

## Who Must File

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

Marital and Filing Status	Age as of December 31, 2004	You must file if you have federal gross income equal to or more than
Single, married filing separate	Under 65.....	\$3,440
	65 or older.....	\$5,280
Head of household	Under 65.....	\$6,880
	65 or older.....	\$8,720
Married filing a joint return	Both under 65.....	\$6,880
	One spouse 65 or older.....	\$8,720
	Both spouse 65 or older.....	\$10,560

**Increase federal gross income by \$1,840 if eligible for blind exemption.**

### Full-year Resident of Montana

You must file a 2004 Montana individual income tax return if you have federal gross income, excluding unemployment compensation, equal to or greater than the minimum filing requirements outlined in the chart above. You are taxed on all income earned regardless of whether it was earned inside or outside of Montana. To determine if you are a resident of Montana, refer to the Residency Status instructions found on page 2.

### Part-year Resident and Nonresident

You must file a 2004 Montana individual income tax return if you have Montana source income and your federal gross income, excluding unemployment compensation, from all sources, both inside and outside of Montana, is equal to or greater than the minimum filing requirements outlined in the chart above. To determine if you are a part-year resident or a nonresident, refer to the instructions on part-year and nonresident returns found on page 9.

## Other Filing Information

**Statute of Limitations.** Generally, the Montana statute of limitations is five years and all records should be kept during this time. Records for basis of property and carryovers may need to be kept longer. If you had a filing requirement and did not file a return, there is no statute of limitation preventing the assessment of tax, penalty and interest. The statute of limitation does not allow for a credit or payment of a refund if a delinquent return is filed more than five years after the due date of the return.

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

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

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

**Montana and North Dakota Reciprocal Agreement.** A Montana resident who earns wages in North Dakota does not have to pay North Dakota income tax on these wages. All other income, earned in North Dakota by a Montana resident may be subject to North Dakota income tax. Complete North Dakota, Form NDW-R and submit it to your employer annually to be exempt from North

Dakota withholding. You can obtain Form NDW-R from your employer or the Office of State Tax Commissioner, State Capitol, Bismarck, North Dakota 58505.

A North Dakota resident who earns wages in Montana does not have to pay Montana income tax on these wages. All other Montana source income earned by a North Dakota resident is subject to Montana income tax. Complete Montana Form NR-2 and submit copies to the Montana Department of Revenue and your employer annually to be exempt from Montana withholding. If your employer withheld Montana income tax from your wages you must file a Montana income tax return Form 2 with Montana Form NR-1 and a copy of your North Dakota tax return to receive a refund.

**Electronic Filing.** Montana participates in the Federal/State Electronic Filing Program and the Free Filing Alliance Program. You can electronically file your Montana income tax return with the Department of Revenue when you electronically file your federal return.

Montana encourages you to file your return electronically and does not limit the type of returns that can be filed electronically. If you are filing a return that requires one or more Montana forms to be attached, you can still file electronically. Do not mail a paper copy of your Montana income tax return or accompanying attachments.

When you file your Montana income tax return electronically you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.

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

If the Internal Revenue Service changes your federal taxable income, or if you voluntarily change your federal taxable income you must file an amended Montana income tax return within 90 days of receiving notification from the Internal Revenue Service or filing of your amended federal return. The amended return must identify the federal adjustments and recalculated Montana tax for the year adjusted.

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

## When to File

Your 2004 calendar year return must be filed by April 15, 2005. If you operate on a fiscal year, your return must be filed by the 15th day of the fourth month following the close of your fiscal year. If your return is filed after this date, you may have to pay penalties and interest.

If you are an individual serving in the armed forces of the United States, or servicing in support of the armed forces in an area designated by the President of the United States as a "combat zone" your date for filing your Montana individual income tax return may be extended as provided by the Soldiers and Sailors Relief Act. Visit the Department of Revenue's web site or contact us concerning your filing requirements.

## Where to File

**For returns without payments, including refunds - mail to:**  
Department of Revenue, PO Box 6577, Helena, MT 59604-6577  
**For returns with payments - mail to:**  
Department of Revenue, PO Box 6308, Helena, MT 59604-6308

## Where's My Refund?

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

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

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

### Which form should I use?

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

- I am a Montana resident for all of 2004.
- I am filing from a Montana address.
- I am filing single, head of household, or married filing a joint return.
- I am claiming the standard deduction or federal income tax paid. To itemize further, use Forms 2 and 2A.
- The only tax credit I have is the Elderly Homeowner/Renter Credit (Form 2EC).
- My only income is from wages, pensions and annuities, interest, dividends, fees, alimony, unemployment, winnings, prizes, awards, or other miscellaneous income.
- I made no estimated tax payments.

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

- I am a resident of Montana for only part of 2004.
- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate return.
- I am electing to itemize my deductions (Montana Form 2A).
- My income includes: income from dividends, a business or profession, capital gains, rents, royalties, partnerships, trust or S. corporation or taxable social security.
- I am claiming a tax credit.
- I made estimated tax payments.

### Extension of Time to File

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

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

A valid federal extension is not considered a valid Montana extension unless you have met one of the payment requirements identified in item #2 on or before April 15, 2005. Complete the Montana EXT Worksheet "Four-Month Extension Payment Calculation" to determine if you have met the payment requirements. If you are required to make an extension payment use the tax payment coupon included on the Montana EXT Worksheet.

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

### If You File or Pay Late

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

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

Extensions are not granted for additional time to pay.

**Late Payment.** If you owe tax, you are required to pay your tax on or before April 15, 2005. If you do not pay the full amount owed by this date, you are assessed a late payment penalty. The penalty is

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

**Interest.** Any tax not paid by April 15, 2005, will be subject to interest at the rate of 12% (.12) per year accrued at 1% a month or fraction of a calendar month.

**Additional Information.** If you are unable to pay your tax in full, file your return by the due date and pay as much tax as you can with the return. If you need to establish a payment plan with the department, contact us at (406) 444-6900 as soon as possible to discuss payment options and make payment arrangements.

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

Penalties and interest are assessed individually when you file married filing separately on the same tax form, or on separate tax forms.

Penalties and interest are assessed at a higher rate than the rates stated above if you purposely and knowingly fail to file a return timely or pay your Montana income tax.

## Line-By-Line Instructions for Form 2

### Filing Status (Check the appropriate box on form)

**Box 1 - Single.** Use Column A.

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

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

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

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

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

### Residency Status

(Check the appropriate box)

Only one residency status can be marked on a return.

**Box 1 - Full-Year Resident.** You are a Montana resident for tax purposes if you live in Montana or if you maintain a permanent home in Montana. You do not lose your residency when you leave the state temporarily with the intention of returning. You lose your Montana residency only when you establish permanent residency outside of Montana with no intention of returning. If you claim Montana residency for any purpose, then you are considered a Montana resident for income tax purposes unless there is a specific statutory exception.

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

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

**Exemptions**

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

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

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

- **Income.** The dependent must have less than \$1,840 gross income. If your dependent is your child, you do not have to meet this requirement if your child was under 19 or a full-time student under age 24 for at least five months of the tax year.
- **Support.** The dependent must have received more than half of his/her support from you. If you file a joint return, the support can be from you or your spouse.
- **Married Dependent.** The dependent must not have filed a joint return with his/her spouse.
- **Citizenship or Residence.** The dependent must meet the federal requirement for citizenship or residence.
- **Relationship.** The dependent must meet at least one of the requirements listed below:

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

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

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

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

- claimed as a regular exemption, and
- at least 50% permanently disabled as certified by a physician. The physician's certification must state that the child's handicap constitutes a disability of greater than 50% to the body as a whole.

If this is the first year you are claiming the handicapped exemption you must submit with your return a physician's certification qualifying the disability. This certification remains in effect after the first year and is not required to be attached to subsequent returns unless there is a change in the dependent's physical circumstances. You must notify the department of any changes in the dependent's eligibility or the department may request verification of the dependent's continued disability.

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

**Federal Adjusted Gross Income**

**Lines 6 through 18.** Enter all items of your Federal AGI you reported on your federal income tax return. This includes the portion of social security income that is taxable for federal purposes. Married persons filing separately must allocate income based on percentage of ownership. Attach copies of applicable federal schedules and forms.

**Line 8 - Ordinary Dividend Income.** Enter total amount reported on line 9a of Federal 1040, or line 9a of Federal 1040A. Montana taxes dividends as ordinary income and does not recognize the federal qualified dividend tax rate.

**Line 19 - Adjustments to Income.**

- **Educator Expense deduction.** Enter amount from line 23 of Federal 1040, or line 16 of Federal 1040A.
- **Reservists, Performing Artists, and Fee-basis Government Officials deduction.** Enter amount from line 24 of Federal 1040. (Attach Form 2106 or 2106-EZ)
- **Individual Retirement Account (IRA).** Enter amount from line 25 of Federal 1040, or line 17 of Federal 1040A. If your filing status on your federal return is married filing jointly, and on your Montana return you checked Box 3, 4 or 5, married and filing separately, see IRA instructions on Form W, Worksheet I, page 12.
- **Student loan interest deduction.** Enter amount from line 26 of Federal 1040 or line 18 of Federal 1040A.
- **Tuition and fees deduction.** Enter amount from line 27 of Federal 1040 or line 19 of Federal 1040A.
- **Health savings account deduction.** Enter amount from line 28 of Federal 1040. (Attach Form 8889)
- **Moving expense.** Enter amount from line 29 of Federal 1040. (Attach Federal Schedule 3903)
- **Self employment tax.** Enter amount from line 30 of federal Form 1040.
- **Self employment health insurance deduction.** Enter the amount from line 31 of Federal 1040.
- **Self-employed/SEP.** Enter amount from line 32 of Federal 1040.
- **Penalty on early withdrawal of savings.** Enter amount from line 33 of Federal 1040.
- **Alimony.** Enter amount from line 34a of Federal 1040.
- **Other.** Refer to line 35 of the Federal 1040 instructions for a list of other adjustments to income. If you are filing a federal nonresident alien income tax return, include on line 19 exempt tax treaty income to the extent it is included in lines 6 through 17.

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

**Additions to Income**

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

**Line 22.** If you received refunds, rebates or reimbursements for any expense you previously deducted on Form 2A (itemized deductions), complete Form W, Tax Benefit Rule Worksheet II on page 12, to figure the amount to include in income. If you recovered amounts in the current year which are attributable to more than one prior year, (i.e. a federal income tax refund from 2002 and a reimbursement of medical expenses you deducted in 2001), complete a separate worksheet for each year. Use information from Form 2A for the year the expense was deducted.

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

**Line 23 - Other Additions.** Please specify.

- **Social Security.** To calculate the portion of your social security benefits taxable to Montana, complete Form W, Social Security Worksheet VIII on page 15. You must complete Form W, Pension and Annuity Worksheet IV on page 13, before beginning the social security worksheet. If the social security benefits taxable to Montana are greater than your taxable federal social security, enter the difference on line 23, Form 2.
- **Passive and Rental Income and Losses.** If you filed a joint federal return and are filing a separate Montana return, you must recompute allowable passive activity losses according to the federal passive activity rules for married filing separate status.

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

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

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

- **Independent Liability Funds.** If you receive any principal upon the termination of an independent liability fund you must report this amount as income.
- **Capital Loss.** If you and your spouse file separately, you must claim your own capital loss which is limited to \$1,500 each. If the capital loss claimed on line 10 is greater than \$1,500, report the excess on line 23.
- **Allocation of Income to Spouse.** If your spouse regularly performs substantial personal services in operating your business for which he or she is not paid a salary or wage, you can assign to your spouse reasonable pay for this service. Compensation must be determined on the basis of the reasonable rate of pay appropriate in your area for the particular type of personal services performed. Services performed by operating a household or services which are incidental to the operation of the business may not be used as a basis for this allocation. Attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 23 as an addition to your spouse's income and on line 35 as a reduction of your income.
- **Montana Net Operating Losses.** Use Form NOL (Rev. 8-04) for calculating your net operating loss for tax years beginning after December 31, 1998. You must carry back the entire amount of a 2004 net operating loss to the two tax years before the net operating loss unless you have timely elected to forgo the two year carry back and elect to carry forward the NOL. The election must be made by the due date of the return and once it is made it is irrevocable.  
Use Form NOL-Pre 99 for calculating your net operating losses for the years prior to January 1, 1999. Complete and attach the appropriate NOL Worksheets.
- **Dependent Care Assistance Credit.** If you took dependent care assistance as a deduction on federal Schedule C and are taking the Montana dependent care assistance credit, you must add back the amount of assistance deduction that the federal credit is based on.
- **Medical Care Savings Account or First Time Homebuyer Savings Account.** You must report all non-qualified withdrawals from your Montana Medical Care Savings Account or First Time Homebuyer Savings Account as income on line 23. See line 48 instructions for penalties.
- **Student Loan Interest or Tuition and Fees.** If you are married and filing separate on the same form or different forms for Montana you are not allowed to deduct student loan interest or tuition and fees. If filing separately, student loan interest or tuition and fees reported on line 19 must be added back to Montana income on line 23.
- **Farm and Ranch Risk Management Account Distribution.** If you have a distribution from your Farm and Ranch Risk Management Account during the tax year you must report it as income unless the distribution or portion of the distribution was not excluded from adjusted gross income in the year the deposit was made.

**Exclusions and Reductions to Income**

**Line 26 - Farm and Ranch Risk Management Account Exclusion.** An individual or family farm corporation may exclude from adjusted

gross income deposits into a farm and ranch risk management trust account. You are limited to one account for each sole-proprietor or family farm corporation. You may exclude the lesser of 20% of your net income attributable to agricultural business which is included in your federal adjusted gross income or \$20,000 a year.

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

**Line 27 - Interest Exclusion for Elderly.** You may exclude up to \$800 of interest income if you're 65 or older, and filing single, separate, or head of household. You may exclude up to \$1,600 if filing jointly, even if only one spouse is 65 or older. If you're married filing separately, only the spouse 65 or older can exclude up to \$800 of interest. However, if both spouses are 65 or older, each is allowed to exclude up to \$800 interest when filing separately. The exclusion can not exceed the amount of interest income reported in your gross income. Interest income includes distributions commonly called dividends on deposits or share accounts.

**Line 28 - Interest Income Exclusion.** Interest income received on obligations of the United States Government and its possessions is exempt from Montana income tax if the instruments are written documents, bear interest, and contain a binding promise by the United States or its possessions to pay specified sums at specified dates. They must also contain specific Congressional authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest is taxable to Montana. Obligations that are taxable include, but are not limited to, GNMA's and FNMA's.

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

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

**Line 29 - Pension and Annuity Income Exclusion.** Attach copies of Form 1099R, and RRB-1099R

If you received disability pension (Form 1099R, distribution Code 3), use the disability pension worksheet Form DS-1.

Tier II Railroad Retirement benefits, received from the Railroad Retirement Board are exempt from Montana tax. Enter the full amount of Tier II annuity or pension benefits reported on line 14b as a reduction to income on line 29.

You may be able to exclude up to \$3,600 of taxable pension and annuity income. Qualifying pension and annuity income is reported on Form 1099R, with a distribution code 7. If your federal adjusted gross income on Form 2, line 20 is less than \$30,000, and your filing status is single, married filing separate or head of household and you have taxable pension and annuity income reported on line 14b, enter the smaller of your taxable pension and annuity income or \$3,600 on Form 2, line 29. If you filed married filing separately, the \$30,000 limit applies to each spouse. If your federal adjusted gross income on Form 2, line 20 is less than \$30,000 and your filing status is joint and both you and your spouse have taxable pension and annuity income reported on line 14b, enter the smaller of your combined taxable pension and annuity income or \$7,200 (if both spouses have at least \$3,600 in taxable pension and annuity income) on Form 2, line 29.

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

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

Premature distributions, early withdrawals and disability payments do not qualify for this exclusion.

**Line 30 - Unemployment Benefit Exclusion.** Unemployment benefits received from Montana or other states are not taxable in Montana.

**Line 31 - Medical Care Savings Account Exclusion.** You and your spouse may establish a separately owned Medical Care Savings Account and exclude from adjusted gross income annual contributions of not more than \$3,000 plus interest or other income earned on the account. Within certain limitations, the contributions to the account will be tax-free as long as they are used for eligible medical expenses. Eligible expenses paid with account funds can not be deducted elsewhere on the return. Non-qualified withdrawals are subject to tax and penalties. Contributions to a federal HSA reported as an adjustment in determining federal adjusted gross income on Form 2, line 19, are not considered contributions to the Montana medical care savings account. Eligible medical expenses for purpose of the Montana medical care savings account do not include medical expenses paid with funds withdrawn from a federal HSA. See Montana Form MSA for detailed instructions. Complete and attach Form MSA to your tax return.

**Line 32 - Family Education Savings Account Exclusion.** You may deduct up to \$3,000 per year for contributions made to one or more accounts established under the Montana family education savings program. If married, you and your spouse are each entitled to the \$3,000 deduction. The contribution must be made to an account where the account owner is yourself, your spouse or your child or stepchild as long as your child or stepchild is a Montana resident. Non-qualified withdrawals are subject to an 11% recapture tax. See line 48 instructions for your recapture tax. To establish a Family Education Savings Account and for additional information call the Montana Family Education Savings Program at (800) 888-2723 or visit them at [www.montana.collegesavings.com/](http://www.montana.collegesavings.com/).

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

**Line 34 - Health Care Professional Loan Payment Exclusion.** If you are a health care professional licensed in Montana, you may be eligible to exclude from adjusted gross income the amount of your health related student educational loan repayment, up to \$5,000 paid on your behalf within the tax year. To be eligible for this exclusion you must participate in a federal, state, or qualified private loan repayment program. These repayment programs are generally through the U.S. Department of Health and Human Services National Health 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. To qualify for the exclusion, you must serve a significant portion of a designated geographic area, a special population, a federally designated health professional shortage area, a medically underserved area, or a federal nursing shortage county. Contact the Montana Department of Public Health and Human Services Primary Care Office at (406) 444-3934 for verification of qualified HPSA, MUA and MUP's and eligibility.

**Line 35 - Other Exclusions and Reductions.**

- **Capital gain exclusion.** If you had an installment sale(s) of a capital asset(s) which you entered into before January 1, 1987 you may be able to take a capital gain exclusion of 40%. Compute your exclusion on Form W, Worksheet III, Page 12.
- **Health insurance paid by S. corporations.** If you are a shareholder, you are allowed to deduct health insurance premiums paid on your behalf by an S. corporation if the cost of the premiums are included in your federal adjusted gross income.
- **Child's income exclusion.** If you file federal Form 8814 (Parents' Election to Report Child's Interest and Dividends), exclude from your income the amount reported as "Form 8814" income on the "Other income" line of your federal return and on line 17 of your Montana return. Your child must file a Montana return if he or she otherwise meets the income filing requirements listed on page 1.

- **Tip Income.** Tip income is excludable if it is included in your federal adjusted gross income, and received for services to patrons of a licensed business that provides food, beverages or lodging.
- **State Refunds.** If included on line 17, deduct state refunds here.
- **Disability Income Exclusion.** You may subtract from gross income up to \$5,200 a year of your disability payments, reported as distribution Code 3 on Form 1099R. Use Form DS-1 to calculate your deduction and attach it to your tax return.
- **Deduction for Purchase of Recycled Material.** You may take an additional 10% deduction of the expenses related to the purchase of recycled products used within Montana in your business if the recycled products purchased contain at least 90% reclaimed material.
- **Wages Covered by Federal Targeted Jobs Credit.** As an employer, you can deduct wages and salaries reduced by the amount of the federal targeted jobs credit or by work incentive program credits. Deduct the wages and salary paid regardless of the amount of the credits from your Montana adjusted gross income. The deduction must be taken in the year the wages and salaries are used to compute the federal credit.
- **Land Sales to Beginning Farmers.** You can deduct from your taxable income the income or capital gain realized from the sale of land consisting of 80 acres or more sold to a beginning farmer at a maximum of 9% interest. The transaction must first be approved by the Agricultural Loan Authority. The maximum deduction allowed is \$50,000. A copy of your letter of approval from the Department of Agriculture must be attached. 80-12-211, MCA.
- **Passive Loss Carryover.** You may be allowed to claim prior year disallowed passive activity losses if you have current year passive activity income or if you sell or exchange your entire interest in the activity in a fully taxable transaction to an unrelated party. Previously disallowed losses may also be claimed in the current tax year if you file a joint return. Complete federal Form 8582, Passive Activity Loss Limitations, to determine the amount of passive loss carryover you can claim. If you qualify, enter the allowable passive loss carryover on line 35 and attach copies of Form 2, page 1, from previous years tax returns on which you reported unallowed losses.
- **Indian Income.** If you are an enrolled tribal member of the reservation on which you work and reside, income derived from reservation sources is not subject to the Montana individual income tax. If you reside and/or work outside the exterior boundaries of your reservation or if your income is not derived from reservation sources, your income is subject to the Montana individual income tax. If you receive income derived directly from allotted or restricted lands held in trust by the United States, such income is not taxable in Montana. You are required to file a Montana income tax return even though your income may not be taxable if you meet the filing requirements found in the chart on page 1. Complete Form IND, Certification of Enrollment including proof your income was derived from reservation sources, and attach it to your return.
- **Military Salary Exclusion.** Your basic, special, and incentive pay received for serving on active duty as a member of the regular Armed Forces is exempt from Montana tax. Basic, special, and incentive pay received by a member of a reserve component of the Army, Navy, Marine Corps, Air Force, or Coast Guard, or by a member of the National Guard for active duty in a "contingent operation" as defined in 10 U.S.C. is exempt from Montana tax. Basic, special, and incentive pay received by a member of the National Guard for active service authorized by the president of the United States or the secretary of the 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 is exempt from Montana tax. Attach verification, such as a copy of your orders, which specifies that your military salary is exempt.
- **Social Security.** Complete Social Security Worksheet VIII on Form W, page 15 of this booklet after completing the pension and annuity worksheet on page 13. If the portion of your social security benefits that is taxable to Montana is less than the federal taxable amount, enter the difference. Attach the worksheet to your tax return.
- **Allocation of Income to Spouse.** See instruction on Page 4. line 23.
- **Montana Net Operating Losses.** Use Form NOL (Rev. 8-04) for calculating your net operating loss for tax years beginning after

December 31, 1998. You must carry back the entire amount of your 2004 net operating loss to the two preceding tax years before your net operating loss unless you have timely elected to forgo your carry back and elect to carry forward your NOL. Your election to forgo the carryback must be made by the due date of your return and once it is made it is irrevocable.

Use Form NOL-Pre 99 for calculating your net operating losses for tax years beginning prior to January 1, 1999. Attach your completed NOL Worksheet to your return.

**Line 38 - Itemized and Standard Deductions.**

Standard Deduction - See Form W, Worksheet V, page 13.  
Itemized Deductions - See instructions on pages 7 and 8.

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

**Line 40 - Exemptions.** Multiply \$1,840 by the number of exemptions in box 5 on the front of Form 2.

**Tax Computation**

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

**Line 44.** 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 46 - Credits.** Enter the total from Form 2A, Schedule II, line 112.

**Line 48 - Other Taxes, Penalties, and Repayments.**

➤ **Family Education Savings Account Recapture Tax.** If you have a recapturable withdrawal from a family education savings account you must pay a 11% recapture tax on this withdrawal. A recapturable withdrawal is a withdrawal that is not used for qualified higher education expenses, or a withdrawal from an account within three years from the date opened. Do not include a recapturable withdrawal in your gross income. Calculate the 11% recapture tax and enter this amount on line 48 and write on the dotted line "recapture tax."

➤ **First Time Home Buyer Savings Account 10% Penalty.** If you withdrew funds from a First Time Home Buyer Savings Account for purposes other than eligible cost, you are subject to a 10% penalty on the amount of the withdrawal unless you withdrew these funds on the last business day of the account administrator's business year which means the last weekday in December. Complete Form FTB-P and enter the amount of the penalty on line 48 and attach a copy of Form FTB-P to your return.

➤ **Medical Care Savings Account 10% Penalty.** If you withdrew funds from a Medical Care Savings Account for purposes other than eligible medical expenses you are subject to a 10% penalty on the amount of the withdraw unless you withdrew these funds on the last business day of the account administrator's business year which means the last weekday in December. Complete Form MSA-P and enter the amount of the penalty on line 48 and attach a copy of Form MSA-P to your 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 the 5 year eligibility period you must pay a 10% penalty on the tax due on the distributed amount. Enter the amount of the penalty on line 48 and write on the line FRM.

➤ **Rural Physician Tax Credit Repayment.** If you have previously claimed the Rural Physician Tax Credit and have ceased practice in the rural area within four years following the year in which you claimed the credit you must repay the credit. Enter the amount of your repayment on line 48 and write on the line "Rural Physician Tax Credit."

**Lines 49-51 - Check-Offs.** You can contribute any amount to the program(s) of your choice. A contribution will increase your existing tax liability.

**Nongame Wildlife Program (line 49).** Contributions 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 and Neglect Prevention Program (line 50).**

Contributions fund services and activities related to the prevention of child abuse and neglect. 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 the contribution.



**Agriculture in Montana Schools Program (line 51).**

Contributions 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.

**Line 55.** Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's and 1099R's) to your return.

**Line 56.** Enter your total Montana estimated tax payments for 2004. Include overpayments from 2003 which were credited to 2004. If you paid tax for a previous year, that amount cannot be claimed as an estimated tax credit on line 56. If you are a shareholder, partner, or member of a S. corporation, partnership or a disregarded entity in which the entity withheld state income tax from your distributed share of the income and reported this amount to you on Montana Form PT-WH, include this amount as an estimated payment on line 56 and attach a copy of Montana Form PT-WH to your return.

**Line 57.** Enter payment made from the Four-Month Extension Payment Calculation, Form EXT-04 Worksheet.

**Line 58 - Elderly Homeowner/ Renter Credit.** To determine if you qualify, see detailed instructions on Form 2EC.

**Line 61 - Amount Overpaid.** If line 60 is larger than line 54, enter the difference. This is your overpayment. You can choose to have all or part of this amount refunded to you (line 63). The remainder, if any, can be applied to your estimated tax for 2005 (line 62). Only overpayments of more than \$1 will be refunded.

**Line 62.** Enter the amount from line 61 you want applied to your Estimated Tax for year 2005.

**Direct Deposit**

**Line 63.** Enter the amount from line 61 you want refunded to you. If you wish to use direct deposit, enter your RTN# and ACCT# in the appropriate spaces below line 63. The routing number must be nine digits. The account number can be up to 17 characters (both numbers and letters). The direct deposit will be rejected if the routing and accounting numbers are not correct. If the numbers are incorrect, a check will be mailed to you instead. See sample below.

**Line 64 - Tax Due.** If line 54 is larger than line 60, enter the difference. This is your tax due. Make your check or money order payable to the Department of Revenue. Be sure your social security number and tax year is on your check or money order. Send your payment with the coupon provided in this booklet along with your tax return.

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

Filing on time will prevent a late file penalty assessment. See page 2. If you cannot pay all of your tax with your return, file your return and pay as much as possible. If you need to establish a payment plan, contact us as soon as possible to discuss payment options and make payment arrangements. Call (406) 444-6900.

File on time to prevent a late file penalty. See page 2. Be sure to include a daytime phone number next to your signature on the tax form.



Column A (for single joint, separate, or head of household)

Column B (for spouse only when filing separate, and box 3 is checked)

DEDUCTIONS  
EXEMPTIONS

38. Montana adjusted gross income (From line 37) ..... 38.

**Deductions Check only one**

39. (A) Standard deduction:  (A) }  
 (B) Itemized deductions:  (B) }

40. Subtract line 39 from 38 and enter balance..... => 40.

**Exemptions (All filers are entitled to at least one exemption)**

41. Multiply \$1,840 times the number of exemptions on line 5 ..... 41.

42. Taxable income. Subtract line 41 from line 40 ..... => 42.

TAX COMPUTATION

**Nonresidents and Part-Year Residents complete and attach Schedules III and IV Form 2A, before proceeding**

43. Tax from table below. Non/part-year residents enter the amount from line 130, Form 2A Schedule IV. If line 42 is less than zero, enter zero here..... 43.

44. Tax on lump sum distributions (see instructions for this line). Attach Federal Form 4972  44.

45. Subtotal - Add lines 43 and 44..... **Subtotal** => 45.

46. Credits from Form 2A, line 112, Schedule II..... 46.

47. Balance - Subtract line 46 from 45 and enter difference (but not less than zero)..... => 47.

48. Other tax, penalties and repayment, see page 6 (specify)  48.

For each of the programs below enter any amount you and your spouse want to contribute. Enter totals in boxes on line 52 (see instructions for details).

**Nongame Wildlife Program**  49. **Child Abuse Prevention**  50. **Agriculture in Schools**  51. Enter total amount in boxes..... 52.

53. Total Tax - Add lines 47, 48, and 52..... **Total** => 53.

54. Combine amounts shown on line 53 columns A and B..... => 54.

PAYMENTS AND CREDITS

55. Montana tax withheld..... Attach withholding statements  55.

56. Payments of 2004 estimated tax and amounts credited from previous year .....  56.

57. Payment made with extension .....  57.

58. Elderly Homeowner/ Renter Credit ..... Attach Form 2EC  58.

59. Total of lines 55 thru 58..... **Total** 59.

60. Combine amounts shown on line 59 columns A and B ..... => 60.

REFUND OR AMOUNT YOU OWE

61. If line 60 is larger than line 54 enter the difference. This is your **overpayment**.....  61.

62. Amount on line 61 to be applied to 2005 estimate  62.

63. Enter the amount from line 61 you want refunded to you (refunds more than \$1.00 will be issued) **Refund**.....  63.

**Refund Returns:** Mail to Dept. of Revenue, PO Box 6577, Helena, MT 59604-6577 **Direct Deposit**

If you wish to use direct deposit enter your RTN# and ACCT# below. See instructions on page 6.

RTN# \_\_\_\_\_ ACCT# \_\_\_\_\_  Checking  Savings

64. If line 54 is larger than line 60 enter **tax due** (If you owe see instructions for this line) ..... **Tax Due**  64.

Send your check or money order with payment coupon to: Dept. of Revenue, PO Box 6308, Helena, MT 59604-6308.

If you choose to pay your tax due by credit card visit our website at [www.discoveringmontana.com/revenue](http://www.discoveringmontana.com/revenue) and enter your confirmation number here. See instructions on page 6.

65. Underpayment interest See Worksheet VII, Schedule W...  65.

66. Late filing penalty-See page 2.....  66.

67. Late payment penalty-See page 2.  67.

68. Interest 1% (.01) per month.....  68.

69. Total of lines 64 through 68 .....  69.

PLEASE SIGN HERE

• Check this box if at least 2/3 of your gross income is from farming. (attach breakdown of computations)

• Check here if estimated payments were made using the annualization method. (Attach Montana Form EST-1)

• Check here if you do not need state income tax forms and instructions mailed to you next year. Tax forms are also available on the internet.

Name, address and telephone number of preparer \_\_\_\_\_

May the DOR discuss this return with the preparer shown above? yes  no

Questions? Please call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired. ☎

X \_\_\_\_\_ X \_\_\_\_\_

Your signature is required Date Daytime telephone number Spouse signature Date

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

**Tax Table**

If Taxable Income is:				If Taxable Income is:			
Over	But not over	Multiply by	and Subtract = Tax	Over	But not over	Multiply by	and Subtract = Tax
\$ 0	\$ 2,300	X ... 2 %	\$ 0	\$18,400	\$22,900	X ... 7 %	\$ 483
\$ 2,300	\$ 4,600	X ... 3 %	\$ 23	\$22,900	\$32,100	X ... 8 %	\$ 712
\$ 4,600	\$ 9,200	X ... 4 %	\$ 69	\$32,100	\$45,900	X ... 9 %	\$1,033
\$ 9,200	\$13,800	X ... 5 %	\$161	\$45,900	\$80,300	X ... 10 %	\$1,492
\$13,800	\$18,400	X ... 6 %	\$299	\$80,300	X ... 11 %	\$2,295	

Example = taxable income \$2,400 x 3% (.03) = \$72 subtract \$23 = \$49 tax

When you file your Montana income tax return electronically you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.