

Worksheet II – Tax Benefit Rule for Federal Income Tax Refund

This worksheet is provided to help you determine how much, if any, of a federal tax refund you received in 2010, has to be added to your other income to determine your Montana tax. If you claimed the Montana standard deduction when you filed your 2009 Montana return (instead of itemized deductions) in 2010, you do not need to complete this worksheet. None of your federal income tax refund is taxable. This worksheet should be used if your only "tax benefit recovery" in 2010 was a refund of taxes you claimed a deduction for in 2009.

You cannot use this worksheet if:

- you received a federal refund for taxes you paid for a year other than 2009; or
- you recovered any other item that you claimed as a deduction on your Montana return in 2009 or any other year (for instance, your insurance company reimbursed you for a medical expense you claimed as an itemized deduction).

Another worksheet is provided for these more complicated situations, Worksheet IX, Tax Benefit Rule Recovery of Itemized Deductions. You can obtain Worksheet IX by visiting our web site at revenue.mt.gov or by calling us toll free at (866) 859-2254 (in Helena, 444-6900). You may not even need this worksheet to determine that none of the federal refund you received in 2010 is taxable. A simple way to check this is to subtract the refund you received in 2010 from the total federal income taxes you paid in 2009. If the result is still above the \$5,000 (or \$10,000 if filing a joint return) you were allowed to deduct in 2009, none of the refund is taxable.

| Before you begin, see the instructions above and on page 14 for Schedule I, line 3 to determine if you need to complete Worksheet II. | | Column A (for single, joint, separate, or head of household) ▼ | Column B (for spouse when filing separately using filing status 3a) ▼ |
|---|---|---|--|
| 1 | Add lines 7a through 7d from 2009 Form 2, Schedule III and enter the result. ▶ | 1 | 1 |
| 2 | Enter the federal tax refund you received in 2010 minus any federal refundable credits claimed on your 2009 federal tax return (for example, earned income credit, additional child tax credit, and American opportunity credit), but not less than zero. ▶ | 2 | 2 |
| 3 | Subtract line 2 from line 1 and enter the result here, but not less than zero. ▶ | 3 | 3 |
| 4 | Enter the amount of federal income tax deducted on line 7e of your Montana 2009 Form 2, Schedule III. ▶ | 4 | 4 |
| 5 | Is line 3 larger than line 4? If yes, stop; your federal refund is not taxable. If no, subtract line 3 from line 4, and enter the result here. ▶ | 5 | 5 |
| 6 | Enter the Montana itemized deduction you claimed on your 2009 Form 2, Schedule III, line 34. If you took the standard deduction, stop; your federal income tax refund is not taxable. ▶ | 6 | 6 |
| 7 | Enter your 2009 Montana adjusted gross income from Form 2, line 41. ▶ | 7 | 7 |
| 8 | 2009 Standard deduction. Enter the amount below that corresponds to your 2009 Montana individual income tax filing status. <ul style="list-style-type: none"> • If your filing status was single or married filing separately, enter 20% (0.20) of line 7, but not less than \$1,750, or more than \$3,950. • If your filing status was married filing jointly, or head of household, enter 20% (0.20) of line 7, but not less than \$3,500, or more than \$7,900. ▶ | 8 | 8 |
| 9 | Subtract line 8 from line 6, and enter the result here. If the result is smaller than zero, stop; your federal refund is not taxable. ▶ | 9 | 9 |
| 10 | Enter the smaller of line 5 or line 9 here. ▶ | 10 | 10 |
| 11 | Enter here your 2009 Montana taxable income from Form 2, line 45. If your amount is less than zero, enter this amount as a negative amount. ▶ | 11 | 11 |
| 12 | If line 11 is zero or more, enter the amount from line 10 here and on Form 2, Schedule I, line 3. This is your taxable federal income tax refund. If line 11 is less than zero (a negative amount), add lines 10 and 11. <ul style="list-style-type: none"> • If your result remains less than zero (a negative amount), enter zero and stop here. None of your federal refund is taxable to Montana. • If your result is greater than zero (a positive amount), enter that amount here and on Form 2, Schedule I, line 3. This is your taxable federal income tax refund. ▶ | 12 | 12 |