return.

**Line 11 – Biodiesel Blending and Storage Credit.** You can claim a credit for the cost of investments in depreciable property used for storing or blending biodiesel made from Montana products with petroleum diesel for sale. This credit can be carried over for seven

succeeding tax years if the facility is blending or storing biodiesel for blending. If the facility ceases blending biodiesel for sale for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. If the facility's biodiesel sales are not at least 2% of all diesel sales by the end of the third year after the credit is initially claimed, the credit is subject to recapture. For detailed instructions, see Form BBSC. If this credit is claimed, attach a copy of Form BBSC to the tax return.

### Nonrefundable Carryover Credits, Lines 12 through 24

**Line 12 – Contractor's Gross Receipts Tax Credit.** You can claim a credit against your income tax liability for the public contractor's gross receipts tax that your business paid. Your credit is the gross receipts tax you paid throughout the year after you have applied your gross receipts tax against your personal property taxes.

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

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

**Line 13 – Geothermal Systems Credit.** If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing a geothermal system in your principal home. The amount of the credit cannot exceed \$1,500 and is applied in the year that you installed your geothermal system. The balance of your credit that is not used can be carried forward and applied against subsequent income tax liabilities for a period of seven years.

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

**Line 14 – Alternative Energy Systems Credit.** If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system that uses a recognized nonfossil form of energy such as, but not limited to, solar energy, wind energy, solid waste, and organic waste in your principal home. Your credit cannot exceed \$500 per taxpayer and any balance of your credit that is not used in 2008 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system using a low emission wood or biomass combustion device, such as a pellet or

wood stove in your principal home. Your credit cannot exceed \$500 per taxpayer and any balance of your credit that is not used in 2008 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

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

**Line 15 – Alternative Energy Production Credit.** You can claim a credit against your income tax liability for an investment of \$5,000 or more that your business makes in depreciable property for the use of a commercial system or a net metering system that is located in Montana and that generates energy by means of an alternative renewable energy source.

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

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

**Line 16 – Dependent Care Assistance Credit.** If you are an employer in Montana, you can claim a credit against your income tax liability for the amount that you paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available to you that qualify for this credit, including:

- A dependent care assistance credit.
- A dependent care information and referral service credit.
- A day care facilities credit—In order to claim the credit under this program, the facility must have been placed in operation before January 1, 2006.

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

**Line 17 – Historic Property Preservation Credit.** You can claim a credit against your income tax liability equal to 25% of your federal rehabilitation credit that is provided in IRC Section 47(a)(2) for the preservation of a qualified historic building. When you claim this credit, you will have to attach a copy of your federal Form 3468 to your income tax return.

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

**Line 18 – Infrastructure Users Fee Credit.** You can claim a credit against your income tax liability for the infrastructure users fee paid to a local government. Your credit is calculated based on the infrastructure fees paid by your new business to a local government.

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

**Line 19 – Empowerment Zone Credit.** You can claim a credit against your income tax liability if you are an employer who has a business in an empowerment zone. The credit is based on the number of qualifying new employees and is equal to \$500 for each qualifying employee in the first year of employment, \$1,000 for each qualifying employee in the second year of employment, and \$1,500 for each qualifying employee in the third year of employment. To be eligible for this credit, you have to be certified by the Montana Department of Labor and Industry.

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

**Line 20 – Increasing Research Activities Credit.** You can claim a credit against your income tax liability for the increase in qualified research expenses and basic research payments that your business conducted in Montana. Your credit is determined in accordance with Section 41 of the Internal Revenue Code, except that the percentage rate for your Montana credit is 5%.

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

**Line 21 – Mineral Exploration Incentive Credit.** You can claim a credit against your income tax liability for the certified expenditures for mining exploration activities involving mineral and coal deposits. Your credit cannot exceed 50% of that portion of your tax liability that is related to the production from the mining operation for which the exploration activity occurred.

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

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

**Line 22 – Film Employment Production Credit.** You can claim a credit against your income tax liability for employing residents of Montana in a state-certified production. The credit is equal to the sum of 14% of the first \$50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

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

- applying the credit against your income tax liability by reporting it on Form 2, *Schedule V*, line 22 and carrying forward any unused credit to be applied against your income tax liability in subsequent years, or
- applying the credit against your income tax liability by reporting it on Form 2, *Schedule V*, line 26 in which any unused credit is refunded to you.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, *Schedule I*, line 16 (Other Additions) on page 25.

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

**Line 23 – Adoption Credit.** You can claim a credit against your income tax liability if you finalized the adoption of an eligible child in 2008. An eligible child is:

- any child under age 18, or
- any disabled person physically or mentally unable to take care of himself or herself.

The amount of the credit is \$1,000 per child. If the amount of the credit exceeds your tax liability for 2008, you can carry forward the unused credit to the next five tax years.

For Montana purposes, this carry forward applies only to adoptions that were finalized on or after January 1, 2007. Therefore, you are not eligible for this credit if you finalized an adoption before January 1, 2007 but have unused federal adoption credit that you are carrying forward. Attach a copy of federal Form 8839.

### Refundable Credits, Lines 25 through 30

**Line 25 – Elderly Homeowner/Renter Credit.** The Montana elderly homeowner/renter credit is a property tax relief program that provides you with a refundable credit if you are age 62 or older, have resided in Montana for at least nine months during the year, occupied a Montana residence for at least six months during the year, and your gross household income is less than \$45,000.

For further instructions on the elderly homeowner/renter credit, and to calculate this credit, see Form 2EC and Form 2EC instructions on page 47.

**Line 26 – Film Employment Production Credit.** You can receive a refundable film employment production credit if you made the one time election to apply the credit against your income tax liability and requested a refund of the unused credit by reporting it on this line. You can also elect to carry forward your credit. If you have made this election, see Form 2, *Schedule V*, line 22 for further details and instructions.

The film employment production credit is equal to the sum of 14% of the first \$50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, *Schedule I*, line 16 (Other Additions) on page 25.

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

**Line 27 – Film Qualified Expenditures Credit.** You can receive a refundable film qualified expenditures credit for expenditures made in Montana in connection with your state-certified production. Your credit is equal to 9% of the total qualified expenses that you incurred in connection with your production.

The qualified expenditures used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, *Schedule I*, line 16 (Other Additions) on page 25.

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

**Line 28 – Insure Montana Small Business Health Insurance Credit.** If you were the owner of a business

that received a tax credit from the Insure Montana Small Business Health Insurance program, enter the amount of credit to which you are entitled. The amount of credit you may claim is the total credit amount issued to the business multiplied by your ownership percentage. For example, if you were a 50% owner and the business received \$6,000 in tax credit, you are entitled to claim \$3,000 ( $\$6,000 \times 50\%$  (0.5)).

Enter the federal employer identification number (FEIN) of the business which received the credit in the space provided. If you were the owner of more than one company receiving the credit, enter the FEIN of the company that received the highest amount of credit. Attach a copy of the most recent certificate from the State Auditor's Office providing the amount of tax credit the business received.

Additionally, the premiums paid for these policies are not allowed as a deduction. Please see instructions for Form 2, *Schedule I*, line 16 (Other Additions) on page 25.

**NEW Line 29 – Temporary Emergency Lodging Credit.** For tax years beginning on or after January 1, 2008, a refundable tax credit is available for licensed establishments that provide short-term emergency lodging under the Temporary Emergency Lodging Program. The program helps provide lodging for individuals or families who have been displaced from their residence and have been referred to the establishment by a charitable organization approved by the Montana Department of Public Health and Human Services. Please visit their website at <http://www.dphhs.mt.gov/PHSD/Food-consumer/emergency-lodging.shtml> for additional information regarding participation in this program.

The credit is \$30 for each day of lodging provided by the establishment with a maximum of five nights' lodging for each individual. An individual may claim the credit if they are the owner of the establishment or they have an ownership interest in the partnership or S corporation that owns the establishment.

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

**Form 2 - Schedule VI - Credit for an Income Tax Liability Paid to Another State or Country - Full-Year Resident Only**

| Schedule VI - Credit for an Income Tax Liability Paid to Another State or Country - Full-year Resident Only.<br>File Schedule VI with your Montana Form 2. |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|--|---|
| 1  | Enter your income taxable to another state or country that is included in Montana adjusted gross income on Form 2, line 40. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S corporation or partnership. | 1  | 1   |
| 2  | Enter your total income from the other state or country you used in calculating your income tax paid to that state or country; include in this total all income exempt from Montana income tax that was subject to tax in the other state or country.              |  |   |

**Form 2 - Schedule VII - Credit for an Income Tax Liability Paid to Another State or Country - Part-Year Resident Only**

| Schedule VII - Credit for an Income Tax Liability Paid to Another State or Country - Part-year Resident Only.<br>File Schedule VII with your Montana Form 2. |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|--|---|
| 1  | Enter your income taxable to another state or country that is included in Montana source income on Form 2, Schedule IV, line 16, total Montana source income. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S corporation or partnership. | 1  | 1   |
| 2  | Enter your total income from the other state or country you used in calculating your income tax paid to that state or country; include in this total all income exempt from Montana income tax that was subject to tax in the other state or country.  |  |   |

See the instruction for Form 2, *Schedule V*, line 1 on page 40 of this instruction booklet and the instructions on Form 2, *Schedules VI and VII* to determine the amount of

your credit for income tax paid to another state or country on income that is also taxed to Montana.

**Form 2 - Schedule VIII - Reporting of Special Transactions**

| Schedule VIII - Reporting of Special Transactions<br>File Schedule VIII with your Montana Form 2   |   |
|--|---|
| <p>Complete Schedule VIII only if you and/or your spouse filed for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) you filed with your federal income tax return. If your answer is "Yes" to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.</p> | <p>Check "Yes" if you filed any of the following forms with the Internal Revenue Service.</p> |
| <p><input type="checkbox"/> I filed federal Form 8264 (Application for Registration of a Tax Shelter with the Internal Revenue Service)</p>  | <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>                               |

Complete Form 2, *Schedule VIII* only if you and/or your spouse were required to complete for federal income tax purposes one or more of the federal forms that are identified on this schedule. If you are required to complete this schedule because you have answered yes to one or

more of the statements, you will need to attach a copy of your federal income tax return, Form 1040 to your Montana income tax return.

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

**Form 2EC Elderly Homeowner/Renter Credit Instructions**

**2008 Montana Elderly Homeowner/Renter Credit**

**Form 2EC**

File alone or with your Form 2 or Form 2M. Free electronic filing is available at [mt.gov/revenue](http://mt.gov/revenue).

|   |                                 |           |                                 |                            |
|---|---------------------------------|-----------|---------------------------------|----------------------------|
| <input type="checkbox"/> Check this box if this is an Amended Return.                               | First name and initial          | Last name | Social security number          | If deceased, date of death |
|   | Spouse's first name and initial | Last name | Spouse's social security number | If deceased, date of death |
|   | Mailing address                 | City      | State                           | Zip+4                      |
| <b>Part I - Qualifications (Answer each question below.)</b>  |                                 |           |                                 |                            |
| I was age 62 or older as of December 31, 2008.  | Yes ▶                           |           | No ▶                            |                            |
| I occupied a Montana residence as an owner or renter for a total of six months or more during 2008. | Yes ▶                           |           | No ▶                            |                            |

If you are not required to file a Montana income tax return and are only claiming this credit, please write your name, address, and social security number in the space provided near the top of the form. If you are married, also enter your spouse's name and social security number.

If you will be filing this form with an income tax return, you only need to enter your social security number(s).

If either spouse is deceased during the claim year, enter the date of death in the appropriate box.

**Part I – Qualifications**

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

- Age 62 test – If you are married and both spouses own or rent your residence, only one of you have to meet the age requirement.
- Six month test – You can answer yes to this statement as long as you have occupied one or more residences as an owner and/or renter during the year.
- Nine month test – If you are the personal representative of the estate of an eligible individual who died during the year, you cannot claim this credit if that individual died before October 1, 2008. If you are married filing this return with your spouse, and if your spouse, who would have been the only eligible individual, dies before October 1, 2008, you cannot claim this credit. You can claim this credit only if, as a surviving spouse, you are age 62 or older and you can continue to answer yes to the other statements.
- Gross household income – Your gross household income includes all income received by individuals in the household.

**Part II – Household Income**

Enter your gross household income on line 1. Your gross household income is all the income received, taxable and nontaxable, by all individuals who live in your household. In addition to federal adjusted gross income, the following are examples of items which are included in household income:

- Inheritances
- Pension and annuity income (this includes railroad retirement and veteran's disability benefits)
- Any capital gains that you excluded from your Montana adjusted gross income such as the gain from the sale of your primary residence
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds including the 2008 federal economic stimulus package rebate
- State income tax refunds and elderly homeowner/renter credits allowed

Some items above may involve a basis. If applicable, you may reduce your income by the basis. For example, if you paid \$5,000 for stock in a company, that is your basis. If you sell the stock for \$8,000, your household income only includes the gain of \$3,000 (\$8,000 sales price minus \$5,000 basis). Do not reduce your household income by any losses that you included in your federal adjusted gross income.

The following worksheet can be used to help you calculate your gross household income.

| Income Source   | Amount |
|---|--------|
| 1. Wages, salaries, bonuses, tips, etc.   |        |
| 2. Business, partnership, rent, royalties (do not include losses)   |        |
| 3. Dividends, interest including interest from federal, state, county and municipal bonds capital gains (do not include capital losses)             |        |
| 4. State and federal tax refunds  |        |
| 5. Prior year 2EC refunds   |        |
| 6. Alimony, public assistance, unemployment   |        |
| 7. Pension, annuities, IRA distributions, benefits from railroad retirement, public employee's retirement, veteran's disability and social security |        |
| 8. Income from any source or other household members not included above   |        |
| 9. Add lines 1 through 8; enter the total here and on Form 2EC, line 1. <b>This is your Gross Household Income.</b>                                 |        |

**Line 4 – Household Income Reduction Table**

| If your household income on line 3 is: |                   |                    |
|--|-------------------|--------------------|
| At least                               | But not more than | Your multiplier is |
| \$0                                    | \$1,999           | 0.000              |
| \$2,000                                | \$2,999           | 0.006              |
| \$3,000                                | \$3,999           | 0.016              |
| \$4,000                                | \$4,999           | 0.024              |
| \$5,000                                | \$5,999           | 0.028              |
| \$6,000                                | \$6,999           | 0.032              |
| \$7,000                                | \$7,999           | 0.035              |
| \$8,000                                | \$8,999           | 0.039              |
| \$9,000                                | \$9,999           | 0.042              |
| \$10,000                               | \$10,999          | 0.045              |
| \$11,000                               | \$11,999          | 0.048              |
| \$12,000 and over                      |                   | 0.050              |

**Part III – Credit Computation**

You will need to attach a copy of your 2008 property tax bill and/or your signed rent receipts. If you are unable to get signed rent receipts, a statement detailing the rent paid during the year signed by your landlord is an acceptable substitute. If you are filing electronically, you do not need to send us your property tax bill or rent receipts. When you file electronically, you represent that you have completed Form 2EC and have all required documentation.

**Line 6 – Property Tax Billed.** Your property tax billed is your November, 2008 property tax statement of taxes assessed against your home and it includes your special

assessments and fees. Do not include any amounts assessed for prior years but paid during 2008.

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

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

**Line 7 – Rent Equivalent Paid.** Your rent is only the amount of money that you paid to occupy your home. It does not include amenities such as meals, housekeeping, nursing care, etc. If you live in a health care, long-term care, personal care or residential care facility, the rent allowed is the actual out of pocket rent that you paid. If the facility does not provide you with an adequate breakdown between your rent and amenities, your rent is limited to \$20 a day and it cannot exceed \$7,300 a year.

**Line 12 – Credit Multiplier**

| If the amount on line 1 is | enter this figure on line 12 |
|----------------------------|------------------------------|
| Less than \$35,000         | 1.00 (100%)                  |
| \$35,000 to \$37,500       | 0.40 (40%)                   |
| \$37,501 to \$40,000       | 0.30 (30%)                   |
| \$40,001 to \$42,500       | 0.20 (20%)                   |
| \$42,501 to \$44,999       | 0.10 (10%)                   |
| \$45,000 and over          | 0.00 (0%)                    |

**Direct Deposit**

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

**File your Form 2EC electronically!** If you are not required to file Montana Form 2 or Form 2M, you can now file your Form 2EC through our website, at no cost to you. For further information on this direct electronic filing option, please visit our website at [mt.gov/revenue](http://mt.gov/revenue).

If you choose not to file electronically and you are not required to file Montana Form 2 or Form 2M, please mail your Form 2EC to Department of Revenue, PO Box 6577, Helena, MT 59604-6577

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

If you need additional information on this credit or other tax issues, you can call us toll free at (866) 859-2254 (in Helena, 444-6900) or TDD (406) 444-2830, or visit our website at [mt.gov/revenue](http://mt.gov/revenue).





## Worksheet II - Tax Benefit Rule for Federal Income Tax Refund

If you received a federal income tax refund in 2008 and you did not itemize deductions in 2007, stop here. None of your federal income tax refund is taxable to Montana.

Your deduction for federal taxes paid in 2007 may have been limited to \$5,000 (or \$10,000 if filing a joint return) so the refund you received in 2008 may not be taxable. A simple way to check this is to subtract the refund you received in 2008 from the total federal income taxes you paid in 2007. If the result is still above the \$5,000 (or \$10,000 if filing a joint return) you deducted, none of the refund is taxable.

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 2008 is for federal income taxes that you claimed as an itemized deduction in 2007.

You cannot use Worksheet II if you received any of the following refunds or reimbursements in 2008. Instead you should use Worksheet IX, Tax Benefit Rule Recovery of Itemized Deductions. You can obtain Worksheet IX by visiting our web site at [mt.gov/revenue](http://mt.gov/revenue) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

- A federal income tax refund in 2008 for a federal tax deduction claimed in a year prior to 2007;
- 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 2007 because of the excess adjusted gross income test.

| Before you begin, see the instructions above and on page 23 for Schedule I, line 3 to determine if you need to complete Worksheet II. |   | Column A (for single, joint, separate, or head of household)<br>▼ | Column B (for spouse when filing separately using filing status 3a)<br>▼ |
|---|---|---|--|
| 1   | Add lines 7a through 7d from 2007 Form 2, Schedule III and enter the result. ▶  | 1   | 1  |
| 2   | Enter the total of all the 2007 federal income tax refunds that you received in 2008. Do not include your refundable credits that you may have received. ▶  | 2   | 2  |
| 3   | Subtract line 2 from line 1 and enter the result here. ▶  | 3   | 3  |
| 4   | Enter the amount of federal income tax deducted on your Montana 2007 Form 2, Schedule III, line 7e. ▶   | 4   | 4  |
| 5   | Is line 3 larger than line 4? If yes, stop; your federal refund is not taxable. If no, subtract line 3 from line 4, and enter the result here. ▶  | 5   | 5  |
| 6   | Enter your total allowable Montana itemized deductions from your 2007 Form 2, Schedule III, line 33. If you took the standard deduction, stop; your federal income tax refund is not taxable. ▶   | 6   | 6  |
| 7   | Enter your 2007 Montana adjusted gross income from Form 2, line 40. ▶   | 7   | 7  |
| 8   | 2007 Standard deduction. Enter the amount corresponding to your 2007 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% (0.20) of line 7, but not less than \$1,690, or more than \$3,810.</li> <li>• If your filing status was married filing jointly, or head of household, enter 20% (0.20) of line 7, but not less than \$3,380, or more than \$7,620.</li> </ul> ▶   | 8   | 8  |
| 9   | Subtract line 8 from line 6, and enter the result here. If the result is smaller than zero, stop; your federal refund is not taxable. ▶   | 9   | 9  |
| 10  | Enter the smaller of line 5 or line 9 here. ▶   | 10  | 10   |
| 11  | Enter here your 2007 Montana taxable income from Form 2, line 45. If your amount is less than zero, enter this amount as a negative amount. ▶   | 11  | 11   |
| 12  | If line 11 is zero or more, enter the amount from line 10 here and on Form 2, Schedule I, line 3. <b>This is your taxable federal income tax refund.</b><br>If line 11 is less than zero (a negative amount), add lines 10 and 11. <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 2, Schedule I, line 3. <b>This is your taxable federal income tax refund.</b> ▶</li> </ul> | 12  | 12   |

### Worksheet III - Qualified Capital Gain Exclusion

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

|   |   | Column A (for single, joint, separate, or head of household)<br>▼ | Column B (for spouse when filing separately using filing status 3a)<br>▼ |
|---|---|---|--|
| 1 | Enter the total amounts from your federal Schedule D, lines 11 and 12, that pertain to installment sales entered into before January 1, 1987. ▶       | 1   | 1  |
| 2 | Enter the total amounts from federal Schedule D, lines 7 and 15. ▶  | 2   | 2  |
| 3 | Divide line 1 by line 2 and enter the percentage here as a decimal. ▶   | 3   | 3  |
| 4 | Enter the amount from federal Schedule D, line 16, but not less than zero. ▶  | 4   | 4  |
| 5 | Multiply the amount on line 4 by the percentage (%) on line 3. ▶ <input type="text"/> X <input type="text"/> % ▶                                      | 5   | 5  |
| 6 | Multiply the amount on line 5 times 40% (0.40). Enter here and on Form 2, Schedule II, line 28. <b>This is your Montana capital gain exclusion.</b> ▶ | 6   | 6  |

### Worksheet IV - Partial Pension and Annuity Income Exemption

If you have reported taxable pension and annuity income on your Form 2, line 16b, or certain IRA distributions on Form 2, line 15b, you may be entitled to a partial exemption of this income. Complete Worksheet IV to determine the amount of your pension and annuity income exemption.

Early distributions which required payment of the federal 10% additional tax do not qualify. Subtract any non-qualifying distribution(s) from Form 2, line 15b before reporting amounts on this worksheet.

If you receive Tier II Railroad Retirement benefits, see the instructions for Form 2, Schedule II, line 23 on page 30.

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

### Worksheet V - Standard Deduction

If you are filing your Montana individual income tax return Form 2 using filing status 3a, "married filing separately on the same form," each spouse will need to complete his or her own column of the standard deduction worksheet.

|  |  | Column A (for single, joint, separate, or head of household)<br>▼ | Column B (for spouse when filing separately using filing status 3a)<br>▼ |
|--|--|---|--|
| 1  | Enter your Montana adjusted gross income from Form 2, line 41 here. ▶  | 1   | 1  |
| 2  | Multiply the amount on line 1 by 20% (0.20) and enter the result here. ▶   | 2   | 2  |
| 3  | Enter the amount below that corresponds to your filing status. ▶   | 3   | 3  |
| If your filing status is single or separately (Form 2 filing status 1, 3a, 3b, or 3c), enter \$4,010.<br><b>This is your maximum standard deduction.</b><br>If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter \$8,020.<br><b>This is your maximum standard deduction.</b> |  |   |  |
| 4  | Enter the amount from line 2 or line 3, whichever is smaller. ▶  | 4   | 4  |
| 5  | Enter the amount below that corresponds to your filing status. ▶   | 5   | 5  |
| If your filing status is single or separately (Form 2 filing status 1, 3a, 3b, or 3c), enter \$1,780.<br><b>This is your minimum standard deduction.</b><br>If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter \$3,560.<br><b>This is your minimum standard deduction.</b> |  |   |  |
| 6  | Enter here and on Form 2, line 42, the amount from line 4 or line 5, whichever is larger.<br><b>This is your standard deduction.</b> ▶ | 6   | 6  |

### Worksheet VI - Itemized Deduction Worksheet

|    |   | Column A (for single, joint, separate, or head of household)<br>▼ | Column B (for spouse when filing separately using filing status 3a)<br>▼ |
|----|---|---|--|
| 1  | Enter your total itemized deductions from Form 2, Schedule III, line 31 here. ▶   | 1   | 1  |
| 2  | Add lines 4, 5, 6, 7f, 16, 20, 21, 28 and 30 from Schedule III. Enter the result here. ▶  | 2   | 2  |
| 3  | Subtract line 2 from line 1 and enter the result here. If the result is zero, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ▶ | 3   | 3  |
| 4  | Multiply the amount on line 3 above by 80% (0.80) and enter the result here. ▶  | 4   | 4  |
| 5  | Enter your Montana adjusted gross income from Form 2, line 41 here. ▶   | 5   | 5  |
| 6  | Enter \$159,950 or \$79,975 if married filing separately. ▶   | 6   | 6  |
| 7  | Subtract line 6 from line 5. If the result is zero or less, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ▶                   | 7   | 7  |
| 8  | Multiply line 7 by 3% (0.03) and enter the result here. ▶   | 8   | 8  |
| 9  | Enter the smaller of the amounts on line 4 or line 8 here. ▶  | 9   | 9  |
| 10 | Divide the amount on line 9 by 3 and enter the result here and on Form 2, Schedule III, line 32.<br><b>This is the amount of your itemized deductions not allowed.</b> ▶                          | 10  | 10   |

### Qualified Mortgage Insurance Premiums Deduction Worksheet for Form 2

|   |   |   |           |
|---|---|---|-----------|
| 1 | Enter the total premiums you paid in 2008 for qualified mortgage insurance for a contract issued after December 31, 2006 ▶  | 1 |           |
| 2 | Enter the amount from Form 2, line 37a. ▶   | 2 |           |
| 3 | Enter \$100,000. ▶  | 3 | \$100,000 |
| 4 | Is the amount on line 2 more than the amount on line 3?<br>No ▶ <input type="checkbox"/> Your deduction is not limited. Enter the amount from line 1 above on Form 2, Schedule III, line 15.<br>Yes ▶ <input type="checkbox"/> Subtract line 3 from line 2. If the result is not a multiple of \$1,000, increase it to the next multiple of \$1,000. For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; etc. Enter result here. ▶ | 4 |           |
| 5 | Divide line 4 by \$10,000. Enter the result as a decimal. If the result is 1.0 or more, enter 1.0. ▶  | 5 |           |
| 6 | Multiply line 1 by line 5. ▶  | 6 |           |
| 7 | Subtract line 6 from line 1. Enter the result here and on Form 2, Schedule III, line 15.<br><b>This is your qualified mortgage insurance premiums deduction.</b> ▶  | 7 |           |

## Worksheet VII - Calculation of Interest on Underpayment of Estimated Taxes - Short Method

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

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

- Your combined tax liability after you applied your withholding and estimated tax payments is less than \$500.
- You did not have a 2007 income tax liability and you were a citizen or resident of the United States the entire year.
- Your underpayment was due to a casualty, disaster, or another unusual circumstance.
- You retired in either 2007 or 2008 after reaching the age of 62.
- You become disabled in either 2007 or 2008.
- You are a farmer or rancher and 66 2/3% of your 2008 gross income is derived from your farming and ranching operation. Your 66 2/3% farming and ranching income is determined annually and is based on your 2007 gross income. Please note that Montana does not use the same “look back” period that the Internal Revenue Service uses to determine the percentage of your farming and ranching income for federal income tax purposes.

If you did not pay in advance at least 90% of your 2008 income tax liability (after applying your credits) or 100% of your 2007 income tax liability (after applying your credits), you may have to pay interest on the underpayment of your estimated taxes.

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

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

If you are not eligible to use this short method to calculate your interest on your underpayment, use Montana Form EST-I, Interest on Underpayment of Estimated Tax Payments. You can get this form by visiting our website at [mt.gov/revenue](http://mt.gov/revenue) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

|    |  |   |    |
|----|--|---|----|
| 1  | Enter your 2008 combined total tax due reported on Form 2, line 53 here.   | ▶ | 1  |
| 2  | Multiply line 1 by 90% (0.90) and enter the result here.   | ▶ | 2  |
| 3  | Combine the amounts on Form 2, lines 54 and 55, that portion of line 56 that includes amounts credited from prior year's tax refunds, and line 58. (If you are "married filing separately on the same form", enter the sum of columns A and B). Enter the result here. | ▶ | 3  |
| 4  | Subtract line 3 from line 1 and enter the result here. If your result is \$500 or less, stop here; you do not owe interest on your underpayment.   | ▶ | 4  |
| 5  | Enter here the 2007 income tax liability that you reported on your 2007 Form 2, line 58, 2007 Form 2M, line 50, or 2007 Form 2EZ, line 16 here.  | ▶ | 5  |
| 6  | Enter the smaller of line 2 or line 5 here.  | ▶ | 6  |
| 7  | Combine the amount on line 3 above with the estimated tax payments that you reported on your 2008 Form 2, line 56. Enter the result here.  | ▶ | 7  |
| 8  | Subtract line 7 from line 6. If the result is zero or less, stop here; you do not owe interest on your underpayment.<br><b>This is your total underpayment for 2008.</b>   | ▶ | 8  |
| 9  | Multiply line 8 by 0.05320 and enter the result here.  | ▶ | 9  |
| 10 | If you paid the amount on line 8 on or after April 15, 2009, enter zero. If you paid the amount on line 8 before April 15, multiply the amount on line 8 by the number of days you paid before April 15 by 0.0002192 and enter the amount here.                        | ▶ | 10 |
| 11 | Subtract line 10 from line 9. Enter the result here and on Form 2, line 64.<br><b>This is your interest on the underpayment of estimated taxes.</b>  | ▶ | 11 |

## Worksheet VIII - Taxable Social Security Benefits for Form 2

Your social security benefits taxable to Montana may be different from what is taxable federally. Complete this worksheet to determine your Montana taxable social security when filing Form 2.

Tier I Railroad Retirement benefits are not taxable to Montana. If the only social security benefits that you receive are from Tier I Railroad Retirement benefits and if you reported a portion of these benefits on your Form 2, line 20b as taxable benefits, enter this amount on Form 2, Schedule II, line 22.

|     |  | Column A (for single, joint, separate, or head of household)<br>▼ | Column B (for spouse when filing separately using filing status 3a)<br>▼ |
|-----|--|---|--|
| 1   | Enter the total amount from box 5 of all your federal Form SSA-1099s. <span style="float: right;">▶ <input style="width: 100px;" type="text"/> 1</span>  | 1   | 1  |
| 2   | Multiply line 1 by 50% (0.50) and enter result here. <span style="float: right;">▶</span>  | 2   | 2  |
| 3   | Add the amounts on Form 2, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19 and 21. Enter the result here. <span style="float: right;">▶</span>   | 3   | 3  |
| 4   | Add the amount on Form 2, Schedule I, lines 1 through 4, and 6 through 16, along with tax-exempt interest that you reported on Form 2, line 8b, which is not included on Form 2, Schedule I, line 1. <span style="float: right;">▶</span>  | 4   | 4  |
| 5   | Add lines 2, 3 and 4 and enter the result here. <span style="float: right;">▶</span>   | 5   | 5  |
| 6   | Add the amounts on Form 2, lines 23 through 32 plus any write-in adjustments on line 36 with the amounts on your Form 2, Schedule II, lines 2 through 21, and 23 through 34, and enter the result here. <span style="float: right;">▶</span>   | 6   | 6  |
| 7   | Is the amount on line 6 less than the amount on line 5?<br>No ▶ <input type="checkbox"/> None of your social security benefits are taxable. Enter zero on line 18 and go to line 19.<br>Yes ▶ <input type="checkbox"/> Subtract line 6 from line 5 and enter the result here. <span style="float: right;">▶</span>                     | 7   | 7  |
| 8   | Enter the amount that corresponds to your filing status—\$32,000 in column A if your filing status is married filing jointly—\$25,000 in column A if your filing status is single or head of household—\$16,000 in columns A and B if your filing status is any married filing separately option. <span style="float: right;">▶</span> | 8   | 8  |
| 9   | Is the amount on line 8 less than the amount on line 7?<br>No ▶ <input type="checkbox"/> None of your social security benefits are taxable. Enter zero on line 18 and go to line 19.<br>Yes ▶ <input type="checkbox"/> Subtract line 8 from line 7 and enter the result here. <span style="float: right;">▶</span>                     | 9   | 9  |
| 10  | Enter the amount that corresponds to your filing status—\$12,000 in column A if your filing status is married filing jointly—\$9,000 in column A if your filing status is single or head of household—\$6,000 in columns A and B if your filing status is any married filing separately option. <span style="float: right;">▶</span>   | 10  | 10   |
| 11  | Subtract line 10 from line 9 and enter the result here. If less than zero, enter zero. <span style="float: right;">▶</span>  | 11  | 11   |
| 12  | Enter here the smaller of line 9 or line 10. <span style="float: right;">▶</span>  | 12  | 12   |
| 13  | Multiply line 12 by 50% (0.50) and enter the result here. <span style="float: right;">▶</span>   | 13  | 13   |
| 14  | Enter the smaller of line 2 or line 13. <span style="float: right;">▶</span>   | 14  | 14   |
| 15  | Multiply line 11 by 85% (0.85) and enter result here. If line 11 is zero, enter zero. <span style="float: right;">▶</span>   | 15  | 15   |
| 16  | Add lines 14 and 15; enter the result here. <span style="float: right;">▶</span>   | 16  | 16   |
| 17  | Multiply line 1 by 85% (0.85) and enter result here. <span style="float: right;">▶</span>  | 17  | 17   |
| 18  | Enter the smaller of line 16 or 17. <b>This is your Montana taxable social security benefits.</b> <span style="float: right;">▶</span>   | 18  | 18   |
| 19  | Enter the federal taxable amount of social security benefits that you reported on Form 2, line 20b. <span style="float: right;">▶</span>   | 19  | 19   |
| 20a | If line 19 equals line 18, the amount of the federal taxable social security benefits that you reported on Form 2, line 20b is the same amount that is taxable to Montana. No adjustment is necessary.   |   |  |
| 20b | If line 19 is less than line 18, enter the difference here and on Form 2, Schedule I, line 5.<br><b>This is the portion of your social security benefits that is exempt from federal tax and not included on Form 2, line 20b that are taxable to Montana.</b> <span style="float: right;">▶</span>                                    | 20b   | 20b  |
| 20c | If line 19 is greater than line 18, enter the difference here and on Form 2, Schedule II, line 22.<br><b>This is the portion of your federal taxable social security benefits that is included on Form 2, line 20b, that is not taxable to Montana.</b> <span style="float: right;">▶</span>   | 20c   | 20c  |



# 2008 Montana Individual Income Tax Return

For the year Jan 1 – Dec 31, 2008 or the tax year beginning [ ] , 2008, ending [ ] , 20[ ]

|  |                                 |           |                                 |                            |
|--|---------------------------------|-----------|---------------------------------|----------------------------|
| <input type="checkbox"/> Check this box if this is an amended return.<br><br><input type="checkbox"/> Check here if this is a NOL Carryback. | First name and initial          | Last name | Social security number          | If deceased, date of death |
|  | Spouse's first name and initial | Last name | Spouse's social security number | If deceased, date of death |
| Mailing address  |                                 | City      | State                           | Zip+4                      |

|  |                                   |   |  |
|--|-----------------------------------|---|--|
| <b>Filing Status</b> (check only one box)                                    | <input type="checkbox"/> 1 Single | <input type="checkbox"/> 2 Married filing jointly | <input checked="" type="checkbox"/> <b>3a Married filing separately on the same form</b> |
| <input type="checkbox"/> 3b Married filing separately on separate forms.     | Spouse's SSN ▶                    |   | <input type="checkbox"/> 4 Head of household   |
| <input type="checkbox"/> 3c Married filing separately and spouse not filing. | Spouse's SSN ▶                    |   |  |

|   |   |                |                  |  |   |
|---|---|----------------|------------------|--|---|
| <b>Residency Status</b> (check only one box)      | <input checked="" type="checkbox"/> 5a Resident full year |                |                  | <b>Column A (for single, joint, separate, or head of household)</b><br>▼ | <b>Column B (for spouse when filing separately using filing status 3a)</b><br>▼ |
| <input type="checkbox"/> 5b Nonresident full year | Date of Change  | State moved to | State moved from |  |   |
| <input type="checkbox"/> 5c Resident part-year ▶  |   | (abr.) ▶       | (abr.) ▶         |  |   |

|                   |   |  |                                      |                                |                        |              |          |  |
|-------------------|---|--|--------------------------------------|--------------------------------|------------------------|--------------|----------|--|
| <b>Exemptions</b> | 6a  | <input checked="" type="checkbox"/> Yourself | <input type="checkbox"/> 65 or older | <input type="checkbox"/> Blind | Enter number checked ▶ | 6a           |          |  |
|                   | 6b  | <input type="checkbox"/> Spouse              | <input type="checkbox"/> 65 or older | <input type="checkbox"/> Blind | Enter number checked ▶ | 6b           |          |  |
|                   | 6c  | Dependents                                   | First name                           | Last name                      | Social security number | Relationship | Disabled | Enter the total number of dependents in line 6c. If additional dependents, see instructions on page 11.<br>▼ |
|                   |   |  |                                      |                                |                        |              | Yes ▶    |  |
|                   |   |  |                                      |                                |                        |              | Yes ▶    |  |
|                   |   |  |                                      |                                |                        | Yes ▶        |          |  |
| 6d                | Add lines 6a thru 6c and enter total exemptions here. |  |                                      |                                |                        | 6d           |          |  |

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

|                       |     |  |     |  |     |                   |     |    |     |
|-----------------------|-----|--|-----|--|-----|-------------------|-----|----|-----|
| <b>Federal Income</b> | 7   | Wages, salaries, tips, etc. Attach federal Form(s) W-2. ▶  |     |  | 7   |                   |     | 7  |     |
|                       | 8a  | Taxable interest. Attach federal Schedule B if required. ▶                                       |     |  | 8a  |                   |     | 8a |     |
|                       | 8b  | Tax-exempt interest. Do not include on line 8a. ▶  |     |  | 8b  |                   |     | 8b |     |
|                       | 9a  | Ordinary dividends. Attach federal Schedule B if required. ▶                                     |     |  | 9a  |                   |     | 9a |     |
|                       | 9b  | Qualified dividends. ▶   |     |  | 9b  |                   |     | 9b |     |
|                       | 10  | Taxable refunds, credits, or offsets of state and local income taxes. ▶                          |     |  | 10  |                   |     | 10 |     |
|                       | 11  | Alimony received. ▶  |     |  | 11  |                   |     | 11 |     |
|                       | 12  | Business income or (loss). Attach federal Schedule C or C-EZ. NAICS: ▶                           |     |  | 12  |                   |     | 12 |     |
|                       | 13  | Capital gain or (loss). Attach federal Schedule D if required. ▶                                 |     |  | 13  |                   |     | 13 |     |
|                       | 14  | Other gains or (losses). Attach federal Schedule 4797. ▶   |     |  | 14  |                   |     | 14 |     |
|                       | 15a | IRA distributions. ▶   | 15a |  | 15a | Taxable amount. ▶ | 15b |    | 15b |
|                       | 16a | Pensions and annuities. ▶  | 16a |  | 16a | Taxable amount. ▶ | 16b |    | 16b |
|                       | 17  | Rental real estate, royalties, partnerships, S corporations, trust. Attach federal Schedule E. ▶ |     |  | 17  |                   |     | 17 |     |
|                       | 18  | Farm income or (loss). Attach federal Schedule F. ▶  |     |  | 18  |                   |     | 18 |     |
|                       | 19  | Unemployment compensation. ▶   |     |  | 19  |                   |     | 19 |     |

|                                      |   |   |  |    |     |                    |     |                   |     |    |     |    |  |
|--------------------------------------|---|---|--|----|-----|--------------------|-----|-------------------|-----|----|-----|----|--|
| <b>Federal Adjusted Gross Income</b> | 20a   | Social security benefits. ▶   |  |    | 20a |                    | 20a | Taxable amount. ▶ | 20b |    | 20b |    |  |
|                                      | 21  | Other income, list type. ▶  |  |    |     |                    |     | Amount. ▶         | 21  |    | 21  |    |  |
|                                      | 22  | Add the amounts in columns A and B for lines 7 thru 21. <b>This is your total income.</b> ▶ |  |    |     |                    |     |                   |     |    |     | 22 |  |
|                                      | 23  | Educator expenses. ▶  |  |    | 23  |                    |     |                   | 23  |    | 23  |    |  |
|                                      | 24  | Certain business expenses of reservist, etc. Attach Form 2106 or 2106EZ. ▶                  |  |    | 24  |                    |     |                   | 24  |    | 24  |    |  |
|                                      | 25  | Health savings account deduction. Attach federal Form 8889. ▶                               |  |    | 25  |                    |     |                   | 25  |    | 25  |    |  |
|                                      | 26  | Moving expenses. Attach federal Form 3903. ▶  |  |    | 26  |                    |     |                   | 26  |    | 26  |    |  |
|                                      | 27  | One-half of self-employment tax. Attach federal Schedule SE. ▶                              |  |    | 27  |                    |     |                   | 27  |    | 27  |    |  |
|                                      | 28  | Self-employed SEP, SIMPLE, and qualified plans. ▶   |  |    | 28  |                    |     |                   | 28  |    | 28  |    |  |
|                                      | 29  | Self-employed health insurance deduction. ▶   |  |    | 29  |                    |     |                   | 29  |    | 29  |    |  |
|                                      | 30  | Penalty on early withdrawal of savings. ▶   |  |    | 30  |                    |     |                   | 30  |    | 30  |    |  |
|                                      | 31a   | Alimony paid. ▶   |  |    | 31a |                    |     |                   | 31a |    | 31a |    |  |
|                                      | 31b   | Recipient's SSN. ▶  |  |    | 31b |                    |     |                   | 31b |    |     |    |  |
|                                      | 32  | IRA deduction. ▶  |  |    | 32  |                    |     |                   | 32  |    | 32  |    |  |
|                                      | 33  | Student loan interest deduction. ▶  |  |    | 33  |                    |     |                   | 33  |    | 33  |    |  |
| 34                                   | Tuition and fees deduction. Attach Form 8917. ▶   |   |  | 34 |     |                    |     | 34                |     | 34 |     |    |  |
| 35                                   | Domestic production activities deduction. Attach federal Form 8903. ▶   |   |  | 35 |     |                    |     | 35                |     | 35 |     |    |  |
| 36                                   | Add lines 23 through 35 and enter the result here. ▶  |   |  | 36 |     | Federal write-ins. |     | 36                |     | 36 |     |    |  |
| 37                                   | Subtract line 36 from line 22 and enter result here. ▶  |   |  | 37 |     |                    |     | 37                |     | 37 |     |    |  |
| 37a                                  | Combine amounts on line 37 columns A and B and enter here. <b>This is your federal adjusted gross income.</b> ▶ |   |  |    |     |                    |     |                   |     |    | 37a |    |  |

|                    |    |  |  |  |    |  |  |  |    |  |  |    |
|--------------------|----|--|--|--|----|--|--|--|----|--|--|----|
| <b>Montana AGI</b> | 38 | Enter Montana additions to federal AGI from Form 2, page 3, Schedule I, line 17. Attach Form 2, page 3, Schedule I. ▶        |  |  | 38 |  |  |  | 38 |  |  |    |
|                    | 39 | Enter Montana subtractions from federal AGI from Form 2, page 4, Schedule II, line 35. Attach Form 2, page 4, Schedule II. ▶ |  |  | 39 |  |  |  | 39 |  |  |    |
|                    | 40 | Add lines 37 and 38; subtract line 39. <b>This is your Montana adjusted gross income.</b> ▶                                  |  |  |    |  |  |  |    |  |  | 40 |

Questions? Call us toll free at (866) 859-2254 or in Helena at 444-6900 or TDD (406) 444-2830 for hearing impaired.

|   |   |   |   |                               |                      |                      |                      |    |
|---|---|---|---|-------------------------------|----------------------|----------------------|----------------------|----|
| Taxable Income  | 41  | Montana adjusted gross income from line 40.   | ▶   | 41                            |                      |                      | 41                   |    |
|   | 42  | Deductions (check only one box)   | Standard Deduction (see Worksheet V on page 53).        | ▶                             | 42                   |                      | 42                   |    |
|   |   |   | Itemized Deductions from Form 2, Schedule III, line 33. | ▶                             |                      |                      |                      |    |
|   | 43  | Subtract line 42 from line 41 and enter the result here.  |   | ▶                             | 43                   |                      |                      | 43 |
|   | 44  | Exemptions (All individuals are entitled to at least one exemption.)  |   |                               | 44                   |                      |                      | 44 |
| Multiply \$2,140 by the number of exemptions on line 6d and enter result here.  |   | ▶   |   |                               |                      |                      |                      |    |
| 45  | Subtract line 44 from line 43 and enter result here. If zero or less, enter zero.   |   |   | 45                            |                      |                      | 45                   |    |
| <b>This is your taxable income.</b>   |   |   |   |                               |                      |                      |                      |    |
| Tax   | 46  | Tax from the tax table on page 16 or from Form 2, page 3. If line 45 is zero, enter zero.   |   | ▶                             | 46                   |                      | 46                   |    |
|   | 47  | 2% capital gains tax credit.  |   | ▶                             | 47                   |                      | 47                   |    |
|   | 48  | Subtract line 47 from line 46 and enter the result here, but not less than zero.  |   |                               | 48                   |                      |                      | 48 |
|   |   | <b>This is your resident tax after capital gains tax credit.</b>  |   | ▶                             |                      |                      |                      |    |
|   | 48a   | Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 21, but not less than zero.  |   |                               | 48a                  |                      | 48a                  |    |
|   | 49  | Tax on lump-sum distributions. Attach federal Form 4972.  |   | ▶                             | 49                   |                      | 49                   |    |
|   | 50  | Add lines 48 or 48a and 49 and enter the result here.   |   |                               | 50                   |                      | 50                   |    |
|   | 51  | Enter the amount from Schedule V, line 24, but do not enter an amount larger than the amount on line 50.  |   |                               | 51                   |                      |                      | 51 |
|   |   | <b>This is your total nonrefundable credits.</b>  |   | ▶                             |                      |                      |                      |    |
|   | 52  | Recapture tax(es) (see instructions on page 17).  | ▶   | Code                          | <input type="text"/> | Code                 | <input type="text"/> | 52 |
| 53  | Add lines 50 and 52, then subtract the amount on line 51 and enter the result here.   |   |   | 53                            |                      |                      | 53                   |    |
| <b>This is your 2008 tax liability.</b>   |   |   |   |                               |                      |                      |                      |    |
| Payments  | 54  | Montana income tax withheld. Attach federal Form(s) W-2 and 1099.   |   | ▶                             | 54                   |                      | 54                   |    |
|   | 55  | Montana mineral royalty tax withheld. Attach Form(s) 1099 and supporting schedule if any.   |   | ▶                             | 55                   |                      | 55                   |    |
|   | 56  | 2008 estimated tax payments and amount applied from your 2007 return.   |   | ▶                             | 56                   |                      | 56                   |    |
|   | 57  | 2008 extension payments from Form EXT-08.   |   | ▶                             | 57                   |                      | 57                   |    |
|   | 58  | Refundable credits from Form 2, Schedule V, line 30.  |   | ▶                             | 58                   |                      | 58                   |    |
|   | 59  | If filing an amended return: Payments made with original return.  |   | ▶                             | 59                   |                      | 59                   |    |
|   | 60  | If filing an amended return: Previously issued refunds.   |   | ▶                             | 60                   |                      | 60                   |    |
|   | 61  | Add lines 54 through 59. Subtract line 60, enter the result here. <b>This is your total payments.</b>   |   | ▶                             | 61                   |                      | 61                   |    |
|   | 62  | If line 53 is greater than line 61, subtract line 61 from line 53. <b>This is your tax due.</b>   |   | ▶                             | 62                   |                      | 62                   |    |
| Penalties, Interest & Contributions   | 64  | Interest on underpayment of estimated taxes (see instructions on page 19).  |   | ▶                             | 64                   |                      | 64                   |    |
|   | 65  | Late file, late payment penalties and interest (see instructions and table on pages 19 and 20).   |   | ▶                             | 65                   |                      | 65                   |    |
|   | 66  | Other penalties (see instructions on page 20).  |   | ▶                             | 66                   |                      | 66                   |    |
|   | 67  | Voluntary check-off contribution programs from Form 2, page 3.  |   | ▶                             | 67                   |                      | 67                   |    |
| 68  | Add lines 64 through 67 and enter the result here.  |   |   | 68                            |                      | 68                   |                      |    |
| <b>This is the sum of your total penalties, interest and contributions.</b>   |   |   |   |                               |                      |                      |                      |    |
| Amount You Owe or Your Refund   | 69  | If you have tax due (amount on line 62), add lines 62 and 68 OR, if you have a tax overpayment (amount on line 63) and it is less than line 68, subtract line 63 from line 68. Enter the result here. If married filing separately and there are amounts on lines 62 and 63, please see instructions on pages 21 and 22. <b>This is the amount you owe.</b> |   | ▶                             | 69                   |                      | 69                   |    |
|   | <b>Visit our website at <a href="http://mt.gov/revenue">mt.gov/revenue</a> to pay by credit card or E-check, or make a check payable to MONTANA DEPARTMENT OF REVENUE</b> |   |   |                               |                      |                      |                      |    |
|   | 70  | If you have a tax overpayment (amount on line 63) and it is greater than line 68, subtract line 68 from line 63 and enter the result here. This is your overpayment.  |   |                               | 70                   |                      | 70                   |    |
|   | <b>This is your overpayment.</b>  |   |   |                               |                      |                      |                      |    |
| 71  | Enter the amount on line 70 that you want applied to your 2009 estimated taxes.   |   | ▶   | 71                            |                      | 71                   |                      |    |
| 72  | Subtract line 71 from line 70 and enter the amount here.  |   |   | 72                            |                      | 72                   |                      |    |
| <b>This is your refund.</b>   |   |   |   |                               |                      |                      |                      |    |
| <b>If you wish to direct deposit your refund, enter your financial institution's ROUTING# and ACCOUNT# below. See instructions.</b> |   |   |   |                               |                      |                      |                      |    |
| ROUTING# ▶  |   | <input type="text"/>  | Please check one box.                                   |                               | Checking. ▶          | <input type="text"/> | Savings. ▶           |    |
| ACCOUNT# ▶  |   | <input type="text"/>  | ▼ Name, address and telephone number of paid preparer.  |                               |                      |                      |                      |    |
| If applicable, check appropriate box.   |   | 2/3 <sup>rd</sup> farming gross income. ▶   | <input type="text"/>                                    |                               |                      |                      |                      |    |
|   |   | Annualized estimated payments. ▶  | <input type="text"/>                                    |                               |                      |                      |                      |    |
|   |   | Do not mail forms and instructions next year. ▶   | <input type="text"/>                                    | Preparer SSN, FEIN or PTIN. ▶ |                      |                      |                      |    |
|   |   | Preparer SSN, FEIN or PTIN. ▶   | <input type="text"/>                                    | <input type="text"/>          | <input type="text"/> | <input type="text"/> | <input type="text"/> |    |
| May the DOR discuss this return with your tax preparer?   |   | Yes ▶   | <input type="text"/>                                    | No ▶                          | <input type="text"/> |                      |                      |    |
| Check this box and attach a copy of your federal Form 4868 to receive your Montana extension.                                       |   | <input type="text"/>  |   |                               |                      |                      |                      |    |
| Your signature is required  |   | Date  | Daytime telephone number                                | Spouse's signature            |                      | Date                 |                      |    |
| x   |   |   |   | x                             |                      |                      |                      |    |

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



| Voluntary Check-off Contributions   |                                     |                                |                                 |  |
|---|-------------------------------------|--------------------------------|---------------------------------|--|
| Check the appropriate box(es) below if you wish to contribute in addition to your existing tax liability. |                                     |                                |                                 |  |
| Please enter the total amount on Form 2, line 67.   |                                     |                                |                                 |  |
| 67a.  | Nongame Wildlife Program            | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67b.  | Child Abuse Prevention              | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67c.  | Agriculture in Schools              | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67d.  | End-stage Renal Disease Program     | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67e.  | Montana Military Family Relief Fund | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| <b>Total voluntary check-off contributions.</b>   |                                     |                                |                                 | <input type="text"/>                     |

| 2008 Montana Individual Income Tax Table   |                   |                                 |              |                 |
|--|-------------------|---------------------------------|--------------|-----------------|
| If your taxable income is more than  | but not more than | multiply your taxable income by | and subtract | equals your tax |
| \$0  | \$2,600           | 1% (0.010)                      | \$0          |                 |
| \$2,600  | \$4,600           | 2% (0.020)                      | \$26         |                 |
| \$4,600  | \$7,000           | 3% (0.030)                      | \$72         |                 |
| \$7,000  | \$9,500           | 4% (0.040)                      | \$142        |                 |
| \$9,500  | \$12,200          | 5% (0.050)                      | \$237        |                 |
| \$12,200   | \$15,600          | 6% (0.060)                      | \$359        |                 |
| more than \$15,600   |                   | 6.9% (0.069)                    | \$499        |                 |
| For example: Taxable income \$6,800 X 3% (0.030) = \$204; \$204 minus \$72 = \$132 tax |                   |                                 |              |                 |

| Schedule I - Montana Additions to Federal Adjusted Gross Income                  |  |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|---|--|---|
| Enter on the corresponding line your additions to federal adjusted gross income. |  |   | ▼  | ▼   |
| File Schedule I with your Montana Form 2.  |  |   |  |   |
| 1  | Interest and mutual fund dividends from state, county, or municipal bonds from other states.   | ▶ | 1  | 1   |
| 2  | Dividends not included in federal adjusted gross income.   | ▶ | 2  | 2   |
| 3  | Taxable federal refunds. Complete Worksheet II on page 51.   | ▶ | 3  | 3   |
| 4  | Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at <a href="http://mt.gov/revenue">mt.gov/revenue</a> ). | ▶ | 4  | 4   |
| 5  | Addition to federal taxable social security/railroad retirement. Complete Worksheet VIII on page 55.   | ▶ | 5  | 5   |
| 6  | Sole proprietor's allocation of compensation to spouse.  | ▶ | 6  | 6   |
| 7  | Medical care savings account nonqualified withdrawals.   | ▶ | 7  | 7   |
| 8  | First-time home buyer savings account nonqualified withdrawals.  | ▶ | 8  | 8   |
| 9  | Farm and ranch risk management account taxable distributions.  | ▶ | 9  | 9   |
| 10   | Addition for dependent care assistance credit adjustment.  | ▶ | 10   | 10  |
| 11   | Addition for smaller federal estate and trust taxable distributions.   | ▶ | 11   | 11  |
| 12   | Federal net operating loss carryover reported on Form 2, line 21.  | ▶ | 12   | 12  |
| 13   | Share of federal income taxes paid by your S corporation.  | ▶ | 13   | 13  |
| 14   | Title plant depreciation and amortization.   | ▶ | 14   | 14  |
| 15   | Premiums for Insure Montana Small Business Health Insurance credit.  | ▶ | 15   | 15  |
| 16   | Other additions. Specify: <input type="text"/>   | ▶ | 16   | 16  |
| 17   | Add lines 1 through 16. Enter total here and on Form 2, line 38.   | ▶ | 17   | 17  |
| <b>This is your total Montana additions to federal adjusted gross income.</b>    |  |   |  |   |

| Schedule II - Montana Subtractions from Federal Adjusted Gross Income                 |  |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|---|--|---|--|---|
| Enter on the corresponding line your subtractions from federal adjusted gross income. |  |   | ▼  | ▼   |
| File Schedule II with your Montana Form 2.  |  |   |  |   |
| 1   | Exempt interest and dividends from federal bonds, notes, and obligations.  | ▶ | 1  | 1   |
| 2   | Exempt tribal income. Attach Montana Form IND.   | ▶ | 2  | 2   |
| 3   | Exempt unemployment compensation.  | ▶ | 3  | 3   |
| 4   | Exempt workers' compensation benefits.   | ▶ | 4  | 4   |
| 5   | Exempt capital gains and dividends from small business investment companies.   | ▶ | 5  | 5   |
| 6   | State income tax refunds included in Montana Form 2, line 10.  | ▶ | 6  | 6   |
| 7   | Recoveries of amounts deducted in earlier years that did not reduce Montana income.  | ▶ | 7  | 7   |
| 8   | Exempt military salary of residents on active duty.  | ▶ | 8  | 8   |
| 9   | Exempt income of nonresident military servicepersons and spouses.  | ▶ | 9  | 9   |
| 10  | Exempt life-insurance premiums reimbursement for National Guard and Reservist.   | ▶ | 10   | 10  |
| 11  | Partial pension and annuity income exemption.<br>Report Tier II Railroad Retirement on line 23 below.  | ▶ | 11   | 11  |
| 12  | Partial interest exemption for taxpayers 65 and older.   | ▶ | 12   | 12  |
| 13  | Partial retirement disability income exemption for taxpayers under age 65. Attach Form DS-1.   | ▶ | 13   | 13  |
| 14  | Exemption for certain taxed tips and gratuities.   | ▶ | 14   | 14  |
| 15  | Exemption for certain income of child taxed to parent.   | ▶ | 15   | 15  |
| 16  | Exemption for certain health insurance premiums taxed to employee.   | ▶ | 16   | 16  |
| 17  | Exemption for student loan repayments taxed to health care professional.   | ▶ | 17   | 17  |
| 18  | Exempt medical care savings account deposits and earnings. Attach Form MSA.  | ▶ | 18   | 18  |
| 19  | Exempt first-time home buyer savings account deposits and earnings. Attach Form FTB.   | ▶ | 19   | 19  |
| 20  | Exempt family education savings account deposits and earnings.   | ▶ | 20   | 20  |
| 21  | Exempt farm and ranch risk management account deposits. Attach Form FRM.   | ▶ | 21   | 21  |
| 22  | Subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b.  | ▶ | 22   | 22  |
| 23  | Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b.   | ▶ | 23   | 23  |
| 24  | Passive loss carryover exclusion.  | ▶ | 24   | 24  |
| 25  | Capital loss adjustment.   | ▶ | 25   | 25  |
| 26  | Subtraction of sole proprietor for allocation of compensation to spouse.   | ▶ | 26   | 26  |
| 27  | Montana net operating loss carryover from Montana Form NOL, Schedule B.  | ▶ | 27   | 27  |
| 28  | 40% capital gain exclusion for pre-1987 installment sales.   | ▶ | 28   | 28  |
| 29  | Subtraction for business related expenses for purchasing recycled material.  | ▶ | 29   | 29  |
| 30  | Subtraction for sales of land to beginning farmers.  | ▶ | 30   | 30  |
| 31  | Subtraction for larger federal estate and trust taxable distribution.  | ▶ | 31   | 31  |
| 32  | Subtraction for wage deduction reduced by federal targeted jobs credit.  | ▶ | 32   | 32  |
| 33  | Subtraction for certain gains recognized by liquidating corporation.   | ▶ | 33   | 33  |
| 34  | Other subtractions. Specify: ▶ <input type="text"/>  | ▶ | 34   | 34  |
| 35  | Add lines 1 through 34, enter total here and on Form 2, line 39.<br><b>This is your total Montana subtractions from federal adjusted gross income.</b> | ▶ | 35   | 35  |

| <b>Schedule III - Montana Itemized Deductions</b><br>Enter on the corresponding line your itemized deductions.<br>File Schedule III with your Montana Form 2.   |  |   |    | Column A (for single,<br>joint, separate, or<br>head of household)<br>▼ | Column B (for spouse<br>when filing separately<br>using filing status 3a)<br>▼ |
|---|--|---|----|---|--|
| 1   | Medical and dental expenses.   | ▶ | 1  |   |  |
| 2   | Enter amount from Form 2, line 41.   | ▶ | 2  |   |  |
| 3   | Multiply line 2 by 7.5% (0.075).   | ▶ | 3  |   |  |
| 4   | <b>Subtract line 3 from line 1 and enter result here but not less than zero.</b><br><b>This is your deductible medical and dental expense subject to 7.5% of Montana AGI.</b> ▶  |   |    | 4   | 4  |
| 5   | Medical insurance premiums not deducted elsewhere on your return.  | ▶ | 5  |   | 5  |
| 6   | Long term care insurance premiums not deducted elsewhere on your return.   | ▶ | 6  |   | 6  |
| Complete lines 7a through 7d reporting your total federal income tax payments made in 2008 before completing line 7e. You cannot deduct your self-employment taxes paid on lines 7a through 7d.                               |  |   |    |   |  |
| 7a  | Federal income tax withheld in 2008.   | ▶ | 7a |   | 7a   |
| 7b  | Federal estimated tax payments paid in 2008.   | ▶ | 7b |   | 7b   |
| 7c  | 2007 federal income taxes paid in 2008.  | ▶ | 7c |   | 7c   |
| 7d  | Other back year federal income taxes paid in 2008. Attach federal Form 1040 or 1040A.  | ▶ | 7d |   | 7d   |
| 7e  | Federal Economic Stimulus Package Rebate received in 2008.   | ▶ | 7e |   | 7e   |
| 7f  | Add lines 7a through 7d, and then subtract line 7e. Enter result here, but no more than \$5,000 if you are filing single, head of household, or married filing separately; or \$10,000 if filing a joint return with your spouse.<br><b>This is your federal income tax deduction.</b> ▶ |   |    | 7f  | 7f   |
| 8   | Local income taxes paid in 2008 (see instructions on page 34).   | ▶ | 8  |   | 8  |
| 9   | Real estate taxes paid in 2008.  | ▶ | 9  |   | 9  |
| 10  | Personal property taxes paid in 2008.  | ▶ | 10 |   | 10   |
| 11  | Other deductible taxes, including general sales taxes paid in 2008. List type and amount:  | ▶ | 11 |   | 11   |
| 12  | Home mortgage interest and points reported to you on federal Form 1098.  | ▶ | 12 |   | 12   |
| 13  | Home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. ▼   | ▶ | 13 |   | 13   |
| 14  | Points not reported to you on federal Form 1098.   | ▶ | 14 |   | 14   |
| 15  | Qualified mortgage insurance premiums.   | ▶ | 15 |   | 15   |
| 16  | Investment interest, Attach federal Form 4952.   | ▶ | 16 |   | 16   |
| 17  | Contributions made by cash or check during 2008.   | ▶ | 17 |   | 17   |
| 18  | Contributions made other than by cash or check.  | ▶ | 18 |   | 18   |
| 19  | Contribution carryover from the prior year.  | ▶ | 19 |   | 19   |
| 20  | Child and dependent care expenses. Attach Montana Form 2441M.  | ▶ | 20 |   | 20   |
| 21  | Casualty and theft loss(es). Attach federal Form 4684.   | ▶ | 21 |   | 21   |
| 22  | Unreimbursed employee business expenses. Attach federal Form 2106 or 2106EZ.   | ▶ | 22 |   | 22   |
| 23  | Other expenses. List type and amount:  | ▶ | 23 |   | 23   |
| 24  | Add lines 22 and 23.   | ▶ | 24 |   | 24   |
| 25  | Enter the amount from Form 2, line 41.   | ▶ | 25 |   | 25   |
| 26  | Multiply line 25 by 2% (0.02).   | ▶ | 26 |   | 26   |
| 27  | Subtract line 26 from line 24 and enter the result here, but not less than zero.   | ▶ | 27 |   | 27   |
| 28  | Political contributions (limited to \$100 per taxpayer).   | ▶ | 28 |   | 28   |
| 29  | Other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: ▼   | ▶ | 29 |   | 29   |
| 30  | Gambling losses allowed under federal law.   | ▶ | 30 |   | 30   |
| 31  | Add lines 4 through 6; 7f through 21; and 27 through 30 and enter result here.   | ▶ | 31 |   | 31   |
| If the amount on Form 2, line 41 is more than \$159,950 if married filing jointly, or more than \$79,975 if married filing separately, complete Worksheet VI - Itemized Deduction Worksheet, otherwise enter zero on line 32. |  |   |    |   |  |
| 32  | Enter the amount from the itemized deduction Worksheet VI, page 53, line 11.<br><b>This is the amount of your non-allowed itemized deductions.</b> ▶   |   | 32 |   | 32   |
| 33  | Subtract line 32 from line 31 and enter the result here and on Form 2, line 42.<br><b>This is the amount of your allowable itemized deductions.</b> ▶  |   | 33 |   | 33   |

| <b>Schedule IV - Nonresident/Part-Year Resident Tax</b><br>Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and line 38.<br><b>File Schedule IV with your Montana Form 2.</b> |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|---|--|--|---|
|   |  | ▼  | ▼   |
| 1   | Montana wages, salaries, tips, etc. included on Form 2, line 7. ▶  | 1  | 1   |
| 2   | Montana taxable interest included on Form 2, line 8a. ▶  | 2  | 2   |
| 3   | Montana ordinary dividends included on Form 2, line 9a. ▶  | 3  | 3   |
| 4   | Montana taxable refunds, credits, or offsets of state and local income taxes included on Form 2, line 10. ▶  | 4  | 4   |
| 5   | Montana alimony received included on Form 2, line 11. ▶  | 5  | 5   |
| 6   | Business income or (loss) included on Form 2, line 12. ▶   | 6  | 6   |
| 7   | Capital gain or (loss) included on Form 2, line 13. ▶  | 7  | 7   |
| 8   | Other gains or (losses) included on Form 2, line 14. ▶   | 8  | 8   |
| 9   | Taxable IRA distribution included on Form 2, line 15b. ▶   | 9  | 9   |
| 10  | Taxable pension and annuities included on Form 2, line 16b. ▶  | 10   | 10  |
| 11  | Rental real estate, royalties, partnerships, S corporations, trust, etc. included on Form 2, line 17. ▶  | 11   | 11  |
| 12  | Farm income or (loss) included on Form 2, line 18. ▶   | 12   | 12  |
| 13  | Taxable social security benefits included on Form 2, line 20b. ▶   | 13   | 13  |
| 14  | Other income included on Form 2, line 21. ▶  | 14   | 14  |
| 15  | Montana source additions to income reported on Form 2, Schedule I. ▶   | 15   | 15  |
| 16  | Add lines 1 through 15 and enter result here. <b>This is your Montana source income.</b> ▶   | 16   | 16  |
| 17  | Add your total federal income from Form 2, line 22 and your Montana additions to federal adjusted gross income from line 38 and enter the result here. Skip line 18 and go to line 19. (If you are a nonresident military service person and spouse, skip line 17 and go to line 18). <b>This is your total income from all sources.</b> ▶ | 17   | 17  |
| 18  | Nonresident military service persons and spouses only: Add from Form 2, lines 22 and 38, then subtract from this sum your exempt income reported on Form 2, Schedule II, line 9 and enter the result here. <b>This is your total income from all sources.</b> ▶  | 18   | 18  |
| 19  | Divide the amount on line 16 by the amount on line 17 or line 18 (if you are a nonresident military service person and spouse) and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000. ▶   | 19   | 19  |
| 20  | Enter your resident tax after capital gains tax credit from Form 2, line 48. ▶   | 20   | 20  |
| 21  | Multiply the tax on line 20 by the percentage on line 19 and enter the result here and on Form 2, line 48a. <b>This is your nonresident, part-year resident tax after capital gains tax credit.</b> ▶  | 21   | 21  |

**How do I determine what qualifies as my Montana source income when I am a nonresident of Montana?**

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

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

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

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

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

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

For further information and a line-by-line description of what Montana source income is, refer to Form 2, *Schedule IV* instructions beginning on page 36.

| <b>Schedule V - Montana Tax Credits</b><br>Enter on the corresponding line your Montana tax credits.<br>File Schedule V with your Montana Form 2. |   |    | Column A (for single,<br>joint, separate, or<br>head of household)<br>▼ | Column B (for spouse<br>when filing separately<br>using filing status 3a)<br>▼ |
|---|---|----|---|--|
| <b>Nonrefundable credits that are single-year credits and HAVE NO carryover provision</b>   |   |    |   |  |
| 1   | Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10. ▶                             | 1  |   | 1  |
| 2   | College contribution credit. Attach Form CC. ▶  | 2  |   | 2  |
| 3   | Qualified endowment credit. Attach Form QEC. ▶  | 3  |   | 3  |
| 4   | Energy conservation installation credit. Attach Form ENRG-C. ▶  | 4  |   | 4  |
| 5   | Alternative fuel credit. Attach Form AFCR. ▶  | 5  |   | 5  |
| 6   | Rural physician's credit. ▶   | 6  |   | 6  |
| 7   | Health insurance for uninsured Montanans credit. Attach Form HI. ▶  | 7  |   | 7  |
| 8   | Elderly care credit. Attach Form ECC. ▶   | 8  |   | 8  |
| 9   | Recycle credit. Attach Form RCYL. ▶   | 9  |   | 9  |
| 10  | Oilseed crushing and biodiesel/biolubricant production facility credit. Attach Form OSC. ▶  | 10 |   | 10   |
| 11  | Biodiesel blending and storage credit. Attach Form BBSC. ▶  | 11 |   | 11   |
| <b>Nonrefundable credits that HAVE a carryover provision</b>  |   |    |   |  |
| 12  | Contractor's gross receipts tax credit. ▶   | 12 |   | 12   |
| 13  | Geothermal systems credit. Attach Form ENRG-A. ▶  | 13 |   | 13   |
| 14  | Alternative energy systems credit. Attach Form ENRG-B. ▶  | 14 |   | 14   |
| 15  | Alternative energy production credit. Attach Form AEPC. ▶   | 15 |   | 15   |
| 16  | Dependent care assistance credit. Attach Form DCAC. ▶   | 16 |   | 16   |
| 17  | Historic property preservation credit. Attach federal Form 3468. ▶  | 17 |   | 17   |
| 18  | Infrastructure users fee credit. ▶  | 18 |   | 18   |
| 19  | Empowerment zone credit. ▶  | 19 |   | 19   |
| 20  | Increasing research activities credit. Attach Form RSCH. ▶  | 20 |   | 20   |
| 21  | Mineral exploration incentive credit. Attach Form MINE-CRED. ▶  | 21 |   | 21   |
| 22  | Film employment production credit. Attach Form FPC. Report your credit on this line if you have made the one-time four year carry forward election. ▶ | 22 |   | 22   |
| 23  | Adoption credit. Attach federal Form 8839. ▶  | 23 |   | 23   |
| 24  | Add lines 1 through 23 and enter result here and on Form 2, line 51.<br><b>This is your total nonrefundable credits. ▶</b>                            | 24 |   | 24   |
| <b>Refundable credits</b>   |   |    |   |  |
| 25  | Elderly homeowner/renter credit. Attach Form 2EC. ▶   | 25 |   | 25   |
| 26  | Film employment production credit. Attach Form FPC. ▶   | 26 |   | 26   |
| 27  | Film qualified expenditure credit. Attach Form FPC. ▶   | 27 |   | 27   |
| 28  | Insure Montana small business health insurance credit. Business FEIN: ▶ <input type="text"/> ▶  | 28 |   | 28   |
| 29  | Temporary Emergency Lodging credit. Attach Form TELC. ▶   | 29 |   | 29   |
| 30  | Add lines 25 through 29 and enter result here and on Form 2, line 58.<br><b>This is your total refundable credits. ▶</b>                              | 30 |   | 30   |

**Montana Tax Credits**

We have listed the 27 Montana tax credits available to you under three categories. With the exception of the capital gains tax credit, which is required to be applied before any other credit, you are not required to apply any of these 27 tax credits against your income tax liability in any particular order.

**Nonrefundable single-year credits.**

Your nonrefundable single-year credits can only be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion that exceeded your 2008 income tax liability cannot be used in future years.

**Nonrefundable carryover credits.**

Your nonrefundable carryover credits can be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. Your excess credits that were not applied against your 2008 income tax liability can be carried over and used to offset future year tax liabilities.

**Refundable credits.**

Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

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

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

You are not entitled to a Montana tax credit for taxes paid to a foreign country if you claimed these foreign taxes paid as a foreign tax credit on your federal income tax return.

- If you claim this credit for an income tax paid by your S corporation or partnership see the instructions for Form 2, Schedule V, line 1 on page 40.
- Your credit is limited to an income tax liability paid on income that is also taxed by Montana.
- Your income taxes paid include excise taxes or franchise taxes that are imposed on and measured by the net income of your S corporation or partnership.
- This is a nonrefundable credit and cannot reduce your Montana tax liability below zero.
- This is a nonrefundable single year credit. No unused credit amount can be carried forward.
- You will need to complete a separate Schedule VI or VII for each state or country that you have paid an income tax liability to. You cannot combine payments on one schedule.
- If you are a part-year resident, you have to allocate your income using Form 2, Schedule IV before completing Form 2, Schedule VII.

**Schedule VIII - Reporting of Special Transactions**  
**File Schedule VIII with your Montana Form 2**

Complete Schedule VIII only if you and/or your spouse filed for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) you filed with your federal income tax return. If your answer is "Yes" to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.

Check "Yes" if you filed any of the following forms with the Internal Revenue Service.

|   |  |   |       |  |
|---|--|---|-------|--|
| 1 | I filed federal <b>Form 8824 - Like-Kind Exchanges</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>NOTE: Check "Yes" if your like-kind exchange includes Montana property. Nonresidents do not have to report a like-kind exchange if the properties involved do not include Montana property.<br>Form 8824 is used to report each exchange of business or investment property for property of a like kind.   | 1 | Yes ▶ |  |
| 2 | I filed federal <b>Form 8865 - Return of U.S. Persons With Respect to Certain Foreign Partnerships</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest). | 2 | Yes ▶ |  |
| 3 | I am required to file federal <b>Form 8886 - Reportable Transaction Disclosure Statement</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>Form 8886 is used to disclose information for each reportable transaction in which you participated.   | 3 | Yes ▶ |  |





# 2008 Montana Elderly Homeowner/Renter Credit

# Form 2EC

File alone or with your Form 2 or Form 2M. Free electronic filing is available at [mt.gov/revenue](http://mt.gov/revenue)

|   |                                 |           |                                 |                            |
|---|---------------------------------|-----------|---------------------------------|----------------------------|
| <input type="checkbox"/> Check this box if this is an Amended Return. | First name and initial          | Last name | Social security number          | If deceased, date of death |
|   | Spouse's first name and initial | Last name | Spouse's social security number | If deceased, date of death |
|   | Mailing address                 | City      | State                           | Zip+4                      |
|   |                                 |           |                                 |                            |

### Part I - Qualifications (Answer each of the following statements.)

|  |       |  |      |  |
|--|-------|--|------|--|
| I was age 62 or older as of December 31, 2008.   | Yes ▶ |  | No ▶ |  |
| I occupied a Montana residence as an owner or renter for a total of six months or more during 2008.    | Yes ▶ |  | No ▶ |  |
| I resided in Montana for nine months or more during 2008.  | Yes ▶ |  | No ▶ |  |
| My gross household income was less than \$45,000 in 2008.  | Yes ▶ |  | No ▶ |  |
| <b>If you answered "No" to any of the four statements above, you are not eligible for this credit.</b> |       |  |      |  |

### Part II - Household Income

|   |  |   |   |         |
|---|--|---|---|---------|
| 1 | Enter your total gross household income (see worksheet on the back of this form).                      | ▶ | 1 |         |
| 2 | Entered here for you is your standard exclusion.   | ▶ | 2 | \$6,300 |
| 3 | Subtract line 2 from line 1 and enter result here, but not less than zero.                             | ▶ | 3 |         |
| 4 | Enter your multiplier rate from the Household Income Reduction Table located on the back of this form. | ▶ | 4 |         |
| 5 | Multiply line 3 by line 4 and enter the result here. <b>This is your net household income.</b>         | ▶ | 5 |         |

### Part III - Credit Computation

|    |  |   |    |  |
|----|--|---|----|--|
| 6  | Enter the property tax that you were billed for your principal residence in 2008.  | ▶ | 6  |  |
| 7  | Enter the rent that you paid in 2008 for your principal residence.   | ▶ | 7  |  |
| 8  | Multiply line 7 by 0.15 (15%) and enter the result here.   | ▶ | 8  |  |
| 9  | Add lines 6 and 8; enter the result here.  | ▶ | 9  |  |
| 10 | Subtract line 5 from line 9 and enter the result here.   | ▶ | 10 |  |
| 11 | Enter the lesser of line 10 or \$1,000.  | ▶ | 11 |  |
| 12 | Enter on line 12 the percentage multiplier listed in the instructions on the back of this form that corresponds to your gross household income reported on line 1. | ▶ | 12 |  |
| 13 | Multiply line 11 by the percentage reported on line 12 and enter result here.<br><b>This is your elderly homeowner/renter credit.</b>                              | ▶ | 13 |  |

- If you are filing Montana Form 2, enter on Form 2, Schedule V, line 25, the amount on line 13 above. Attach Form 2EC to Form 2.
- If you are filing Montana Form 2M, enter on Form 2M, Schedule II, line 7, the amount on line 13 above. Attach Form 2EC to Form 2M.
- If you are not required to file Montana Form 2 or 2M, see instructions on the back of this form. Mail Form 2EC to the MT Dept. of Revenue.

If you wish to direct-deposit your refund, enter your financial institution's ROUTING# and ACCOUNT# below.

|   |             |  |                           |             |           |  |
|---|-------------|--|---------------------------|-------------|-----------|--|
| <b>ROUTING#</b>   |             | <b>Please check one box.</b>                         | Checking ▶                |             | Savings ▶ |  |
| <b>ACCOUNT#</b>   |             | Name, address and telephone number of paid preparer. |                           |             |           |  |
| Do not mail forms and instructions next year. ▶               |             |  |                           |             |           |  |
| May the DOR discuss this return with your tax preparer? Yes ▶ |             |  |                           |             |           |  |
| No ▶  |             |  |                           |             |           |  |
| Preparer SSN, FEIN or PTIN.                                   |             |  |                           |             |           |  |
| <b>Signature is required</b>                                  | <b>Date</b> | <b>Daytime phone number</b>                          | <b>Spouse's signature</b> | <b>Date</b> |           |  |
|   |             |  |                           |             |           |  |

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

Questions? Call us toll free at (866) 859-2254 (in Helena, 444-6900) or TDD (406) 444-2830 for hearing impaired.

**Please note:** The complete instructions for the elderly homeowner/renter tax credit can be found in this booklet.

### Line 1 – Gross Household Income

Enter your gross household income on line 1. Your gross household income is all the income received, taxable and nontaxable, by all individuals who live in your household. In addition to federal adjusted gross income, the following are examples of items which are included in household income:

- Inheritances
- Pension and annuity income (this includes railroad retirement and veteran’s disability benefits)
- Any capital gains that you excluded from your Montana adjusted gross income such as the gain from the sale of your primary residence
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds including the 2008 federal economic stimulus package rebate
- State income tax refunds and elderly homeowner/renter credits allowed

Some items above may involve a basis. If applicable, you may reduce your income by the basis. For example, if you paid \$5,000 for stock in a company, that is your basis. If you sell the stock for \$8,000, your household income only includes the gain of \$3,000 (\$8,000 sales price minus \$5,000 basis). Do not reduce your household income by any losses that you included in your federal adjusted gross income.

The following worksheet can be used to help you calculate your gross household income:

| Income Source  | Amount |
|--|--------|
| 1. Wages, salaries, bonuses, tips, etc.  |        |
| 2. Business, partnership, rent, royalties (do not include losses.)   |        |
| 3. Dividends, interest including interest from federal, state, county and municipal bonds capital gains (do not include capital losses.) |        |

|  |  |
|--|--|
| 4. State and federal tax refunds.  |  |
| 5. Prior year 2EC refunds.   |  |
| 6. Alimony, public assistance, unemployment.   |  |
| 7. Pension, annuities, IRA distributions, benefits from railroad retirement, public employee’s retirement, veteran’s disability and social security. |  |
| 8. Income from any source or other household members not included above.   |  |
| 9. Add lines 1 through 8 and enter the total here and on Form 2EC, line 1. <b>This is your Gross Household Income.</b>                               |  |

### Line 4 – Household Income Reduction Table

| If your household income on line 3 is: |                   |                    |
|--|-------------------|--------------------|
| At least                               | But not more than | Your multiplier is |
| \$0                                    | \$1,999           | 0.000              |
| \$2,000                                | \$2,999           | 0.006              |
| \$3,000                                | \$3,999           | 0.016              |
| \$4,000                                | \$4,999           | 0.024              |
| \$5,000                                | \$5,999           | 0.028              |
| \$6,000                                | \$6,999           | 0.032              |
| \$7,000                                | \$7,999           | 0.035              |
| \$8,000                                | \$8,999           | 0.039              |
| \$9,000                                | \$9,999           | 0.042              |
| \$10,000                               | \$10,999          | 0.045              |
| \$11,000                               | \$11,999          | 0.048              |
| \$12,000 and over                      |                   | 0.050              |

### Line 12 – Credit Multiplier

| If the amount on line 1 is | enter this figure on line 12 |
|----------------------------|------------------------------|
| Less than \$35,000         | 1.00 (100%)                  |
| \$35,000 to \$37,500       | 0.40 (40%)                   |
| \$37,501 to \$40,000       | 0.30 (30%)                   |
| \$40,001 to \$42,500       | 0.20 (20%)                   |
| \$42,501 to \$44,999       | 0.10 (10%)                   |
| \$45,000 and over          | 0.00 (0%)                    |

If you choose not to file electronically and you are not required to file Montana Form 2 or Form 2M, please mail your Form 2EC to:

Montana Department of Revenue  
 PO Box 6577  
 Helena, MT 59604-6577

2008 Montana Individual Income Tax Return

For the year Jan 1 – Dec 31, 2008 or the tax year beginning [ ], 2008, ending [ ], 20[ ]

Personal information section including checkboxes for amended return and NOL Carryback, and fields for names, social security numbers, and addresses for taxpayer and spouse.

Filing Status section with checkboxes for Single, Married filing jointly, Married filing separately on the same form, Married filing separately on separate forms, and Head of household.

Residency Status section with checkboxes for Resident full year, Nonresident full year, and Resident part-year, including fields for date of change and state moved to/from.

Exemptions section (lines 6a-6d) including checkboxes for Yourself, Spouse, and Dependents, and a summary line for total exemptions.

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

Federal Income section (lines 7-22) listing various income sources such as wages, interest, dividends, and other income.

Federal Adjusted Gross Income section (lines 23-37a) listing deductions such as educator expenses, IRA deduction, and student loan interest.

Montana AGI section (lines 38-40) for calculating Montana Adjusted Gross Income with additions and subtractions.

Questions? Call us toll free at (866) 859-2254 or in Helena at 444-6900 or TDD (406) 444-2830 for hearing impaired.

|   |  |   |   |                    |      |    |
|---|--|---|---|--------------------|------|----|
| Taxable Income  | 41   | Montana adjusted gross income from line 40. ▶   | 41  |                    | 41   |    |
|   | 42   | <b>Deductions</b> (check only one box) <input type="checkbox"/> Standard Deduction (see Worksheet V on page 53). ▶ <input type="checkbox"/> Itemized Deductions from Form 2, Schedule III, line 33. ▶   | 42  |                    | 42   |    |
|   | 43   | Subtract line 42 from line 41 and enter the result here. ▶  | 43  |                    | 43   |    |
|   | 44   | <b>Exemptions</b> (All individuals are entitled to at least one exemption.)<br>Multiply \$2,140 by the number of exemptions on line 6d and enter result here. ▶   | 44  |                    | 44   |    |
|   | 45   | Subtract line 44 from line 43 and enter result here. If zero or less, enter zero.<br><b>This is your taxable income.</b> ▶  | 45  |                    | 45   |    |
| Tax   | 46   | Tax from the tax table on page 16 or from Form 2, page 3. If line 45 is zero, enter zero. ▶   | 46  |                    | 46   |    |
|   | 47   | 2% capital gains tax credit. ▶  | 47  |                    | 47   |    |
|   | 48   | Subtract line 47 from line 46 and enter the result here, but not less than zero.<br><b>This is your resident tax after capital gains tax credit.</b> ▶  | 48  |                    | 48   |    |
|   | 48a  | Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 21, but not less than zero.  | 48a   |                    | 48a  |    |
|   | 49   | Tax on lump-sum distributions. Attach federal Form 4972. ▶  | 49  |                    | 49   |    |
|   | 50   | Add lines 48 or 48a and 49 and enter the result here. <b>This is your total tax.</b> ▶  | 50  |                    | 50   |    |
|   | 51   | Enter the amount from Schedule V, line 24, but do not enter an amount larger than the amount on line 50.<br><b>This is your total nonrefundable credits.</b> ▶  | 51  |                    | 51   |    |
|   | 52   | Recapture tax(es) (see instructions on page 17). ▶ Code <input type="text"/> <input type="text"/> Code <input type="text"/> <input type="text"/>  | 52  |                    | 52   |    |
|   | 53   | Add lines 50 and 52, then subtract the amount on line 51 and enter the result here.<br><b>This is your 2008 tax liability.</b> ▶  | 53  |                    | 53   |    |
|   | Payments   | 54  | Montana income tax withheld. Attach federal Form(s) W-2 and 1099. ▶   | 54                 |      | 54 |
| 55  |  | Montana mineral royalty tax withheld. Attach Form(s) 1099 and supporting schedule if any. ▶   | 55  |                    | 55   |    |
| 56  |  | 2008 estimated tax payments and amount applied from your 2007 return. ▶   | 56  |                    | 56   |    |
| 57  |  | 2008 extension payments from Form EXT-08. ▶   | 57  |                    | 57   |    |
| 58  |  | Refundable credits from Form 2, Schedule V, line 30. ▶  | 58  |                    | 58   |    |
| 59  |  | <b>If filing an amended return:</b> Payments made with original return. ▶   | 59  |                    | 59   |    |
| 60  |  | <b>If filing an amended return:</b> Previously issued refunds. ▶  | 60  |                    | 60   |    |
| 61  |  | Add lines 54 through 59. Subtract line 60, enter the result here. <b>This is your total payments.</b> ▶   | 61  |                    | 61   |    |
| 62  |  | If line 53 is greater than line 61, subtract line 61 from line 53. <b>This is your tax due.</b> ▶   | 62  |                    | 62   |    |
| Penalties, Interest & Contributions   | 63   | If line 61 is greater than line 53, subtract line 53 from line 61 and enter the result here.<br><b>This is your tax overpaid.</b> ▶   | 63  |                    | 63   |    |
|   | 64   | Interest on underpayment of estimated taxes (see instructions on page 19). ▶  | 64  |                    | 64   |    |
|   | 65   | Late file, late payment penalties and interest (see instructions and table on pages 19 and 20). ▶   | 65  |                    | 65   |    |
|   | 66   | Other penalties (see instructions on page 20). ▶  | 66  |                    | 66   |    |
|   | 67   | Voluntary check-off contribution programs from Form 2, page 3. ▶  | 67  |                    | 67   |    |
|   | 68   | Add lines 64 through 67 and enter the result here.<br><b>This is the sum of your total penalties, interest and contributions.</b> ▶   | 68  |                    | 68   |    |
|   | Amount You Owe or Your Refund  | 69  | If you have tax due (amount on line 62), add lines 62 and 68 OR, if you have a tax overpayment (amount on line 63) and it is less than line 68, subtract line 63 from line 68. Enter the result here. If married filing separately and there are amounts on lines 62 and 63, please see instructions on pages 21 and 22. <b>This is the amount you owe.</b> ▶ | 69                 |      | 69 |
|   |  | <b>Visit our website at <a href="http://mt.gov/revenue">mt.gov/revenue</a> to pay by credit card or E-check, or make a check payable to MONTANA DEPARTMENT OF REVENUE</b>                               |   |                    |      |    |
| 70  |  | If you have a tax overpayment (amount on line 63) and it is greater than line 68, subtract line 68 from line 63 and enter the result here. This is your overpayment. <b>This is your overpayment.</b> ▶ | 70  |                    | 70   |    |
| 71  |  | Enter the amount on line 70 that you want applied to your 2009 estimated taxes. ▶   | 71  |                    | 71   |    |
| 72  | Subtract line 71 from line 70 and enter the amount here. <b>This is your refund.</b> ▶ | 72  |   | 72                 |      |    |
| <b>If you wish to direct deposit your refund, enter your financial institution's ROUTING# and ACCOUNT# below. See instructions.</b> |  |   |   |                    |      |    |
| ROUTING# ▶ <input type="text"/>   |  | Please check one box. <input type="checkbox"/> Checking. ▶ <input type="checkbox"/> Savings. ▶ <input type="checkbox"/>   |   |                    |      |    |
| ACCOUNT# ▶ <input type="text"/>   |  | ▶ Name, address and telephone number of paid preparer.  |   |                    |      |    |
| If applicable, check appropriate box. <input type="checkbox"/> 2/3 <sup>rd</sup> farming gross income. ▶ <input type="checkbox"/>   |  |   |   |                    |      |    |
| Annualized estimated payments. ▶ <input type="checkbox"/>   |  |   |   |                    |      |    |
| Do not mail forms and instructions next year. ▶ <input type="checkbox"/>  |  | Preparer SSN, FEIN or PTIN. ▶ <input type="text"/>  |   |                    |      |    |
| May the DOR discuss this return with your tax preparer? Yes ▶ <input type="checkbox"/>  |  | No ▶ <input type="checkbox"/>   |   |                    |      |    |
| Check this box and attach a copy of your federal Form 4868 to receive your Montana extension. ▶ <input type="checkbox"/>            |  |   |   |                    |      |    |
| Your signature is required  |  | Date  | Daytime telephone number  | Spouse's signature | Date |    |
| x   |  |   |   | x                  |      |    |

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

| Voluntary Check-off Contributions   |                                     |                                |                                 |  |
|---|-------------------------------------|--------------------------------|---------------------------------|--|
| Check the appropriate box(es) below if you wish to contribute in addition to your existing tax liability. |                                     |                                |                                 |  |
| Please enter the total amount on Form 2, line 67.   |                                     |                                |                                 |  |
| 67a.  | Nongame Wildlife Program            | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67b.  | Child Abuse Prevention              | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67c.  | Agriculture in Schools              | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67d.  | End-stage Renal Disease Program     | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| 67e.  | Montana Military Family Relief Fund | \$5 ▶ <input type="checkbox"/> | \$10 ▶ <input type="checkbox"/> | or specify amount ▶ <input type="text"/> |
| <b>Total voluntary check-off contributions.</b>   |                                     |                                |                                 | <input type="text"/>                     |

| 2008 Montana Individual Income Tax Table   |                   |                                 |              |                 |
|--|-------------------|---------------------------------|--------------|-----------------|
| If your taxable income is more than  | but not more than | multiply your taxable income by | and subtract | equals your tax |
| \$0  | \$2,600           | 1% (0.010)                      | \$0          |                 |
| \$2,600  | \$4,600           | 2% (0.020)                      | \$26         |                 |
| \$4,600  | \$7,000           | 3% (0.030)                      | \$72         |                 |
| \$7,000  | \$9,500           | 4% (0.040)                      | \$142        |                 |
| \$9,500  | \$12,200          | 5% (0.050)                      | \$237        |                 |
| \$12,200   | \$15,600          | 6% (0.060)                      | \$359        |                 |
| more than \$15,600   |                   | 6.9% (0.069)                    | \$499        |                 |
| For example: Taxable income \$6,800 X 3% (0.030) = \$204; \$204 minus \$72 = \$132 tax |                   |                                 |              |                 |

| Schedule I - Montana Additions to Federal Adjusted Gross Income                  |  |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|---|--|---|
| Enter on the corresponding line your additions to federal adjusted gross income. |  |   | ▼  | ▼   |
| File Schedule I with your Montana Form 2.  |  |   |  |   |
| 1  | Interest and mutual fund dividends from state, county, or municipal bonds from other states.   | ▶ | 1  | 1   |
| 2  | Dividends not included in federal adjusted gross income.   | ▶ | 2  | 2   |
| 3  | Taxable federal refunds. Complete Worksheet II on page 51.   | ▶ | 3  | 3   |
| 4  | Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at <a href="http://mt.gov/revenue">mt.gov/revenue</a> ). | ▶ | 4  | 4   |
| 5  | Addition to federal taxable social security/railroad retirement. Complete Worksheet VIII on page 55.   | ▶ | 5  | 5   |
| 6  | Sole proprietor's allocation of compensation to spouse.  | ▶ | 6  | 6   |
| 7  | Medical care savings account nonqualified withdrawals.   | ▶ | 7  | 7   |
| 8  | First-time home buyer savings account nonqualified withdrawals.  | ▶ | 8  | 8   |
| 9  | Farm and ranch risk management account taxable distributions.  | ▶ | 9  | 9   |
| 10   | Addition for dependent care assistance credit adjustment.  | ▶ | 10   | 10  |
| 11   | Addition for smaller federal estate and trust taxable distributions.   | ▶ | 11   | 11  |
| 12   | Federal net operating loss carryover reported on Form 2, line 21.  | ▶ | 12   | 12  |
| 13   | Share of federal income taxes paid by your S corporation.  | ▶ | 13   | 13  |
| 14   | Title plant depreciation and amortization.   | ▶ | 14   | 14  |
| 15   | Premiums for Insure Montana Small Business Health Insurance credit.  | ▶ | 15   | 15  |
| 16   | Other additions. Specify: <input type="text"/>   | ▶ | 16   | 16  |
| 17   | Add lines 1 through 16. Enter total here and on Form 2, line 38.   | ▶ | 17   | 17  |
| <b>This is your total Montana additions to federal adjusted gross income.</b>    |  |   |  |   |

| Schedule II - Montana Subtractions from Federal Adjusted Gross Income  |  |   | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|--|--|---|--|---|
| Enter on the corresponding line your subtractions from federal adjusted gross income. File Schedule II with your Montana Form 2. |  |   | ▼  | ▼   |
| 1  | Exempt interest and dividends from federal bonds, notes, and obligations.  | ▶ | 1  | 1   |
| 2  | Exempt tribal income. Attach Montana Form IND.   | ▶ | 2  | 2   |
| 3  | Exempt unemployment compensation.  | ▶ | 3  | 3   |
| 4  | Exempt workers' compensation benefits.   | ▶ | 4  | 4   |
| 5  | Exempt capital gains and dividends from small business investment companies.   | ▶ | 5  | 5   |
| 6  | State income tax refunds included in Montana Form 2, line 10.  | ▶ | 6  | 6   |
| 7  | Recoveries of amounts deducted in earlier years that did not reduce Montana income.  | ▶ | 7  | 7   |
| 8  | Exempt military salary of residents on active duty.  | ▶ | 8  | 8   |
| 9  | Exempt income of nonresident military servicepersons and spouses.  | ▶ | 9  | 9   |
| 10   | Exempt life-insurance premiums reimbursement for National Guard and Reservist.   | ▶ | 10   | 10  |
| 11   | Partial pension and annuity income exemption.<br>Report Tier II Railroad Retirement on line 23 below.  | ▶ | 11   | 11  |
| 12   | Partial interest exemption for taxpayers 65 and older.   | ▶ | 12   | 12  |
| 13   | Partial retirement disability income exemption for taxpayers under age 65. Attach Form DS-1.   | ▶ | 13   | 13  |
| 14   | Exemption for certain taxed tips and gratuities.   | ▶ | 14   | 14  |
| 15   | Exemption for certain income of child taxed to parent.   | ▶ | 15   | 15  |
| 16   | Exemption for certain health insurance premiums taxed to employee.   | ▶ | 16   | 16  |
| 17   | Exemption for student loan repayments taxed to health care professional.   | ▶ | 17   | 17  |
| 18   | Exempt medical care savings account deposits and earnings. Attach Form MSA.  | ▶ | 18   | 18  |
| 19   | Exempt first-time home buyer savings account deposits and earnings. Attach Form FTB.   | ▶ | 19   | 19  |
| 20   | Exempt family education savings account deposits and earnings.   | ▶ | 20   | 20  |
| 21   | Exempt farm and ranch risk management account deposits. Attach Form FRM.   | ▶ | 21   | 21  |
| 22   | Subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b.  | ▶ | 22   | 22  |
| 23   | Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b.   | ▶ | 23   | 23  |
| 24   | Passive loss carryover exclusion.  | ▶ | 24   | 24  |
| 25   | Capital loss adjustment.   | ▶ | 25   | 25  |
| 26   | Subtraction of sole proprietor for allocation of compensation to spouse.   | ▶ | 26   | 26  |
| 27   | Montana net operating loss carryover from Montana Form NOL, Schedule B.  | ▶ | 27   | 27  |
| 28   | 40% capital gain exclusion for pre-1987 installment sales.   | ▶ | 28   | 28  |
| 29   | Subtraction for business related expenses for purchasing recycled material.  | ▶ | 29   | 29  |
| 30   | Subtraction for sales of land to beginning farmers.  | ▶ | 30   | 30  |
| 31   | Subtraction for larger federal estate and trust taxable distribution.  | ▶ | 31   | 31  |
| 32   | Subtraction for wage deduction reduced by federal targeted jobs credit.  | ▶ | 32   | 32  |
| 33   | Subtraction for certain gains recognized by liquidating corporation.   | ▶ | 33   | 33  |
| 34   | Other subtractions. Specify: ▶ <input type="text"/>  | ▶ | 34   | 34  |
| 35   | Add lines 1 through 34, enter total here and on Form 2, line 39.<br><b>This is your total Montana subtractions from federal adjusted gross income.</b> | ▶ | 35   | 35  |

| <b>Schedule III - Montana Itemized Deductions</b><br>Enter on the corresponding line your itemized deductions.<br>File Schedule III with your Montana Form 2.   |  |   |    | Column A (for single,<br>joint, separate, or<br>head of household)<br>▼ | Column B (for spouse<br>when filing separately<br>using filing status 3a)<br>▼ |
|---|--|---|----|---|--|
| 1   | Medical and dental expenses.   | ▶ | 1  |   |  |
| 2   | Enter amount from Form 2, line 41.   | ▶ | 2  |   |  |
| 3   | Multiply line 2 by 7.5% (0.075).   | ▶ | 3  |   |  |
| 4   | <b>Subtract line 3 from line 1 and enter result here but not less than zero.</b><br><b>This is your deductible medical and dental expense subject to 7.5% of Montana AGI.</b> ▶  |   |    | 4   | 4  |
| 5   | Medical insurance premiums not deducted elsewhere on your return.  | ▶ | 5  |   | 5  |
| 6   | Long term care insurance premiums not deducted elsewhere on your return.   | ▶ | 6  |   | 6  |
| Complete lines 7a through 7d reporting your total federal income tax payments made in 2008 before completing line 7e. You cannot deduct your self-employment taxes paid on lines 7a through 7d.                               |  |   |    |   |  |
| 7a  | Federal income tax withheld in 2008.   | ▶ | 7a |   | 7a   |
| 7b  | Federal estimated tax payments paid in 2008.   | ▶ | 7b |   | 7b   |
| 7c  | 2007 federal income taxes paid in 2008.  | ▶ | 7c |   | 7c   |
| 7d  | Other back year federal income taxes paid in 2008. Attach federal Form 1040 or 1040A.  | ▶ | 7d |   | 7d   |
| 7e  | Federal Economic Stimulus Package Rebate received in 2008.   | ▶ | 7e |   | 7e   |
| 7f  | Add lines 7a through 7d, and then subtract line 7e. Enter result here, but no more than \$5,000 if you are filing single, head of household, or married filing separately; or \$10,000 if filing a joint return with your spouse.<br><b>This is your federal income tax deduction.</b> ▶ |   |    | 7f  | 7f   |
| 8   | Local income taxes paid in 2008 (see instructions on page 34).   | ▶ | 8  |   | 8  |
| 9   | Real estate taxes paid in 2008.  | ▶ | 9  |   | 9  |
| 10  | Personal property taxes paid in 2008.  | ▶ | 10 |   | 10   |
| 11  | Other deductible taxes, including general sales taxes paid in 2008. List type and amount: <input type="text"/>   | ▶ | 11 |   | 11   |
| 12  | Home mortgage interest and points reported to you on federal Form 1098.  | ▶ | 12 |   | 12   |
| 13  | Home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. ▼ <input type="text"/>  | ▶ | 13 |   | 13   |
| 14  | Points not reported to you on federal Form 1098.   | ▶ | 14 |   | 14   |
| 15  | Qualified mortgage insurance premiums.   | ▶ | 15 |   | 15   |
| 16  | Investment interest, Attach federal Form 4952.   | ▶ | 16 |   | 16   |
| 17  | Contributions made by cash or check during 2008.   | ▶ | 17 |   | 17   |
| 18  | Contributions made other than by cash or check.  | ▶ | 18 |   | 18   |
| 19  | Contribution carryover from the prior year.  | ▶ | 19 |   | 19   |
| 20  | Child and dependent care expenses. Attach Montana Form 2441M.  | ▶ | 20 |   | 20   |
| 21  | Casualty and theft loss(es). Attach federal Form 4684.   | ▶ | 21 |   | 21   |
| 22  | Unreimbursed employee business expenses. Attach federal Form 2106 or 2106EZ.   | ▶ | 22 |   | 22   |
| 23  | Other expenses. List type and amount: <input type="text"/>   | ▶ | 23 |   | 23   |
| 24  | Add lines 22 and 23.   | ▶ | 24 |   | 24   |
| 25  | Enter the amount from Form 2, line 41.   | ▶ | 25 |   | 25   |
| 26  | Multiply line 25 by 2% (0.02).   | ▶ | 26 |   | 26   |
| 27  | Subtract line 26 from line 24 and enter the result here, but not less than zero.   | ▶ | 27 |   | 27   |
| 28  | Political contributions (limited to \$100 per taxpayer).   | ▶ | 28 |   | 28   |
| 29  | Other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: ▼ <input type="text"/>  | ▶ | 29 |   | 29   |
| 30  | Gambling losses allowed under federal law.   | ▶ | 30 |   | 30   |
| 31  | Add lines 4 through 6; 7f through 21; and 27 through 30 and enter result here.   | ▶ | 31 |   | 31   |
| If the amount on Form 2, line 41 is more than \$159,950 if married filing jointly, or more than \$79,975 if married filing separately, complete Worksheet VI - Itemized Deduction Worksheet, otherwise enter zero on line 32. |  |   |    |   |  |
| 32  | Enter the amount from the itemized deduction Worksheet VI, page 53, line 11.<br><b>This is the amount of your non-allowed itemized deductions.</b> ▶   |   | 32 |   | 32   |
| 33  | Subtract line 32 from line 31 and enter the result here and on Form 2, line 42.<br><b>This is the amount of your allowable itemized deductions.</b> ▶  |   | 33 |   | 33   |

| <b>Schedule IV - Nonresident/Part-Year Resident Tax</b><br>Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and line 38.<br><b>File Schedule IV with your Montana Form 2.</b> |  | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|---|--|--|---|
|   |  | ▼  | ▼   |
| 1   | Montana wages, salaries, tips, etc. included on Form 2, line 7. ▶  | 1  | 1   |
| 2   | Montana taxable interest included on Form 2, line 8a. ▶  | 2  | 2   |
| 3   | Montana ordinary dividends included on Form 2, line 9a. ▶  | 3  | 3   |
| 4   | Montana taxable refunds, credits, or offsets of state and local income taxes included on Form 2, line 10. ▶  | 4  | 4   |
| 5   | Montana alimony received included on Form 2, line 11. ▶  | 5  | 5   |
| 6   | Business income or (loss) included on Form 2, line 12. ▶   | 6  | 6   |
| 7   | Capital gain or (loss) included on Form 2, line 13. ▶  | 7  | 7   |
| 8   | Other gains or (losses) included on Form 2, line 14. ▶   | 8  | 8   |
| 9   | Taxable IRA distribution included on Form 2, line 15b. ▶   | 9  | 9   |
| 10  | Taxable pension and annuities included on Form 2, line 16b. ▶  | 10   | 10  |
| 11  | Rental real estate, royalties, partnerships, S corporations, trust, etc. included on Form 2, line 17. ▶  | 11   | 11  |
| 12  | Farm income or (loss) included on Form 2, line 18. ▶   | 12   | 12  |
| 13  | Taxable social security benefits included on Form 2, line 20b. ▶   | 13   | 13  |
| 14  | Other income included on Form 2, line 21. ▶  | 14   | 14  |
| 15  | Montana source additions to income reported on Form 2, Schedule I. ▶   | 15   | 15  |
| 16  | Add lines 1 through 15 and enter result here. <b>This is your Montana source income.</b> ▶   | 16   | 16  |
| 17  | Add your total federal income from Form 2, line 22 and your Montana additions to federal adjusted gross income from line 38 and enter the result here. Skip line 18 and go to line 19. (If you are a nonresident military service person and spouse, skip line 17 and go to line 18). <b>This is your total income from all sources.</b> ▶ | 17   | 17  |
| 18  | Nonresident military service persons and spouses only: Add from Form 2, lines 22 and 38, then subtract from this sum your exempt income reported on Form 2, Schedule II, line 9 and enter the result here. <b>This is your total income from all sources.</b> ▶  | 18   | 18  |
| 19  | Divide the amount on line 16 by the amount on line 17 or line 18 (if you are a nonresident military service person and spouse) and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000. ▶   | 19   | 19  |
| 20  | Enter your resident tax after capital gains tax credit from Form 2, line 48. ▶   | 20   | 20  |
| 21  | Multiply the tax on line 20 by the percentage on line 19 and enter the result here and on Form 2, line 48a. <b>This is your nonresident, part-year resident tax after capital gains tax credit.</b> ▶  | 21   | 21  |

**How do I determine what qualifies as my Montana source income when I am a nonresident of Montana?**

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

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

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

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

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

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

For further information and a line-by-line description of what Montana source income is, refer to Form 2, *Schedule IV* instructions beginning on page 36.



| <b>Schedule V - Montana Tax Credits</b><br>Enter on the corresponding line your Montana tax credits.<br>File Schedule V with your Montana Form 2. |   |      | Column A (for single,<br>joint, separate, or<br>head of household) | Column B (for spouse<br>when filing separately<br>using filing status 3a) |
|---|---|------|--|---|
| <b>Nonrefundable credits that are single-year credits and HAVE NO carryover provision</b>   |   |      |  |   |
| 1   | Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10.                             | ▶ 1  |  | 1   |
| 2   | College contribution credit. Attach Form CC.  | ▶ 2  |  | 2   |
| 3   | Qualified endowment credit. Attach Form QEC.  | ▶ 3  |  | 3   |
| 4   | Energy conservation installation credit. Attach Form ENRG-C.  | ▶ 4  |  | 4   |
| 5   | Alternative fuel credit. Attach Form AFCR.  | ▶ 5  |  | 5   |
| 6   | Rural physician's credit.   | ▶ 6  |  | 6   |
| 7   | Health insurance for uninsured Montanans credit. Attach Form HI.  | ▶ 7  |  | 7   |
| 8   | Elderly care credit. Attach Form ECC.   | ▶ 8  |  | 8   |
| 9   | Recycle credit. Attach Form RCYL.   | ▶ 9  |  | 9   |
| 10  | Oilseed crushing and biodiesel/biolubricant production facility credit. Attach Form OSC.  | ▶ 10 |  | 10  |
| 11  | Biodiesel blending and storage credit. Attach Form BBSC.  | ▶ 11 |  | 11  |
| <b>Nonrefundable credits that HAVE a carryover provision</b>  |   |      |  |   |
| 12  | Contractor's gross receipts tax credit.   | ▶ 12 |  | 12  |
| 13  | Geothermal systems credit. Attach Form ENRG-A.  | ▶ 13 |  | 13  |
| 14  | Alternative energy systems credit. Attach Form ENRG-B.  | ▶ 14 |  | 14  |
| 15  | Alternative energy production credit. Attach Form AEPC.   | ▶ 15 |  | 15  |
| 16  | Dependent care assistance credit. Attach Form DCAC.   | ▶ 16 |  | 16  |
| 17  | Historic property preservation credit. Attach federal Form 3468.  | ▶ 17 |  | 17  |
| 18  | Infrastructure users fee credit.  | ▶ 18 |  | 18  |
| 19  | Empowerment zone credit.  | ▶ 19 |  | 19  |
| 20  | Increasing research activities credit. Attach Form RSCH.  | ▶ 20 |  | 20  |
| 21  | Mineral exploration incentive credit. Attach Form MINE-CRED.  | ▶ 21 |  | 21  |
| 22  | Film employment production credit. Attach Form FPC. Report your credit on this line if you have made the one-time four year carry forward election. | ▶ 22 |  | 22  |
| 23  | Adoption credit. Attach federal Form 8839.  | ▶ 23 |  | 23  |
| 24  | Add lines 1 through 23 and enter result here and on Form 2, line 51.<br><b>This is your total nonrefundable credits.</b>                            | ▶ 24 |  | 24  |
| <b>Refundable credits</b>   |   |      |  |   |
| 25  | Elderly homeowner/renter credit. Attach Form 2EC.   | ▶ 25 |  | 25  |
| 26  | Film employment production credit. Attach Form FPC.   | ▶ 26 |  | 26  |
| 27  | Film qualified expenditure credit. Attach Form FPC.   | ▶ 27 |  | 27  |
| 28  | Insure Montana small business health insurance credit. Business FEIN: <input type="text"/>  | ▶ 28 |  | 28  |
| 29  | Temporary Emergency Lodging credit. Attach Form TELC.   | ▶ 29 |  | 29  |
| 30  | Add lines 25 through 29 and enter result here and on Form 2, line 58.<br><b>This is your total refundable credits.</b>                              | ▶ 30 |  | 30  |

**Montana Tax Credits**

We have listed the 27 Montana tax credits available to you under three categories. With the exception of the capital gains tax credit, which is required to be applied before any other credit, you are not required to apply any of these 27 tax credits against your income tax liability in any particular order.

**Nonrefundable single-year credits.**

Your nonrefundable single-year credits can only be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion that exceeded your 2008 income tax liability cannot be used in future years.

**Nonrefundable carryover credits.**

Your nonrefundable carryover credits can be used to offset your 2008 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. Your excess credits that were not applied against your 2008 income tax liability can be carried over and used to offset future year tax liabilities.

**Refundable credits.**

Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

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

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

You are not entitled to a Montana tax credit for taxes paid to a foreign country if you claimed these foreign taxes paid as a foreign tax credit on your federal income tax return.

- If you claim this credit for an income tax paid by your S corporation or partnership see the instructions for Form 2, Schedule V, line 1 on page 40.
- Your credit is limited to an income tax liability paid on income that is also taxed by Montana.
- Your income taxes paid include excise taxes or franchise taxes that are imposed on and measured by the net income of your S corporation or partnership.
- This is a nonrefundable credit and cannot reduce your Montana tax liability below zero.
- This is a nonrefundable single year credit. No unused credit amount can be carried forward.
- You will need to complete a separate Schedule VI or VII for each state or country that you have paid an income tax liability to. You cannot combine payments on one schedule.
- If you are a part-year resident, you have to allocate your income using Form 2, Schedule IV before completing Form 2, Schedule VII.

**Schedule VIII - Reporting of Special Transactions**  
**File Schedule VIII with your Montana Form 2**

Complete Schedule VIII only if you and/or your spouse filed for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) you filed with your federal income tax return. If your answer is "Yes" to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.

Check "Yes" if you filed any of the following forms with the Internal Revenue Service.

|   |  |   |       |  |
|---|--|---|-------|--|
| 1 | I filed federal <b>Form 8824 - Like-Kind Exchanges</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>NOTE: Check "Yes" if your like-kind exchange includes Montana property. Nonresidents do not have to report a like-kind exchange if the properties involved do not include Montana property.<br>Form 8824 is used to report each exchange of business or investment property for property of a like kind.   | 1 | Yes ▶ |  |
| 2 | I filed federal <b>Form 8865 - Return of U.S. Persons With Respect to Certain Foreign Partnerships</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest). | 2 | Yes ▶ |  |
| 3 | I am required to file federal <b>Form 8886 - Reportable Transaction Disclosure Statement</b> with the Internal Revenue Service. <span style="float: right;">▶</span><br>Form 8886 is used to disclose information for each reportable transaction in which you participated.   | 3 | Yes ▶ |  |



# 2008 Montana Elderly Homeowner/Renter Credit

# Form 2EC

File alone or with your Form 2 or Form 2M. Free electronic filing is available at [mt.gov/revenue](http://mt.gov/revenue)

|   |                                 |           |                                 |                            |
|---|---------------------------------|-----------|---------------------------------|----------------------------|
| <input type="checkbox"/> Check this box if this is an Amended Return. | First name and initial          | Last name | Social security number          | If deceased, date of death |
|   | Spouse's first name and initial | Last name | Spouse's social security number | If deceased, date of death |
|   | Mailing address                 | City      | State                           | Zip+4                      |
|   |                                 |           |                                 |                            |

### Part I - Qualifications (Answer each of the following statements.)

|  |       |  |      |  |
|--|-------|--|------|--|
| I was age 62 or older as of December 31, 2008.   | Yes ▶ |  | No ▶ |  |
| I occupied a Montana residence as an owner or renter for a total of six months or more during 2008.    | Yes ▶ |  | No ▶ |  |
| I resided in Montana for nine months or more during 2008.  | Yes ▶ |  | No ▶ |  |
| My gross household income was less than \$45,000 in 2008.  | Yes ▶ |  | No ▶ |  |
| <b>If you answered "No" to any of the four statements above, you are not eligible for this credit.</b> |       |  |      |  |

### Part II - Household Income

|   |  |   |   |         |
|---|--|---|---|---------|
| 1 | Enter your total gross household income (see worksheet on the back of this form).                      | ▶ | 1 |         |
| 2 | Entered here for you is your standard exclusion.   | ▶ | 2 | \$6,300 |
| 3 | Subtract line 2 from line 1 and enter result here, but not less than zero.                             | ▶ | 3 |         |
| 4 | Enter your multiplier rate from the Household Income Reduction Table located on the back of this form. |   | 4 |         |
| 5 | Multiply line 3 by line 4 and enter the result here. <b>This is your net household income.</b>         | ▶ | 5 |         |

### Part III - Credit Computation

|    |  |   |    |  |
|----|--|---|----|--|
| 6  | Enter the property tax that you were billed for your principal residence in 2008.  | ▶ | 6  |  |
| 7  | Enter the rent that you paid in 2008 for your principal residence.   | ▶ | 7  |  |
| 8  | Multiply line 7 by 0.15 (15%) and enter the result here.   | ▶ | 8  |  |
| 9  | Add lines 6 and 8; enter the result here.  | ▶ | 9  |  |
| 10 | Subtract line 5 from line 9 and enter the result here.   | ▶ | 10 |  |
| 11 | Enter the lesser of line 10 or \$1,000.  | ▶ | 11 |  |
| 12 | Enter on line 12 the percentage multiplier listed in the instructions on the back of this form that corresponds to your gross household income reported on line 1. | ▶ | 12 |  |
| 13 | Multiply line 11 by the percentage reported on line 12 and enter result here.<br><b>This is your elderly homeowner/renter credit.</b>                              | ▶ | 13 |  |

- If you are filing Montana Form 2, enter on Form 2, Schedule V, line 25, the amount on line 13 above. Attach Form 2EC to Form 2.
- If you are filing Montana Form 2M, enter on Form 2M, Schedule II, line 7, the amount on line 13 above. Attach Form 2EC to Form 2M.
- If you are not required to file Montana Form 2 or 2M, see instructions on the back of this form. Mail Form 2EC to the MT Dept. of Revenue.

If you wish to direct-deposit your refund, enter your financial institution's ROUTING# and ACCOUNT# below.

|   |             |  |                           |             |           |  |
|---|-------------|--|---------------------------|-------------|-----------|--|
| <b>ROUTING#</b>   |             | <b>Please check one box.</b>                         | Checking ▶                |             | Savings ▶ |  |
| <b>ACCOUNT#</b>   |             | Name, address and telephone number of paid preparer. |                           |             |           |  |
| Do not mail forms and instructions next year. ▶               |             |  |                           |             |           |  |
| May the DOR discuss this return with your tax preparer? Yes ▶ |             |  |                           |             |           |  |
| No ▶  |             |  |                           |             |           |  |
| Preparer SSN, FEIN or PTIN.                                   |             |  |                           |             |           |  |
| <b>Signature is required</b>                                  | <b>Date</b> | <b>Daytime phone number</b>                          | <b>Spouse's signature</b> | <b>Date</b> |           |  |
|   |             |  |                           |             |           |  |

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

Questions? Call us toll free at (866) 859-2254 (in Helena, 444-6900) or TDD (406) 444-2830 for hearing impaired.

**Please note:** The complete instructions for the elderly homeowner/renter tax credit can be found in this booklet.

### Line 1 – Gross Household Income

Enter your gross household income on line 1. Your gross household income is all the income received, taxable and nontaxable, by all individuals who live in your household. In addition to federal adjusted gross income, the following are examples of items which are included in household income:

- Inheritances
- Pension and annuity income (this includes railroad retirement and veteran’s disability benefits)
- Any capital gains that you excluded from your Montana adjusted gross income such as the gain from the sale of your primary residence
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds including the 2008 federal economic stimulus package rebate
- State income tax refunds and elderly homeowner/renter credits allowed

Some items above may involve a basis. If applicable, you may reduce your income by the basis. For example, if you paid \$5,000 for stock in a company, that is your basis. If you sell the stock for \$8,000, your household income only includes the gain of \$3,000 (\$8,000 sales price minus \$5,000 basis). Do not reduce your household income by any losses that you included in your federal adjusted gross income.

The following worksheet can be used to help you calculate your gross household income:

| Income Source  | Amount |
|--|--------|
| 1. Wages, salaries, bonuses, tips, etc.  |        |
| 2. Business, partnership, rent, royalties (do not include losses.)   |        |
| 3. Dividends, interest including interest from federal, state, county and municipal bonds capital gains (do not include capital losses.) |        |

|  |  |
|--|--|
| 4. State and federal tax refunds.  |  |
| 5. Prior year 2EC refunds.   |  |
| 6. Alimony, public assistance, unemployment.   |  |
| 7. Pension, annuities, IRA distributions, benefits from railroad retirement, public employee’s retirement, veteran’s disability and social security. |  |
| 8. Income from any source or other household members not included above.   |  |
| 9. Add lines 1 through 8 and enter the total here and on Form 2EC, line 1. <b>This is your Gross Household Income.</b>                               |  |

### Line 4 – Household Income Reduction Table

| If your household income on line 3 is: |                   |                    |
|--|-------------------|--------------------|
| At least                               | But not more than | Your multiplier is |
| \$0                                    | \$1,999           | 0.000              |
| \$2,000                                | \$2,999           | 0.006              |
| \$3,000                                | \$3,999           | 0.016              |
| \$4,000                                | \$4,999           | 0.024              |
| \$5,000                                | \$5,999           | 0.028              |
| \$6,000                                | \$6,999           | 0.032              |
| \$7,000                                | \$7,999           | 0.035              |
| \$8,000                                | \$8,999           | 0.039              |
| \$9,000                                | \$9,999           | 0.042              |
| \$10,000                               | \$10,999          | 0.045              |
| \$11,000                               | \$11,999          | 0.048              |
| \$12,000 and over                      |                   | 0.050              |

### Line 12 – Credit Multiplier

| If the amount on line 1 is | enter this figure on line 12 |
|----------------------------|------------------------------|
| Less than \$35,000         | 1.00 (100%)                  |
| \$35,000 to \$37,500       | 0.40 (40%)                   |
| \$37,501 to \$40,000       | 0.30 (30%)                   |
| \$40,001 to \$42,500       | 0.20 (20%)                   |
| \$42,501 to \$44,999       | 0.10 (10%)                   |
| \$45,000 and over          | 0.00 (0%)                    |

If you choose not to file electronically and you are not required to file Montana Form 2 or Form 2M, please mail your Form 2EC to:

Montana Department of Revenue  
 PO Box 6577  
 Helena, MT 59604-6577

# Mailing Your Tax Return

**Mail your individual income tax return to:**

***If you have a refund or no payment due:***

Montana Department of Revenue  
PO Box 6577  
Helena, MT 59604-6577

***If you are sending a payment and voucher:***

Montana Department of Revenue  
PO Box 6308  
Helena, MT 59604-6308

# Important Numbers

Tax Questions and Assistance ..... toll free (866) 859-2254 (in Helena, 444-6900)

Forms Request ..... toll free (866) 859-2254 (in Helena, 444-6900)

For the Hearing Impaired ..... (406) 444-2830

Fax ..... (406) 444-6642

No Return

# Filing Checklist

## If you file your return by mail, be sure to:

- ◀ Check the appropriate box indicating your residency status.
- ◀ Check the appropriate box or boxes indicating your exemption(s).
- ◀ Check the appropriate box indicating whether you are taking the standard deduction or have elected to itemize your deductions.
- ◀ Sign the return. If you are filing a joint return, your spouse must also sign the return.
- ◀ Sign your check or money order if you have included a payment. Do not send cash.
- ◀ Include all W-2s and 1099s you were issued for 2008.
- ◀ Attach all state and federal schedules that support figures on your return. You do not

need to attach worksheets. You do not need to include schedules that are blank.

- ◀ Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.
- ◀ Mail your return (see mailing info on inside back cover.)

## If you file your return electronically, be sure to:

- ◀ Receive confirmation that your return was accepted by the Montana Department of Revenue.
- ◀ Make an electronic payment or remember to send a check or money order before April 15, 2009 if you owe.
- ◀ Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.

We value your comments and suggestions.

### *The Montana Department of Revenue works for you.*

That's why we look forward to hearing what you have to say. Please let us know how we are doing by completing the improvement survey attached to this instruction booklet. Your comments and suggestions will help us do an even better job for you. And that makes our tax system work for all Montanans!

