

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 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) ▼	Column B (for spouse when filing separately using filing status 3a) ▼
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"> • 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. • 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. ▶	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. This is your taxable federal income tax refund. If line 11 is less than zero (a negative amount), add lines 10 and 11. <ul style="list-style-type: none"> • If your result remains less than zero (a negative amount), enter zero and stop here. None of your federal refund is taxable to Montana. • If your result is greater than zero (a positive amount), enter that amount here and on Form 2, Schedule I, line 3. This is your taxable federal income tax refund. ▶ 	12	12