

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

(Do not complete this worksheet if you claimed the Montana standard deduction on your 2012 Montana return.)

A tax benefit recovery occurs when an amount you claimed as a deduction or credit in an earlier tax year is returned to you. Recoveries are taxable to the extent that you received a tax benefit from the deduction or credit.

The most common recovery in Montana is when you receive a federal tax refund during the current tax year for the paid federal taxes you included as an itemized deduction on the previous year's Montana return. A simple way to check if your federal refund is taxable is to subtract the refund you received in 2013 from the total federal income taxes you reported on Schedule I, lines 7a through 7d on your 2012 Montana return. If the result is larger than the \$5,000 (or \$10,000 if filing a joint return) you were allowed to deduct on line 7e on Schedule I of your 2012 Montana return, none of the refund is taxable.

This worksheet will help you determine how much, if any, of your federal tax refund you received in 2013 is taxed by Montana. You may use this worksheet only if all three of the following conditions exist:

- You received a federal tax refund in 2013;
- You claimed itemized deductions on your 2012 Montana return; and
- Your only tax benefit recovery in 2013 was a refund of federal taxes you claimed as a deduction on your 2012 Montana return.

If all three conditions do not exist, you need to use Worksheet IX, Tax Benefit Rule Recovery of Itemized Deductions. You will also need to use Worksheet IX if you received a federal refund for taxes you reported in a year other than 2012 or if you recovered any other item that you claimed as a deduction on your Montana return in 2012 or any other year (for instance, your insurance company reimbursed you for a medical expense you claimed as an itemized deduction).

You can obtain Worksheet IX by visiting our website at [revenue.mt.gov](http://revenue.mt.gov) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

Before you begin, see the instructions above and on page 3 for Form 2M, line 23 to determine if you need to complete Worksheet II.

|  |     |
|--|-----|
| 1. Enter your total federal taxes paid in 2012 as reported on lines 7a through 7d on Form 2, Schedule III or Form 2M, Schedule I ...   | 1.  |
| 2. Enter the federal tax refund you received in 2013.....  | 2.  |
| 3. Enter any refundable credits claimed on your 2012 federal Form 1040, lines 64a, 65, 66, 70 and 71. If in 2012 you filed 1040A or 1040EZ, enter the amounts from Form 1040A lines 38a, 39 and 40 or Form 1040EZ line 8a. These items are not attributable to taxes you paid.....   | 3.  |
| 4. Is line 3 greater than or equal to line 2? If yes, stop; your federal refund is not taxable. If no, subtract line 3 from line 2, and enter the result here. This is the portion of your federal refund that is a result of taxes you paid .....   | 4.  |
| 5. Subtract line 4 from line 1 and enter the result here, but not less than zero. This amount is your federal income taxes paid that were not refunded to you.....   | 5.  |
| 6. Enter the federal income taxes you deducted for 2012 as reported on line 7e on Form 2, Schedule III or Form 2M, Schedule I ...  | 6.  |
| 7. Is line 5 larger than line 6? If yes, stop; your federal refund is not taxable. If no, subtract line 5 from line 6, and enter the result here. This is the amount of taxes you deducted that were refunded to you .....   | 7.  |
| 8. Enter the itemized deduction you claimed on your 2012 Montana Form 2, Schedule III, line 32 or 2012 Form 2M, Schedule I, line 29. If you took the standard deduction, stop; your federal income tax refund is not taxable .....   | 8.  |
| 9. Enter your 2012 Montana adjusted gross income from Form 2, line 41 or Form 2M, line 38.....   | 9.  |
| 10. 2012 standard deduction. Enter the amount below that corresponds to your 2012 Montana individual income tax filing status. <ul style="list-style-type: none"> <li>• If your filing status was single, enter 20% (0.20) of line 9, but not less than \$1,860, or more than \$4,200.</li> <li>• If your filing status was married filing jointly, or head of household, enter 20% (0.20) of line 9, but not less than \$3,720, or more than \$8,400 .....</li> </ul>   | 10. |
| 11. Subtract line 10 from line 8, and enter the result here. If the result is smaller than zero, stop; your federal refund is not taxable, because you didn't receive a benefit from deducting federal income taxes.....   | 11. |
| 12. Enter the smaller of line 7 or line 11 here. This is the portion of your federal tax deduction that reduced your taxable income and was refunded in 2013 .....   | 12. |
| 13. Enter here your 2012 Montana taxable income from Form 2, line 45 or Form 2M, line 42. If your amount is less than zero, enter this amount as a negative amount .....   | 13. |
| 14. If line 13 is zero or more, enter the amount from line 12 here and on Form 2M, line 23. <b>This is your taxable federal income tax refund.</b><br>If line 13 is less than zero (a negative amount), add lines 12 and 13. <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 2M, line 23. <b>This is your taxable federal income tax refund.</b>.....</li> </ul> | 14. |

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

If your federal adjusted gross income from Form 2M, line 21 is \$34,430 (\$36,380 if filing a joint return) or more, stop here. You are not entitled to this exemption. If your federal adjusted gross income is less than this amount, you may be entitled to an exemption on all or part of the first \$3,900 of your reported taxable pension and annuity income (Form 2M, line 11b) or IRA distributions not considered premature for federal income tax purposes (Form 2M, line 10b). Complete Worksheet IV to determine the exemption amount. Please see the instructions on page 4 for more information.

Early distributions that required payment of the federal 5% or 10% additional tax do not qualify. Also, distributions considered premature according to federal regulations do not qualify. Subtract any nonqualifying distribution(s) from Form 2M, line 10b before reporting amounts on this worksheet.

If you receive Tier II Railroad Retirement benefits, see the instructions for Form 2M, line 34 on page 6.

|   |  |          |
|---|--|----------|
| 1. Enter your federal adjusted gross income from Form 2M, line 21 here.....   | 1.   |          |
| 2. Federal adjusted gross income limitation amount .....  | 2.   | \$32,480 |
| If line 1 is smaller than line 2, enter on Form 2M, line 29, the smaller of your pension and annuity income, or \$3,900 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.   |          |
| <b>4. Fill out only one of the following. If your filing status is:</b>   |  |          |
| a. Single or head of household. Enter the smaller of your pension and annuity income or \$3,900.....  | 4a.  |          |
| b. Joint. Enter the smaller of each spouse's taxable pension and annuity income or \$3,900 in the following space:  |  |          |
| Spouse 1 <input style="width: 80px;" type="text"/>  | Spouse 2 <input style="width: 80px;" type="text"/> |          |
| Add together Spouse 1 and Spouse 2; enter the total here .....  | 4b.  |          |
| 5. Multiply the amount on line 3 by 2 and enter the result here.....  | 5.   |          |
| 6. Pension and annuity exemption. Subtract line 5 from line 4a or 4b, whichever applies. If the result is zero or negative, you are not eligible for the pension and annuity exemption. If the number is positive, enter the result here and on Form 2M, line 29.<br><b>This is your partial pension and annuity exemption.....</b> | 6.   |          |

### Worksheet V – Standard Deduction

|  |    |  |
|--|----|--|
| 1. Enter your Montana adjusted gross income from Form 2M, line 38 here.....  | 1. |  |
| 2. Multiply the amount on line 1 by 20% (0.20) and enter the result here .....   | 2. |  |
| 3. Enter here the amount below that corresponds to your filing status.....   | 3. |  |
| If your filing status is single (Form 2M filing status 1), enter \$4,270. <i>This is your maximum standard deduction.</i>                          |    |  |
| If your filing status is joint or head of household (Form 2M filing status 2 or 3), enter \$8,540. <i>This is your maximum standard deduction.</i> |    |  |
| 4. Enter here the amount from line 2 or 3, whichever is smaller .....  | 4. |  |
| 5. Enter here the amount below that corresponds to your filing status.....   | 5. |  |
| If your filing status is single (Form 2M filing status 1), enter \$1,900. <i>This is your minimum standard deduction.</i>                          |    |  |
| If your filing status is joint or head of household (Form 2M filing status 2 or 3), enter \$3,800. <i>This is your minimum standard deduction.</i> |    |  |
| 6. Enter here and on Form 2M, line 39 the amount from line 4 or 5, whichever is larger. <b>This is your standard deduction.</b> .....              | 6. |  |

### Worksheet VI-QMIP – Qualified Mortgage Insurance Premiums Deduction

If you have completed the Qualified Mortgage Insurance Premiums Deduction Worksheet for your federal return, you do not need to complete this worksheet. You are allowed the same deduction. If you did not complete the federal worksheet, use this worksheet to calculate the amount you are allowed to deduct.

|   |    |    |
|---|----|----|
| 1. Enter the total premiums you paid in 2013 for qualified mortgage insurance for a contract issued after December 31, 2006. ....   | 1. |    |
| 2. Enter your federal adjusted gross income from Form 2M, line 21.....  | 2. |    |
| 3. Enter \$100,000 .....  | 3. |    |
| 4. Is the amount on line 2 more than the amount on line 3?  |    |    |
| <input type="checkbox"/> <b>No.</b> Your deduction is not limited. Enter the amount from line 1 above on Form 2M, Schedule I, line 12.  |    |    |
| <input type="checkbox"/> <b>Yes.</b> 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..... |    | 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 and enter the result here .....  | 6. |    |
| 7. Subtract line 6 from line 1. Enter the result here and on Form 2M, Schedule I, line 12. <b>This is your qualified mortgage insurance premiums deduction.</b> .....   | 7. |    |

### Worksheet VI-IDL – Itemized Deduction Limitation

|    |  |     |
|----|--|-----|
| 1  | From Form 2M, Schedule I, add lines 4 through 6, 7e through 18 and 24 through 26 and enter the result here.....  | 1.  |
| 2  | From Form 2M, Schedule I, add lines 4, 5, 6, 7e, 13, 17, 18 and 25 and enter the result here .....   | 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 Schedule I, line 27 and Form 2M, line 39. You do not have to complete this worksheet..... | 3.  |
| 4  | Multiply the amount on line 3 above by 0.80 (80%) and enter the result here .....  | 4.  |
| 5  | Enter your Montana adjusted gross income from Form 2M, line 38 here.....   | 5.  |
| 6  | Enter here \$300,000 if filing jointly, \$275,000 if filing head of household or \$250,000 if filing single .....  | 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 Schedule I, line 27 and Form 2M, line 39. You do not have to complete this worksheet .....                  | 7.  |
| 8  | Multiply line 7 by 0.03 (3%) and enter the result here .....   | 8.  |
| 9  | Enter the smaller of the amounts on line 4 or line 8 here.....   | 9.  |
| 10 | Subtract line 9 from line 1. Enter the result here and on Form 2M, Schedule I, line 27. <b>This is your total itemized deductions.</b> ....  | 10. |

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

You usually have to pay your income tax liability throughout the year. You can pay through employer withholding, by making installment payments of estimated taxes, or a combination of both. If you have to pay estimated taxes and you did not pay enough during the year by each of the four quarterly installment payment dates, you may owe interest on your underpayment of those estimated taxes even if you pay the full amount of tax you owe when you file your return.

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

- Your tax liability (after withholding and estimated tax payments) is less than \$500.
- You did not have a 2012 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 2012 or 2013 after reaching the age of 62.
- You become disabled in either 2012 or 2013.
- You are a farmer or rancher and 66 2/3% of your 2013 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 2013 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 2013 income tax liability (after applying your credits) or 100% of your 2012 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 only if one of the following conditions applies to you:

- You made no estimated tax payments (in other words, your only payments were Montana withholding); or
- You made four equal estimated payments by the required due dates.

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 [revenue.mt.gov](http://revenue.mt.gov) or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

|     |   |     |
|-----|---|-----|
| 1.  | Enter your 2013 total tax liability reported on Form 2M, line 47 here.....  | 1.  |
| 2.  | Multiply line 1 by 90% (0.90) and enter the result here.....  | 2.  |
| 3.  | Combine the amounts on Form 2M, line 48, the portion of line 49 that includes amounts credited from prior year's tax refunds, and line 51. 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 the income tax liability that you reported on your 2012 Form 2, line 54; 2012 Form 2M, line 47; or 2012 Form 2EZ, line 15 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 2013 Form 2M, line 49. 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. <b>This is your total underpayment for 2013.</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, 2014, 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 and then by 0.0002192 and enter the amount here ..... | 10. |
| 11. | Subtract line 10 from line 9 and enter the result here and on Form 2M, line 57. <b>This is your interest on underpayment of estimated taxes.</b> .....  | 11. |

## Worksheet VIII – Taxable Social Security Benefits

The taxable amount of your social security benefits for Montana and federal purposes may be different. Complete this worksheet to figure out how much, if any, of your social security benefits are taxable in Montana.

Montana does not tax Tier I Railroad Retirement benefits. If you reported any portion of these benefits on your Form 2M, line 13b as taxable benefits, enter that amount as a Montana subtraction on Form 2M, line 33.

|   |      |  |  |
|---|------|--|--|
| 1. Enter the total amount from box 5 of all your federal Form SSA-1099s.....  | 1.   |  |  |
| 2. Multiply line 1 by 50% (0.50) and enter result here .....  | 2.   |  |  |
| 3. Add the amounts on Form 2M, lines 6, 7a, 8, 9, 10b, 11b, 12 and 14 and enter the result here.....  | 3.   |  |  |
| 4. Add the amounts on Form 2M, lines 22, 23 and 25 and tax exempt interest on line 7b that is not included in line 22 .....   | 4.   |  |  |
| 5. Add lines 2, 3 and 4; enter the result here.....   | 5.   |  |  |
| 6. Add the amounts on Form 2M, lines 16, 17, 28 through 32, 34 and 35. Enter the result here.....   | 6.   |  |  |
| 7. Is the amount on line 6 less than the amount on line 5?  |      |  |  |
| <input type="checkbox"/> No None of your social security benefits are taxable. Enter zero on line 18 and go to line 19.   |      |  |  |
| <input type="checkbox"/> Yes Subtract line 6 from line 5 and enter the result here .....  |      |  |  |
|   | 7.   |  |  |
| 8. Enter the amount that corresponds to your filing status. If your filing status is:   |      |  |  |
| • married filing jointly, enter \$32,000;   |      |  |  |
| • single or head of household, enter \$25,000 .....   |      |  |  |
|   | 8.   |  |  |
| 9. Is the amount on line 8 less than the amount on line 7?  |      |  |  |
| <input type="checkbox"/> No None of your social security benefits are taxable. Enter zero on line 18 and go to line 19.   |      |  |  |
| <input type="checkbox"/> Yes Subtract line 8 from line 7 and enter the result here .....  |      |  |  |
|   | 9.   |  |  |
| 10. Enter the amount that corresponds to your filing status. If your filing status is:  |      |  |  |
| • married filing jointly, enter \$12,000;   |      |  |  |
| • single or head of household, enter \$9,000 .....  |      |  |  |
|   | 10.  |  |  |
| 11. Subtract line 10 from line 9 and enter the result here. If less than zero, enter zero .....   | 11.  |  |  |
| 12. Enter here the smaller of line 9 or line 10.....  | 12.  |  |  |
| 13. Multiply line 12 by 50% (0.50) and enter the result here .....  | 13.  |  |  |
| 14. Enter here the smaller of line 2 or line 13.....  | 14.  |  |  |
| 15. Multiply line 11 by 85% (0.85) and enter result here. If line 11 is zero, enter zero .....  | 15.  |  |  |
| 16. Add lines 14 and 15; enter the result here.....   | 16.  |  |  |
| 17. Multiply line 1 by 85% (0.85) and enter result here .....   | 17.  |  |  |
| 18. Enter the smaller of line 16 or 17. <b>This is your Montana taxable social security benefits.</b> .....   | 18.  |  |  |
| 19. Enter the federal taxable amount of social security benefits that you reported on Form 2M, line 13b.....  | 19.  |  |  |
| 20a. If line 19 equals line 18, the amount of the federal taxable social security benefits that you reported on Form 2M, line 13b is the same amount that is taxed by Montana. No adjustment is necessary.  |      |  |  |
| 20b. If line 19 is less than line 18, enter the difference here and as a Montana addition on Form 2M, line 24. <b>This is the additional amount of your social security benefits that is taxed by Montana.</b> .....                              | 20b. |  |  |
| 20c. If line 19 is greater than line 18, enter the difference here and as a Montana subtraction on Form 2M, line 33. <b>This is the amount of your social security benefits that is taxed by the federal government but not by Montana.</b> ..... | 20c. |  |  |