Worksheet II – Tax Benefit Rule for Federal Income Tax Refund

(Do not complete this worksheet if you claimed the Montana standard deduction on your 2014 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 2015 from the total federal income taxes you reported on Schedule III, lines 7a through 7d on your 2014 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 III of your 2014 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 2015 is taxable to Montana. You may use this worksheet only if all three of the following conditions exist:

- You received a federal tax refund in 2015;
- You claimed itemized deductions on your 2014 Montana return; and
- Your only tax benefit recovery in 2015 was a refund of federal taxes you claimed as a deduction on your 2014 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 2014 or you recovered any other item that you claimed as a deduction on your Montana return in 2014 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 *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 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	Enter your total federal taxes paid in 2014 as reported on Form 2, Schedule III, lines 7a through 7d	1			1
2	Enter the federal tax refund you received in 2015	2			2
3	Enter any refundable credits claimed on your 2014 federal Form 1040, lines 66a, 67, 68, 69, 72 and 73. If in 2014 you filed 1040A or 1040EZ, enter the amounts from Form 1040A lines 42a, 43, 44 and 45; or Form 1040EZ line 8a. These items are not attributable to taxes you paid	3			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			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			5
6	Enter the federal income taxes you deducted for 2014 as reported on Form 2, Schedule III, line 7e	6			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			7
8	Enter the itemized deduction you claimed on your 2014 Montana Form 2, Schedule III, line 30. If you took the standard deduction, stop; your federal income tax refund is not taxable	8			8
9	Enter your 2014 Montana adjusted gross income from Form 2, line 41	9			9
10	2014 standard deduction. Enter the amount below that corresponds to your 2014 Montana individual income tax filing status. • If your filing status was single or married filing separately, enter 20% (0.20) of line 9, but not less than $1,940 or more than $4,370. • If your filing status was married filing jointly or head of household, enter 20% (0.20) of line 9, but not less than $3,880 or more than $8,740	10			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			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 2015	12			12
13	Enter here your 2014 Montana taxable income from Form 2, line 45. If your amount is less than zero, enter this amount as a negative amount	13			13
14	If line 13 is zero or more, enter the amount from line 12 here and on Form 2, Schedule I, line 3. **This is your taxable federal income tax refund.** If line 13 is less than zero (a negative amount), add lines 12 and 13. • 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.**	14			14

Worksheet III – Qualified Capital Gain Exclusion

If you sold a capital asset before January 1,1987, and are using the installment sale method to report the capital gain, you may be eligible for a 40% capital gain exclusion. If the amount on line 16 of federal Schedule D is a loss, you are not allowed a capital gains exclusion. If the amount on line 16 of Schedule D is a gain, complete Worksheet III to determine the amount of your capital gain exclusion. See the instructions on page 22 for more information.

If your net losses exceed your net gains, do not complete this worksheet. You do not qualify for this exclusion.

		Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Enter the amount from your federal Form 6252, Installment Sale Income, line 26, for the pre-1987 installment sale that you transferred to your federal Schedule D, line 11 or 12.	1			1
2	Enter your total short-term and long-term capital gains reported on federal Schedule D. (Do not include capital losses.)	2			2
3	Divide line 1 by line 2 and enter the percentage here as a decimal	3			3
4	Enter the amount from federal Schedule D, line 16, but not less than zero	4			4
5	Multiply the amount on line 4 by the percentage (%) on line 3	5			5
6	Multiply the amount on line 5 by 40% (0.40). Enter the result here and on Form 2, Schedule II, line 29. **This is your Montana capital gain exclusion.**	6			6

Worksheet IV – Partial Pension and Annuity Income Exemption

If your federal adjusted gross income from Form 2, line 38 is $35,180 ($37,170 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 $3,980 of your reported taxable pension and annuity income (Form 2, line 16b) or IRA distributions not considered premature for federal income tax purposes (Form 2, line 15b). Complete Worksheet IV to determine the exemption amount. See the instructions on page 18 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 2, line 15b before reporting amounts on this worksheet.

If you receive Tier II Railroad Retirement benefits, see the instructions for Form 2, Schedule II, line 24, on page 21.

		Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Enter your federal adjusted gross income from Form 2, line 38 here	1			1
2	Federal adjusted gross income limitation amount	2	$33,190	$33,190	2
	If line 1 is smaller than line 2, enter on Form 2, Schedule II, line 11 the smaller of your pension and annuity income, or $3,980 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			3
4	**Fill out only one of the following. If your filing status is:**				
4a	Single, head of household or joint and only one spouse has pension and annuity income. Enter the smaller of that spouse's taxable pension and annuity income or $3,980	4a			
4b	Married filing separately. Enter the smaller of each spouse's taxable pension and annuity income or $3,980 in columns A and B	4b			4b
4c	Joint and both spouses have pension and annuity income. Enter the smaller of each spouse's taxable pension and annuity income or $3,980 in the following space: Spouse 1 ► ____ Spouse 2 ► ____ Add together Spouse 1 and Spouse 2; enter the total in Column A, line 4c	4c			
5	Multiply the amount on line 3 by 2 and enter the result here	5			5
6	Pension and annuity exemption. Subtract line 5 from line 4a, 4b or 4c, 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 2, Schedule II, line 11. **This is your partial pension and annuity exemption.**	6			6

Worksheet V – Standard Deduction

	If you are filing your Montana individual income tax return Form 2 using filing status 3a, "married filing separately on the same form," each spouse will need to complete his or her own column of the standard deduction worksheet.	Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Enter your Montana adjusted gross income from Form 2, line 41 here	1			1
2	Multiply the amount on line 1 by 20% (0.20) and enter the result here	2			2
3	Enter the amount below that corresponds to your filing status	3			3
	If your filing status is single or separate (Form 2 filing status 1, 3a, 3b or 3c), enter $4,370. *This is your maximum standard deduction.* If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter $8,740. *This is your maximum standard deduction.*				
4	Enter the amount from line 2 or line 3, whichever is smaller	4			4
5	Enter the amount below that corresponds to your filing status	5			5
	If your filing status is single or separate (Form 2 filing status 1, 3a, 3b or 3c), enter $1,940. *This is your minimum standard deduction.* If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter $3,880. *This is your minimum standard deduction.*				
6	Enter here and on Form 2, line 42, the amount from line 4 or line 5, whichever is larger. **This is your standard deduction.**	6			6

Worksheet VI-QMIP – Qualified Mortgage Insurance Premiums Deduction

Caution - See instructions on page 25.

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 2015 for qualified mortgage insurance for a contract issued after December 31, 2006			1	
2	Enter your federal adjusted gross income from Form 2, line 38a	2			
3	Enter $100,000	3	$100,000		
4	Is the amount on line 2 more than the amount on line 3? No ► Your deduction is not limited. Enter the amount from line 1 above on Form 2, Schedule III, line 14. Yes ► 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. Enter the result here	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 2, Schedule III, line 14. **This is your qualified mortgage insurance premiums deduction.**			7	

Worksheet VI-IDL – Itemized Deduction Limitation

		Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	From Form 2, Schedule III, add lines 4 through 6, 7e through 20, and 26 through 29 and enter the result here	1			1
2	From Form 2, Schedule III, add lines 4, 5, 6, 7e, 15, 20 and 29 and enter the result here	2			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 on Form 2, line 42. You do not have to complete this worksheet	3			3
4	Multiply the amount on line 3 above by .80 (80%) and enter the result here	4			4
5	Enter your Montana adjusted gross income from Form 2, line 41 here	5			5
6	Enter here $309,900 if filing jointly, $284,050 if filing head of household, $258,250 if filing single or $154,950 if married filing separately	6			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 Form 2, line 42. You do not have to complete this worksheet	7			7
8	Multiply line 7 by 0.03 (3%) and enter the result here	8			8
9	Enter the smaller of the amounts on line 4 or line 8 here	9			9
10	Subtract line 9 from line 1. Enter the result here and on Form 2, Schedule III, line 30. **This is your total itemized deductions.**	10			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 or by making installment payments of estimated taxes or through 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 relates to you:

- Your tax liability (after withholding and estimated tax payments) is less than $500.
- You did not have a 2014 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 other unusual circumstance.
- You retired in either 2014 or 2015 after reaching the age of 62.
- You become disabled in either 2014 or 2015.
- You are a farmer or rancher and 66 2/3% of your 2015 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 2014 gross income. 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 2015 income tax liability (after applying your tax credits) or 100% of your 2014 income tax liability (after applying your tax 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; or
- Your taxable year on your federal return was 12 full months.

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 *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

If you are "married filing separately on the same form," enter the sum of columns A and B for each item.

1	Enter your 2015 combined total tax due reported on Form 2, line 54 here	1	
2	Multiply line 1 by 90% (0.90) and enter the result here	2	
3	Combine the amounts on Form 2, lines 55, 56 and 57, the portion of line 58 that includes amounts credited from prior year's tax refunds, and line 60. 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 2014 Form 2, line 54; 2014 Form 2M, line 47; or 2014 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 2015 Form 2, line 58. 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. **This is your total underpayment for 2015.**	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 18, 2016, enter zero. If you paid the amount on line 8 before April 18, multiply the amount on line 8 by the number of days you paid before April 18 and then by 0.0002192 and enter the amount here	10	
11	Subtract line 10 from line 9. Enter the result here and on Form 2, line 66. **This is your interest on the underpayment of estimated taxes.**	11	

Clear Form

Worksheet VIII – Taxable Social Security Benefits for Form 2

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 2, line 20b as taxable benefits, enter that amount as a Montana subtraction on Form 2, Schedule II, line 23.

						Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Enter the total amount from box 5 of all your federal Form SSA-1099s	1			1				
2	Multiply line 1 by 50% (0.50) and enter result here					2			2
3	Add the amounts on Form 2, lines 7, 8a, 9, 10 through 14, 15b, 16b, 17 through 19 and 21. Enter the result here.....					3			3
4	Add the amounts on Form 2, Schedule I, lines 1 through 4, and 6 through 16, along with tax-exempt interest that you reported on Form 2, line 8b, which is not included on Form 2, Schedule I, line 1 ...					4			4
5	Add lines 2, 3 and 4 and enter the result here.....					5			5
6	Add the amounts on Form 2, lines 24 through 33 plus any write-in adjustments on line 37 with the amounts on Form 2, Schedule II, lines 2 through 22, and 24 through 35. Enter the result here					6			6
7	Is the amount on line 6 less than the amount on line 5? No ► None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. Yes ► Subtract line 6 from line 5 and enter the result here					7			7
8	Enter the amount that corresponds to your filing status. If your filing status is: • married filing jointly, enter $32,000 in column A; • single or head of household, enter $25,000 in column A; • married filing separately, enter $16,000 in columns A and B					8			8
9	Is the amount on line 8 less than the amount on line 7? No ► None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. Yes ► Subtract line 8 from line 7 and enter the result here					9			9
10	Enter the amount that corresponds to your filing status. If your filing status is: • married filing jointly, enter $12,000 in column A; • single or head of household, enter $9,000 in column A; • married filing separately, enter $6,000 in columns A and B					10			10
11	Subtract line 10 from line 9 and enter the result here. If less than zero, enter zero					11			11
12	Enter here the smaller of line 9 or line 10.....					12			12
13	Multiply line 12 by 50% (0.50) and enter the result here					13			13
14	Enter here the smaller of line 2 or line 13.....					14			14
15	Multiply line 11 by 85% (0.85) and enter result here. If line 11 is zero, enter zero					15			15
16	Add lines 14 and 15; enter the result here.....					16			16
17	Multiply line 1 by 85% (0.85) and enter result here					17			17
18	Enter the smaller of line 16 or 17. **This is your Montana taxable social security benefits.**					18			18
19	Enter the federal taxable amount of social security benefits that you reported on Form 2, line 20b					19			19
20a	If line 19 equals line 18, the amount of the federal taxable social security benefits that you reported on Form 2, line 20b 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 2, Schedule I, line 5. **This is the additional amount of your social security benefits that is taxed by Montana.**.....					20b			20b
20c	If line 19 is greater than line 18, enter the difference here and as a Montana subtraction on Form 2, Schedule II, line 23. **This is the amount of your social security benefits that is taxed by the federal government but not by Montana.**					20c			20c

CLEAR FORM

Worksheet IX – Tax Benefit Rule for Recoveries of Itemized Deductions

If in the current tax year you recovered amounts from more than one year, such as a federal income tax refund from 2012 and a casualty loss reimbursement from 2013, complete a separate worksheet for each year. Use the information from Form 2 or 2M, Itemized Deductions, for the year the expense was deducted.

Example: You claimed a casualty loss as an itemized deduction on your 2012 Montana income tax return. In 2015 your insurance company reimbursed you for the casualty loss. In order for you to determine if any of this reimbursement is taxable in 2015, you will need to use your 2012 Montana income tax return and the 2012 standard deduction on page 2 of this worksheet.

Include a recovery in income only to the extent the deduction reduced your Montana tax liability in the year deducted.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter the total of your federal income tax refunds received in 2015 for which you took a deduction in a prior year. Do not include refundable federal credits or more than the amount of federal income tax deducted on Schedule III ....1.			1.
2. Enter the total of all other itemized deductions refunded or reimbursed to you in 2015 that are not included above and for which you took a deduction in a prior year ....2.			2.

Example: In 2012 you deducted medical expenses not covered by insurance. In 2015 your insurance company determined that it should have paid a portion of the denied expenses. The company sent you a check. This amount may be taxable because you claimed it as an expense you paid in 2012.

3. Add lines 1 and 2....3.			3.
4. Enter the total Montana allowable itemized deductions for the year that you claimed this deduction. If you took the standard deduction, stop here; your refund(s) is not taxable....4.			4.
5. Enter any federal income tax refund or other itemized deductions refunded to you prior to 2015. Do not enter any amount from line 1 or 2....5.			5.
6. Subtract line 5 from line 4....6.			6.
7. Montana adjusted gross income for the year you claimed the deduction ....7.			7.
8. Enter the standard deduction for the year you claimed this deduction. (The standard deduction amounts for 2014, 2013, 2012, 2011, 2010 and 2009 are shown in the tables found on page 2 of this worksheet.)....8.			8.
9. Subtract line 8 from line 6. If the result is zero or less, stop here; the amount on line 3 is not taxable....9.			9.
10. Enter the smaller of line 3 or line 9....10.			10.
11. Enter your Montana taxable income for the year you claimed the deduction....11.			11.
12. **This is your recovery amount. Include this amount in income for 2015.**....12.			12.

- If line 11 is zero or more, enter the amount from line 10.
- If line 11 is a negative amount, add lines 10 and 11 and enter the result, but not less than zero.
- If line 12 equals line 3:
  - Enter the amount from line 1 on Form 2, Schedule I, line 3.
  - Enter the amount from line 2 on Form 2, Schedule I, line 4.
- If line 12 is less than line 3, and either line 1 or line 2 is zero:
  - If there is an amount on line 1, enter the amount from line 12 on Form 2, Schedule I, line 3.
  - If there is an amount on line 2, enter the amount from line 12 on Form 2, Schedule I, line 4.
- If line 12 is less than line 3 and there are amounts on both lines 1 and 2, complete lines A, B and C below.

A. Divide the amount on line 1 by the amount on line 3. Enter the percentage here.....A.			A.
B. Multiply the amount on line 12 by the percentage on line A. Enter the result here and on Form 2, Schedule I, line 3....B.			B.
C. Subtract the amount on line B from the amount on line 12. Enter the result here and on Form 2, Schedule I, line 4....C.			C.

Worksheet IX - Tax Benefit Rule for Recoveries of Itemized Deductions, Page 2

Standard Deduction Rates

Multiply the amount on Worksheet IX, line 7 by 0.20 (20%). Enter this amount on Worksheet IX, line 8, but not more than the maximum amount, or less than the minimum amount reported below that corresponds with the tax year for which you are calculating your tax benefit rule recovery amount.

Tax Year	Filing Status	Montana Adjusted Gross Income	Minimum	Maximum
2014	Single or married filing separately	20%	$1,940	$4,370
	Married filing a joint return or head of household	20%	$3,880	$8,740
2013	Single or married filing separately	20%	$1,900	$4,270
	Married filing a joint return or head of household	20%	$3,800	$8,540
2012	Single or married filing separately	20%	$1,860	$4,200
	Married filing a joint return or head of household	20%	$3,720	$8,400
2011	Single or married filing separately	20%	$1,820	$4,110
	Married filing a joint return or head of household	20%	$3,640	$8,220
2010	Single or married filing separately	20%	$1,770	$3,990
	Married filing a joint return or head of household	20%	$3,540	$7,980
2009	Single or married filing separately	20%	$1,750	$3,950
	Married filing a joint return or head of household	20%	$3,500	$7,900