

2003 Montana Fiduciary Income Tax Return Form FID-3

General Instructions

Who Must File

All estates and trusts except those held for educational, charitable, or religious purposes must file a fiduciary return. Either the fiduciary or the beneficiary may pay any tax due. However, the fiduciary must file the return. No distinction is made between living trusts and testamentary trusts. A copy of the federal fiduciary income tax Form 1041 must be attached. Estates and trusts are allowed one exemption deduction.

If the trustee of the estate or trust is domiciled or has nexus in Montana, all income is taxable to Montana. If the trustee is domiciled outside of Montana, then only the income that is derived from Montana sources is taxable to Montana.

When to File

You must mail your return for calendar year 2003 before midnight April 15, 2004. If you operate on a fiscal year, mail your return before midnight the 15th day of the fourth month following the close of your fiscal year.

Where to File

Send your completed and signed form to:

<u>Tax Due:</u>	or	<u>Refund/Zero Balance Due</u>
Montana Department of Revenue		Montana Department of Revenue
PO Box 6308		PO Box 6577
Helena, Montana 59604-6308		Helena, Montana 59604-6577

Make check payable to the Montana Department of Revenue.

If You File Late

The penalty is \$50 or the amount owing whichever is smaller, if you don't mail your return before midnight April 15, 2004 (or before midnight the 15th day or the fourth month following the close of your fiscal year.) If you are filing a return in which you receive a refund, the late file penalty is \$0.

If You Pay Late

The penalty is 1.5% a month or fraction of a month on the unpaid tax. The penalty may not exceed 18% of the tax due.

Interest on Unpaid Tax

The interest rate is 12% per year accrued at 1% per month or fraction of a month.

Extension of Time to File

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

1. On or before the due date of the return, the taxpayer has applied with the Internal Revenue Service for an extension of time for filing the taxpayer's federal fiduciary income tax return for the same year. 15-30-144(2)(a), MCA.

An additional extension of time for filing a return is automatically allowed provided that the taxpayer has applied with the Internal Revenue Service for an additional extension of time for filing the taxpayer's federal individual income tax return for the same tax year.

2. The taxpayer has paid by estimated tax payments, withholding tax, or a combination of estimated tax payments and withholding tax, 90% of the current year's tax liability or 100% of the previous year's tax liability. 15-30-144(2)(b), MCA. A valid federal extension will not be considered valid for Montana income tax purposes unless the taxpayer has met one of the payment requirements identified in item #2 prior to April 15th. Complete Montana EXT-Worksheet "Four -Month Extension Payment Calculation" to determine if you have met the payment requirements. A Montana Individual Income Tax Payment Coupon is included with EXT -Worksheet.

Note: Taxpayers must attach copies of their four month and two month federal extension forms to their **completed** Montana tax return. Additionally, the extension indicator box on the Montana tax form must be checked. **Do not send in copies of your federal extension prior to filing your return.**

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

Amended Returns

If you discover an error in a return already filed, submit an amended return using Form 2X to correct the mistake.

Estimated Tax Underpayment Penalty

In 2003 you must have paid through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current year's tax liability after credits, or 2) an amount equal to 100% of your previous year's total tax liability. If you did not meet this requirement, you may be subject to an underpayment penalty. For further instructions see Form EST-P.

Line-By-Line Instructions

Complete the name and address section. Include your federal identification number. Please check the box for: trust, estate or grantor; and resident full year/nonresident full year.

Part I—Income

Attach federal schedules

Report all income of estates or trusts no matter where it was derived during the taxable year. Total income before Montana adjustments should be the same as on the federal Form 1041.

Line 1—Enter total of all taxable interest.

Line 2—Enter dividends.

Line 3 and 4—Enter income or loss from partnerships and other estates or trusts EXCEPT for the following:

Enter dividends on line 2. Enter capital gain or loss from Schedule D, federal Form 1041 on line 7. Enter ordinary gain or loss from federal Form 4797 on line 8. (Enter partnership name and federal employer identification number(s) on an attached sheet.)

Line 5—Enter net rent and royalty income as reported on federal Form 1041. Attach schedule detailing income and expenses. Include fiduciary's share of depreciation and depletion.

Line 6—Enter net business and farm income or loss. Attach a copy of the federal Schedule C, CEZ or F.

Line 7—Enter capital gain or loss. Enter 100% of capital gain from federal Schedule D (Form 1041).

Line 8—Enter from federal Form 4797 the gain or loss from the sale or exchange of capital assets and from involuntary conversions.

Line 9—Enter other taxable income not reported elsewhere. Attach a separate sheet if necessary.

Line 10—Add lines 1 thru 9. The total should be the same as federal Form 1041.

Additions to Income

Line 11—Include interest income from non-Montana bonds and other obligations of another state or its political subdivisions if not already included on line 1. Interest on Montana bonds is not taxable.

Line 12—If you claimed federal income tax withheld or payment of estimated tax as an itemized deduction in a prior year, any refund of that tax is income in the year it is received.

Line 13—Specify other additions.

Line 14—Enter total of lines 11, 12 and 13.

Line 15—Enter total of lines 10 and 14.

Reductions of Income

Line 16—Enter interest income from bonds and other obligations of the United States included on line 1. U.S. obligations are exempt from taxation.

Line 17—Nonresidents only. Enter total income derived from sources outside Montana.

Line 18—Exempt Pension & Annuity Income
You can exempt all benefits paid by the Railroad Retirement Board, if you reported them on line 9. If you received benefits paid by railroad companies or trusts refer to the pension & annuity worksheet below.

Pension & Annuity Worksheet

1. Enter the federal total income from line 10. _____
2. Phase-out limitation _____ 30,000
3. If line 1 is smaller than line 2, enter the smaller of the pension and annuity income or \$3,600 on line 18. **Stop Here.** _____
If line 1 is larger than line 2, subtract line 2 from line 1 & enter the result. _____
4. Enter the pension and annuity income or \$3,600, whichever is smaller. _____
5. Multiply the amount on line 3 times two (x2) and enter the result. _____
6. **Pension & Annuity Exclusion.** Subtract line 5 from line 4. If the result is zero or negative, there is no retirement exclusion. If the number is positive, this is the retirement exclusion. Transfer this number to line 18 on Form FID-3. _____

Line 19—State refund.

If you included any state income tax refund on line 9, deduct it here.

Line 20—Specify other reductions.

Line 21—Enter the total of lines 16 thru 20.

Line 22—Montana Total Income.

Subtract line 21 from line 15.

Part II—Deductions

Non-resident fiduciaries are allowed deductions that are attributable or directly related to the production of Montana income.

Line 23—Enter interest expenses deductible for federal tax purposes. Note: Personal interest is no longer deductible.

Line 24—Enter taxes paid or accrued within the taxable year, including (but not limited to) federal income tax. State income tax is not deductible.

Line 25—Enter charitable contributions deductible for federal tax purposes.

Line 26—You can deduct fiduciary fees and administrative expenses claimed for federal income tax purposes if the expenses were not claimed as a deduction in the determination of Montana inheritance tax.

Line 27—Enter attorney, accountant and return preparer fees if the expenses were not claimed as a deduction in the determination of Montana inheritance tax.

Line 28—Enter casualty or theft losses deductible for federal tax purposes.

Line 29—Attach a separate sheet listing authorized deductions not deductible elsewhere on the form. (Example: Net operating losses allowed for federal income tax section 642 (d) of the Internal Revenue Code.)

Line 30—Add Lines 23 thru 29. Enter result.

Line 31—Total Adjusted Income.

Subtract line 30 from line 22.

Line 32—Income Distribution Deduction.

Enter income to be distributed to the beneficiaries for the taxable year and/or other amounts paid, credited or to be distributed for the taxable year.

The Capital Gains exclusion has been repealed.

Line 33—Net Income Before Exemption.

Subtract line 32 from line 31.

Line 34—Each Fiduciary is allowed one exemption of \$1,780. (Nonresidents must prorate) Proration amount is line 22 divided by line 10 times \$1,780.

Line 35—Taxable Income of Fiduciary.

Subtract line 34 from line 33.

Line 36—Taxable Income from line 35, page 1.

Tax Computation

Line 37—Tax Liability. Residents and nonresidents enter the amount of tax from the tax table.

Line 38—Tax on lump-sum distributions (which haven't been included in adjusted gross income).

Enter 10% of the federal tax on lump-sum distributions. Attach a copy of federal Forms 4972 and/or 5544, and your 2003 Form 1041.

Line 39—Subtotal. Add lines 37 and 38.

Line 40—Credits from Form 2A. Enter your total credit amount from line 114, Form 2A, Schedule II. See page 4 of instructions for information on credits.

Line 41—Subtract line 40 from line 39. The total on line 41 cannot be less than zero.

Line 42—Investment Credit Recapture. Enter from Form RIC. (Note: Even though you may not have a tax liability on line 37 you must add line 42.)

Line 43—Total Tax. Add lines 41 and 42.

Line 44—Enter the amount of payments made on 2003 estimated Montana fiduciary income tax.

Line 45— Enter the amount of payment made with your 2003 extension.

Line 46—Enter the amount of Montana income tax withheld as shown on withholding tax statements.

Line 47—Total payments. Add lines 44, 45 and 46.

Refund or Balance Due.

Line 48—Amount Overpaid. If line 47 is larger than line 43, subtract line 43 from line 47. You can choose to have all or part of this amount refunded to you (line 49). The remainder, if any, can be applied to your estimated tax for 2004 (line 50). A refund or credit will be made only if the overpayment is \$1 or more.

Line 49—Refund. Enter the amount from line 48 that you want refunded.

Line 50—Applied to 2004 Estimated Tax. Subtract line 49 from line 48. This is the amount that will be applied to your estimated tax for 2004.

Line 51—Balance Due. If line 43 is larger than line 47, subtract line 47 from line 43. This is the amount you owe. If the balance due is less than \$1 payment is not required.

If a return is filed without full remittance of all tax, penalties and/or interest due, you are advised to make regular payments pending contact by the department's collection staff.

Part III—Schedule of Distribution to Beneficiaries

This must list the name, social security number(s), and the beneficiaries share of the capital gains and/or share of income. If there are more than 11 beneficiaries, attach a separate schedule.

Signature: The fiduciary or a representative must sign and date the return; identify any person, firm or corporation who prepares the return on the line "Signature of preparer other than fiduciary;" and include address with zip code.

Form 2A Schedule II Credits Credits Against Tax

(Please request forms for credits from Department of Revenue, at 1-406-444-6900.

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

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

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

Line 98 - College Contribution Credit. You may take a credit for deductible contributions made during the tax year to the general endowment funds of the Montana university system foundations or to the general endowment funds of a private Montana college or its foundation. The credit is 10% of the contribution with a maximum of \$500 and is non-refundable. The college must offer a baccalaureate degree level education program. The contribution may also be claimed as an itemized deduction on Form 2A, subject to the normal limitations. Complete Form CC and attach it to your tax return.

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

Line 100 - Elderly Care Credit. You may be eligible to receive a credit for paying certain expenses of an elderly family member who is 65 or older or has been determined disabled for Social Security purposes. See Form ECC for detailed instructions. Complete Form ECC and attach it to your tax return.

Line 101 - Credit Allowed for Income Tax Paid to Other States. (Full year or part-year resident only) If you are a full year resident or a part year resident you may be entitled to a credit against your Montana income tax liability for income taxes you paid to another state or country on income which is also taxable by Montana. If you are a part-year resident, the income tax credit is allowed only on that portion of income tax paid to another state or country on income that is taxable by Montana and reported on Form 2A, page 2 Schedule III, line 125. Complete Form 2A, page 3, Schedule V if you are a full year resident. Complete Form 2A, page 3, Schedule VI if you are a part-year resident.

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

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

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

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

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

Line 104 - Energy Conservation Installations Credit. You may claim a credit for a percentage of the cost of an investment for energy conservation purposes in a building. An eligible expense is "the installed cost of materials and equipment which reduce the waste or dissipation of energy or reduce the amount of energy required to accomplish a given amount of work."

The maximum credit is \$500 for investments in the physical attributes of a building or for investing in a water, heating or cooling system. See Form ENRG-C for detailed instructions. Complete Form ENRG-C and attach it to your tax return.

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

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

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

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

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

Line 108 - Disability Insurance for Uninsured Montanans Credit. The credit is available to employers who make disability insurance available to employees. See Form HI for detailed instructions. Complete Form HI and attach it to your tax return.

Line 109 - Credit for the Preservation of Historic Property. A credit equal to 25% of the federal rehabilitation credit provided for in IRC Section 47(a)(2) is allowed on qualifying historic buildings. Attach Federal Form 3468 to the return. As an alternative to the federal rehabilitation credit, you may take a credit equal to 20% of the cost of creating a conservation easement and for the diminishing value of historic property, including buildings and structures that result from placing a conservation easement on the property.

Line 110 - Developmental Disability Account Contribution Credit. An individual, corporation, partnership or small business corporation is allowed a credit equal to 30% of amounts donated during the year to the Montana Developmental Disability Service Account under 15-30-187, MCA. Each taxpayer may claim a maximum credit of \$10,000, not to exceed the tax liability. If you elect to apply your donation to this credit, you are not allowed to deduct the donation elsewhere on your return. There is no carryover provisions allowed and the credit must be applied in the year the donation is made.

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

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

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

- Alternative Fuel Credit
- Montana Capital Company Credit
- Infrastructure Users Fee Credit
- Increasing Research Activities Credit
- Mineral Exploration Incentive Credit
- Affordable Housing Revolving Loan Account Credit

Contact the Department at (406) 444-6900 if you need assistance with applying for these credits on your fiduciary return.