2011 Montana Form 2

Individual Income Tax Forms and Instructions (Includes Form 2EC)

MONTANA DEPARTMENT OF REVENUE

Montana Department of REVENUE

Toll Free (866) 859-2254
Helena (406) 444-6900

revenue.mt.gov

Go paperless. Go green.
File and pay electronically this year.
Check out the options at *revenue.mt.gov*.

Choose e-file and direct deposit for a faster refund!
Use this booklet to file electronically or on paper.

Filing deadline is April 17, 2012.

Dear Montana Taxpayers:

Thank you for filing your individual income tax returns—you do a great job! By working together, you help make Montana a great place to live, work and raise a family.

Your Montana Department of Revenue is committed to providing the best possible tax services to the citizens of our great state. That means providing you with helpful ways to file and pay your individual income taxes.

You can electronically file Form 2 for free through our website at *revenue.mt.gov*. Our Taxpayer Access Point (TAP) service provides you many options, including methods to file, pay and look up your own Montana tax account information online that are simple, secure and convenient. Other e-file options include using software that you purchase, using approved e-file software online, or visiting a tax professional who is an *Authorized IRS E-file Provider*. In addition, you'll find no-cost options for tax filing and tax assistance at *MontanaFreeFile.org* as well as *irs.gov*. You also can file traditionally with the paper form.

We strongly encourage you to use electronic options to file your return and to pay your tax due or receive your refund. Electronic options are simple, secure, and convenient.

As always, we promise to do the best that we can to provide you with the most accurate and timely assistance to help you file your tax returns. We work hard to ensure that all citizens and businesses pay their fair share of Montana taxes—no more and no less. Together, we're making our tax system work for all Montanans!

Best regards,

Dan Bucks, Director
Montana Department of Revenue

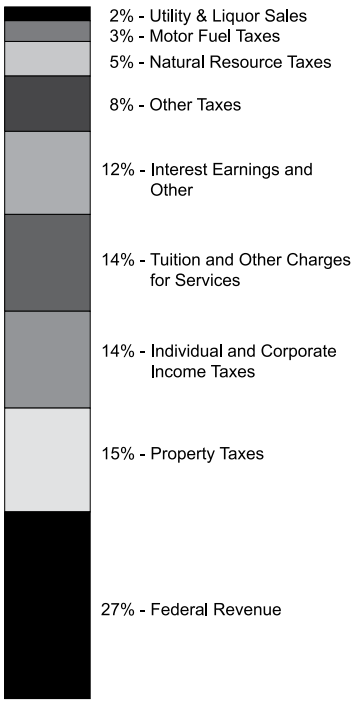
Your Tax Dollars at Work

The table to the right shows where your individual and corporate income tax dollars (about 14% of total state and local revenues) were spent in 2009. For the charts below, the left chart shows the sources of revenue for both state and local governments in Montana for 2008, the most recent year for which totals are compiled. The right chart shows state and local spending.

Where Your Income Tax Dollar Goes	
Education	50%
Health and Human Services	20%
Public Safety and Corrections	13%
Transfers to Local Governments	5%
General Government Operations	8%
Other	4%
Total Spending	100%

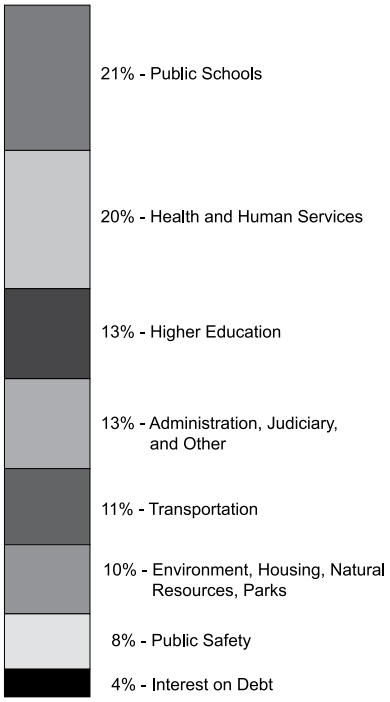
What are Montana's Public Revenues?

Total Montana State and Local Revenue, Fiscal Year Ending 2008



Where Do Your Public Dollars Go?

Total State and Local Spending in Montana, Fiscal Year Ending 2008



Go paperless. Go green.

There are more paperless options than ever before for you to file and pay your Montana taxes. And many of them are free. Whether you want to file on your own or through your favorite preparer, there are options to fit your needs.

File Electronically

- **E-file through *revenue.mt.gov* by using one of the following methods:**
  - **Taxpayer Access Point (TAP)—Free.** After you sign up, you can access your Montana tax information, file your tax return, pay your tax and much more. Taxpayer Access Point is only available if you have filed previously in Montana.
  - **MT Direct File—Free.** You can file your Montana individual income tax return without signing up for account access.
- **E-file through the cooperative federal/state program using one of the following methods:**
  - **Authorized Tax Preparers—May be a fee.** Your preparer can electronically file your federal and state tax returns at the same time.
  - **Retail or Online Software—May be a fee.** You can use retail or online software to prepare and file your returns on your own. Visit *revenue.mt.gov* for a list of Montana approved software vendors, or visit *irs.gov* for filing options.
- **Montana Free File—Free.** This organization helps individual filers with free filing options. Visit *montanafreefile.org* for details.

Did you know?

- Direct deposit is available when you e-file, and most filers get their refunds within 5-7 business days.
- More than 70% of Montana individual income taxpayers file their taxes electronically.

Pay Electronically

- **Taxpayer Access Point (TAP)—May be a fee.** After you sign up, you can access your Montana tax information, file your tax return, pay your tax and much more. Taxpayer Access Point is only available if you have filed previously in Montana. Credit card charges may apply.
- **Income Tax Express—May be a fee.** You can pay current and past Montana individual income taxes and estimated taxes. Credit card charges may apply.
- **Electronic Funds Withdrawal—Free.** You can choose this option when your preparer files your return through the cooperative federal/state program.

Electronic Options at a Glance	MT Direct File(1)	Taxpayer Access Point(1)	E-file with tax preparer or online/retail software	Direct deposit refunds	Pay electronically(3)
Filing Status - Individual Income Tax					
First-time filer	Yes	No	Yes	Yes	Yes
Full-year resident	Yes	Yes	Yes	Yes	Yes
Part-year resident	Yes	Yes(2)	Yes	Yes	Yes
Nonresident	Yes	Yes(2)	Yes	Yes	Yes
Form Type					
2EC - Elderly homeowner/renter credit	Yes	Yes	Yes	Yes	NA
2 - Individual long form	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
2M - Individual intermediate form	Yes	Yes	Yes	Yes	Yes
2EZ - Individual short form	Yes	Yes	Yes	Yes	Yes

(1) This is a free service exclusively for Montana returns.

(2) Taxpayer Access Point is only available if you have filed previously in Montana.

(3) Please visit *revenue.mt.gov* for more information on electronic payment options.

Steps to Completing Your Return

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What's New for 2011?

Montana Due Dates Now Impacted by Federal Actions

The due date for filing a Montana income tax return will now be extended if it falls on a holiday that causes the federal filing date to be extended. For example, your Montana tax return will be due April 17, 2012 (April 15 is a Sunday, and April 16 is Emancipation Day, a holiday observed in the District of Columbia so the federal due date is extended). This is also true for any applicable payment dates. Additionally, taxpayers in federally declared disaster areas may benefit from extended due dates or the waiver of penalties and interest.

Rate Changed for Withholding on Lottery Winnings

If you have lottery winnings in excess of $5,000, please note that the withholding rate has been reduced from 10% to 6.9%. This change was effective as of July 1, 2011.

Montana Energy Credits Not Affected by Federal Changes

The recent expansion of the federal tax credits for consumer energy efficiency expired on December 31, 2010. While Montana's energy-related tax credits are similar to the federal credits in many ways, they are not affected by the federal expiration. The types of investments that qualify for Montana and the amount of credit remain the same for 2011. Please visit our website at *revenue.mt.gov* for more information on qualifying for Montana's energy tax credits.

Improved Forms and Instructions

As a result of feedback we have received from taxpayers and tax practitioners, we updated the following forms and instructions for 2011:

- **Form 2EC** (Elderly Homeowner/Renter Credit) – We expanded the instructions for the Elderly Homeowner/Renter Credit to provide more information about how to calculate this refundable credit. In addition, we consolidated the instructions this year so that the information is not split between the Form 2EC and Form 2 instruction booklet. You will find all the necessary information with the Form 2EC at the back of this booklet.
- **Worksheet II** (Tax Benefit Rule for Federal Income Tax Refund) – We included additional information in the instructions so that you can more readily determine if you need to complete the worksheet. We also revised the worksheet to more clearly explain how to calculate your taxable federal income tax refund for Montana purposes.
- **Schedule IV** (Non Resident/Part-Year Resident Tax) – We revised this schedule to better reflect the Montana tax liability for nonresidents and part-year residents.
- **Third Party Designee** – In order to continue to protect your personal information, we added a section for a third party designee to the bottom of the form. It includes a box to check to allow you to designate your spouse, if applicable, and another person to talk to us about your tax return. Please see FAQ ❺ on page 39 for more information.

Getting Started

These simple steps will help you complete and file your Montana tax return.

- Complete your federal tax return.
- Determine if you are a Montana resident, nonresident, or part-year resident. See FAQ ❸ on page 38.
- If you are a nonresident, complete the tax return for your state of residency if required.
- Determine which Montana tax return form is right for you. See FAQ ❷ on page 38.
- Decide if you will file electronically or use a paper tax return. This booklet is designed to help you file by either method.
- If you file a paper return, remember to sign it.
- File your Montana tax return (include your payment, if taxes are due) by April 17, 2012. See FAQ ⓫ on page 40 for information about receiving an extension.
- When finished, please accept our thanks for a job well done!

Step 1. Personal Information

► **Are you ready?**
- Gather any updated personal information.
- Determine which filing status is best for you.

► **Did you…?**
- Use blue or black ink if you are filing on paper.
- Ensure that the correct social security number is entered and matches the number on your W-2(s).
- List your mailing address.
- Mark a filing status box.
- Mark the correct residency status.

This form is Montana's "long form," which has to be used by taxpayers who cannot file one of the shorter forms (2EZ or 2M). Residents, part-year residents, or nonresidents of Montana can file Montana Form 2. You can use Form 2 if: you are married filing separately with your spouse, you claim itemized deductions or the standard deduction, you claim a refundable or nonrefundable Montana tax credit, you made estimated tax payments, or you are applying your 2010 refund to your 2011 income tax liability.

Part-Year Resident and Nonresident

If you are a part-year resident or a nonresident, you will complete lines 7 through 48 as if you were a resident using the instructions for Montana Form 2. After you have completed your return through line 48, you will then

determine your "part-year resident or nonresident tax after capital gains tax credit" by completing Form 2, Schedule IV.

When you file your part-year resident or nonresident Form 2, you will have to include with your Montana tax return the following items:

- A copy of your federal tax return including all federal forms and schedules.
- W-2s issued for all wages reported on Form 2, line 7. This includes your W-2s for wages earned in Montana and for wages earned outside of Montana.
- Montana Form 2, Schedule IV.
- Other Montana schedules, as applicable.

Heading

Print your name, mailing address and social security number in the spaces provided. If you are married filing a joint return or married filing separately on the same form, enter your spouse's name and social security number. If your filing status is married filing separately on separate forms or married filing separately and your spouse is not filing a return, do not include your spouse's information in the heading. You will need to include your spouse's social security number when you select your filing status.

If either the primary taxpayer or the spouse died during the tax year, enter the date of death in the field next to his or her name. Please include a copy of the federal Form 1310 unless filing status 2 (married filing jointly) or 3a (married filing separately on the same form) is used on this return.

Filing Status – (Mark only one box)

Montana law does not require you to claim the same filing status that you claimed on your federal tax return. For example, if you are married and you filed your federal income tax return jointly, you and your spouse have the option to file your Montana tax return either jointly or separately. See the following explanation about the filing statuses available to you on your Montana tax return.

Box 1 – Single

You can claim this filing status if on December 31, 2011 you:

- were single,
- were legally separated according to your state law under a decree of divorce or separate maintenance, or
- were widowed before January 1, 2011 and you did not remarry in 2011.

If your filing status is single, report your income and deductions in column A only.

Box 2 – Married Filing Jointly

You can claim this filing status if:

- you were married as of December 31, 2011, even if you did not live with your spouse at the end of 2011; or
- your spouse died in 2011 and you did not remarry in 2011; or
- you were married as of December 31, 2011 and your spouse died in 2012 before filing a 2011 return.

You and your spouse can file a joint return even though one of you has no income or deductions, but please note that both spouses have to sign the return. If you filed your federal tax return jointly with your spouse, you are not required to file your Montana tax return jointly with your spouse. Generally, if you both have taxable income, you can benefit by filing your return separately using filing status 3a or 3b.

If your filing status is married filing jointly, report your combined income and deductions in column A.

Box 3a – Married Filing Separately on the Same Form

If both you and your spouse have income, you can file your Montana tax returns separately, even if you filed your federal income tax return jointly. But, if you and your spouse file separately, you will each need to report your own adjusted gross income. You cannot arbitrarily assign income between the two of you.

Your income from salaries, wages, bonuses, commissions and other income from providing personal services either as an employee or as an independent contractor should be reported by the spouse who earned it. Any other income that you earned from rents, royalties, dividends, etc., from property that is owned by only one spouse, has to be reported by that spouse. If any income is earned from property that is jointly owned by both spouses, that income should be split equally, unless you and your spouse can show a different proportional ownership. When you file separately, both spouses must either claim the standard deduction or itemize their deductions. You cannot file separately on the same form when one spouse is a resident and the other spouse is a nonresident. In this case, you should use either filing status 3b or 3c.

When you file separately on the same form, you should report your income and deductions for one spouse in column A and the other spouse in column B.

Important Although submitted on the same form, married taxpayers electing to file using this status are submitting two tax returns. If both taxpayers are entitled to refunds, two separate checks or direct deposits will be issued. In the event both spouses owe additional tax, penalties or interest, we will mail separate Statements of Account. However, if you are entitled to a refund and your spouse owes, and you file separate returns on the same form, we treat your election to file separately on the same form as your direction to us to apply your refund to the amount owed by your spouse. If you do not want your refund to be offset against any tax due from your spouse, you and your spouse must file on separate forms. If we discover a math or other computational error when processing the form, we will adjust it to correct the error and this may result in our applying one spouse's refund to the other spouse's increased tax. If you do not wish for this to occur, you will need to file your own separate return.

Box 3b – Married Filing Separately on Separate Forms

You and your spouse should use filing status 3b if both of you have Montana source income and one spouse is a resident of Montana and the other spouse is a nonresident. You should also use this filing status if you do not want your refund to be offset by any tax due from your spouse. When you select this filing status, you will have to include your spouse's social security number in the space provided on Montana Form 2. The rules for the assignment of income and expenses (as explained in Box 3a) also apply when you use filing status 3b.

When you file separately on separate forms, you should report your income and deductions in column A.

Box 3c – Married Filing Separately and Spouse Not Filing

You can use filing status 3c when:

- both you and your spouse are nonresidents and one spouse has no Montana source income,
- you are a resident and your spouse is a nonresident who has no Montana source income, or
- another taxpayer claims your spouse as a dependent.

When you select this filing status, you have to include your spouse's social security number in the space provided on Montana Form 2. Please note that when you use this filing status, you cannot claim your spouse as an exemption on your return.

When you file separate returns and your spouse does not file, you should report your income and deductions in column A.

Box 4 – Head of Household

You qualify to file as head of household on your Montana tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, include your federal Form 1040 or 1040A, pages 1 and 2, with your Montana tax return.

When you file as head of household, report your income and deductions in column A.

Boxes 5a through 5c – Residency Status

Mark the appropriate box that describes your residency status. To determine your residency status, refer to FAQ 3 on page 38. If you are married and one of you is a resident of Montana and the other is a nonresident of Montana, you cannot claim two residency statuses on the same return. You will have to file separate Montana tax returns and use filing status 3b or 3c described above.

Electronic Filers: Please be sure to save the tax information that you have entered.

Step 2. Exemptions (Lines 6a-6d)

► **Are you ready?**

- Get the social security number(s) of your dependent(s).

Line 6a – Yourself

Since you are allowed one exemption for yourself, we have placed an "X" in the first box on line 6a for you. Even if you are claimed as a dependent on another person's tax return, you are still entitled to your one personal exemption. You are also entitled to an additional exemption if you are age 65 or older at the end of the tax year, and an additional exemption if you are blind.

Line 6b – Spouse

If you are married and are filing jointly with your spouse, or if you file separately on the same form, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year, and an additional exemption if he or she is blind. You are not entitled to your spouse's exemption if you file separately on separate forms or if you file separately and your spouse does not file a Montana tax return.

Line 6c – Dependents

You can claim a dependent exemption for each person who qualifies as your dependent. Please complete the table for dependents located above line 6a on Form 2. List each dependent's first name, last name, social security number and his or her relationship to you. If you have more than four dependents, you will need to include a separate list of these additional dependents and then include these additional dependents in the total on line 6c, columns A or B.

A person who meets the following requirements is considered your dependent for Montana income tax purposes. Since some of Montana's dependency requirements are different from the federal dependency requirements, you will need to meet all of the following requirements in order to claim a dependent on your Montana tax return.

Your dependent is an individual:

- for whom you have provided more than half his or her support during the tax year, and
- who does not have gross income of more than $2,190,
  - unless the dependent is a "qualifying child" according to the federal rules, and
- who is not filing a joint tax return with his or her spouse during the same tax year.

In addition to the requirements mentioned previously, your dependent has to be:

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

Child	Mother	Aunt
Stepchild	Grandparent	Son-in-law
Grandchild	Stepfather	Daughter-in-law
Brother	Stepmother	Father-in-law
Sister	Nephew	Mother-in-law
Stepbrother	Niece	Brother-in-law
Stepsister	Uncle	Sister-in-law
Father		

or

- an individual who for the tax year has shared your home as his or her principal home, and has been considered a member of your household, or
- a cousin (or other descendant of your uncle or aunt) who is receiving institutional care as a result of a physical or mental disability, and was a member of your household before receiving the institutional care.

Note: When the terms nephew, niece, uncle or aunt are used, they mean a direct relative of yours. For example, you cannot claim your spouse's uncle (mother or father's brother) as a dependent, only your spouse can. Similarly, your spouse cannot claim his or her uncle's spouse.

A child who is under age 19 at the end of the year (or age 24 and a full-time student) and lived with you for more than half the year can be considered a dependent even if they have more income than is otherwise allowed.

Disabled Dependent Child Exemption

In addition to the dependent exemption, you are entitled to another exemption for a child who is disabled. If your child is disabled and you qualify for this additional exemption, place an "X" in the "disabled" column in the row that you list your disabled child, and add an additional exemption to your total on line 6c, columns A or B.

You are allowed this disabled child exemption if all of the following requirements are met:

- You provide more than half the disabled child's support.
- Your home is the disabled child's principal home.
- The disabled child has a permanent disability constituting a disability to 50% or more of the body as a whole. Deafness and blindness do not meet this requirement.
- A licensed physician has certified the child's disability.

If this is the first year that you are claiming the additional exemption for this child, you will need to include a physician's certification of this qualifying disability with your tax return.

This physician's certification filed with us during the first year of eligibility remains in effect in subsequent years, and we do not require you to file it again until the circumstances of your disabled child change.

Line 6d

Add lines 6a through 6c and enter the total on this line. If you are married filing separately on the same form, use columns A and B. If you are claiming dependent exemptions, you can allocate these exemptions to either spouse. If your child is disabled and you are claiming an additional exemption for this disabled child, the spouse claiming that dependent will also have to claim the additional exemption.

Step 3. Federal Income and Federal Adjusted Gross Income (Lines 7-38)

► **Are you ready?**

- Fill out your 2011 federal tax return.

► **Did you…?**

- Fill in lines 15a, 16a, and 20a if they apply.
- Include all of your federal income, even if you are a nonresident or part-year resident.
- Report your 1099 information in the correct column if your filing status is married filing separately on the same form.

Lines 7 through 38a

Your income on your Montana tax return begins with your federal adjusted gross income. On lines 7 through 38, enter the amount corresponding to your federal tax return Form 1040, 1040A, or 1040EZ. If you are married and have filed your federal tax return jointly with your spouse but are now filing a separate Montana tax return, please apply the following rules as you allocate the income and deductions between you and your spouse:

- If you are married and filing separately with your spouse on the same form or on separate forms, you should each report your own adjusted gross income. You cannot arbitrarily assign income from one spouse to another.
- Income from wages, salaries, bonuses, commissions and other income that is earned from providing personal services as an employee or as an independent contractor should be reported by the spouse who earned it.
- Income such as rents, royalties, dividends and interest should be reported by the spouse who owns the property from which the income was earned. If you and your spouse jointly hold the property, you should split the income equally between both spouses unless you and your spouse can show a different proportional ownership.
- Income from your or your spouse's ownership in a sole proprietorship (federal Schedules C or F), partnership, S corporation or trust should be reported by the spouse who is the owner.

If you were required to complete and include a federal schedule for any of the items on these lines, you should

also include those schedules when you submit your Montana tax return.

Detailed instructions for lines 7 through 38a are not provided for all lines. You will need to refer to your federal income tax instructions for detailed information about how to complete these lines. Selected lines have been identified in these instructions to provide additional information about specific Montana tax details.

Line 9 – Ordinary Dividends

Enter the total ordinary dividends that you reported on your federal Form 1040, line 9a or Form 1040A, line 9a. Montana taxes all dividends as ordinary dividends and does not have a specific qualified dividend tax rate.

Line 10 – Taxable Refunds, Credits or Offsets of State and Local Income Taxes

Enter the same amount that you reported on your federal tax return. You will need to include your state tax refund here and then report it as a subtraction from income on Form 2, Schedule II, line 6, to calculate your Montana adjusted gross income.

Line 12 – Business Income or (Loss)

Enter in the box labeled "NAICS," your North American Industry Classification System principal business or professional activity code. This code is located in Box B on your federal Schedule C or C-EZ. If you are reporting your income or loss from more than one Schedule C or C-EZ on line 12, enter the NAICS code for the business that recorded the greatest amount of gross income from sales. For further information, please visit *www.naics.com*.

Line 13 – Capital Gain or (Loss)

Enter the same amount of your capital gain or loss that you reported on your federal income tax return. For married taxpayers filing separate Montana tax returns, allocate the amount of gain or loss shown on the joint return between the spouses. The amount of capital gain or loss is reported by the spouse who owned the property that resulted in the gain or loss. If the property is jointly owned by both spouses, that gain or loss should be split equally, unless you and your spouse have a different proportional ownership.

Lines 15a and 15b – IRA Distribution

Enter the same amount of your IRA distribution that you reported on your federal tax return. If your Montana basis for your IRA is different from your federal basis, you should adjust your taxable amount on Form 2, Schedule I, line 16 or Form 2, Schedule II, line 34. A portion may be exempt from Montana tax. Complete Form 2, Worksheet IV, found on page 45 of this booklet, to determine if you are entitled to a partial exemption.

Lines 16a and 16b – Pensions and Annuities

Enter the same amount of your pension and annuity income that you reported on your federal tax return. However, a portion may be exempt from Montana tax. Complete Worksheet IV, found on page 45 of this booklet, to determine if you are entitled to a partial exemption.

Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts

Enter the same amount of your income or loss that you reported on your federal Schedule E. For married taxpayers filing separate Montana returns, the amount of gain or loss is reported by the spouse to whom it is attributable. If the gain or loss is not clearly attributable to one spouse, the amount is split equally.

Line 19 – Unemployment Compensation

Enter the same amount of the unemployment compensation that you reported on your federal tax return. Unemployment compensation is exempt from Montana tax. You should exclude this same amount by reporting it on Form 2, Schedule II, line 3.

Line 20b – Taxable Social Security Benefits

Enter the amount of the taxable social security benefits that you reported on your federal tax return. You will need to complete Form 2, Worksheet VIII, found on page 48 of this booklet, in order to determine your Montana taxable social security benefits. If your taxable benefits are higher or lower than your federal taxable benefits, you should either include or exclude the difference on Form 2, Schedule I, line 5, or Form 2, Schedule II, line 22.

Line 26 – Health Savings Account Deduction

Enter the same amount of federal health savings account contributions that you reported on your federal tax return. Be careful not to confuse this deduction with the Montana Medical Care Savings Account exemption that you might report on Form 2, Schedule II, line 18.

Line 33 – IRA Deduction

Enter the same IRA deduction that you reported on your federal tax return. You are not required to recompute the allowable deduction if you filed a joint federal tax return but are filing separate Montana tax returns.

Line 34 – Student Loan Interest Deduction

Enter the same amount of the student loan interest deduction that you reported on your federal tax return. You are allowed this deduction even if you filed a joint federal return but are filing separate Montana tax returns.

Line 35 – Tuition and Fees Deduction

Enter the same amount of tuition and fees deduction that you reported on your federal income tax return. If you claimed an education credit and did not take this deduction on your federal return, you cannot take this deduction on your state return.

Line 37

Add lines 24 through 36 and enter the result on this line. Include in your total any write-in adjustments that you made on your federal income tax return. Refer to your federal

instructions for a description of the allowable federal write-in adjustments.

Federal Write-Ins Checkbox

Mark this box if either spouse included federal write-in adjustments in the total on line 37.

Line 38a – Federal Adjusted Gross Income

If you are filing single (filing status 1), married filing jointly (filing status 2), or head of household (filing status 4), enter the amount from line 38 in line 38a. If you are using the same filing status on your federal tax return, this amount should correspond to the amount of the federal adjusted gross income that you reported on your federal tax return Form 1040, 1040A, or 1040EZ.

If you are filing married filing separately on separate forms (filing status 3b), or married filing separately and spouse is not filing (filing status 3c), enter the amount from line 38, column A on line 38a. Depending on what filing status you elected on your federal tax return, this amount may correspond to the amount of federal adjusted gross income that you reported on your federal tax return. In any circumstance, your federal adjusted gross income reported on your Montana tax return plus your spouse's federal adjusted gross income reported on a separate Montana tax return, or that is not reported, should correspond to the amount of your combined federal adjusted gross income that you reported for federal income tax purposes.

If you are filing married filing separately on the same form (filing status 3a), combine the amounts on line 38, columns A and B, and enter the result on line 38a. This combined amount should correspond to the amount of federal adjusted gross income that you reported on your federal tax return Form 1040, 1040A, or 1040EZ.

Step 4. Montana Adjusted Gross Income and Taxable Income (Lines 39-45)

► **Are you ready?**

- Fill out Schedule I if you have Montana additions.
- Fill out Schedule II if you have Montana subtractions.
- Fill out Schedule III if you will be itemizing your deductions.

► **Did you…?**

- Mark the correct box on line 42 to claim either the "standard deduction" or "itemized deductions".

Line 39 – Montana Additions to Federal Adjusted Gross Income

You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule I, to determine the amount of additions to enter on this line. Refer to page 14 for a detailed explanation of these additions.

Line 40 – Montana Subtractions from Federal Adjusted Gross Income

You may be eligible to subtract items of income from your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule II to determine the amount of your subtractions that you need to enter on this line. Refer to page 16 for a detailed explanation of these subtractions.

Line 41 – Montana Adjusted Gross Income

Add lines 38 and 39, then subtract line 40; enter the result on this line. This is your Montana adjusted gross income.

Caution: Do not include in your calculation the amount that you reported on line 38a.

Line 42 – Standard or Itemized Deductions

In most cases, your state income tax will be less if you take the larger of either your itemized deductions or the standard deduction.

When you claim your standard deduction or itemized deductions, remember to mark the box on line 42 that identifies which method you are using. If you do not mark the appropriate box, this will delay the processing of your return.

When you and your spouse file separately on the same form or on separate forms, you will both have to use the standard deduction or itemize your deductions. You cannot use two different methods.

- **Standard Deduction**

  To calculate your standard deduction, complete Form 2, Worksheet V on page 46.

- **Itemized Deductions**

  To figure your itemized deductions, complete Form 2, Schedule III. You can find the instructions for Form 2, Schedule III on page 22 of this instruction booklet.

Line 44 – Exemption

You are entitled to at least one exemption (your own). Multiply $2,190 times the number of exemptions that you have claimed on Form 2, line 6d and enter the result on this line.

Line 45 – Taxable Income

To compute your taxable income, subtract line 44 from line 43 and enter the result on this line.

Electronic Filers: Please be sure to save the tax information that you have entered.

Step 5. Tax, Nonrefundable Credits and Recapture (Lines 46-54)

► **Are you ready?**

- Fill out Schedule IV if you are a nonresident or part-year resident.
- Fill out Schedule V if you are entitled to any nonrefundable credits.

Line 46

Compute your tax using the following tax table. The tax table is also on Form 2, page 4.

2011 Montana Individual Income Tax Table				
If Your Taxable Income Is More Than	But Not More Than	Multiply Your Taxable Income By	And Subtract	This Is Your Tax
$0	$2,700	1% (0.010)	$0	
$2,700	$4,700	2% (0.020)	$27	
$4,700	$7,200	3% (0.030)	$74	
$7,200	$9,700	4% (0.040)	$146	
$9,700	$12,500	5% (0.050)	$243	
$12,500	$16,000	6% (0.060)	$368	
More Than $16,000		6.9% (0.069)	$512	

Line 47 – Capital Gains Tax Credit

You can claim a capital gains tax credit against your Montana income tax of up to 2% of your net capital gains. Your net capital gains is the amount you reported on Form 2, line 13 less any amounts reported on Schedule II, line 25, line 28 or any capital gains included in the amount on line 34. This credit is nonrefundable--it is applied directly against your income tax liability and it cannot reduce this liability below zero. This credit is applied before any other credits and cannot be carried back or carried forward.

If you are a nonresident or a part-year resident, you must apply this credit to your Montana income tax that you computed on line 46 as though you were a resident.

If you are married and you and your spouse are filing separately on the same form or on separate forms, you each will need to calculate your capital gains tax credit.

Line 48 – Resident Tax After Capital Gains Tax Credit

Complete line 48 if you are a resident, nonresident or a part-year resident.

If you are a resident, this is your resident tax after capital gains tax credit. Skip line 48a and go to line 49.

If you are a nonresident or a part-year resident, go to line 48a.

Line 48a – Nonresident, Part-Year Resident Tax After Capital Gains Tax Credit

If you are a nonresident or a part-year resident, you will need to go to Form 2, Schedule IV, to calculate your nonresident, part-year resident tax after capital gains credit. Enter the result of this calculation on this line. See the instructions for Form 2, Schedule IV on page 27.

Line 49 – Tax on Lump-Sum Distributions

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. Include a copy of federal Form 4972.

Line 50 – Total Tax

If you are a resident, add lines 48 and 49; enter the result on this line. If you are a nonresident or part-year resident, add lines 48a and 49; enter the result here.

Line 51 – Total Nonrefundable Credits

Enter the amount from Schedule V, line 23, but do not enter an amount larger than the amount on line 50. This is your total nonrefundable credits.

Line 52 – Recapture Taxes

Some statutes that allow deductions and tax credits have provisions requiring a recapture of the tax benefit you received in an earlier tax year (if you do not meet certain requirements in subsequent tax years). If you are required to report a recapture, report the appropriate two-letter code and amount on this line. The four possible recapture taxes are the following:

- **BD – Biodiesel/Biolubricant Production Facility, Biodiesel Blending and Storage, and Oilseed Crushing Credit Recapture Tax**

  If you previously claimed any of the tax credits for biodiesel or biolubricant production, biodiesel blending and storage, or oilseed crushing, and have ceased operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. On this line, enter the amount of your biodiesel/biolubricant production facility, biodiesel blending and storage, or oilseed crushing credit recapture tax, and enter the code 'BD' in the space indicated.

- **EC – Endowment Credit Recapture Tax**

  If you previously claimed an endowment credit for a gift that you contributed to a qualified endowment and you now have received the gift back, you are required to recapture that previous credit to the extent it reduced your income tax liability in a previous year and to include in your income any amounts that were previously deducted as an itemized deduction.

On this line, enter the amount of your endowment credit recapture tax and enter the code 'EC' in the space indicated. If, in addition to your recapture tax, part of the amount that is recaptured was claimed as a charitable contribution in a prior year, you will have to include in your income on Form 2, Schedule I, line 4 any recoveries of this prior year deduction that reduced your tax liability in the year of that deduction. Complete Worksheet IX to determine if you will have to recapture any amount of your prior year deduction. You can download Worksheet IX from our website at *revenue.mt.gov* or call us toll free at (866) 859-2254 (in Helena, 444-6900).

- **FE – Family Education Savings Account Recapture Tax**

  If you have a recapturable withdrawal from your family education savings account, you will have to pay a 6.9% recapture tax on this withdrawal instead of including this withdrawal in your Montana adjusted gross income.

  A recapturable withdrawal is a withdrawal that is not used to pay for qualified higher education expenses or for a withdrawal from your family education savings account within three years from the date you opened the account.

  Multiply your recapturable withdrawal by 6.9%, enter the result on this line, and enter the code 'FE' in the space indicated. This is your family education savings account recapture tax.

- **RP – Rural Physician's Credit Recapture Tax**

  If you previously claimed the rural physician's tax credit and have subsequently ended your practice in this rural area, within four years following the year that you claimed the credit, you are required to pay back your previous credit(s) claimed.

  For example, if you claimed four consecutive $5,000 rural physician's credits for a total of $20,000 in years 2005, 2006, 2007 and 2008, and then in 2011 you ended your practice in the rural area that qualified you for that credit, you are required to pay back $10,000 of your previous credits that you claimed in 2007 and 2008. You are entitled to the 2005 and 2006 credits since you maintained your practice in the rural area for at least four additional years after becoming eligible for this credit.

  On this line, enter the amount of your rural physician's credit recapture tax and enter the code 'RP' in the space indicated.

If you are married filing separately on the same form and each spouse has a recapture, enter the amount and code in the appropriate column. If you are reporting more than one recapture in one column, enter the total recapture amount for both and the code for the higher recapture.

Electronic Filers: Please be sure to save the tax information that you have entered.

Step 6. Payments and Refundable Credits (Lines 55-65)

► **Are you ready? You will need–**

- Information about payments you made for this tax year.
- Form(s) W-2 and/or 1099 if they show any tax withheld.
- Montana Schedule(s) K-1 and/or Form(s) PT-WH if they show any tax withheld.
- Schedule V filled out if you are entitled to any refundable credits.

► **Did you…?**

- Include any mineral royalty tax withheld on line 56 instead of line 55.

Line 55 – Montana Income Tax Withheld

Enter the amount of the Montana income tax withheld from your compensation and reported in Box 17 of your federal Form W-2, or in Box 12 of your federal Form 1099-R. When you claim Montana income tax withheld, you are required to include a copy of your withholding statement(s) (federal Forms W-2 or 1099-R) with your return.

Income tax withheld as a result of an ownership interest in a pass-through entity or mineral royalty payments received cannot be reported on this line.

Line 56 – Montana Mineral Royalty Tax Withheld

Enter the amount of the Montana mineral royalty tax withheld from royalty payments received during the year. This is generally reported on federal Form 1099. Royalty payments made to owners of Montana mineral rights are subject to state tax withholding if certain thresholds are met. This amount should not be confused with the production taxes that are also subtracted from your royalty payments. If the mineral rights are held by a partnership, S corporation, estate or trust in which you have an ownership interest or from which you receive a distribution, enter the amount reported to you as your share of the withholding. Include a schedule detailing the calculation of your portion of the withholding and any supporting documents such as the Montana Schedule K-1 (issued to you by the entity) or a copy of the Form 1099 issued to the partnership, S corporation, estate or trust. For more information, please visit "Mineral Royalty Withholding" at *revenue.mt.gov*.

Line 57 – Montana Pass-Through Entity Withholding

If you had an ownership interest in an S corporation, partnership or disregarded entity that had Montana source income and withheld Montana income tax, enter the amount here. This amount is reported to you on the Montana Schedule K-1 or Form PT-WH issued by the entity and should not be confused with any Montana

mineral royalty tax withheld passed through to you by the S corporation, partnership or disregarded entity.

Line 58 – Estimated Tax Payments

If you have made estimated income tax payments for tax year 2011, enter the amount of these estimated tax payments. Include in this amount the 2010 refund that you requested us to apply to your 2011 estimated income tax payments. Do not include in this total any income taxes paid for a previous year since these are not estimated taxes paid for tax year 2011.

Important If you are married filing separately on the same form and have made estimated payments, you might consider allocating the payments claimed by each spouse so that one spouse does not owe tax and the other is due a refund. You may wish to contact the department before filing your return to verify that estimated payments are applied to the intended spouse. Only estimated payments can be allocated. Withholding must be reported by the spouse whose name appears on the federal Form(s) W-2 or 1099.

Line 59 – Extension Payment

If you paid an extension payment on or before April 17, 2012 in order to qualify for an automatic six-month extension to file your income tax return, enter that amount on this line. To determine whether you need to make an extension payment, complete the Extension Payment Worksheet, Montana Form EXT-11.

Line 60 – Refundable Credits

Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

You may be eligible for one or more of the five refundable credits that are available on Montana tax forms. Complete Form 2, Schedule V, lines 24 through 29 to determine the amount of the refundable credits to enter on this line. Refer to the section of instructions on Montana tax credits found on page 30 for a detailed explanation of these refundable credits.

Amended Return

Use lines 61 and 62 only when filing an amended tax return. If you are filing an original tax return, proceed to line 63.

Line 61 – Payments with Original Return

Enter any payments made when you filed your original return and any subsequent payments that were applied to your 2011 tax liability.

Line 62 – Previously Issued Refunds

Enter any refunds previously issued to you. This includes refunds that may have been applied to another debt such as a prior tax year or child support debt. Do not include the overpayment amount you requested to be applied to your 2012 estimated tax payments.

Line 63 – Total Payments and Refundable Credits

Add lines 55 through 61, and then subtract line 62. Enter the result here. This is your total payments and refundable credits.

Line 64 – Tax Due

If line 54 is greater than line 63, subtract line 63 from line 54. This is your tax due.

Line 65 – Tax Overpaid

If line 63 is greater than line 54, subtract line 54 from line 63. This is your tax overpaid.

Important For married taxpayers filing separately, when both taxpayers have an overpayment, the amount of each overpayment will be reported to the Internal Revenue Service. When one spouse owes and the other has an overpayment, the amount reported to the Internal Revenue Service will be the gross overpayment amount for the spouse with the overpayment before netting the two columns. For example, if spouse A has an overpayment of $600 and spouse B owes $200, the amount reported for spouse A on federal Form 1099-G will be $600 even though the net refund check issued is $400.

Many taxpayers will not find this result acceptable because it may affect their federal taxable income for the following year. Please see the instructions for line 58 for suggestions about reallocating estimated payments.

Electronic Filers: Please be sure to save the tax information that you have entered.

Step 7. Penalties, Interest and Contributions (Lines 66-70)

► **Are you ready? You will need–**

- Information about payments you made for this tax year.

► **Did you…?**

- Check the instructions about extensions to see if you owe a late file penalty.

Line 66 – Interest on Underpayment of Estimated Taxes

You are required to pay your income tax liability throughout the year. You can make your payments through employer withholding, installment payments of estimated taxes, or a combination of both.

If you did not pay in advance at least 90% of your 2011 income tax liability (after applying your credits) or 100% of your 2010 income tax liability (after applying your credits), you may have to pay interest on the underpayment of your estimated tax.

You are not required to make estimated tax payments if at least 2/3 of your gross income is derived from farming

or ranching operations. Please mark the "2/3 farming gross income" box if this applies to you. Please mark the "estimated payments were made using the annualization method" box if you used the annualization method to make your estimated tax payments for 2011.

To calculate your interest, please complete either Worksheet VII on page 47 or Form EST-I, 2011 Underpayment of Estimated Tax by Individuals, Estates and Trusts. You can access this form by visiting our website at *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

Line 67 – Late File Penalty, Late Payment Penalty and Interest

Important If you and your spouse are filing on separate returns, penalties and interest are based on the amount that each spouse owes. In order to simplify calculations for Form 2, married taxpayers filing separately on the same form will compute penalties and interest on the combined tax due. If both spouses owe additional tax, penalties or interest, they will receive individual Statements of Account for the amount they owe. When one spouse owes tax but the other is overpaid, penalties and interest are based on the unpaid tax after applying the overpayment from the other spouse.

- **Late File Penalty**

  If you file your return after April 17, 2012—or October 15, 2012 with a valid extension—you will need to pay a late file penalty if there is tax due on line 64. The penalty is equal to the lesser of $50 or the amount of tax you owe. You do not have to pay a late file penalty if you are filing your return late and the return shows a refund.

  To calculate your late file penalty, compare the amount on line 64 to $50. Your late file penalty is the lesser of these amounts. If you and your spouse elect the filing status "married filing separately on the same form" and both of you owe tax and do not have a valid extension, the late file penalty will be assessed to both of you.

- **Late Payment Penalty**

  If you have not paid all of your income tax liability by April 17, 2012, you will need to pay a late payment penalty. Your late payment penalty is equal to 1.2% per month or part of a calendar month on the unpaid balance from April 17, 2012 until it is paid. For example, if you do not pay your tax due until May 10, 2012, your late payment penalty will be 2.4% (two parts of a month x 1.2%) of the unpaid tax. Please remember that an extension to file your return does not give you an extension to pay your tax.

  To calculate your late payment penalty, multiply the amount on line 64 by 1.2% per month or part of a calendar month that your payment is late. Your late payment penalty will never exceed 12% (10 months x 1.2%) of the unpaid tax.

- **Interest**

  If you have not paid 100% of your income tax liability by April 17, 2012, you will have to pay 8% annual interest, computed daily, on the amount you still owe. Remember, an extension of time to file your return does not extend the due date for paying your income tax. Interest accrues from the original due date of your return.

  To calculate your interest, multiply the amount on line 64 by 0.02192% (0.0002192) times the number of days after April 17, 2012 that your tax is paid.

If you owe more than one of the items listed above, enter each amount you owe onto the following worksheet.

Type	Amount
Late file penalty	
Late payment penalty	
Interest	
Total	

Enter the total on line 67. (You may wish to keep this information as part of your records for future reference.)

Line 68 – Other Penalties

Include on this line any of the following other penalties if they apply to your situation. You can get a copy of any of these forms by visiting our website at *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

- **First-Time Home Buyer Savings Account 10% Penalty**

  If you withdrew funds from your first-time home buyer savings account for purposes other than to pay for eligible costs for the purchase of a single-family residence, you are required to pay a 10% penalty on this withdrawal unless the withdrawal is on the last weekday in December. Complete the penalty calculation on Montana Form FTB, 2011 First-Time Home Buyers Savings Account. Enter the amount of the penalty on this line and include a copy of Form FTB with your tax return.

- **Medical Care Savings Account 10% Penalty**

  If you withdrew funds from your medical care savings account for purposes other than to pay for eligible medical costs, you are required to pay a 10% penalty on this withdrawal unless you made this withdrawal on the last weekday in December. Complete the penalty calculation on Montana Form MSA, 2011 Medical Care Savings Account. Enter the amount of the penalty on this line and include a copy of Form MSA with your tax 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 five years, they are considered distributed. You are required to pay a 10% penalty on the amount of tax due on this amount that is considered distributed. On

this line, enter the amount of your farm and ranch risk management account 10% penalty.

If you are required to pay more than one of the penalties listed above, enter on line 68 the sum of your other penalties.

Line 69 – Montana Voluntary Check-Off Contribution Programs

Montana law provides you with the opportunity to contribute, via your income tax return, to the following programs. You can contribute any amount to any of these four programs. Your contribution will increase the amount you owe or reduce the amount of your refund.

Line 69a – Nongame Wildlife Program

Your contributions to this program 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.

Line 69b – Child Abuse Prevention Program

Your contributions to this program fund services and activities related to the prevention of child abuse and neglect. In addition, 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 tax return you are filing with this contribution.

Line 69c – Agriculture in Montana Schools Program

Your contributions to this program 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 69d – Montana Military Family Relief Fund

Your contributions to this program help provide funding for grants that aid Montana families in defraying the costs of food, housing, utilities, medical services, and other expenses when a wage earner has been called to active military duty.

Line 70 – Total Penalties, Interest and Contributions

Add lines 66 through 69 and enter the result on this line. This is your total penalties, interest and check-off program contributions.

Electronic Filers: Please be sure to save the tax information that you have entered.

Step 8. Amount You Owe or Your Refund (Lines 71-74)

► **Are you ready?**

- Get your routing and account number for your checking or savings account if you will be receiving a refund and would like the money to be direct deposited.

► **Did you…?**

- Check your return to ensure you have no mathematical errors.
- Make sure that your refund or amount due is reported on the correct line.

Line 71 – Amount You Owe

If you have tax due (amount on line 64), add lines 64 and 70 OR, if you have a tax overpayment (amount on line 65) and it is less than line 70, subtract line 65 from line 70. Enter the result here.

Married taxpayers filing separately on the same form should determine the amount to report on this line as follows:

- If both taxpayers have tax due (line 64)
  - Add both spouses' tax due amounts to the total on line 70, and enter the result on this line.
- If one taxpayer has tax due (line 64) and the other has a tax overpayment (line 65)
  - Compare the two amounts and:
    - If the tax due is greater than the tax overpaid, subtract line 65 from line 64, add the result to the amount on line 70, and enter the total on this line.
    - If the tax overpaid is greater than the tax due, subtract line 64 from line 65 and compare the result to the amount on line 70. If the remaining overpayment is less than the amount on line 70, subtract the overpayment from line 70 and enter the result on this line. Otherwise, proceed to line 72.
- If both taxpayers have a tax overpayment (line 65)
  - Add both spouses' tax overpayment amounts and compare the total to line 70.
    - If the combined overpayment of tax is less than the amount on line 70, subtract the overpayment from line 70 and enter the result on this line.

- If the combined tax overpayment is greater than the amount on line 70, proceed to line 72.

You can pay the amount you owe by:

- Electronic funds withdrawal when e-filing your joint federal/state tax return.
- E-check or credit card—please visit our website at *revenue.mt.gov* for more information and instructions.
- Personal check, money order, or cashier's check—please use the voucher that we have provided with this income tax booklet. Make your check payable to the Montana Department of Revenue. Please sign your check, and write your social security number and "Tax Year 2011" on the memo line.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as possible. By filing and paying as much as you can by April 17, 2012, you may not have to pay a late file penalty and you can reduce the amount of your late payment penalty and interest. If you need to establish a payment plan, please call us toll free at (866) 859-2254 (in Helena, 444-6900) as soon as possible to discuss your payment options and make arrangements.

Line 72 – Your Overpayment

If you have a tax overpayment (amount on line 65) and it is greater than line 70, subtract line 70 from line 65 and enter the result on this line.

Married couples filing separately may have a combined overpayment. This results when either both spouses report a tax overpayment (line 65), or one spouse reports a tax overpayment (line 65) that is greater than the other spouse's tax due (line 64). If this is true for you, and the combined overpayment is greater than the amount on line 70, subtract line 70 from the combined overpayment and enter the result on this line.

Line 73

Enter the amount of your overpayment from line 72 that you want to be applied to your 2012 estimated taxes.

Line 74 – Your Refund

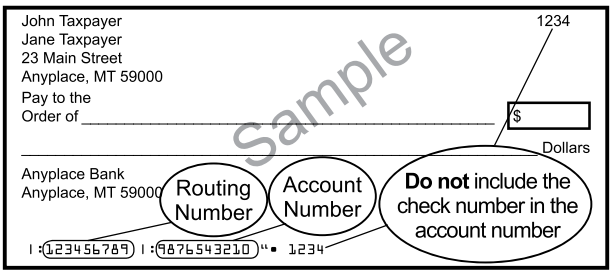
Subtract line 73 from line 72 and enter the result on this line. This is the amount of your refund. Only refunds more than $1.00 will be issued.

If you would like to use direct deposit, enter your financial institution's routing number (RTN#) and your account number (ACCT#) in the space provided. Your routing number will be nine digits and your account number can be up to 17 characters, including numbers and letters. Mark whether your account is a checking or savings account and if your refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa, US Virgin Islands, Federated States of Micronesia, and Guam).

If you and your spouse are due a refund, each of you will get a direct deposit.

If your financial institution does not accept the direct deposit, we will mail you a refund check. If you and your spouse are due a refund, both of you will get separate checks.

A sample of a personal check is provided for your convenience.



Step 9. Sign, Assemble and File Your Return

► **Did you…?**

- Get a confirmation that your Montana return was accepted, if you are filing electronically.
- Sign your tax return if you are filing on paper. Have your spouse sign the return if you are married filing a joint return or filing separately on the same form.
- Fill out the third party designee section if you want to allow someone else to discuss your return with us.
- Include all schedules that support information on your tax return. You do not need to include blank schedules or any worksheets.

Sign Your Return

Your tax return is considered incomplete unless you sign it. If you are filing a joint return, your spouse must also sign. Incomplete returns cannot be processed and require us to contact you for additional information. If you have someone prepare your return, you are still responsible for the correctness of the return. If you are filing a joint return as a surviving spouse, see FAQ 20 on page 42.

Electronic Return Signatures

If you are filing your return electronically, you are not required to actually sign your return. The act of filing your return electronically signifies your declaration, under the penalty of false swearing, that:

- You are the taxpayer identified in the return; and
- The information in the return is true, correct, and complete.

Your filing electronically, with this declaration, is your signature.

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your return. We may have questions

about items on your return and if you are able to answer our questions over the phone, we may be able to continue processing your return without mailing you a letter. If you are filing a joint return, you can enter either your or your spouse's daytime phone number.

Paid Preparer

Anyone you pay to prepare your return must sign it and include his or her Preparer Tax Identification Number (PTIN) in the space provided. Preparers should have a PTIN, but the preparer's Social Security Number (SSN) may be used when the paid preparer does not have a PTIN. The paid preparer must also include his or her firm's Federal Employer Identification Number (FEIN), if applicable. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return or include their PTIN or SSN.

Third Party Designee

If you want to allow your spouse, preparer, friend, family member, or any other person you choose to discuss your 2011 tax return with the department, mark the "Yes" box in the bottom of the signature block. You will also need to enter your designee's printed name and phone number. If you are married filing separately on the same form or filing a joint return, please review the following instructions carefully.

- If you and your spouse are filing separately on the same form, and the "Yes" box is marked, each of you is authorizing us to discuss the return with either spouse and the third party designee, if applicable, to answer any questions that arise while we are processing your 2011 tax return. You do not need to provide your spouse's name and phone number in the third party designee section if you are married filing separately on the same form.
- If you are filing a joint return, you are automatically authorizing us to discuss the joint return with either spouse, but you will still need to complete the third party designee section if you wish to allow another person, such as a tax preparer, to discuss your return with us.

If you do not complete the third party designee section according to these instructions, we cannot discuss your return with another person. By completing this section, you are authorizing the designee to:

- Give us any information that is missing from your return;
- Call us for information about the processing of your return or the status of your refund or payment(s); and
- Respond to notices from us about math errors, offsets and return preparation.

You are not authorizing the designee to discuss any other tax year, receive any refund check, bind you to anything or otherwise represent you before the Department. If you want to expand the designee's authorization, please view information about granting someone power of attorney at *revenue.mt.gov*.

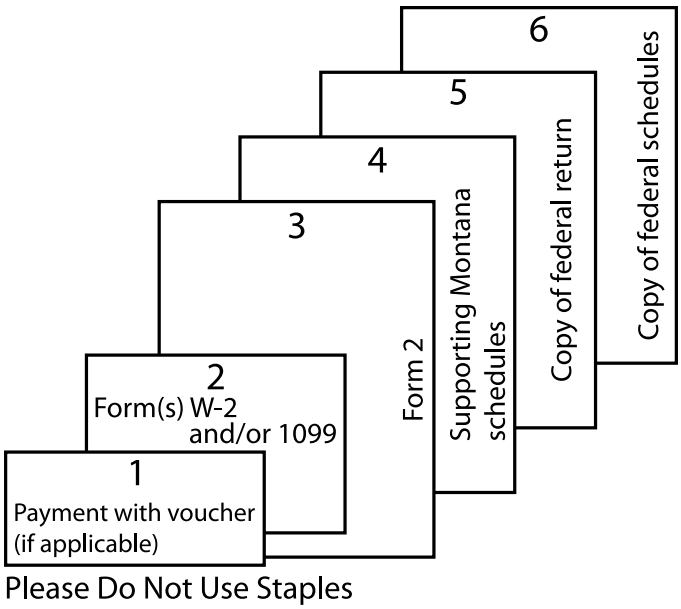
The authorization will automatically end no later than the due date (without regard to extensions) for filing your 2012 return. This is April 15, 2013 for most people.

For additional information, please see FAQ ❺ on page 39.

Assemble Your Return

Please include all Form(s) W-2 and 1099 you received with your return. If you forget to send your Form(s) W-2 or other withholding forms with your return, do not send them separately, or with another copy of your tax return. Wait until we request them from you.

If you are filing your return on paper, please assemble your return, without using staples, in the following order:



File Your Return

We encourage you to e-file your tax return. To see the e-filing options available to you, please see FAQ ❼ on page 39. If you have chosen to file your return on paper, you will need to mail your return to us.

If your tax return does not include a payment or shows you are due a refund, please mail your tax return to the following address:

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

If your tax return includes a payment, please mail your tax return and check to the following address:

Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308

Schedule I – Montana Additions to Federal Adjusted Gross Income

► **Are you ready? You will need–**

- Supporting documents for items on Schedule I that apply to you, such as:
  - Worksheet II if you received a federal tax refund in 2011 and you itemized deductions on your 2010 Montana tax return.
  - Worksheet VIII showing the amount of your social security benefits taxable to Montana.
  - Premiums paid to the Insure Montana small business health insurance program.

Line 1 – Interest and Mutual Fund Dividends from Other States' State, County, or Municipal Bonds

Enter the interest and mutual fund dividend income that you received from bonds and obligations of another state, territory, or political subdivision of another state (county, municipality, district, etc.).

Line 2 – Dividends Not Included in Federal Adjusted Gross Income

Enter the amount of any dividends that you received that are not already included in your federal adjusted gross income.

Line 3 – Taxable Federal Refund

If you received a 2010 federal income tax refund in 2011 and you claimed federal income taxes paid as an itemized deduction on your 2010 Montana tax return, you may need to report a portion or all of your federal refund as income on your 2011 Montana tax return.

To the extent that the federal tax deduction that you claimed on your 2010 Montana tax return reduced the amount of your 2010 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received them.

You will need to complete Worksheet II, Tax Benefit Rule for Federal Income Tax Refund, found on page 44 of this booklet to determine whether your federal income tax refund is taxable in 2011, unless one of the following scenarios applies to you:

- If you claimed the Montana standard deduction when you filed your 2010 Montana return (instead of itemized deductions) in 2011, none of your federal income tax refund is taxable and you do not need to complete Worksheet II.
- Your deduction for federal taxes paid in 2010 may have been limited on your Montana tax return to $5,000 ($10,000 if filing a joint return). Because of this limitation, your refund may or may not be taxable. A simple way to check this is to subtract the refund that you received in 2011 from the total federal income taxes paid in 2010 (Form 2, Schedule III, lines 7a through 7d or Form 2M, Schedule I, lines 7a through 7d).
  - If the result is more than $5,000 ($10,000 if you filed a joint return), none of the refund is taxable and you do not need to complete Worksheet II.
  - If the result is less than $5,000 ($10,000 if you filed a joint return), please complete Worksheet II to determine whether your federal income tax refund is taxable.

If you and your spouse filed your federal tax return jointly and are now filing your Montana tax return separately, you will each need to complete a separate tax benefit rule worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2010 federal income tax deduction to the total federal tax deducted.

Advance earned income tax credit payments were not part of the refund you received in 2011. Therefore, you should subtract the amount reported in Box 9 of your federal 2010 Form W-2 from the refundable credits you calculated for Worksheet II, line 3, and enter the result on Worksheet II, line 3.

Line 4 – Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income

If in 2011, you received a reimbursement of an amount that you previously deducted on your Montana tax return and this deduction originally reduced the amount of your Montana income tax liability in the year of the deduction, you may need to report as income a portion or all of the reimbursement that you received on your 2011 Montana tax return. For example, you may have recovered amounts from more than one year, such as a federal income tax refund from 2006 and a casualty loss reimbursement for a loss claimed as a deduction in 2007.

To the extent that these deductions reduced your income tax liability in 2006 and 2007, you are required to include these reimbursements as income in 2011. If you have a reimbursement from a prior year deduction other than your 2010 federal income tax refund, please call us toll free at (866) 859-2254 (in Helena, 444-6900) to get Worksheet IX, Tax Benefit Rule for Recoveries of Itemized Deductions or you can download this worksheet from our website at *revenue.mt.gov*.

Line 5 – Addition to Federal Taxable Social Security

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Worksheet VIII, Taxable Social Security Benefits, found on page 48 of this booklet. Before you can complete your social security worksheet, you will need to complete your partial pension and annuity income exemption worksheet, Worksheet IV, found on page 45 of this booklet.

If, after you have completed your social security worksheet, you find that your social security benefits taxable to Montana are greater than those that you reported on Form 2, line 20b, enter that difference on this line. If your social security benefits taxable to Montana are less than those that you reported on line 20b, you should report that difference as a subtraction from federal adjusted gross income on your Schedule II, line 22.

Line 6 – Sole Proprietor's Allocation of Compensation to Spouse

If you are a sole proprietor reporting net income on your federal Schedules C or F, you have to report the full amount of your income in column A or B to determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. You need to base this allocation on an amount that is equivalent to the services that your spouse provides. It is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

Services that your spouse provided for operating your household or services that are incidental to your operations cannot be used as a basis for allocation of income to your spouse. When you claim this addition to income, you should be prepared to provide us with verification of those services performed and the substantial contribution made by your spouse.

Report on this line the amount of income allocated to your spouse and report the offsetting subtraction on Schedule II, line 26 in your column.

Line 7 – Medical Care Savings Account Nonqualified Withdrawals

Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for detailed instructions. You should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions for Form 2, line 68, page 10 and on Montana Form MSA for more information on the Montana medical care savings account 10% penalty.

Line 8 – First-Time Home Buyer Savings Account Nonqualified Withdrawals

Your nonqualified withdrawal from a Montana first-time home buyer savings account is a withdrawal that you made during the tax year for any purpose other than to pay for the eligible cost of purchasing your single family residence. You can refer to Montana Form FTB for further detailed instructions. You should report any nonqualified withdrawals from your Montana first-time home buyer savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions for Form 2, line 68, page 10, and on Montana Form FTB for more information on the Montana first-time home buyer savings account 10% penalty.

Line 9 – Farm and Ranch Risk Management Account Taxable Distributions

A distribution from your Montana farm and ranch risk management account is taxable in either of the following situations:

- The distribution is from a fund that was previously excluded from Montana adjusted gross income as a farm and ranch risk management account deposit; or
- The distribution was not distributed within five years from the date the original deposit was made.

You can refer to Montana Form FRM for detailed instructions. You should report your Montana farm and ranch risk management account taxable distributions as an addition to federal adjusted gross income on this line.

You may also be subject to a penalty on your farm and ranch management account distribution if it is not distributed within five years from the date of the original deposit. See the instructions for Form 2, line 68, page 10, for more information on the farm and ranch risk management account 10% penalty.

Line 10 – Addition for Dependent Care Assistance Credit Adjustment

If you have claimed business expenses for providing dependent care assistance on your federal Schedules C, E or F and now are claiming the Montana dependent care assistance credits on Form 2, Schedule V, line 15, you will have to add the amount of the dependent care assistance expenses used to calculate your Montana dependent care assistance credits on Montana Form DCAC as an addition to federal adjusted gross income on this line.

Line 11 – Addition for Smaller Federal Estate and Trust Taxable Distributions

Differences between Montana's laws and the federal laws may mean that the Montana taxable distribution that you received from an estate or trust is greater than your federal taxable distribution from the same estate or trust. If so, the difference is an addition to federal adjusted gross income and you should report it on this line.

Line 12 – Federal Net Operating Loss Carryover

The federal net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your Montana net operating loss carryover. On this line, you should enter the amount of your federal net operating loss carryover from line 21, and then compute your Montana net operating loss carryover using Montana Form NOL.

The Montana net operating loss carryover is reported on Schedule II, line 27.

Line 13 – Share of Federal Income Taxes Paid by Your S Corporation

If you are a shareholder in an S corporation that is required to pay a federal income tax on its income, you will have to add to your federal adjusted gross income that portion of your income that has been reduced by the federal income taxes paid by your S corporation. Refer to your federal Schedule K-1 to determine the amount of income that you are required to include as an addition to your federal adjusted gross income.

Line 14 – Title Plant Depreciation and Amortization

If you are taking a federal deduction for depreciation and amortization on a title plant, you have to add back to your federal adjusted gross income the amount of this depreciation and amortization when you determine your Montana adjusted gross income.

Line 15 – Premiums for Insure Montana Credit

If you were the owner of a business that received a tax credit from the Insure Montana small business health insurance program, you are not allowed a deduction for the premiums used to calculate the credit. Because the credit cannot exceed 50% of the premiums, multiply the amount of credit you are claiming by two and enter the result on this line.

Line 16 – Other Additions

Enter any other additions to federal adjusted gross income not described in lines 1 through 15. Some examples of other additions include:

- You may have a passive or rental loss carryover that is larger for federal purposes than for Montana purposes because of differences in state and federal filings in prior years. If this results in a larger passive or rental income reportable on your Montana tax return, enter the additional amount here.
- You may have a larger capital loss carryover for federal purposes than for Montana purposes for a similar reason. If this results in larger reportable capital gains, enter the additional amount. Please note that when computing your Montana adjusted gross income, you are allowed to carryover capital losses incurred prior to becoming a Montana resident.
- Compensation and expenditures used to compute the film production credit have to be included in taxable income in the year that the compensation and expenditures were incurred.

Schedule II – Montana Subtractions from Federal Adjusted Gross Income

► **Are you ready? You will need–**

- Supporting documents for items on Schedule II that apply to you, such as:
  - Information about any federal interest or dividends from bonds, notes or obligations.
  - Worksheet IV if you have taxable income from a pension or annuity on line 15b or 16b.
  - Information about income from tips.
  - Information about your Montana medical savings account if you used the account this year.
  - Worksheet VIII showing the amount of your social security benefits taxable to Montana.

Line 1 – Exempt Interest and Dividends from Federal Bonds, Notes, and Obligations

If you received interest on United States government obligations and mutual fund dividends attributable to that interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2. In addition, if you received interest on obligations from U.S. territory or government agency obligations that are specifically exempt by federal law or any mutual fund dividends attributable to this interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2.

Interest on obligations that are only guaranteed by the United States government is not tax exempt. If you received interest or mutual fund dividends attributable to Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds, or Federal Home Loan Mortgage Corporation (FHLMAC) securities, you cannot subtract this interest or mutual fund dividends.

United States obligations that are exempt include:

- Series E, EE, F, G and H savings bonds
- U.S. treasury bills
- U.S. government notes
- U.S. government certificates

Please refer to your federal Form 1099-DIV to determine what percentage of your dividends qualifies for this exemption.

Line 2 – Exempt Tribal Income

If you are an enrolled member who lives and works on the reservation governed by your tribe, you can subtract from your federal adjusted gross income all reservation source wages and income that you have earned. If your wages or other income was earned from both reservation sources

and nonreservation sources, you can exclude from your federal adjusted gross income only those wages or other income that you received while you lived and worked within the exterior boundaries of the reservation governed by your tribe. If you did not reside on your own reservation for the entire year, you can subtract only those wages or other income that you earned while you lived and worked on your own reservation.

If you reside outside the boundaries of the reservation governed by your tribe, or if you live on another reservation that is not governed by your tribe, there is no special exemption for income that you earn unless that income is derived directly from allotted or restricted lands that are held in trust by the United States.

If you are a tribal member whose federal gross income meets the filing requirements listed in FAQ ❶, you have to file a Montana individual income tax return even though your income may be exempt income. To exempt your income from Montana tax, you should complete your Montana Form 2 and include Montana Form IND, Tribal Member Certification.

Line 3 – Exempt Unemployment Compensation

If you have received unemployment benefits from Montana or from another state, these benefits are exempt from Montana tax. If you reported taxable unemployment benefits on your Form 2, line 19, enter the same amount of these benefits on this line.

Line 4 – Exempt Workers' Compensation Benefits

Benefits received under the workers' compensation laws are not taxed by Montana. If you reported taxable workers' compensation benefits in your federal adjusted gross income, enter the amount of these benefits on this line.

Line 5 – Exempt Capital Gains and Dividends from Small Business Investment Companies

If you have capital gains or dividend income from an investment in a small business investment company (SBIC) included in your federal adjusted gross income, you are allowed to exempt these capital gains or dividends in arriving at your Montana adjusted gross income. In order for you to exempt this income, the SBIC has to meet the following conditions:

- The SBIC has to be organized for the purpose of diversifying and strengthening employment opportunities of companies in Montana.
- Within one year of being licensed by the federal Small Business Administration, 75% of the SBIC's investments have to be in manufacturing or timber companies located in Montana.
- The SBIC's manufacturing and timber companies have at least 50% of their employees working in Montana.

Line 6 – State Income Tax Refunds

If you are required to include your state income tax refund in your federal adjusted gross income on Form 2, line 10, you can exclude this amount on this line. Montana income tax refunds and income tax refunds received from another state are not taxable to Montana.

Line 7 – Recoveries of Amounts Deducted in Earlier Years That Did Not Reduce Montana Income

If you are required to include in your federal adjusted gross income any amounts that you recovered from a previous federal income tax deduction and if this previous deduction did not reduce your Montana income tax liability in the year of that deduction, you can subtract the amount of this recovery from your Montana adjusted gross income.

Line 8 – Exempt Military Salary of Residents on Active Duty

If you are a Montana resident receiving military compensation that is included in your federal adjusted gross income, you can subtract your basic, special and incentive pay from your federal adjusted gross income that you receive from these activities:

- Serving on active duty as a member of the regular armed forces;
- Being a member of a reserve component of the armed forces or as a member of the National Guard serving on active duty in a "contingent operation" as it is defined in 10 USC 101; and
- Being a member of the National Guard and assigned to active service authorized by the President of the United States or the Secretary of 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.

If you receive wages under the combat zone exclusion that are not included in your Form W-2, Box 1, it will not be included in your federal adjusted gross income, so you should not subtract that pay again. However, if you are a commissioned officer who could not exclude all of your wages received under the combat zone exclusion because it exceeded the highest rate of enlisted pay for each part of the month you served in a combat zone or were hospitalized as a result of your service there, you may exclude the additional combat pay that was included in your federal adjusted gross income.

Military compensation that you have received from the following activities cannot be subtracted from your federal adjusted gross income:

- Salaries that you received for annual training and weekend duty;
- Salaries that you received for being a member of a reserve component of the armed forces that is not received under 10 USC 101;
- Salaries that you received for performing full-time National Guard duty under Title 32 of the United States Code (for example, Active Guard and Reserve, Active Duty for Operational Support, or Active Duty for Counter Drug that is not received under 10 USC 101); and

- Income you received from retirement, retainer, equivalent pay, or allowances.

If you claim this exemption, you will need to attach verification of your military status (such as your military orders) to your income tax return. Please contact the department or visit our website at *revenue.mt.gov* for more information.

Line 9 – Exempt Income of Nonresident Military Servicepersons

If you are a nonresident of Montana, living in Montana solely by reason of compliance with your military orders, you are not required to establish residency in Montana and your military compensation is not considered Montana source income and is not taxable to Montana. On this line, you should subtract the military compensation that you included in your federal adjusted gross income on Form 2, line 7.

If you have received any other income that is considered Montana source income (such as wages for civilian services performed in Montana or Montana business income), this income is taxable. You should complete a Montana tax return and report both your Montana source and non-Montana source income and then prorate your Montana tax liability on Form 2, Schedule IV.

If you are the nonresident spouse of a nonresident military serviceperson and are in Montana solely to be with your military spouse who is serving in compliance with military orders, you may be covered under the Military Spouse Residency Relief Act and your compensation for personal services in Montana may be taxable only by your home state. Please contact the department or visit our website at *revenue.mt.gov* for more information.

Line 10 – Exempt Life Insurance Premiums Reimbursement for National Guard and Reservist

If you are a Montana National Guard member or Reservist who is serving on active duty in a contingency operation and you were reimbursed by the U.S. Department of Defense for the life insurance premiums that you paid for benefits under the service members' group life insurance program, you do not have to add the Department of Defense reimbursement when you figure your Montana tax. To the extent this federal reimbursement is taxable to you for federal and Montana income tax purposes, it has already been included in your federal adjusted gross income.

An adjustment to your federal adjusted gross income is needed if you also received a premium reimbursement from the Montana Department of Military Affairs for additional life insurance premiums you paid (up to $17.50 a month). The Montana reimbursement is taxable income for federal income tax purposes but it is exempt for Montana income tax purposes, so you can deduct these reimbursements from your federal adjusted gross income in arriving at your Montana adjusted gross income.

Line 11 – Partial Pension and Annuity Income Exemption

If you have reported taxable retirement income on your Form 2, lines 15b and/or 16b, you may be entitled to a partial exemption of this income. Before you determine if any of this retirement income is excluded, you should first determine if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on Schedule II, line 23. Any remaining amount of pension and annuity income is then used to determine the partial pension and annuity income exemption.

Premature distributions and early withdrawals of your retirement income do not qualify for the retirement income exemption. Early distributions which required payment of the federal 5% or 10% additional tax do not qualify for this exemption. Also, if you have received a disability pension, which is identified as a distribution code 3 on your federal Form 1099-R, you should use Montana Form DS-1, 2011 Disability Income Exemption, to determine your deduction instead of the retirement income exemption.

If you received retirement income other than Tier II Railroad Retirement benefits or premature distributions and early withdrawals, you should complete Worksheet IV on page 45 to determine the amount of your exemption. Your retirement exemption is limited to the lesser of your taxable retirement income that you have received or $3,760, as long as your federal adjusted gross income is $31,370 or less and you are filing as a single taxpayer, filing jointly with your spouse and only one of you has taxable retirement income, or filing as head of household. If you are filing jointly with your spouse, both of you have retirement income, and your federal adjusted gross income is $31,370 or less, you both can exclude the lesser of your taxable retirement income that you receive personally, or $3,760 each for a maximum of $7,520.

If both you and your spouse received retirement income and you are filing your income tax return separately on the same form or on separate forms, the lesser of your retirement income or $3,760 applies separately to both spouses as long as your separately stated federal adjusted gross income is $31,370 or less.

When your federal adjusted gross income exceeds $31,370, your retirement exemption is reduced $2 for every $1 that your federal adjusted gross income is over $31,370. For example, if your federal adjusted gross income is $32,370, your retirement exemption is $1,760 ($3,760 – ($1,000 x $2) = $1,760). You are not entitled to this retirement income exemption if your federal adjusted gross income is greater than $33,250 ($3,760 – ($1,880 x $2) = $0) if you are filing single, married filing separately, or head of household. If you are married and filing jointly and both spouses have retirement income, then your retirement exemption is phased out when your federal adjusted gross income is greater than $35,130, because your maximum retirement exemption is $7,520 (($3,760 – ($1,880 x $2)) + ($3,760 – ($1,880 x $2)) = $0). You should complete

Worksheet IV on page 45 to determine your partial pension and annuity income exemption.

Line 12 – Partial Interest Exemption for Taxpayers 65 and Older

If you are single and are age 65 or older at the end of 2011, you can exempt up to $800 of the interest income that you reported in your Montana adjusted gross income.

If you are married and are filing a joint return with your spouse and at least one of you is age 65 or older at the end of 2011, you can exempt up to $1,600 of the interest income that you reported in your Montana adjusted gross income.

If you are married and filing your return separately and are age 65 or older at the end of 2011, you can exempt up to $800 of the interest income that you reported in your Montana adjusted gross income. Please note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

For the purpose of this exemption, when you determine the amount of your interest income, you should consider distributions commonly called dividends on deposits or share accounts as interest. Under no circumstances can you exempt more interest income than what you have reported in your Montana adjusted gross income.

Line 13 – Partial Retirement Disability Income Exclusion for Taxpayers Under Age 65

You can qualify for a partial retirement disability income exclusion of up to $5,200 if you are:

- under the age of 65
- retired as permanent and totally disabled, and
- not treating your disability income as a pension and annuity.

You are permanently and totally disabled if you are unable to engage in any substantial gainful activity, if you have been medically determined to be physically or mentally impaired, and if your condition is expected to last at least 12 months.

Your disability income is generally reported with a distribution code 3 on your federal Form 1099-R. If you qualify for this exclusion, you should complete Montana Form DS-1 in order to determine the amount of your exclusion. You should also include a copy of the completed Form DS-1 with your income tax return.

Line 14 – Exemption for Certain Taxed Tips and Gratuities

You can subtract from your federal adjusted gross income any tips and gratuities that you have received from customers while you worked in the food, beverage or lodging industry that you reported as part of your federal adjusted gross income. All other tips and gratuities that you received for providing services in other types of businesses—such as hair stylists, paper carriers and river guides—are not excluded from your federal adjusted gross income in arriving at your Montana adjusted gross income.

Line 15 – Exemption for Certain Income of Your Child Taxed to the Parents

If your federal adjusted gross income included unearned income of a dependent child as determined on federal Form 8814, you may be able to exclude the unearned income from your Montana adjusted gross income. You can exclude the unearned income from your adjusted gross income if your child's gross income does not exceed $4,010 or they file their own Montana tax return.

Line 16 – Exemption for Certain Health Insurance Premiums Taxed to Employee

If you are a shareholder in an S corporation, you can subtract from your federal adjusted gross income to arrive at your Montana adjusted gross income the cost of your health insurance premiums to the extent they are included in your federal adjusted gross income.

Line 17 – Exemption for Student Loan Repayments Taxed to a Health Care Professional

If you are a health care professional licensed in Montana, you can exclude from your federal adjusted gross income up to $5,000 of any health-related student educational loan repayments that are paid on your behalf when this repayment is included in your federal adjusted gross income. In order for you to qualify for this exclusion, you have to be a health care professional who:

- is licensed in Montana;
- participates in a federal, state or qualified private loan repayment program (these repayment programs are generally through the U.S. Department of Health and Human 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); and
- serves a significant portion of a designated geographic area, a special population, or a facility population in a federally designated health professional shortage area (HPSA), a medically underserved area (MUA), or a medically underserved population (MUP).

You can determine if you are serving in an area listed above by contacting your employer or the Montana Department of Public Health and Human Services Primary Care Office at (406) 444-3934. To learn more about primary and preventative health care and ways to improve the health status of underserved and vulnerable populations, visit the Montana Department of Public Health and Human Services Primary Care Office website at *dphhs.mt.gov/PHSD/Primary-Care/primary-care-index.shtml*, or the U.S. Department of Health and Human Services Bureau of Health Professions at *bhpr.hrsa.gov/shortage*.

Line 18 – Exempt Medical Care Savings Account (MSA) Deposits and Earnings

To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts that you deposited into a Montana medical

care savings account. Please don't confuse this Montana MSA with the federal health savings account (HSA) that is deductible on Form 2, line 26--you are allowed to participate in both programs. See your federal income tax instructions for information on your federal HSA.

Your Montana medical care savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to $3,000 of contributions plus interest or other earnings on these funds annually. If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana MSA and you each can exclude up to $3,000 plus interest or other earnings on this account annually. To qualify for this exclusion, you will need to establish a separate account that is owned by you alone and is not jointly held with your spouse or any other individuals. In addition, you cannot commingle other funds with this account. Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the payment of qualified medical expenses for you, your spouse or your qualified dependent. Any of these funds withdrawn for other purposes are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana medical care savings account, see Montana Form MSA. When you claim this exclusion, you will need to include a copy of Form MSA with your Montana tax return.

Line 19 – Exempt First-Time Home Buyer Savings Account Deposits and Earnings

To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts you deposited into a Montana first-time home buyer savings account. Your Montana first-time home buyer savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to $3,000 of contributions plus interest or other earnings on these funds annually.

If you are married filing jointly with your spouse or married filing separately with your spouse, both of you can qualify for your own Montana first-time home buyer savings account and you each can exclude up to $3,000 plus interest or other earnings on this principal annually. To qualify for this exclusion, you will need to establish a separate or joint account with another person, who also qualifies as a first time homebuyer, and contribute to your account(s) prior to purchasing your first-time home. If you file your income tax return separately with your spouse and if you have established a joint first-time home buyer savings account with your spouse, you cannot take this exclusion. Therefore, we recommend that you and your spouse establish separate first-time home buyer savings accounts instead of a jointly held account. These separate accounts will qualify both of you for the $3,000 annual exclusion whether you file jointly or separately with your spouse.

Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the down payment and allowable closing costs for purchasing your single-family residence in Montana. Examples of eligible expenses include down payment, closing costs, realtor's fees, appraisal costs, credit history report, points, pro-rated property taxes and loan origination fees. If you withdraw any of these funds for other purposes, they are subject to tax in the year that they are withdrawn and they may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana first-time home buyer savings account, see Montana Form FTB. When you claim this exclusion, you will need to include a copy of Form FTB with your Montana tax return.

Line 20 – Exempt Family Education Savings Account Deposits and Earnings

When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of the contributions that you made during 2011 to one or more Montana family education savings accounts or $3,000. If you are married, both you and your spouse are entitled to exclude up to $3,000 for contributions that you made to one or more Montana family education savings accounts. This exclusion is allowed only for contributions that you make to a Montana family education savings account that is owned by you or jointly with your spouse. As part of your exclusion, you may also be able to include amounts that you use to establish a Montana family education savings account (under the Montana Uniform Transfers to Minors Act or another state's uniform gifts to minors act) for your child or stepchild if your child or stepchild is a Montana resident. You cannot exclude contributions made to another state or private family education saving program.

Withdrawals of your contributions and earnings from a Montana family education savings account are not taxable to you if you withdraw them to pay for qualified higher educational expense defined under federal law. If you withdraw these contributions for purposes other than to pay for qualified higher educational expenses, they are subject to a recapture tax of 6.9%, which should be reported on Montana Form 2, line 52.

To establish your Montana family education savings account or for additional information, call the Montana Family Education Savings Program at (800) 888-2723 or visit their website at *montana.collegesavings.com*.

Line 21 – Exempt Farm and Ranch Risk Management Account Deposits

When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income any deposits you make into a farm and ranch risk management account equal to the lesser of 20% of the net income that is attributable to your agricultural business or $20,000. This account is designed to be used as a risk management tool for your individual or family farm

corporation's agricultural business. It is established as a Montana trust with your financial institution as the trustee.

Amounts that you contributed to your farm and ranch risk management account that were excluded from your Montana adjusted gross income in prior years are taxable to you and should be included in your Montana adjusted gross income when you distribute your funds. Amounts that you contributed to your farm and ranch risk management account that are not distributed before the last business day on the fifth year from the date that this contribution was deposited are considered distributed and are assessed a 10% penalty on the amount of tax resulting from the farm and ranch risk management account principal. For further instructions about the Montana farm and ranch risk management account, see Montana Form FRM. When you claim this exclusion, you will need to include a copy of Form FRM with your Montana tax return.

Line 22 – Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana Worksheet VIII, Taxable Social Security Benefits for Form 2, found on page 48.

If, after you have completed your social security worksheet, you find that your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, enter that difference as a subtraction from federal adjusted gross income on this line. If your social security benefits are greater than those that you reported on Form 2, line 20b, you should report that difference as an addition to federal adjusted gross income on your Form 2, Schedule I, line 5.

Line 23 – Subtraction for Federal Taxable Tier II Railroad Retirement Benefits

When you determine your Montana adjusted gross income, you can subtract your taxable Tier II Railroad Retirement benefits included on Form 2, line 16b from your federal adjusted gross income. Your taxable pension and annuity income may include your taxable portion of Tier II Railroad Retirement benefits that are paid by the Railroad Retirement Board. These benefits are 100% exempt from Montana income tax.

Line 24 – Passive Loss Adjustment

Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were required to recompute the amount of allowable passive loss. This may have resulted in a larger passive loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of passive loss allowed using the federal rules for a married couple filing a joint return. If you have a state passive loss carryover from tax year 2006 or earlier that you can now use under the federal rules, report the adjustment on this line.

Line 25 – Capital Loss Adjustment

Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were only allowed to claim a capital loss of $1,500. This may have resulted in a larger capital loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of capital loss allowed using the federal rules for a married couple filing a joint return. If you have a state capital loss carryover from tax year 2006 or earlier that was previously absorbed on your federal return, report the adjustment on this line. The total capital losses that can be claimed are still limited to $3,000, so a married couple cannot each claim $3,000.

Line 26 – Subtraction of Sole Proprietor for Allocation of Compensation to Spouse

If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report the full amount of your income in column A or B when you determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. You need to base this allocation on an amount that is equivalent to the services that your spouse provides. This amount is considered taxable income to your spouse. This allocation will reduce your taxable income as the sole proprietor of the business.

Services that your spouse provides for operating your household, or services that are incidental to your operations, cannot be used as a basis for allocating income to your spouse. When you claim this reduction to income, you should be prepared to provide us with verification of those services provided and the substantial contribution made by your spouse.

On this line, subtract from your federal adjusted gross income the amount of income allocated to your spouse that is reported by your spouse as an addition to federal adjusted gross income on Schedule I, line 6 in his or her column.

Line 27 – Montana Net Operating Loss Carryover

The Montana net operating loss (NOL) carryover may be different from the amount of your federal net operating loss carryover. On this line, you should enter the amount of the Montana net operating loss carryover from Montana Form NOL. For further instructions, and to calculate the net operating loss, see Montana Form NOL.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, use Montana Form NOL-Pre-99 to determine your carryover amount.

Line 28 – 40% Capital Gain Exclusion for Pre-1987 Installment Sales

If you have an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may

be allowed to exclude 40% of this capital gain from your federal adjusted gross income when you determine your Montana adjusted gross income. Complete Worksheet III, Qualified Capital Gain Exclusion, found on page 45, to determine your capital gain exclusion and then report the amount here.

Line 29 – Subtraction for Business-Related Expenses for Purchasing Recycled Material

You can subtract 10% of the expenses that your business paid for purchasing recycled products from your federal adjusted gross income. This deduction is allowed only to businesses within Montana. It applies to products purchased that contain recycled material at a level consistent with industry standards or consistent with the standards established by the federal Environmental Protection Agency. If this deduction is passed through to you from a partnership, the share of this additional deduction is based on the same percentage used to report the partnership's income or loss for Montana tax purposes; or if an S corporation, the pro rata share of the corporation's cost of investing in equipment.

Line 30 – Subtraction for Sales of Land to Beginning Farmers

You can subtract 100% of your income or capital gain (up to a maximum of $50,000) that you recognized from the sale to a beginning farmer of at least 80 acres or more of land at 9% or less interest on a long-term contract from your federal adjusted gross income. To qualify for this deduction, you need to apply to and be approved by the Agricultural Loan Authority of the Montana Department of Agriculture. You will need to include a copy of this approval with your individual income tax return. To learn more about the Montana Beginning Farm/Ranch Loan Program, you can call the agricultural finance program manager of the Montana Department of Agriculture at (406) 444-2402 or visit the website at *agr.mt.gov/business/bfrprog.asp*.

Line 31 – Subtraction for Larger Federal Estate and Trust Taxable Distribution

Differences between Montana law and federal law may mean that the Montana taxable distribution that you received from an estate or trust is less than your federal taxable distribution from the same estate or trust. If so, the difference is a subtraction from federal adjusted gross income, and you should report it on this line.

Line 32 – Subtraction for Wage Deduction Reduced by the Federal Targeted Jobs Credit

You can subtract all wages and salaries paid by your business that were reduced for federal income tax purposes because of the fact that you applied for the federal targeted jobs credit on your federal income tax return from your federal adjusted gross income. This additional deduction should be claimed in the tax year that you paid the wages, using the salaries that you used to calculate your federal targeted jobs credit.

If you are a shareholder in an S corporation, a partner in a partnership, or a member or manager of a limited liability company, this additional deduction is applied at the entity level to determine the entity's Montana income or loss. For Montana tax purposes, your share of this additional deduction applied at the entity level is based on the same proportion that you used to report the income or losses of your ownership in the entity.

Line 33 – Subtraction for Certain Gains Recognized by a Liquidating Corporation

You can subtract that portion of your gain from the liquidation of a reporting corporation to the extent that this gain is included in the gross income of the liquidating corporation's Montana corporate license tax return from your federal adjusted gross income.

Line 34 – Other Subtractions

Enter any other subtractions to federal adjusted gross income not described in lines 1 through 33. For example, if you were the owner of a mobile home park and you sold the park to a tenants' or mobile home park residents' association, a 501(c)(3) organization or a county or municipal housing authority, you may be able to exclude all or a portion of the gain you recognized. Complete Montana Form MHPE to determine the amount of the exclusion. Or, if you received a death benefit payment from the Montana Department of Military Affairs because you are the survivor of a member of the National Guard who died while on state active duty orders that is included in your federal adjusted gross income, that amount is exempt from state taxes in Montana. Enter the amount that was included in your federal adjusted gross income.

Schedule III – Montana Itemized Deductions

► **Are you ready? You will need–**

- Receipts and supporting documents for deductible expenses, such as:
  - medical expenses
  - federal income tax payments
  - property taxes
  - vehicle registration
  - mortgage interest and points
  - charitable contributions

You should use Form 2, Schedule III, to calculate your itemized deductions, but remember that your Montana itemized deductions may be different from your federal itemized deductions. There are federal deductions that are not allowed on your Montana tax return and state deductions that are allowed only on the Montana tax return.

If you are married and you are filing separately on the same form or on separate forms, you should apply the following rules:

- Both spouses should either claim the standard deduction or itemize their deductions. You are not allowed to claim one method for one spouse and another method for the other spouse.
- Deductions that are attributable to only one spouse have to be claimed by that spouse. This includes, for example, federal income tax withheld from your wages and your employee business expenses reported on federal Form 2106.
- Payments made from accounts owned by both spouses and that pertain to both spouses can be allocated to either spouse in any proportional amount.

Line 1 – Medical and Dental Expenses

Enter your medical expenses paid in 2011 after you have deducted from these expenses any payments that you received from your insurance company or other sources. These expenses are the same medical and dental expenses that are allowed under the Internal Revenue Code with the exception of the following expenses that are not deductible on line 1:

- Medical insurance and long-term care insurance premiums paid in 2011 that are claimed as a deduction on Form 2, Schedule III, lines 5 and 6;
- Health insurance premiums that are paid by your employer and are excluded from federal adjusted gross income in determining Montana adjusted gross income on Form 2, Schedule II, line 16; and
- Medical expenses paid with funds withdrawn from your Montana medical care savings account.

Lines 2 and 3

Your medical and dental expenses reported on Schedule III, line 1 should be reduced by 7.5% of your Montana adjusted gross income. Enter on line 2, the amount that you reported on Form 2, line 41. Multiply the amount on line 2 by 7.5% (0.075) and enter the result on Schedule III, line 3.

Line 4 – Deductible Medical and Dental Expenses

Subtract line 3 from line 1 and enter the result on this line, but do not enter an amount less than zero. This is your allowable deduction for medical and dental expenses.

Line 5 – Medical Insurance Premiums

If you pay your own medical insurance premiums for coverage for yourself and your family, you may be eligible to deduct 100% of these medical insurance premiums. In addition, the supplemental part of Medicare insurance (Medicare B) and the premiums you pay for Medicare Part D insurance from your social security benefits are 100% deductible on this line.

To qualify to deduct 100% of your medical insurance premiums, you have to meet the following criteria:

- Your premiums have to be paid for health and medical insurance coverage. Your life insurance premiums are not deductible.
- Your premiums cannot have been paid through a federal or state medical care savings account, such as the federal Health Savings Account or the Montana Medical Care Savings Account.
- Your premiums cannot have been paid through an employer health benefit cafeteria plan in which your premium payments are considered “pre-tax” payments and therefore not subject to federal or state income tax withholding, federal social security, or federal Medicare payments. If you are unsure whether your medical insurance premiums are covered by a health benefit cafeteria plan, you can check with your employer’s payroll office.
- Your premiums cannot be deducted as a self-employed health insurance deduction on your Form 2, line 30, or as a subtraction from federal adjusted gross income on your Form 2, Schedule II, line 16.
- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on this line.

Line 6 – Long-Term Care Insurance Premiums

You may be eligible to deduct 100% of the long-term care insurance premiums that you paid. You have to meet the following criteria:

- Your payments have to be for long-term care policies that provide coverage primarily for any qualified long-term care service that provides for the necessary diagnostic, preventive, therapeutic, curing, treating, mitigating and rehabilitative service and personal care that is required for a chronically ill individual who is under the prescribed care of a licensed health care practitioner.
- The long-term care policies have to be for the benefit of you, your dependents, your parents or your grandparents.
- Your premiums cannot have been deducted elsewhere on your tax return when you determined your Montana adjusted gross income.
- Your premiums cannot have been included as qualified elderly care expenses when you claimed the elderly care credit that you reported on Schedule V, line 7.

Lines 7a through 7e – Federal Income Tax

Montana allows federal income taxes paid during the year as an itemized deduction. This does not include any state income taxes you may have paid to Montana or any other state even if you were able to deduct them on your federal return. Additionally, this does not include any self-employment taxes you have paid during the year.

The amount you can claim may be limited based on your filing status. See the instructions for line 7e.

Complete lines 7a through 7e if you are claiming a deduction for federal income taxes paid in 2011.

Line 7a – Federal Income Tax Withheld

Enter the total amount of federal income tax withheld that was reported to you on your federal Form(s) W-2 and/or 1099. If you are married filing separately with your spouse, the federal income tax withheld should be reported by the spouse who earned the income. Do not include in this total the amount of the self-employment tax that you paid.

Line 7b – Federal Estimated Tax Payment Paid in 2011

Enter the total amount of the federal estimated income tax payments that you made in 2011. When you claim federal estimated tax payments, you should include a copy of your federal Form 1040 or 1040A, pages 1 and 2.

Line 7c – 2010 Federal Income Taxes Paid in 2011

Enter the balance of the total amount of the 2010 federal income tax that you paid in 2011.

Line 7d – Additional Back Year Federal Income Taxes Paid in 2011

Enter the total amount of additional back year federal income taxes that you paid in 2011. For example, you may have paid additional 2008 federal income taxes in 2011.

Line 7e – Federal Income Tax Deduction

Add lines 7a through 7d. If the result is less than $10,000 and you file your Montana return jointly with your spouse, or the result is less than $5,000 and you file your return using another filing status, enter the result.

If the result is more, your federal tax deduction is limited as follows:

- If your filing status is single, married filing separately or head of household, you should deduct the lesser of $5,000 or the sum of lines 7a through 7d. If you are married filing separately on the same form or on separate forms, you each are limited to the $5,000 federal tax deduction and you cannot arbitrarily allocate this deduction between spouses.
- If you file your Montana tax return jointly with your spouse, your federal income tax deduction is limited to the lesser of $10,000 or the sum of lines 7a through 7d.

Line 8 – General State and Local Sales Taxes Paid in 2011

Enter the amount you claimed on your federal Schedule A as a deduction for state and local sales taxes. If you were not required to file a federal return or claimed the standard deduction on your federal return and you saved your receipts throughout the year, you can add up the total amount of sales taxes you actually paid and claim that amount. If you didn't save your receipts, you can fill out the worksheet and use the optional general sales tax tables in the instructions for federal Schedule A (Form 1040) or use the Sales Tax Deduction Calculator available on the Internal Revenue Service's website at *apps.irs.gov/app/stdc*. If you claimed your state income taxes as an itemized deduction on your federal return, you cannot claim the deduction for sales taxes on your Montana return. Also, none of the resort, accommodations or similar taxes collected in Montana qualify as a general sales tax under the federal definitions, so they cannot be deducted.

Line 9 – Local Income Taxes Paid in 2011

Enter any local income taxes that you paid in 2011. No city in Montana imposes a local income tax so a Montana resident would be unlikely to take this deduction.

Line 10 – Real Estate Taxes Paid in 2011

Enter any real estate taxes that you paid in 2011 on real estate that you own and that was not used for business. If you apply for the elderly homeowner/renter credit, do not confuse this amount with the amount of your property tax billed that is used to determine the amount of your elderly homeowner/renter credit. See Montana Form 2EC for information on the Montana elderly homeowner/renter credit.

Line 11 – Personal Property Taxes Paid in 2011

Enter any personal property taxes that you paid in 2011. Only personal property taxes that are based on value and charged on a yearly basis are deductible, with one exception.

The exception is the Montana light vehicle registration fee which is deductible even though it is based not on the vehicle's value, but on the age of the vehicle. However, any light vehicle registration fee that you pay to another state is not deductible on your Montana tax return. The taxes and fees that are listed on your Montana vehicle registration receipt that are deductible on this line include light vehicle registration fee (LVREG) and any county option tax (COOPT) assessed by the county where the vehicle is registered.

Line 12 – Other Deductible Taxes

Enter any other deductible taxes that you paid in 2011 and that you did not report on lines 7a through 11. When you claim these other deductible taxes, list on this line the type and amount of tax that you paid.

Taxes you may be able to deduct include generation-skipping transfer taxes imposed on income distributions, environmental taxes imposed under section 59A of the Internal Revenue Code and taxes paid to a foreign country. Please note that you can only deduct foreign taxes on your Montana tax return if you elected to claim them as a deduction on your federal tax return.

You cannot take a deduction on your Montana individual income tax return for the following taxes that you paid in 2011: state income, federal excise, social security, Medicare, gasoline, lodging, alcoholic beverage, cigarette, tobacco, or selective sales taxes. Also, you cannot take a deduction for certain license fees paid in 2011—such as hunting, fishing or driver's license fees.

Line 13 – Home Mortgage Interest

Enter your home mortgage interest and points allowed by federal law that were reported to you on your federal Form 1098.

Line 14 – Home Mortgage Interest Not Reported on Federal Form 1098

Enter any home mortgage interest that you paid that was not reported on your federal Form 1098. If you bought your home from another person, write that person's name, social security number and address in the space provided.

Line 15 – Points Not Reported to You on Federal Form 1098

Enter any points that you paid that were not reported to you on federal Form 1098.

Line 16 – Qualified Mortgage Insurance Premiums

Individuals who entered into a contract issued after December 31, 2006 for qualified mortgage insurance are allowed to claim the premiums paid during the year as an itemized deduction. Qualified mortgage insurance means insurance provided by the Veterans Administration, the Federal Housing Administration, the Rural Housing Administration or private mortgage insurance. In order to be eligible, the loan must have been issued after 2006 for you to buy or build your primary residence and the loan must be secured by that residence. Insurance on a loan not used to build or buy a residence such as an equity loan used to consolidate debt is not eligible even if the loan is secured by your residence. Mortgage insurance premiums you paid or accrued after December 31, 2006, or that are properly allocable to any period after December 31, 2006 are deductible as home mortgage interest.

The deduction amount you can claim on your Montana tax return is the same amount you can claim on your federal tax return. If you did not itemize your deductions on your federal return, complete Worksheet VI, Qualified Mortgage Insurance Premiums Deduction, on page 46 to determine the amount you can deduct. Married taxpayers filing separately in Montana may allocate the total allowable amount between both spouses.

Line 17 – Investment Interest

Enter the investment interest deduction that you computed on your federal Form 4952. If you and your spouse are filing separately, you should compute your investment interest deduction on federal Form 4952 separately. You cannot use your interest expense that is related to exempt income when you compute your investment interest deduction.

Line 18 – Contributions Made by Cash or Check

The charitable contributions allowed as a deduction in computing your net income for Montana income tax purposes are those same contributions allowed as a deduction for federal income tax purposes—with the following exceptions:

- Your contributions made in 2011 to the Montana veterans' service special revenue account or the Montana state veterans' cemetery program, or the surcharge you paid for purchasing Montana patriotic specialty license plate may be included as itemized deductions on your Montana income tax return even if they are not allowed as itemized deductions on your federal return. For further instructions about this contribution, see Montana Form VT. This form is available at *revenue.mt.gov*.
- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contributions that are allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction. You can claim a charitable deduction for that portion of the contribution not used to calculate this credit.

Enter your contributions made by cash or check on this line.

Line 19 – Contributions Made Other Than by Cash or Check

Your non-cash charitable contributions allowed as a deduction for Montana income tax purposes are those same non-cash contributions that are allowed as a deduction for federal income tax purposes—with the following exceptions:

- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contribution that is allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.

Enter your non-cash contributions on this line.

Line 20 – Contribution Carryover from the Prior Year

Enter any contribution carryover amounts that you were not allowed to deduct in an earlier year because they exceeded your Montana adjusted gross income limitation.

Line 21 – Child and Dependent Care Expense

If you pay for household or dependent care services for a child under the age of 15, or for a disabled dependent while you are searching for gainful employment, or while you and your spouse both were at work, you can qualify for a child and dependent care expense deduction.

To qualify for this deduction, you have to maintain a household for a child under the age of 15 or for a dependent or spouse who is unable to care for himself or

herself. You also have to meet the following income level requirements.

You qualify if you and your spouse's total Montana adjusted gross income is:	
Under	And You Have
$22,800	1 child
$25,200	2 children
$27,600	3 or more children

If you are married and filing separately on the same form with your spouse, your deduction has to be divided equally between both spouses. If you are married and filing separately on separate forms, or your spouse is not filing, you cannot qualify for this deduction.

If you are a licensed and registered daycare operator who operates a family daycare home or a group daycare home and if you care for your own child in addition to at least one other unrelated child, you can deduct the employment related expenses considered to have been paid by you for the care of your own child.

For further information on the child and dependent care expense deduction, see the instructions on Montana Form 2441-M. When you claim this deduction, complete Form 2441-M and include a copy with your Montana tax return.

Line 22 – Casualty and Theft Loss

If you have a casualty and/or theft loss, you should complete federal Form 4684 to figure the amount of the Montana loss that you can enter on this line. To determine your casualty and/or theft loss, you should use your Montana adjusted gross income in place of the federal adjusted gross income. And if you and your spouse are filing separately, you each should complete a separate federal Form 4684 to determine the amount of your separate casualty and/or theft loss.

Line 23 – Unreimbursed Employee Business Expenses

When you deduct unreimbursed employee business expenses on your Montana income tax return, you should use the same expenses that are allowed on your federal tax return. To claim these expenses, complete federal Form 2106 or 2106EZ. Because you can claim only your own unreimbursed employee business expenses and not those of your spouse, when you and your spouse file your returns separately, you should report your own employee business expenses in the column that is associated with your income and expenses.

Line 24 – Other Expenses

Enter other expenses that are allowed on your federal tax return. Examples of these expenses include, but are not limited to, your tax preparation fee, certain legal and accounting fees, clerical help, office rent, and custodial fees related to the production of income.

Line 25

Add lines 23 and 24; enter the result on this line.

Lines 26 and 27

Your unreimbursed employee business expenses and other expenses reported on lines 23 and 24 are deductible only to the extent that these expenses exceed 2% of your Montana adjusted gross income. Enter on line 26 the amount that you reported on Form 2, line 41. Multiply the amount on line 26 by 2% (0.02) and enter the result on line 27.

Line 28

Subtract line 27 from line 25 and enter the result on this line, but not less than zero. This is the amount of your unreimbursed employee business expenses and other expenses that are deductible in computing your net income.

Line 29 – Political Contributions

When you compute your net income, you can take a deduction for political contributions that you made during the year. These contributions are limited to a total of $100 for yourself and, if married, a total of $100 for your spouse. To qualify for this deduction, your contribution of money has to be made to:

- an individual who is a candidate for nomination or election to any federal, state or local public office in a primary, general or special election;
- a committee, association or organization set up to campaign for the nomination or election to any federal, state or local public office in a primary, general or special election;
- a national committee or a national political party;
- a state committee of a national political party; or
- a local committee of a national political party.

Line 30 – Other Miscellaneous Deductions Not Subject to 2% of Montana Adjusted Gross Income

When you compute your net income, you can take a deduction for other miscellaneous expenses that are not subject to 2% of your Montana adjusted gross income. These deductions are the same deductions that are allowed on your federal tax return. They include a deduction for amounts you paid to purchase organic fertilizer and inorganic fertilizer that is produced as a by-product of mining or industrial operations in Montana. Other deductions you may be allowed are per capita livestock fees imposed for enforcement of the livestock laws of the state and for the payment of bounties on wild animals.

Line 31 – Gambling Losses

You can take a deduction for gambling losses that you incurred during the year. These losses are allowed only to the extent of the gambling winnings that you have reported on Form 2, line 21. If you are married and you and your spouse are filing your Montana tax return separately, the spouse who claims the gambling winnings on Form 2, line 21 should report the gambling losses on this line.

Line 32 – Total Itemized Deductions

The amount of your itemized deductions is the result of adding lines 4 through 6, 7e through 22 and 28 through 31. Enter this result on Form 2, line 42.

Schedule IV – Nonresident/Part-Year Resident Tax

► **Are you ready? You will need–**

- Form 2 filled out through line 48.
- Any source documents that show Montana source income, such as:
  - Form(s) W-2 and/or 1099
  - Montana Schedule(s) K-1

► **Did you…?**

- Include on Schedule IV all income you received for the portion of 2011 you were a Montana resident.
- Include all income you received from Montana sources while you were not a resident of Montana.

Important If you are a nonresident or part-year resident, we encourage you to review your electronic filing options. Most software companies and online services provide an opportunity for nonresidents and part-year residents to file a Montana tax return electronically. Please visit *revenue.mt.gov/efile* for further information.

If you are a nonresident or a part-year resident, you are subject to the same filing requirements as a resident unless you are specifically exempt. If you are unsure of your residency status, see FAQ ❸ on page 38 of the instructions to determine whether you are a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes. These instructions will also show how you can determine your legal residence for Montana income tax purposes.

When you file your Montana income tax return as a nonresident or as a part-year resident, you should complete your Montana Form 2, lines 1 through 48, and Form 2, Schedules I, II and III as though you were a resident reporting your total Montana and non-Montana source income. After you have determined your preliminary resident tax after capital gains tax credit on Form 2, line 48, you should complete Form 2, Schedule IV to determine your nonresident, part-year resident tax after capital gains tax credit.

As a part-year resident you are considered a resident of Montana once you establish your Montana residency or, up until the time you relinquish your Montana residency and establish residency in another state. For the period of time that you are considered a resident, all of your income is taxable to Montana no matter where you earn it. For the period of time that you are considered a nonresident, only your income that is considered Montana source income is taxable to Montana.

For example: Suppose you relocated to Montana and established your residency July 1, 2011. You are filing your 2011 Montana tax return as a part-year resident of Montana reporting wages earned both within and outside of Montana, along with interest and dividends that you earned throughout the year. For the period of January 1 through June 30, your wages, interest and dividends are not considered Montana source income. The wages, interest and dividends that you received on or after July 1, 2011 are Montana source income and are taxable to Montana.

If you are a nonresident servicemember of the United States armed forces living in Montana solely by reason of compliance with your military orders, the Servicemembers Civil Relief Act allows you to maintain your original state of residency and protects you from being considered a Montana resident (unless you choose to become a resident). Starting in 2010, the Military Spouses Residency Relief Act provides similar protection to a nonresident nonmilitary spouse who moves to Montana solely to be with their nonresident military spouse who is serving in Montana in compliance with military orders. Any compensation a nonresident servicemember received for military service or a qualified nonmilitary servicemember's spouse received for performing personal services is not Montana source income and should not be used to determine your nonresident, part-year resident tax after capital gains tax credit. Refer to the instructions for Form 2, Schedule II, line 9 on page 18, for the treatment of your military income. For more information about the Military Spouses Residency Relief Act, go to our website at *revenue.mt.gov*.

Reporting Your Montana Source Income

Lines 1 through 16

In general, your Montana source income is all the income that you received for work that you performed in Montana, income that you received from real or personal property that is located in Montana, and income that you received from business conducted in Montana. Your Montana source income also includes your distributive share of the Montana source income from an S corporation, partnership, or other pass-through entity.

If you were a part-year resident your Montana source income also includes any interest, dividends, pensions and annuities, and other income you received while you were a resident.

Only report amounts included in the calculation of adjusted gross income for the current year when you complete Schedule IV. A loss incurred in a prior year affects the amounts reported only if it is included in a carryover amount that reduces income in the current year.

For the part of the year that you are a resident all of your income that you receive—no matter where you earn it—is Montana source income.

Line 1 – Montana Source Wages, Salaries, Tips, etc.

If you are a nonresident, enter that portion of your wages, salaries, tips and other compensation for services that you performed in Montana and that are included in your total on Form 2, line 7.

If you are a part-year resident, enter all of your wages, salaries, tips and other compensation that you earned during the part of the year that you were a resident. Also include, when applicable, that portion of your wages, salaries, tips and other compensation that you received for services in Montana during the part of the year that you were a nonresident.

Do not include compensation that is exempt from Montana tax. This includes exempt tribal income, unemployment compensation, workers' compensation benefits, military salary of residents on active duty, exempt income of nonresident military servicepersons and their spouses, some federally taxed tips and gratuities, health insurance premiums taxed to the employee, and student loan repayments taxed to a health care professional.

Line 2 – Montana Source Interest

If you are a nonresident, enter that portion of your interest that you received from an installment sale of real property or tangible commercial or business personal property located in Montana. As a nonresident, you do not have to include as Montana source income any personal interest that you received on an account in a financial institution located in Montana, or from notes (other than for the installment sales or notes for loans made during the usual course of business in Montana).

If you are a part-year resident, enter all of the interest that you received or accrued during the period of time that you were a resident and that is included in the totals on Form 2, line 8a and Form 2, Schedule I, line 1.

Your distributable share of any separately stated Montana source interest income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 3 – Montana Source Ordinary Dividends

If you are a nonresident, generally your dividends are not considered Montana source income and should not be included on this line.

If you are a part-year resident, enter all of the dividends that you received or accrued during the period of time that you were a Montana resident in 2011 and that are included in your total on Form 2, line 9.

Line 4 – Montana Source Refunds or Other Recoveries

If you are a nonresident or a part-year resident and you have a federally taxable income tax refund or a recovery of an amount deducted in 2010 that is reported on Form 2, line 10 or line 21, enter that portion of your federally taxable refund and/or recovery that is determined to be Montana source income.

To determine that portion of your refund and/or recovery that is Montana source income, use the ratio of your Montana source income to total income that was reported on your 2010 Schedule IV, line 19. If you did not have any Montana source income in 2010 and you were not required to file a 2010 Montana tax return, your federal income tax refund and/or recovery is not Montana source income.

If, in 2011, you received a refund and/or recovery of a prior year deduction from a year other than tax year 2010, use the ratio of your Montana source income to total income that was determined in the year of the deduction.

Line 5 – Montana Source Alimony Received

If you are a nonresident, the alimony that you reported on Form 2, line 11 is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter that portion of the alimony that you received during the period that you were a Montana resident in 2011 and that is included in your federal adjusted gross income on Form 2, line 11.

Line 6 – Montana Source Business Income or (Loss)

If you are a nonresident, enter the portion of your net income or loss that is reported on Form 2, line 12 that you received from a trade, business, profession, or occupation that you carried on in Montana.

If you are a part-year resident, enter the net income or loss received from any trade, business, profession or occupation during the period you were a resident that is included in your total on Form 2, line 12. Also include, where applicable, the portion of any net income or loss you received from a trade, business, profession or occupation that is carried on in Montana during the period of time that you were a nonresident.

Your distributable share of any separately stated Montana source business income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 7 – Montana Source Capital Gain or (Loss)

If you are a nonresident, enter the portion of your gains or losses included in your total on Form 2, line 13 that you received on the sale or transfer of your tangible property located in Montana or for your tangible property used or held in connection with your trade, business or occupation that is carried on in Montana. Tangible property includes real property and tangible personal property.

If you are a part-year resident, enter all of your gains or losses included in your total on Form 2, line 13, received during the part of the year that you were a resident. Also, where applicable, include the portion of any gains or losses received during the part of the year in which you were a nonresident for the sale or transfer of your tangible property located in Montana or for the sale or transfer of any tangible property used or held in connection with your trade, business or occupation that is carried on in Montana.

If you are a nonresident who sold an interest in a publicly traded partnership doing business in Montana, some or all

of the gain is Montana source income. Multiply your gain by the partnership's apportionment factor for the year you sold your interest. If the apportionment factor was not reported to you by the partnership, you will need to contact them.

Disregarded entities are disregarded for all income tax purposes. For example, if you sold an interest in a single member limited liability company, it is reported as your sale of the assets of the company here, not as the sale of an interest in an entity.

Your distributable share of any separately stated Montana source capital gain income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 8 – Montana Source Other Gains or (Losses)

If you are a nonresident, enter the portion of your gains or losses included in your total on Form 2, line 14 related to what you received from the sale or exchange of business property located in Montana and reported on your federal Form 4797.

If you are a part-year resident, enter all of the gains and losses included in your total on Form 2, line 14, received during the part of the year that you were a resident. Also include, where applicable, the portion of any gains or losses from the sale or exchange of business property located in Montana during the period of time that you were a nonresident.

The sale of your interest in a single member limited liability company is treated as if you sold the assets of the company.

Your distributable share of any separately stated Montana source other gains from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 9 – Montana Source IRA Distribution

If you are a nonresident, the IRA distribution that you reported on Form 2, line 15b is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter all the taxable IRA distributions included in your total on Form 2, line 15b received during the part of the year that you were a resident.

Line 10 – Montana Source Pensions and Annuities

If you are a nonresident, the taxable pensions and annuities that you reported on Form 2, line 16b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter all of the taxable pensions and annuities included in your total on Form 2, line 16b for the part of the year that you were a resident. Do not include pension and annuity that is exempt from Montana tax.

Line 11 – Montana Source Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.

If you are a nonresident, enter the portion of the following income or losses that you included in your total on Form 2, line 17:

- Net rental income or loss from real property and tangible personal property located in Montana
- Net royalties from real property and tangible personal property to the extent that this property is used in Montana
- Patent royalties to the extent that the income that you received is for the production, fabrication, manufacturing, or other processing in Montana, or the patented product is produced in Montana
- Net copyright royalties to the extent that the printing and other publication originated in Montana
- Partnership income derived from a trade, business, occupation or profession carried on in Montana
- S corporation income derived from a trade, business, occupation or profession carried on in Montana
- Montana source trust income

If you are a part-year resident, enter all of the income or losses included in your total on Form 2, line 17, received during the part of the year that you were a resident and, where applicable, include the portion of any income or loss attributable to Montana (as described in the preceding paragraph) during the period of time that you were a nonresident.

Line 12 – Montana Source Farm Income or Loss

If you are a nonresident, enter the portion of your net income or loss reported on Form 2, line 18, received from the farming activity carried on in Montana.

If you are a part-year resident, enter your net income or loss included in your total on Form 2, line 18, received from any farming activity during the period that you were a resident. Also include, where applicable, the portion of any net income or loss received from the farming activity carried on in Montana during the period of time that you were a nonresident.

Your distributable share of any separately stated Montana source farm income from a pass-through entity that is not reported on line 11 should also be reported on this line.

Line 13 – Montana Source Taxable Social Security Benefits

If you are a nonresident, the taxable social security benefits that you reported on Form 2, line 20b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter only the portion of the taxable social security benefits received during the part of the year that you were a resident. You will need to complete the social security Worksheet VIII, Taxable Social Security Benefits for Form 2, on page 48 in order to determine your Montana source taxable social security benefits. Then you

will need to calculate your portion of taxable social security benefits by dividing the amount calculated on Worksheet VIII, line 18, by 12 months and then multiply this result by the number of months you were a resident of Montana in 2011.

Line 14 – Montana Source Other Income

If you are a nonresident, enter any other amounts of your income not included above that are derived from Montana sources. This includes, but is not limited to:

- Montana lottery winnings
- Non-employee compensation

Line 15 – Montana Source Additions to Income Reported on Form 2, Schedule I

If you are a nonresident, enter any amount of income not included above that you reported on Form 2, Schedule I derived from Montana sources. This includes, but is not limited to:

- **Federal tax refunds**

  If you received a federal income tax refund in 2011 and are now required to include this refund as income on Form 2, Schedule I, line 3, a portion of this refund may be considered Montana source income. To determine this portion, multiply the amount of the taxable federal refund that you reported on Form 2, Schedule I, line 3 by the percentage that you reported on Form 2, Schedule IV, line 19 of your 2010 Montana tax return.
- **Recapture of a prior year tax benefit**

  If you received a refund in 2011 of an amount that you claimed as a deduction in a prior year, you are now required to include this amount as income on Form 2, Schedule I, line 4. A portion of this refund may be considered Montana source income. To determine this portion, multiply the amount on your Form 2, Schedule I, line 4 by the percentage of your Montana source income divided by your total income from all sources that you reported on Form 2, Schedule IV, for the year in which you claimed this deduction.
- **Medical care savings account nonqualified withdrawals**

  The amount that you deposited into your Montana medical care savings account while you were a resident maintains its character as Montana source income as long as you don't withdraw it to pay for eligible medical expenses prior to the time that you establish your residency elsewhere.
- **First-time home buyer savings account nonqualified withdrawals**

  The amount that you deposited into your Montana first-time home buyer savings account while you were a resident maintains its character as Montana source income. If you have not used these funds to purchase a home in Montana prior to establishing residency elsewhere, these funds are Montana source income and taxable to Montana.

Line 22 – Nonresident, Part-Year Resident Tax after Capital Gains Tax Credit

After you have finished completing Form 2, Schedule IV and have determined the amount of your nonresident, part-year resident tax after capital gains tax credit, enter that amount on Form 2, line 48a and then proceed to line 49. The instructions for lines 49 through 74 begin on page 7.

Schedule V – Montana Tax Credits

► **Are you ready? You will need–**

- Credit forms and/or other supporting documents for any credits you are claiming.

There are three categories of credits available on your Montana tax return. We have listed the 26 Montana tax credits available to you under these three categories to assist you in managing these credits. With the exception of the capital gains tax credit, which is required to be applied before any other credit (refer to Form 2, line 47), you are not required to apply any of the other tax credits in a particular order.

- **Nonrefundable Single-Year Credits**

  Your nonrefundable single-year credits can only be used to offset your 2011 resident, nonresident, or part-year resident tax after capital gains tax credit and cannot reduce your tax liability below zero. The unused portion of your nonrefundable single-year credits that exceeded your 2011 income tax liability cannot be carried forward or carried backward to other tax years.
- **Nonrefundable Carryover Credits**

  Your nonrefundable carryover credits can be used to offset your 2011 resident, nonresident, or part-year resident tax after capital gains tax credit. These credits cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2011 income tax liability can be carried forward and used to offset future year tax liabilities.
- **Refundable Credits**

  Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

Nonrefundable Single-Year Credits (Lines 1-8)

Line 1 – Credit for Income Tax Paid to Another State or Country

You can use this credit only if you are filing as a full-year or part-year resident.

If you are a full-year resident and you paid an income tax to another state or country on income that is also taxable to Montana, you may be entitled to a credit against your Montana income tax liability. If you claimed the foreign tax credit on your federal tax return, you can claim this credit for foreign taxes on your Montana tax return only if you have unused federal credit that is not eligible to be carried

back or carried forward to another tax year. If you are a resident and have unused federal credit or paid tax to another state, you will need to complete Form 2, Schedule VI to determine your available credit.

If you are a part-year resident and you paid an income tax to another state or country on income that is also taxable to Montana and if you included it as Montana source income on Form 2, Schedule IV, lines 1 through 16, you may be entitled to a credit against your Montana part-year resident income tax liability for these income taxes paid to another state or country. If you claimed the foreign tax credit on your federal tax return, you can claim this credit for foreign taxes on your Montana tax return only if you have unused federal credit that is not eligible to be carried back or carried forward to another tax year. If you are a part-year resident and have unused federal credit or paid tax to another state, you will need to complete Form 2, Schedule VII to determine your available credit.

If you are a shareholder of an S corporation or a partner in a partnership and your S corporation or partnership pays an income tax to another state or country, you can claim a credit for your share of these income taxes paid by the entity. In order for you to claim this credit, however, the income tax paid by the S corporation or partnership has to be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the S corporation or partnership as long as they are imposed on and measured by net income. However, you are not allowed to use other taxes paid by your S corporation or partnership such as, but not limited to, franchise or license taxes or fees that are not imposed on or measured by net income, gross receipt taxes or gross sales taxes. When you claim this credit for the taxes paid by your S corporation or partnership, you will have to add back to your federal adjusted gross income in determining your Montana adjusted gross income, on Form 2, Schedule I, line 13, your share of the S corporation's or partnership's federal tax deduction that is included in your total on Form 2, line 17. This is required whether or not your S corporation or partnership separately or non-separately stated the income tax deduction on your federal Schedule K-1.

If you are required to file an income tax return in more than one state or country and you are entitled to this credit, you will have to complete a separate Form 2, Schedule VI or VII for each state or country in which you filed an income tax return and paid an income tax on income that is also taxed to Montana.

You will not be entitled to this credit if the other state or country in which you have filed an income tax return has allowed you a credit against the taxes that they have imposed on your net income because you are also subject to tax on the same income by Montana.

When calculating this credit on Form 2, Schedule VI, you cannot include in your income tax liability paid to the other state or country on line 4, any penalties and interest that you paid to the other state or country.

Line 2 – College Contribution Credit

You can claim a credit against your income tax liability for contributions that you made in 2011 to a foundation or general endowment fund of the Montana university system, a Montana private college, a community college or a tribal college. Your credit is equal to 10% of the contribution that you made with a maximum credit allowed of $500.

In order to qualify for this credit, your contribution has to be made to a Montana college or university that offers an associate or baccalaureate degree level education program. In addition to this credit, your contribution may also be claimed as an itemized deduction on Form 2, Schedule III, line 18.

For further instructions on the college contribution credit, and to calculate this credit, see Montana Form CC. When you claim this credit, you will have to include a copy of Form CC with your tax return.

Line 3 – Qualified Endowment Credit

You can claim a credit against your income tax liability for contributions made to a qualified Montana endowment held by a Montana corporation or established organization that is tax-exempt under 26 USC 501(c)(3) or is held by a bank or trust company in Montana on behalf of the tax-exempt organization.

Your credit is equal to 40% of the present value of a planned gift that you personally made during the year to the qualified Montana endowment. If you are a shareholder in an S corporation, a partner in a partnership, or a member or manager of a limited liability company and your entity made a contribution to a qualified Montana endowment, you are entitled to a credit equal to 20% of your share of the entity's contribution. In no case can your credit be larger than $10,000 for your contribution and, when applicable, $10,000 for your spouse. When claiming this credit, you cannot claim a charitable contribution deduction on Form 2, Schedule III for the amount of the contribution that you used to calculate this credit.

For further instructions on the qualified endowment credit, and to calculate this credit, see Montana Form QEC. Visit the Governor's Task Force on Endowed Philanthropy website at *endowmontana.org* to learn more about the endowments statewide. When you claim this credit, you will have to include a copy of Form QEC with your tax return.

Line 4 – Energy Conservation Installation Credit

If you are a resident of Montana, you can claim a credit against your income tax liability for energy conservation investments that you made to your home or other buildings. Your credit is equal to 25% of your expenses for a maximum credit of up to $500 for the capital investments you made to your home or another building for energy conservation purposes or for the installation or replacement of a hot water heater or household heating or cooling system. If you are married, your spouse may also qualify for a credit of up to $500 as long as you both made qualifying capital investments.

You will not qualify for this credit by simply switching to an energy source that is less expensive or free (investments of this nature may qualify for the alternative energy system credit).

For further instructions and a list of investments that qualify for the energy conservation credit, see Montana Form ENRG-C. In addition, please refer to our website at *revenue.mt.gov* for more information such as specific examples of what investments may or may not qualify. When you claim this credit, you will have to include a copy of Form ENRG-C with your tax return.

Line 5 – Alternative Fuel Credit

You can claim a credit against your income tax liability for the cost of converting your motor vehicle to operate on an alternative fuel. Your credit is equal to 50% of the cost to convert your motor vehicle for a maximum credit of up to $1,000.

In order to qualify for this credit, your motor vehicle has to be licensed in Montana and the conversion has to be from gasoline to an alternative fuel, such as natural gas, liquefied petroleum gas, liquefied natural gas, hydrogen, electricity, or other combinations. This credit should not be confused with the federal deduction for the purchase of a qualified clean-air vehicle.

For further instructions on the alternative fuel credit and to calculate this credit, see Montana Form AFCR. When you claim this credit, you will have to include a copy of Form AFCR with your tax return.

Line 6 – Health Insurance for Uninsured Montanans Credit

You can claim a credit against your income tax liability if your business provides health insurance coverage for its employees. Your credit is a percentage of the premium payments that you made throughout the year for a maximum credit of up to $3,000 per year.

In order to qualify for this credit, as an employer you should meet the following criteria:

- You have been in business in Montana for at least 12 months.
- You employ at least 2 but not more than 20 employees who work at least 20 hours a week.
- You pay at least 50% of each of your employees' health insurance premiums.

Your credit is limited to a maximum of 10 employees and should include small employer group health insurance under the Small Employer Health Insurance Availability Act.

Important Your eligibility for this credit is not affected if you claimed the federal small business health care tax credit. However, if you are using insurance premiums to calculate the Insure Montana small business health credit (which is a separate credit), these premium payments cannot be used to calculate the health insurance for uninsured Montanans credit.

For further instructions on the health insurance for uninsured Montanans credit, and to calculate this credit, see Montana Form HI. When you claim this credit, you will have to include a copy of Form HI with your tax return.

Line 7 – Elderly Care Credit

You can claim a credit against your income tax liability for paying certain expenses in order to provide care to an elderly family member. Your credit cannot exceed $5,000 for one qualifying family member, or $10,000 for the care of two or more qualifying family members.

In order to qualify for this credit, you need to care for an elderly family member who is at least 65 or has been determined to be disabled by the Social Security Administration, and who has a family income of $15,000 or less if not married, or $30,000 or less if married.

For further instructions on the elderly care credit and to calculate this credit, see Montana Form ECC. When you claim this credit, you will have to include a copy of Form ECC with your tax return.

Line 8 – Recycle Credit

You can claim a credit against your income tax liability for the investment that your business makes in depreciable equipment or machinery that you use to collect, process or manufacture a product from reclaimed material. Your credit is equal to 25% of the first $250,000 invested in the property, 15% of the next $250,000 invested, and 5% of the next $500,000 invested. You are not entitled to any additional credit for property that exceeds $1 million.

For further instructions on the recycle credit, and to calculate this credit, see Montana Form RCYL. When you claim this credit, you will have to include a copy of Form RCYL with your tax return.

Nonrefundable Carryover Credits (Lines 9-23)

Line 9 – Oilseed Crushing and Biodiesel/ Biolubricant Production Facility Credit

You can claim a credit for the cost of investments in qualifying depreciable property used to crush oilseed crops for the purpose of making biodiesel fuel or biolubricant, or used to construct or equip a facility in Montana to be used for producing biodiesel or biolubricant. This credit can be carried over for seven succeeding years if the facility is crushing oilseed during that tax period. If the facility for which the credit is claimed ceases operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. For detailed instructions, see Montana Form OSC. If this credit is claimed, include a copy of Form OSC with your tax return.

Line 10 – Biodiesel Blending and Storage Credit

You can claim a credit for the cost of investments in depreciable property used for storing or blending biodiesel made from Montana products with petroleum diesel for sale. This credit can be carried over for seven succeeding tax years if the facility is blending or storing biodiesel for blending. If the facility ceases blending biodiesel for sale

for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. If the facility's biodiesel sales are not at least 2% of all diesel sales by the end of the third year after the credit is initially claimed, the credit is subject to recapture. For detailed instructions, see Montana Form BBSC. If this credit is claimed, include a copy of Form BBSC with your tax return.

Line 11 – Contractor's Gross Receipts Tax Credit

You can claim a credit against your income tax liability for the public contractor's gross receipts tax that your business has paid, or has been withheld and remitted on your behalf, throughout the year. The amount of credit cannot exceed your tax liability, and any credit balance remaining can be carried forward for up to five subsequent years. If you are carrying forward a credit, the oldest gross receipts tax amounts will be used first to offset credit claims.

When you claim this credit, you must provide your Contractors Gross Receipts (CGR) Account ID in the space provided. This Account ID was created when your CGR account was registered with the Department of Revenue, and is where your gross receipts tax has been deposited. If you are requesting credit from more than one CGR account, please mark the box indicating multiple accounts and attach a schedule detailing how much credit should be taken from each CGR account. If you do not know your CGR Account ID, please call us toll free at (866) 859-2254 (in Helena, 444-6900) and we will be happy to provide it to you.

Line 12 – Geothermal Systems Credit

If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing a geothermal system in your principal home. The amount of the credit cannot exceed $1,500 and is applied in the year that you installed your geothermal system. The balance of your credit that is not used can be carried forward and applied against subsequent income tax liabilities for a period of seven years.

For further instructions on the geothermal systems credit, and to calculate this credit, see Montana Form ENRG-A. When you claim this credit, you will have to include a copy of Form ENRG-A with your tax return.

Line 13 – Alternative Energy Systems Credit

Nonfossil form of energy: If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system that uses a recognized nonfossil form of energy such as, but not limited to, solar energy, wind energy, solid waste, and organic waste in your principal home. Your total credit cannot exceed $500 per taxpayer. Any balance of your credit that is not used in 2011 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

Low emission wood or biomass combustion: If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system using a low emission wood or biomass combustion device, such as a pellet or wood stove in your principal home. You can also claim the credit for installing certain outdoor hydronic heaters or masonry heaters. Your total credit cannot exceed $500 per taxpayer. Any balance of your credit that is not used in 2011 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

For further instructions on the alternative energy system credit, and to calculate this credit, see Montana Form ENRG-B. When you claim this credit, you will have to include a copy of Form ENRG-B with your tax return.

Line 14 – Alternative Energy Production Credit

You can claim a credit against your income tax liability for an investment of $5,000 or more that your business makes in depreciable property for the use of a commercial system or a net metering system that is located in Montana and that generates energy by means of an alternative renewable energy source.

The amount of your credit is limited to 35% of the eligible cost associated with the purchasing, installing and upgrading of the alternative energy system. Your credit is further limited in that it can only be applied against the tax liability due as a consequence of the alternative energy system generating taxable or net income. Your credit cannot exceed that portion of your tax liability that results from taxable or net income generated as a result of the system. Your unused credit can be carried forward and applied to future income tax liabilities for a period of seven years. An exception to the seven-year carryforward period applies when your investment is located within the exterior boundaries of a Montana Indian reservation.

For further instructions on the alternative energy production credit and to calculate this credit, see Montana Form AEPC. When you claim this credit, you will have to include a copy of Form AEPC with your tax return.

Line 15 – Dependent Care Assistance Credit

If you are an employer in Montana, you can claim a credit against your income tax liability for the amount that you paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available to you that qualify for this credit, including:

- A dependent care assistance credit.
- A dependent care information and referral service credit.
- A day care facilities credit—In order to claim the credit under this program, the facility must have been placed in operation before January 1, 2006.

For further instructions about the amount of the credit that is available, the carry forward provisions and how to calculate these credits, see Montana Form DCAC. When you claim these credits, you will have to include a copy of Form DCAC with your tax return.

Line 16 – Historic Property Preservation Credit

You can claim a credit against your income tax liability for your own qualified rehabilitation expenditures. The allowable Montana credit is 25% of the federal rehabilitation credit provided for in IRC Section 47(a)(2). When you claim this credit, you will have to include a copy of your federal Form 3468 with your tax return. If the federal credit was transferred to you, the owner who transferred it, not you, has to claim the Montana credit.

As an alternative to the percentage of your federal rehabilitation credit, you can claim a credit against your income tax liability equal to 20% of the cost of creating a conservation easement and for the diminishing value of the historic property, including its buildings and structures that resulted from placing a conservation easement on the property.

Line 17 – Infrastructure User Fee Credit

You can claim a credit against your income tax liability for the fees attributable to the use of the infrastructure. Your credit is the total of the interest and principal paid as reported in the letter from the Montana Board of Investments.

When you claim this credit, you will have to include a copy of the letter from the Montana Board of Investments detailing the principal and interest paid. You can carry back three years or carry forward seven years any of your unused infrastructure user fee credit.

For further instructions on the infrastructure user fee credit, and to calculate the credit, see Montana Form IUFC. When you claim this credit, you will have to include a copy of Form IUFC with your tax return.

Line 18 – Empowerment Zone Credit

You can claim a credit against your income tax liability if you are an employer who has a business in an empowerment zone. The credit is based on the number of qualifying new employees and is equal to $500 for each qualifying employee in the first year of employment, $1,000 for each qualifying employee in the second year of employment, and $1,500 for each qualifying employee in the third year of employment. To be eligible for this credit, you have to be certified by the Montana Department of Labor and Industry.

Your credit can be carried back three years and carried forward seven years. The entire amount of your credit that is not used in the year that you earned it has to be carried first to the earliest tax year that the credit can be applied and then to each succeeding tax year.

Line 19 – Increasing Research Activities Credit

You can claim a credit against your income tax liability for the increase in qualified research expenses and basic research payments that your business conducted in Montana. Your credit is determined in accordance with Section 41 of the Internal Revenue Code, except that the percentage rate for your Montana credit is 5%.

For further instructions on the increasing research activities credit, and to calculate this credit, see Montana Form RSCH. When you claim this credit, you will have to include a copy of Form RSCH with your tax return.

Line 20 – Mineral and Coal Exploration Incentive Credit

You can claim a credit against your income tax liability for the certified expenditures for mining exploration activities involving mineral and coal deposits. In determining your credit, your qualified expenditures include those costs that you incurred for activities that directly support the exploration at a specific site. Your credit cannot exceed 50% of that portion of your tax liability that is related to the production from the mining operation for which the exploration activity occurred.

You are required to apply for the certification of expenditures incurred by sending the Montana Form MINE-CERT to the department within 60 days after the close of the calendar year. The department will make a determination about the certification of the expenditures by September 30.

For further instructions on the mineral and coal exploration incentive credit, and to calculate this credit, see Montana Form MINE-CRED. When you claim this credit, you will have to include copies of Forms MINE-CRED and MINE-CERT with your tax return.

Line 21 – Film Employment Production Credit

You can claim a credit against your income tax liability for employing residents of Montana in a state-certified production. The credit is equal to the sum of 14% of the first $50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

When you claim this credit, you should make a one-time election by either:

- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 21 and carrying forward any unused credit to be applied against your income tax liability in subsequent years; or
- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 25 in which any unused credit is refunded to you.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 22 – Adoption Credit

You can claim a credit against your income tax liability if you finalized the adoption of an eligible child in 2011. An eligible child is:

- any child under age 18, or

- any disabled person physically or mentally unable to take care of himself or herself.

The amount of the credit is $1,000 per child. If the amount of the credit exceeds your tax liability for 2011, you can carry forward the unused credit to the next five tax years. For Montana purposes, this carryforward applies only to adoptions that were finalized on or after January 1, 2007. Also, the legal adoption of a stepchild does not qualify for the federal or Montana credit. Include a copy of federal Form 8839 with your tax return.

Refundable Credits (Lines 24-29)

Line 24 – Elderly Homeowner/Renter Credit

The Montana elderly homeowner/renter credit is a property tax relief program that provides you with a refundable credit of up to $1,000 if you are age 62 or older, have resided in Montana for at least nine months during the year, occupied a Montana residence for at least six months during the year, and your gross household income is less than $45,000.

For further instructions on the elderly homeowner/ renter credit, and to calculate this credit, see Form 2EC instructions at the back of this booklet.

Line 25 – Film Employment Production Credit

You can receive a refundable film employment production credit if you made the one time election to apply the credit against your income tax liability and requested a refund of the unused credit by reporting it on this line. You can also elect to carry forward your credit. If you have made this election, see Form 2, Schedule V, line 21 for further details and instructions.

The film employment production credit is equal to the sum of 14% of the first $50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

The qualified compensation used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film employment production credit and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 26 – Film Qualified Expenditures Credit

You can receive a refundable film qualified expenditures credit for expenditures made in Montana in connection with your state-certified production. Your credit is equal to 9% of the total qualified expenses that you incurred in connection with your production.

The qualified expenditures used to calculate the credit cannot be reported as a deduction when calculating Montana taxable income. Please see instructions for Form 2, Schedule I, line 16 (Other Additions) on page 16.

For further instructions on the film qualified expenditures credit, and to calculate this credit, see Montana Form FPC. When you claim this credit, you will have to include a copy of Form FPC with your tax return.

Line 27 – Insure Montana Small Business Health Insurance Credit

If you were the owner of a business that received a tax credit from the Insure Montana small business health insurance program, enter the amount of credit to which you are entitled. The amount of credit you may claim is the total credit amount issued to the business multiplied by your ownership percentage. For example, if you were a 50% owner and the business received $6,000 in tax credit, you are entitled to claim $3,000 ($6,000 x 50% (0.5)).

Enter the federal employer identification number (FEIN) of the business that received the credit in the space provided. If you were the owner of more than one company receiving the credit, enter the FEIN of the company that received the highest amount of credit. Include a copy of the most recent certificate from the State Auditor's Office providing the amount of tax credit the business received.

Important Your eligibility for this tax credit is not affected if you claimed the federal small business health care tax credit. However, if you are using insurance premiums to calculate the health insurance for uninsured Montanans credit (which is a separate credit), these premium payments cannot be used to calculate the Insure Montana credit. Additionally, the premiums paid for these policies are not allowed as a deduction. Please see instructions for Form 2, Schedule I, line 15 on page 16.

Line 28 – Temporary Emergency Lodging Credit

A refundable tax credit is available for licensed establishments that provide short-term emergency lodging under the Temporary Emergency Lodging Program. The program helps provide lodging for individuals or families who have been displaced from their residence and have been referred to the establishment by a charitable organization approved by the Montana Department of Public Health and Human Services. Please visit their website *dphhs.mt.gov/PHSD/Food-consumer/emergency-lodging.shtml* for additional information regarding participation in this program.

The credit is $30 for each night of lodging provided by the establishment with a maximum of five nights' lodging for each individual. An individual may claim the credit if they are the owner of the establishment or they have an ownership interest in the partnership or S corporation that owns the establishment.

For further instructions on the temporary emergency lodging credit, and to calculate this credit, see Montana Form TELC. When you claim this credit, you will have to include a copy of Form TELC with your tax return.

Schedule VI – Credit for an Income Tax Liability Paid to Another State or Country – Full-Year Resident Only

Schedule VII – Credit for an Income Tax Liability Paid to Another State or Country – Part-Year Resident Only

If you are filing as a full-year or part-year resident and paid income tax to another state or country, use either Schedule VI or VII to determine the amount of your credit for income tax paid to another state or country that you may be able to report on your Montana tax return.

See the instructions for Form 2, Schedule V, line 1, credit for an income tax liability paid to another state or country, on page 30 of this booklet for help in completing Schedule VI or VII. Also, please see the instructions included with Schedules VI and VII on Form 2, page 9.

Schedule VIII – Reporting of Special Transactions

Complete Form 2, Schedule VIII only if you and/or your spouse were required to complete one or more of the federal forms that are identified on this schedule. If you are required to complete this schedule because you have answered yes to one or more of the statements, you will need to include a copy of your federal tax return, Form 1040, with your Montana tax return.

For further information on the reporting of special transactions see Form 2, Schedule VIII.

Looking for the instructions for the 2EC?

You will find instructions on applying for the Elderly Homeowner/Renter Credit, including Form 2EC, at the back of this booklet. We've made this year's instructions more complete and easier to follow.

FAQs—Frequently Asked Questions

Please find the answers to these questions identified by number on pages 38-43.

Filing Requirements

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2. I have to file a Montana individual income tax return. Which form is appropriate for me and my situation?
3. How do I know whether I am a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes?
4. When do I have to file my Montana tax return?
5. What does the checkbox that asks “Do you want to allow your spouse, if applicable, and another person to discuss this return with us?” mean?
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17. I am on active duty in the regular armed forces and currently serving in an area designated as a “combat zone” or “contingency operations.” I am unable to file my 2011 Montana tax return by April 17, 2012. Can I (and my spouse) obtain an extension to file?
18. My spouse has a past-due child support obligation and I don’t want my refund to be applied to this debt. What can I do?
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21. I have heard that special rules apply to wages that Montana residents earn in North Dakota, or North Dakota residents earn in Montana. What are those rules?
    - I am a Montana resident. How do those rules apply to me?
    - I am a North Dakota resident. How do those rules apply to me?

Tax Records

22. What should I do if I did not receive a Form W-2, wage and tax statement, from my employer or I misplaced it?
23. How long do I need to maintain my tax records after I have filed my state tax return?

❶ Do I have to file a Montana individual income tax return?

If you are a resident, nonresident, or part-year resident, you have to file a Montana individual income tax return when you have Montana source income and your federal gross income, excluding unemployment compensation, is equal to or greater than the threshold for your filing status.

IF your filing status is…	AND at the end of 2011 you were…	THEN you have to file a tax return if your federal gross income, excluding unemployment compensation was at least…
Single, or married filing separately	Under 65	$4,010
	65 or older	$6,200
Head of household	Under 65	$5,830
	65 or older	$8,020
Married filing jointly with your spouse	Both under 65	$8,020
	One spouse 65 or older	$10,210
	Both spouses 65 or older	$12,400

You are entitled to an additional exemption if you are blind or your spouse is blind. Increase your federal gross income by $2,190 to determine if you are required to file.

❷ I have to file a Montana individual income tax return. Which form is appropriate for me and my situation?

To use Montana Form 2EZ, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2011.
- I am filing as a single person or as a married person filing a joint tax return.
- My spouse and I were under 65 and not blind at the end of 2011.
- I am claiming no dependents.
- My only income is from wages, interest, dividends, or unemployment compensation.
- I am claiming the standard deduction rather than itemizing deductions.
- I am not claiming any credits.

To use Montana Form 2M, you should be able to answer yes to all of the following:

- I was a Montana resident for all of 2011.
- I am filing as a single person, head of household, or as a married person filing a joint tax return.
- My only income is from wages, interest, dividends, capital gains, IRA distributions, pensions, annuities, unemployment compensation, social security benefits or refunds.
- The only tax credit that I may be claiming is one (or more) of the following:
  - Adoption Credit
  - Elderly Homeowner/Renter Credit (Form 2EC)
  - College Contribution Credit (Form CC)
  - Energy Conservation Installation Credit (Form ENRG-C)
  - Elderly Care Credit (Form ECC)
  - Alternative Energy Systems Credit (Form ENRG-B)

You will have to use the Montana Form 2 if you answer yes to any of the following:

- I was a resident of Montana for only part of 2011.
- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate Montana income tax return.
- My income includes income from a business or profession, farm or ranch, rents, royalties, partnerships, S corporations, estates or trusts.
- My tax year ended on a date other than December 31, 2011.
- I am claiming the tax withheld from my Montana mineral royalty payments.
- I am claiming the tax withheld by a pass-through entity (Montana Schedule K-1 or Form PT-WH).

❸ How do I know whether I am a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes?

You are a resident of Montana for individual income tax purposes if you live in Montana or if you maintain a permanent home in Montana. A permanent home in Montana means a dwelling place you habitually use as your home, whether or not you own it and whether or not you may someday leave. You do not lose your Montana residency if you leave the state temporarily with the intention of returning. Your Montana residency is lost when you move outside of Montana with no intention of returning. Unless there is a specific exception under Montana law, if you establish Montana residency for any other purpose, you are considered a Montana resident for income tax purposes.

You are a nonresident of Montana if you were not a resident during any part of the tax year.

You are a part-year resident of Montana if you moved to or from Montana during the tax year with the intention of establishing a permanent residence in your new state.

A nonresident or part-year resident who is required to file a Montana tax return needs to use Form 2.

❹ When do I have to file my Montana tax return?

Your 2011 Form 2 tax return is required to be filed by April 17, 2012. If filing after April 17, 2012, please see FAQs ❿ and ⓫.

5 What does the checkbox that asks "Do you want to allow your spouse, if applicable, and another person to discuss this return with us?" mean?

If you mark the "Yes" box, we can discuss any concerns that we might have with your 2011 tax return—for example, a missing W-2—with a third party designee (and your spouse if you are married filing separately on the same form). If you mark the "No" box or do not mark a box, we cannot discuss your return with anyone but you or someone to whom you have given a power of attorney that allows us to discuss the return with them.

If you and your spouse are filing separately on the same form, and the "Yes" box is marked, each of you is authorizing us to call either spouse and the third party designee, if applicable, to answer any questions that arise while we are processing your 2011 tax return. If you are filing a joint return, you are automatically authorizing us to discuss the joint return with either spouse, but you will still need to complete the third party designee section if you wish to allow another person, such as a tax preparer, to discuss your return.

By marking "Yes," you are also authorizing us to:

- Request that the third party designee give us any information that is missing from your return.
- Respond to the third party designee's call to us for information about the processing of your return or the status of your refund or 2011 payment(s).
- Discuss certain notices from us about math errors, offsets and return preparation. Note: The department will only send notices directly to you, not to the third party designee.

You are not authorizing the third party designee to receive any refund check, bind you to anything (including any additional tax liability), receive any information about any other tax year or tax matter, or otherwise represent you before the department.

Please be aware that this authorization cannot be revoked. The authorization will, however, automatically end no later than the due date, without regard to extensions, for filing your next year's (2012) tax return. This is April 15, 2013, for most people.

If you want to expand or change the third party designee's authorization (for example, to verify any estimated payments you'll be making in the future), you can use Form POA, Power of Attorney, Authorization to Disclose Tax Information. Form POA is available on our website at *revenue.mt.gov*. You also can grant your third party designee access to your tax account information through Taxpayer Access Point (TAP) at *https://tap.dor.mt.gov*.

6 If I choose to file a paper return, where do I mail it?

We have two different mailing addresses for your paper return, if you choose not to file electronically. We do this so that if you are asking for a refund, we can get your refund processed and to you more quickly and efficiently.

If you are filing a tax return that includes no payment or if you are due a refund, please mail your tax return to:

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

If you are filing a tax return that includes a payment, please mail your tax return and check to:

Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308

7 What options do I have to file my Montana tax return electronically?

- File your Montana tax form FREE through our website. For more information, please visit *revenue.mt.gov*. Please note that this service only applies to your Montana tax return; you may still have to file a federal tax return.
- File both your Montana and federal tax returns through the "federal/state electronic online filing program," which is a cooperative effort between the Internal Revenue Service (IRS) and state tax revenue agencies (this option may be free or low-cost). Additional information can be found at *www.irs.gov* or on our website at *revenue.mt.gov*. This option allows you to electronically file your federal and state tax returns at the same time.
- File through a tax professional who is an Authorized IRS E-file Provider.
- File by using software that you download which helps you to prepare and electronically file your federal and state tax returns at the same time. A listing of approved e-file vendors can be found on our website at *revenue.mt.gov*.
- File by using one of the free electronic filing options listed on MontanaFreeFile.org. Some options have eligibility requirements.

Please see the following chart to find out which e-filing methods are available to you as a first-time filer, full-year resident, part-year resident or nonresident.

	In 2011, I was a…			
	First-time filer	Full-year resident	Part-year resident	Nonresident
E-file with tax preparer	Yes	Yes	Yes	Yes
E-file with online/retail software	Yes	Yes	Yes	Yes
E-file through TAP*	No	Yes	Yes***	Yes***
E-file through MT Direct File**	Yes	Yes	Yes	Yes

**Taxpayer Access Point (TAP) is a free electronic service for accessing your Montana tax account information, filing your return, paying your tax and more. Visit revenue.mt.gov.*

***MT Direct File is a free electronic service for filing your return without signing up for account access. Visit revenue.mt.gov.*

****If you are a nonresident or part-year resident who has previously filed a Montana income tax return, you may use this option. If you have not previously filed, you cannot sign up for account access and e-file through TAP.*

8 If I file my return electronically, what information do I have to send in and what documents do I have to retain?

If you file electronically, you don't have to mail in a paper copy of your tax return, any accompanying federal Form(s) W-2 or 1099, or any other Montana supplemental forms. When you file your tax return electronically, you represent that you have kept all the documents required as your tax record and that you will provide copies of these if we ask for them. You also don't have to sign a copy of your tax return and submit it to us. The act of completing and filing your tax return electronically is considered your authorized signature.

9 What options do I have to pay my Montana taxes electronically?

You can pay your Montana taxes electronically by using any of the following methods:

- Electronic funds withdrawal when e-filing your joint federal/state tax return. (There is no fee for an electronic funds withdrawal.)
- E-checks (There is no fee for an e-check payment.)
- Credit/debit cards (A small fee is applied for a credit card payment.)

To pay your Montana taxes electronically by e-check or using a credit/debit card, please visit *revenue.mt.gov*.

10 What happens if I do not file my Montana tax return on time?

If you file your tax return late, you will need to pay a late file penalty of $50 or the amount of tax due, whichever is less. You do not owe a late file penalty if you file a late tax return for which you are receiving a refund. Please remember that your return is considered late if you file after April 17, 2012, unless you qualified for an extension. If you were granted an automatic, six-month extension, your return is considered late after October 15, 2012.

11 What if I need more time to file my Montana tax return?

You are granted an automatic, six-month extension of time for filing your Montana income tax return if you have paid 90% of your 2011 Montana income tax liability or 100% of your 2010 Montana income tax liability through your estimated tax payments, your withholding tax, or a combination of both your estimated and withholding tax payments by April 17, 2012. You do not have to apply for a federal extension in order to receive a Montana extension.

Please use the Montana Form EXT-11, 2011 Extension Payment Worksheet, to determine if you have to make an extension payment by April 17, 2012, to qualify for the automatic filing extension. You can get a copy of this form by visiting our website at *revenue.mt.gov* or calling us toll free at (866) 859-2254 (in Helena, 444-6900). If you are required to make an extension payment, please use the tax payment voucher found on this worksheet or sign up to make your payment online by visiting our website at *revenue.mt.gov*.

Important Any extension of time to file your Montana income tax return is not an extension of time to pay your income tax liability. If you have a valid Montana extension but you have not paid your entire 2011 income tax liability by April 17, 2012, you are relieved of late file penalties but you are not relieved of late pay penalties and interest on your outstanding Montana income tax liability.

12 What do I do if I made an error on my tax return and I now want to correct it?

If you discover that your tax return was incorrect, you have five years from the due date of the original tax return to file an amended Montana tax return to correct the mistake. Please mark the "Amended Return" box found in the upper left-hand corner of the Montana tax return.

Important Include copies of any schedules submitted with the original filing, even if none of the amounts previously reported have changed.

Montana AMD Worksheet is available to help you reconcile the changes to the original tax return. Although not required, we suggest that you complete and include AMD Worksheet, or a similar form outlining the changes, with your corrected tax return. AMD Worksheet does not serve as an amended return on its own. You can download AMD Worksheet from our website at *revenue.mt.gov*.

Important If you file an amended tax return that reflects an increased tax liability, you may have the late payment penalty waived. To receive the waiver, simply mark the "Amended Return" box on the top left-hand corner of the tax return and pay the tax and applicable interest in full

when you file the amended return. By marking this box and paying all tax and interest, you are treated as having requested a waiver of the late payment penalty.

⓭ I have filed an amended federal tax return with the Internal Revenue Service, or the Internal Revenue Service has adjusted my federal tax return. Do I have to report this change to Montana? If so, how do I report this change?

Yes, you have to report the change to Montana. Within 90 days after you receive notification that the Internal Revenue Service changed or corrected your federal taxable income, or 90 days after you change your federal taxable income by filing an amended federal return, you have to file an amended Montana tax return. If you do not file an amended Montana return within that 90 days, we will have five years to adjust your Montana tax return to reflect the changes made on your federal tax return or make any other assessments of additional tax.

⓮ What happens if my payment is late?

If you do not pay all of your tax on or before April 17, 2012, you will need to pay a late payment penalty. This penalty is 1.2% per month or fraction of a calendar month on the unpaid tax. This penalty cannot exceed 12% of the tax due.

If you do not pay your tax liability by April 17, 2012, you will also be charged interest at a rate of 8% per year, accrued daily. If you can't pay your tax in full, you should file your tax return by the due date and pay as much as you can with your tax return. If you wish to set up a payment plan, please call us toll free at (866) 859-2254 (in Helena, 444-6900) as soon as possible to discuss payment options and make arrangements to pay.

When you file as married filing separately on the same form or on separate forms and both spouses owe tax, penalties and interest need to be calculated separately for each spouse.

Whether you just pay your tax late or are making a payment as part of a payment plan you established with us, be sure to include your name, social security number and the tax year for which the payment is to be applied clearly on your payment. If you intend to have one payment applied to more than one social security number or tax year, please include a statement with your payment that tells us how you want us to apply your payment.

⓯ What is the interest rate on unpaid taxes?

The current interest rate is 8%, and it will continue to be in effect through December 31, 2012. Under Montana law, the interest rate for all unpaid individual income taxes depends on the rate set by the Internal Revenue Service and may fluctuate each year, but will not be less than 8%.

⓰ How can I check on my refund?

You can check the status of a refund you are expecting by visiting our website at *revenue.mt.gov* and going to the "Where's My Refund?" link. You can also check the status of your refund by calling us toll free at (866) 859-2254 (in Helena, 444-6900). We will be glad to tell you the status of your refund once we have entered it into our computer system.

Whether you are checking the status of your refund online or by phone, you will need to provide the following information:

- The social security number of the first taxpayer's name on your tax return;
- The amount of the refund requested as shown on your tax return; and
- Your federal adjusted gross income as shown on your tax return.

⓱ I am on active duty in the regular armed forces and currently serving in an area designated as a "combat zone" or "contingency operations." I am unable to file my 2011 Montana tax return by April 17, 2012. Can I (and my spouse) obtain an extension to file?

Yes, you can. Montana law follows federal law with respect to the time allowed for filing a return. Therefore, the extension of time to file your Montana tax return is the same for filing your federal tax return. If you are serving in a combat zone or in a contingency operation, you (and/or your spouse) can extend the filing of your Montana tax return for up to 180 days after your last day in a combat zone.

If you are filing your tax return under this provision, clearly write on the top of Montana Form 2, using red ink, "combat zone or contingency operations extension," and file your tax return within 180 days after your last day in a combat zone. If you file within the 180 days, you are not assessed any penalties or interest.

⓲ My spouse has a past-due child support obligation and I don't want my refund to be applied to this debt. What can I do?

If you do not want your refund to be applied toward your spouse's child support obligation, you can file your Montana tax return using Form 2 and filing status 3b, which is "married filing separate tax returns on separate forms." When using this filing status, each spouse claims his or her own income, losses, deductions, expenses, exemptions and credits, and your Montana refund would not be offset by your spouse's child support debt.

If you filed a joint return with your spouse and your refund was applied to your spouse's child support debt, you may be considered an "injured spouse" and we can help you resolve the matter. You need to contact us within 30 days after receiving notice that your refund was applied to your spouse's child support debt. If necessary, we can help you file the correct tax return(s).

⓳ A mental or physical disability prevents me from completing and filing a tax return. What can I do?

If you have a filing obligation but are unable to complete and file a tax return because of a mental or physical disability, the tax return can be prepared by your authorized agent, guardian or person responsible for your care and property.

⓴ How do I file for a deceased person?

If you are responsible for the financial affairs of a deceased person, you'll have to file a tax return for that person if his or her income exceeds the minimum filing requirements found in FAQ ❶. If you and the deceased person were married, you can file a joint tax return. If you are filing a joint return and you are the surviving spouse, that is all that is required. All other filers requesting the deceased taxpayer's refund must file the return and include a federal Form 1310 as well as any court documents appointing you as the personal representative.

This tax return has to include the income of that deceased spouse from the beginning of the year to the date of death in addition to the income of the surviving spouse for the entire year. Income of the deceased person received after the date of death should not be included on an individual tax return. Post-death income is reported on a fiduciary income tax return for a trust or estate, Montana Form FID-3.

㉑ I have heard that special rules apply to wages that Montana residents earn in North Dakota, or North Dakota residents earn in Montana. What are those rules?

Montana and North Dakota have a reciprocal agreement. If a Montana resident performs personal or professional services for an employer in North Dakota, the wages are treated as being earned in Montana and the Montana resident does not have to file a North Dakota income tax return reporting those wages. If a North Dakota resident performed personal or professional services for an employer in Montana, the wages are treated as being earned in North Dakota and the North Dakota resident does not have to file a Montana income tax return reporting those wages. The agreement also covers withholding taxes. Withholding is not required on wages treated as earned in the other state. The Montana-North Dakota agreement applies only to wages; other types of income, such as the self-employment income of an independent contractor or mineral royalties, are not included.

- **I am a Montana resident. How do those rules apply to me?**

  You should report all of your wages on your Montana return—you are not required to file a North Dakota income tax return (unless your employer withheld North Dakota taxes on wages covered by the agreement and you need to file a North Dakota return to get a refund of those taxes). You can also claim an exemption from future North Dakota withholding by completing North Dakota Form NDW-R and giving it to your North Dakota employer. You can get this form from your employer, by visiting North Dakota's website at *nd.gov/tax* or by writing to Office of State Tax Commissioner, State Capitol, Bismarck, ND 58505.

- **I am a North Dakota resident. How do those rules apply to me?**

  You should report all of your wages on your North Dakota return—you are not required to file a Montana income tax return (unless your employer withheld Montana taxes on wages covered by the agreement and you need to file a Montana return to get a refund of those taxes). If you have to file a Montana return to get a refund, file a paper return on Form 2, include Montana Form NR-1, North Dakota Reciprocal Affidavit, and a copy of your North Dakota income tax return and mail them to us by April 17, 2012. File as a nonresident and do not report the wages that you earned in Montana as "Montana source income."

  You can also claim an exemption from future Montana withholding by completing Montana Form NR-2 annually. File one copy with your employer and one with us by February 28 of the calendar year for which you want it to apply, or within 30 days after you begin working or change your permanent residence. You can get this form from your employer, by visiting our website at *revenue.mt.gov*, or by writing to Montana Department of Revenue, PO Box 5805, Helena, MT 59604-5805.

㉒ What should I do if I did not receive a Form W-2, wage and tax statement, from my employer or I misplaced it?

Your employer is required to issue a Form W-2 by January 31 if you earned wages during the previous calendar year. If you haven't received your W-2 form by that date or you misplaced it, request your employer to reissue it. You may also obtain this information anytime by completing a Request for Copies of Tax Information (Form RTI) and submitting it to us in person, by fax or by mail. You can obtain this form by visiting *revenue.mt.gov* or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

You still must file your tax return on time even if you do not receive your Form W-2. If you do not receive the missing information in time to file, you may complete federal Form 4852, Substitute for Form W-2, Wage and Tax Statement. Attach Form 4852 to the return, estimating income and withholding taxes as accurately as possible. There may be a delay in any refund due while the information is verified. Keep a copy of the completed Form 4852 for your records.

If you receive a Form W-2 or W-2C (corrected form) after you have filed your return using Form 4852 and the information differs from what you reported on your return, you must amend your Montana individual income tax return.

㉓ How long do I need to maintain my tax records after I have filed my state tax return?

You should keep all your records for at least five years from the date that you filed your Montana tax return. This is called the statute of limitations. The statute of limitations for Montana individual income tax purposes is five years, and the statute of limitations for federal individual income tax purposes is three years. You should keep your property records and carryover information even longer.

Worksheet II – Tax Benefit Rule for Federal Income Tax Refund

(Do not complete this worksheet if you claimed the Montana standard deduction on your 2010 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 for Montana is a federal tax refund received in 2011 for federal taxes paid that were deducted as itemized deductions on your 2010 Montana return. A simple way to check if your federal refund is taxable is to subtract the refund you received in 2011 from the total federal income taxes you reported on Schedule III, lines 7a through 7d on your 2010 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 2010 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 2011 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 2011;
- You claimed itemized deductions on your 2010 Montana return; and
- Your only tax benefit recovery in 2011 was a refund of federal taxes you claimed as a deduction on your 2010 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 2010 or you recovered any other item that you claimed as a deduction on your Montana return in 2010 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* 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 2010 as reported on Form 2, Schedule III, lines 7a through 7d. ►	1			1
2	Enter the federal tax refund you received in 2011. ►	2			2
3	Enter any refundable credits claimed on your 2010 federal Form 1040, lines 63, 64a, 65, 66, 67, 70 and 71. If in 2010 you filed 1040A or 1040EZ, enter the amounts from Form 1040A lines 40, 41a, 42 and 43 or Form 1040EZ lines 8 and 9a. 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 2010 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 2010 Montana Form 2, Schedule III, line 31. If you took the standard deduction, stop; your federal income tax refund is not taxable. ►	8			8
9	Enter your 2010 Montana adjusted gross income from Form 2, line 41. ►	9			9
10	2010 standard deduction. Enter the amount below that corresponds to your 2010 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 $1,770 or more than $3,990. • If your filing status was married filing jointly or head of household, enter 20% (0.20) of line 9, but not less than $3,540 or more than $7,980. ►	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 2011. ►	12			12
13	Enter here your 2010 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. Please see the instructions on page 21 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 28. **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 $33,250 ($35,130 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 $3,760 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. Please 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. 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 23, 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	$31,370	$31,370	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 $3,760 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 jointly and only one spouse has pension and annuity income. Enter the smaller of that spouse's taxable pension and annuity income or $3,760. ►	4a			
4b	Married filing separately. Enter the smaller of each spouse's taxable pension and annuity income or $3,760 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 $3,760 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 separately (Form 2 filing status 1, 3a, 3b, or 3c), enter $4,110. *This is your maximum standard deduction.* If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter $8,220. *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 separately (Form 2 filing status 1, 3a, 3b, or 3c), enter $1,820. *This is your minimum standard deduction.* If your filing status is joint or head of household (Form 2 filing status 2 or 4), enter $3,640. *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 – 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 2011 for qualified mortgage insurance for a contract issued after December 31, 2006. ►			1	
2	Enter the amount 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 16. 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 16. **This is your qualified mortgage insurance premiums deduction.** ►			7	

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 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 relate to you:

- Your tax liability (after withholding and estimated tax payments) is less than $500.
- You did not have a 2010 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 2010 or 2011 after reaching the age of 62.
- You become disabled in either 2010 or 2011.
- You are a farmer or rancher and 66 2/3% of your 2011 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 2010 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 2011 income tax liability (after applying your tax credits) or 100% of your 2010 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 our website at *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 2011 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, that 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 2010 Form 2, line 54, 2010 Form 2M, line 47, or 2010 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 2011 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 2011.** ►	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 17, 2012, enter zero. If you paid the amount on line 8 before April 17, multiply the amount on line 8 by the number of days you paid before April 17 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	

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 22.

		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 21, and 23 through 34. 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 taxable to 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 22. **This is the amount of your social security benefits that is taxed by the federal government but not by Montana.** ►	20c			20c

No Staples

2011 Montana Individual Income Tax Return — Form 2

For the year Jan 1 – Dec 31, 2011 or the tax year beginning M M D D 2 0 1 1 and ending M M D D 2 0 Y Y

☒ Mark all that apply.

☐ Amended Return

☐ NOL Carryback

First Name and Initial	Last Name	Social Security Number	Deceased? Date of Death
			M M D D Y Y Y Y
Spouse's First Name and Initial	**Last Name**	**Spouse's Social Security Number**	**Deceased? Date of Death**
			M M D D Y Y Y Y

Mailing Address	City	State	Zip+4

Filing Status ☒ Mark only one box.

- ☐ 1 Single
- ☐ 2 Married filing jointly
- ☐ 3a Married filing separately on the same form
- ☐ 3b Married filing separately on separate forms
- ☐ 3c Married filing separately and spouse not filing → Spouse's SSN
- ☐ 4 Head of household

Residency Status ☒ Mark only one box.

- ☐ 5a Resident full year
- ☐ 5b Nonresident full year
- ☐ 5c Resident part-year

Resident Part-Year Required Information

Date of change ▶ M M D D Y Y Y Y

State moved to ▶ State moved from ▶

MONTANA e-file

Did you know? You can e-file this form. *revenue.mt.gov/efile*

Dependents

First Name	Last Name	Social Security Number	Relationship	Disabled
				◀ Yes
				◀ Yes
				◀ Yes
				◀ Yes

Exemptions

						Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
6a	X ◀ Yourself	☐ ◀ 65 or older	☐ ◀ Blind	Enter number marked ▶	6a		
6b	☐ ◀ Spouse	☐ ◀ 65 or older	☐ ◀ Blind	Enter number marked ▶	6b		
6c	Enter the total number of dependents. If more than 4 dependents, see instructions on page 3. ▶				6c		
6d	Add lines 6a through 6c and enter total exemptions here. ▶				6d		

Federal Income

Enter amounts on lines 7 through 38 corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

7	Wages, salaries, tips, etc. Include federal Form(s) W-2. ▶				7		00	00
8a	Taxable interest. Include federal Schedule B if required. ▶				8a		00	00
8b	Tax-exempt interest. Do not include on line 8a. ▶	8b	00	00				
9	Ordinary dividends. Include federal Schedule B if required. ▶				9		00	00
10	Taxable refunds, credits, or offsets of state and local income taxes. ▶				10		00	00
11	Alimony received. ▶				11		00	00
12	Business income or (loss). Include federal Schedule C or C-EZ. NAICS: ▶				12		00	00
13	Capital gain or (loss). Include federal Schedule D if required. ▶				13		00	00
14	Other gains or (losses). Include federal Schedule 4797. ▶				14		00	00
15a	IRA distributions. ▶	15a	00	00	Taxable amount. ▶	15b	00	00
16a	Pensions and annuities. ▶	16a	00	00	Taxable amount. ▶	16b	00	00
17	Rental real estate, royalties, partnerships, S corporations, trusts. Include federal Schedule E. ▶				17		00	00
18	Farm income or (loss). Include federal Schedule F. ▶				18		00	00
19	Unemployment compensation. ▶				19		00	00
20a	Social security benefits. ▶	20a	00	00	Taxable amount. ▶	20b	00	00
21	Other income; list type. ▶				Amount. ▶	21	00	00
22	Add the amounts in columns A and B for lines 7 thru 21.				**This is your total income.** ▶	22	00	00

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 Social Security Number:

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Federal Adjusted Gross Income						
23	Your total income from line 22. ▶	23		00		00
24	Educator expenses. ▶	24		00		00
25	Certain business expenses of reservist, etc. Include federal Form 2106 or 2106-EZ. ▶	25		00		00
26	Health savings account deduction. Include federal Form 8889. ▶	26		00		00
27	Moving expenses. Include federal Form 3903. ▶	27		00		00
28	Deductible part of self-employment tax. Attach federal Schedule SE. ▶	28		00		00
29	Self-employed SEP, SIMPLE, and qualified plans. ▶	29		00		00
30	Self-employed health insurance deduction. ▶	30		00		00
31	Penalty on early withdrawal of savings. ▶	31		00		00
32a	Alimony paid. ▶	32a		00		00
32b	Recipient's SSN. ▶ 32b					
33	IRA deduction. ▶	33		00		00
34	Student loan interest deduction. ▶	34		00		00
35	Tuition and fees. ▶	35		00		00
36	Domestic production activities deduction. Include federal Form 8903. ▶	36		00		00
37	Add lines 24 through 36 and enter the result here. ☐ Federal write-ins. ▶	37		00		00
38	Subtract line 37 from line 23 and enter the result here. ▶	38		00		00
38a	Combine amounts on line 38 columns A and B and enter here. **This is your federal adjusted gross income.** ▶	38a		00		
Montana AGI						
39	Enter Montana additions to federal adjusted gross income from Form 2, page 4, Schedule I, line 17. ▶	39		00		00
40	Enter Montana subtractions from federal adjusted gross income from Form 2, page 5, Schedule II, line 35. ▶	40		00		00
41	Add lines 38 and 39; subtract line 40. **This is your Montana adjusted gross income.** ▶	41		00		00
Taxable Income						
42	Deductions (☒ mark only one box) ☐ Standard Deduction (see Worksheet V on page 46) ☐ Itemized Deductions (from Form 2, Schedule III, line 32) ▶	42		00		00
43	Subtract line 42 from line 41 and enter the result here. ▶	43		00		00
44	Exemptions (All individuals are entitled to at least one exemption.) Multiply $2,190 by the number of exemptions on line 6d and enter the result here. ▶	44		00		00
45	Subtract line 44 from line 43 and enter the result here. **This is your taxable income.** ▶	45		00		00
Tax, Nonrefundable Credits and Recapture						
46	Tax from the tax table on page 7 or from Form 2, page 4. If line 45 is zero or less than zero, enter zero. ▶	46		00		00
47	2% capital gains tax credit. ▶	47		00		00
48	Subtract line 47 from line 46; enter the result here, but not less than zero. **This is your resident tax after capital gains tax credit.** ▶	48		00		00
48a	Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 22, but not less than zero. ▶	48a		00		00
49	Tax on lump-sum distributions. Include federal Form 4972. ▶	49		00		00
50	Add lines 48 or 48a and 49 and enter the result here. **This is your total tax.** ▶	50		00		00
51	Enter the amount from Form 2, Schedule V, line 23, but do not enter an amount larger than the amount on line 50. **This is your total nonrefundable credits.** ▶	51		00		00
52	Recapture tax(es) (see instructions on page 7). Code ☐☐ ☐☐ Code ▶	52		00		00
53	Add lines 50 and 52, then subtract the amount on line 51 and enter the result here. **This is your 2011 tax liability.** ▶	53		00		00

Questions? Call us toll free at (866) 859-2254 or in Helena at 444-6900 or TDD (406) 444-2830 for hearing impaired.

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 Social Security Number:

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Payments and Refundable Credits						
54	Your 2011 tax liability from line 53. ▶	54		00		00
55	Montana income tax withheld. Include federal Form(s) W-2 and 1099. ▶	55		00		00
56	Montana mineral royalty tax withheld. Include federal Form(s) 1099 and supporting schedule, if any. ▶	56		00		00
57	Montana pass through entity withholding. Include Montana Schedule K-1 or Form PT-WH. ▶	57		00		00
58	2011 estimated tax payments and amount applied from your 2010 return. ▶	58		00		00
59	2011 extension payments from Form EXT-11. ▶	59		00		00
60	Refundable credits from Form 2, Schedule V, line 29. ▶	60		00		00
61	**If filing an amended return:** Payments made with original return. ▶	61		00		00
62	**If filing an amended return:** Previously issued refunds. ▶	62		00		00
63	Add lines 55 through 61. Subtract line 62, enter the result here. **This is your total payments.** ▶	63		00		00
64	If line 54 is greater than line 63, subtract line 63 from line 54. **This is your tax due.** ▶	64		00		00
65	If line 63 is greater than line 54, subtract line 54 from line 63. **This is your tax overpaid.** ▶	65		00		00
Penalties, Interest and Contributions						
66	Interest on underpayment of estimated taxes (see instructions on page 9). ▶	66		00		
	If applicable, ☒ mark appropriate box: ☐ 2/3 farming gross income ☐ Estimated payments were made using the annualization method					
67	Late file penalty, late payment penalty and interest (see instructions on page 10). ▶	67		00		
68	Other penalties (see instructions on page 10). ▶	68		00		
69	Total voluntary check-off contribution programs from lines 69a through 69d. ▶	69		00		
69a	Nongame Wildlife Program ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69b	Child Abuse Prevention ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69c	Agriculture in Schools ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69d	Montana Military Family Relief Fund ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
70	Add lines 66 through 69 and enter the result. **This is the sum of your total penalties, interest and contributions.** ▶	70		00		
Amount You Owe or Your Refund						
71	If you have tax due (amount on line 64), add lines 64 and 70 OR, if you have a tax overpayment (amount on line 65) and it is less than line 70, subtract line 65 from line 70. Enter the result here. If married filing separately and there are amounts on lines 64 and 65, please see instructions on page 11. **This is the amount you owe.** ▶	71		00		
	Why not e-pay? See your options at revenue.mt.gov. *If writing a check, make it payable to MONTANA DEPARTMENT OF REVENUE.*					
72	If you have a tax overpayment (amount on line 65) and it is greater than line 70, subtract line 70 from line 65 and enter the result here. **This is your overpayment.** ▶	72		00		
73	Enter the amount from line 72 that you want applied to your 2012 estimated taxes. ▶	73		00		
74	Subtract line 73 from line 72 and enter the result here. **This is your refund.** ▶	74		00		

For Direct Deposit of your refund, complete 1, 2, 3, and 4 (please see instructions on page 12).

1. RTN#

2. ACCT#

3. If using direct deposit, you are required to mark one box. ▶ ☐ Checking ☐ Savings

4. Is this refund going to an account that is located outside of the United States or its territories? ▶ ☐ Yes ☐ No

Under penalties of false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Your Signature is Required	Date	Daytime Telephone Number	Spouse's Signature	Date
Paid Preparer's Signature		Paid Preparer's PTIN/SSN	Firm's FEIN	

Third Party Designee	Third Party Designee's Printed Name
Do you want to allow your spouse and another person to discuss this return with us (see page 13)? ☐ Yes ☐ No	Third Party Designee's Phone Number

☐ ☒ Mark this box if you do not want forms and instructions mailed to you next year.

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 Social Security Number:

Schedule I - Montana Additions to Federal Adjusted Gross Income

Enter your additions to federal adjusted gross income on the corresponding line.
File Schedule I with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Interest and mutual fund dividends from state, county, or municipal bonds from other states. ►	1		00		00
2	Dividends not included in federal adjusted gross income. ►	2		00		00
3	Taxable federal refunds. Complete Worksheet II on page 44. ►	3		00		00
4	Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at *revenue.mt.gov*). ►	4		00		00
5	Addition to federal taxable social security benefits. Complete Worksheet VIII on page 48. ►	5		00		00
6	Sole proprietor's allocation of compensation to spouse. ►	6		00		00
7	Medical care savings account nonqualified withdrawals. ►	7		00		00
8	First-time home buyer savings account nonqualified withdrawals. ►	8		00		00
9	Farm and ranch risk management account taxable distributions. ►	9		00		00
10	Addition for dependent care assistance credit adjustment. ►	10		00		00
11	Addition for smaller federal estate and trust taxable distributions. ►	11		00		00
12	Federal net operating loss carryover reported on Form 2, line 21. ►	12		00		00
13	Share of federal income taxes paid by your S corporation. ►	13		00		00
14	Title plant depreciation and amortization. ►	14		00		00
15	Premiums for Insure Montana small business health insurance credit. ►	15		00		00
16	Other additions. Specify: ► ►	16		00		00
17	Add lines 1 through 16. Enter total here and on Form 2, line 39. **This is your total Montana additions to federal adjusted gross income.** ►	17		00		00

2011 Montana Individual Income Tax Table

If Your Taxable Income Is More Than	But Not More Than	Multiply Your Taxable Income By	And Subtract	This Is Your Tax
$0	$2,700	1% (0.010)	$0	
$2,700	$4,700	2% (0.020)	$27	
$4,700	$7,200	3% (0.030)	$74	
$7,200	$9,700	4% (0.040)	$146	
$9,700	$12,500	5% (0.050)	$243	
$12,500	$16,000	6% (0.060)	$368	
More Than $16,000		6.9% (0.069)	$512	

For Example: Taxable Income $6,800 X 3% (0.030) = $204 $204 Minus $74 = $130 Tax

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 Social Security Number:

Schedule II - Montana Subtractions from Federal Adjusted Gross Income

Enter your subtractions from federal adjusted gross income on the corresponding line.
File Schedule II with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Exempt interest and mutual fund dividends from federal bonds, notes, and obligations. ►	1		00		00
2	Exempt tribal income. Include Form IND. ►	2		00		00
3	Exempt unemployment compensation. ►	3		00		00
4	Exempt workers' compensation benefits. ►	4		00		00
5	Exempt capital gains and dividends from small business investment companies. ►	5		00		00
6	State income tax refunds included on Form 2, line 10. ►	6		00		00
7	Recoveries of amounts deducted in earlier years that did not reduce Montana income tax. ►	7		00		00
8	Exempt military salary of residents on active duty. ►	8		00		00
9	Exempt income of nonresident military servicepersons. ►	9		00		00
10	Exempt life insurance premiums reimbursement for National Guard and Reservist. ►	10		00		00
11	Partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below. Complete Worksheet IV on page 45. ►	11		00		00
12	Partial interest exemption for taxpayers 65 and older. ►	12		00		00
13	Partial retirement disability income exemption for taxpayers under age 65. Include Form DS-1. ►	13		00		00
14	Exemption for certain taxed tips and gratuities. ►	14		00		00
15	Exemption for certain income of child taxed to parent. ►	15		00		00
16	Exemption for certain health insurance premiums taxed to employee. ►	16		00		00
17	Exemption for student loan repayments taxed to health care professional. ►	17		00		00
18	Exempt medical care savings account deposits and earnings. Include Form MSA. ►	18		00		00
19	Exempt first-time home buyer savings account deposits and earnings. Include Form FTB. ►	19		00		00
20	Exempt family education savings account deposits. ►	20		00		00
21	Exempt farm and ranch risk management account deposits. Include Form FRM. ►	21		00		00
22	Subtraction from federal taxable social security benefits/Tier I Railroad Retirement reported on Form 2, line 20b. Complete Worksheet VIII on page 48. ►	22		00		00
23	Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b. ►	23		00		00
24	Passive loss adjustment. ►	24		00		00
25	Capital loss adjustment. ►	25		00		00
26	Subtraction of sole proprietor for allocation of compensation to spouse. ►	26		00		00
27	Montana net operating loss carryover from Montana Form NOL, Schedule B. ►	27		00		00
28	40% capital gain exclusion for pre-1987 installment sales. Complete Worksheet III on page 45. ►	28		00		00
29	Subtraction for business-related expenses for purchasing recycled material. Include Form RCYL. ►	29		00		00
30	Subtraction for sales of land to beginning farmers. ►	30		00		00
31	Subtraction for larger federal estate and trust taxable distribution. ►	31		00		00
32	Subtraction for wage deduction reduced by federal targeted jobs credit. ►	32		00		00
33	Subtraction for certain gains recognized by liquidating corporation. ►	33		00		00
34	Other subtractions. Specify: ► ►	34		00		00
35	Add lines 1 through 34, enter total here and on Form 2, line 40. **This is your total Montana subtractions from federal adjusted gross income.** ►	35		00		00

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Schedule III - Montana Itemized Deductions

Enter your itemized deductions on the corresponding line.
File Schedule III with your Montana Form 2.

												Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Medical and dental expenses.	▶	1		00		00								
2	Enter the amount from Form 2, line 41.	▶	2		00		00								
3	Multiply line 2 by 7.5% (0.075).	▶	3		00		00								
4	Subtract line 3 from line 1 and enter the result here, but not less than zero. **This is your deductible medical and dental expense subject to 7.5% of Montana AGI.**	▶							4		00		00
5	Medical insurance premiums not deducted elsewhere on your return.	▶							5		00		00
6	Long term care insurance premiums not deducted elsewhere on your return.	▶							6		00		00

Complete lines 7a through 7d reporting your total federal income tax payments made in 2011 before completing line 7e. You cannot deduct your self-employment taxes paid on lines 7a through 7d.

7a	Federal income tax withheld in 2011.	▶	7a		00		00							
7b	Federal estimated tax payments paid in 2011.	▶	7b		00		00							
7c	2010 federal income taxes paid in 2011.	▶	7c		00		00							
7d	Other back year federal income taxes paid in 2011. Include federal Form 1040 or 1040A.	▶	7d		00		00							
7e	Add lines 7a through 7d and enter the result here, but not more than $5,000 if you are filing single, head of household, or married filing separately; or $10,000 if filing a joint return with your spouse. **This is your federal income tax deduction.**	▶							7e		00		00
8	General state and local sales taxes paid in 2011 (see instructions on page 24).	▶							8		00		00
9	Local income taxes paid in 2011 (see instructions on page 24).	▶							9		00		00
10	Real estate taxes paid in 2011.	▶							10		00		00
11	Personal property taxes paid in 2011 (see instructions on page 24).	▶							11		00		00
12	Other deductible taxes paid in 2011. List type and amount: ▼	▶							12		00		00
13	Home mortgage interest and points reported to you on federal Form 1098.	▶							13		00		00
14	Home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. ▼	▶							14		00		00
15	Points not reported to you on federal Form 1098.	▶							15		00		00
16	Qualified mortgage insurance premiums (see instructions on page 25).	▶							16		00		00
17	Investment interest. Include federal Form 4952.	▶							17		00		00
18	Charitable contributions made by cash or check during 2011.	▶							18		00		00
19	Charitable contributions made by other than cash or check during 2011.	▶							19		00		00
20	Charitable contribution carryover from the prior year.	▶							20		00		00
21	Child and dependent care expenses. Include Montana Form 2441-M.	▶							21		00		00
22	Casualty or theft loss(es). Include federal Form 4684.	▶							22		00		00
23	Unreimbursed employee business expenses. Include federal Form 2106 or 2106-EZ.	▶	23		00		00							
24	Other expenses. List type and amount: ▼	▶	24		00		00							
25	Add lines 23 and 24.	▶	25		00		00							
26	Enter the amount from Form 2, line 41.	▶	26		00		00							
27	Multiply line 26 by 2% (0.02).	▶	27		00		00							
28	Subtract line 27 from line 25 and enter the result here, but not less than zero.	▶							28		00		00
29	Political contributions (limited to $100 per taxpayer).	▶							29		00		00
30	Other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: ▼	▶							30		00		00
31	Gambling losses allowed under federal law.	▶							31		00		00
32	Add lines 4 through 6; 7e through 22; and 28 through 31 and enter result here and on Form 2, line 42. **This is your total itemized deductions.**	▶							32		00		00

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Schedule IV - Nonresident/Part-Year Resident Tax

Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and lines 39 and 40.

File Schedule IV with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Montana wages, salaries, tips, etc. ►	1	00	00
2	Montana interest. ►	2	00	00
3	Montana ordinary dividends. ►	3	00	00
4	Montana refunds, credits, or offsets of state and local income taxes. ►	4	00	00
5	Montana alimony received. ►	5	00	00
6	Montana business income or (loss). ►	6	00	00
7	Montana capital gain or (loss). ►	7	00	00
8	Other Montana gains or (losses). ►	8	00	00
9	Montana IRA distribution. ►	9	00	00
10	Montana pensions and annuities. ►	10	00	00
11	Montana rental real estate, royalties, partnerships, S corporations, trust, etc. ►	11	00	00
12	Montana farm income or (loss). ►	12	00	00
13	Montana social security benefits. ►	13	00	00
14	Any other Montana income (see instructions). ►	14	00	00
15	Montana source additions to income reported on Form 2, Schedule I (do not include net operating losses reported on Schedule I, line 12). ►	15	00	00
16	Add lines 1 through 15 and enter the result here. **This is your Montana source income.** ►	16	00	00
17	Add your total federal income from Form 2, line 22 and your Montana additions to federal adjusted gross income from Form 2, Schedule I (do not include net operating losses reported on Schedule I, line 12), and enter the result here. ►	17	00	00
18	Subtract your Montana net operating losses (reported on Form 2, Schedule II, line 27) from your total Montana subtractions from federal adjusted gross income (reported on Form 2, Schedule II, line 35). Enter the result here. ►	18	00	00
19	Subtract line 18 from line 17. **This is your total income from all sources.** ►	19	00	00
20	Divide the amount on line 16 by the amount on line 19 and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000. ►	20	.	.
21	Enter your resident tax after capital gains tax credit from Form 2, line 48. ►	21	00	00
22	Multiply the tax on line 21 by the percentage on line 20 and enter the result here and on Form 2, line 48a. **This is your nonresident, part-year resident tax after capital gains tax credit.** ►	22	00	00

How do I determine what qualifies as my Montana source income when I am a nonresident of Montana?

In general, as a nonresident of Montana your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

How do I determine my Montana source income when I am a part-year resident of Montana?

As a part-year resident you are considered a resident for part of the year and a nonresident for the other part of the year.

In general, for the part of the year that you are a nonresident, your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

For the part of the year that you are a resident, all of your income that you receive, no matter where you earn it, is Montana source income.

Where can I find further information on what is included in my Montana source income?

For further information and a line-by-line description of what Montana source income is, refer to Form 2, Schedule IV instructions beginning on page 27.

 Social Security Number:

Schedule V - Montana Tax Credits

Enter your Montana tax credits on the corresponding line.
File Schedule V with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Nonrefundable credits that are single-year credits and HAVE NO carryover provision						
1	Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10. ▶	1		00		00
2	College contribution credit. Include Form CC. ▶	2		00		00
3	Qualified endowment credit. Include Form QEC. ▶	3		00		00
4	Energy conservation installation credit. Include Form ENRG-C. ▶	4		00		00
5	Alternative fuel credit. Include Form AFCR. ▶	5		00		00
6	Health insurance for uninsured Montanans credit. Include Form HI. ▶	6		00		00
7	Elderly care credit. Include Form ECC. ▶	7		00		00
8	Recycle credit. Include Form RCYL. ▶	8		00		00
Nonrefundable credits that HAVE a carryover provision						
9	Oilseed crushing and biodiesel/biolubricant production facility credit. Include Form OSC. ▶	9		00		00
10	Biodiesel blending and storage credit. Include Form BBSC. ▶	10		00		00
11	Contractor's gross receipts tax credit. If multiple CGR accounts, please ☒ mark here. ☐ CGR Account ID: ▶ ☐☐☐☐☐☐☐ – ☐☐☐ – CGR ▶	11		00		00
12	Geothermal systems credit. Include Form ENRG-A. ▶	12		00		00
13	Alternative energy systems credit. Include Form ENRG-B. ▶	13		00		00
14	Alternative energy production credit. Include Form AEPC. ▶	14		00		00
15	Dependent care assistance credit. Include Form DCAC. ▶	15		00		00
16	Historic property preservation credit. Include federal Form 3468. ▶	16		00		00
17	Infrastructure users fee credit. Include Form IUFC. ▶	17		00		00
18	Empowerment zone credit. ▶	18		00		00
19	Increasing research activities credit. Include Form RSCH. ▶	19		00		00
20	Mineral and coal exploration incentive credit. Include Form MINE-CRED. ▶	20		00		00
21	Film employment production credit. Include Form FPC. Report your credit on this line if you have made the one-time four-year carryforward election. ▶	21		00		00
22	Adoption credit. Include federal Form 8839. ▶	22		00		00
23	Add lines 1 through 22 and enter the result here and on Form 2, line 51. **This is your total nonrefundable credits.** ▶	23		00		00
Refundable credits						
24	Elderly homeowner/renter credit. Include Form 2EC. ▶	24		00		00
25	Film employment production credit. Include Form FPC. ▶	25		00		00
26	Film qualified expenditures credit. Include Form FPC. ▶	26		00		00
27	Insure Montana small business health insurance credit. Business FEIN: ▶ ☐☐ – ☐☐☐☐☐☐☐ ▶	27		00		00
28	Temporary emergency lodging credit. Include Form TELC. ▶	28		00		00
29	Add lines 24 through 28 and enter the result here and on Form 2, line 60. **This is your total refundable credits.** ▶	29		00		00

Montana Tax Credits

We have listed the 26 Montana tax credits available to you under three categories. With the exception of the capital gains tax credit, which is required to be applied before any other credit, you are not required to apply any of these 26 tax credits against your income tax liability in any particular order. For more information about these tax credits, please see the instructions on page 30.

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Schedule VI - Credit for an Income Tax Liability Paid to Another State or Country
Full-year Resident Only

File Schedule VI with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Enter your income taxable to another state or country that is included in Montana adjusted gross income on Form 2, line 41. ▶	1	00	00
2	Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. ▼ ▼ ▶	2	00	00
3	Enter your total Montana adjusted gross income from Form 2, line 41. ▶	3	00	00
4	Enter your total income tax liability paid to the other state or country. ▶	4	00	00
5	Enter your Montana tax liability from Form 2, line 48. ▶	5	00	00
6	Divide line 1 by line 2. Enter the percentage here, but not more than 100%. ▶	6	. %	. %
7	Multiply line 4 by line 6 and enter the result here. ▶	7	00	00
8	Divide line 1 by line 3. Enter the percentage here, but not more than 100%. ▶	8	. %	. %
9	Multiply line 5 by line 8 and enter the result here. ▶	9	00	00
10	Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. **This is your credit for an income tax paid to another state or country.** ▶	10	00	00

Schedule VII - Credit for an Income Tax Liability Paid to Another State or Country
Part-year Resident Only

File Schedule VII with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Enter your income taxable to another state or country that is included in Montana source income on Form 2, Schedule IV, line 16, total Montana source income. ▶	1	00	00
2	Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. ▼ ▼ ▶	2	00	00
3	Enter your total Montana source income from Form 2, Schedule IV, line 16. ▶	3	00	00
4	Enter your total income tax liability paid to the other state or country. ▶	4	00	00
5	Enter your Montana tax liability from Form 2, line 48a. ▶	5	00	00
6	Divide line 1 by line 2. Enter the percentage here, but not more than 100%. ▶	6	. %	. %
7	Multiply line 4 by line 6 and enter the result here. ▶	7	00	00
8	Divide line 1 by line 3. Enter the percentage here, but not more than 100%. ▶	8	. %	. %
9	Multiply line 5 by line 8 and enter the result here. ▶	9	00	00
10	Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. **This is your credit for an income tax paid to another state or country.** ▶	10	00	00

- You are not entitled to a Montana tax credit for taxes paid to a foreign country to the extent you claimed these foreign taxes paid as a foreign tax credit on your federal income tax return.
- If you claim this credit for an income tax paid by your S corporation or partnership, see the instructions for Form 2, Schedule V, line 1 on page 30.
- Your credit is limited to an income tax liability paid on income that is also taxed by Montana.
- Your income tax paid includes your share of any excise or franchise taxes paid by your S corporation or partnership if they are imposed on the entity itself and measured by the entity's net income.
- This is a nonrefundable credit and cannot reduce your Montana tax liability below zero.
- This is a nonrefundable single-year credit. No unused credit amount can be carried forward.
- You will need to complete a separate Schedule VI or VII for each state or country to which you have paid an income tax liability. You cannot combine payments on one schedule.
- If you are a part-year resident, you will need to allocate your income using Form 2, Schedule IV before completing Form 2, Schedule VII.

 Social Security Number:

Schedule VIII - Reporting of Special Transactions

File Schedule VIII with your Montana Form 2.

Complete Schedule VIII only if you and/or your spouse filed any of the federal income tax forms described below. Mark the appropriate box indicating which form(s) you filed with the Internal Revenue Service for this tax year. If your answer is "Yes" to one or more of these forms, you will need to include a complete copy of your federal income tax return Form 1040.

☒ Mark "Yes" if you filed any of the following forms with the Internal Revenue Service.

1 I filed federal **Form 8824 - Like-Kind Exchanges** with the Internal Revenue Service. ► 1 Yes ►

NOTE: Mark "Yes" if your like-kind exchange includes Montana property. Nonresidents do not have to report a like-kind exchange if the properties involved do not include Montana property.
Form 8824 is used to report each exchange of business or investment property for property of a like kind.

2 I filed federal **Form 8865 - Return of U.S. Persons With Respect to Certain Foreign Partnerships** with the Internal Revenue Service. ► 2 Yes ►

Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest).

3 I filed federal **Form 8886 - Reportable Transaction Disclosure Statement** with the Internal Revenue Service. ► 3 Yes ►

Form 8886 is used to disclose information for each reportable transaction in which you participated.

No Staples

2011 Montana Individual Income Tax Return — Form 2

For the year Jan 1 – Dec 31, 2011 or the tax year beginning M M D D 2 0 1 1 and ending M M D D 2 0 Y Y

☒ Mark all that apply.

☐ Amended Return

☐ NOL Carryback

First Name and Initial	Last Name	Social Security Number	Deceased? Date of Death
			M M D D Y Y Y Y
Spouse's First Name and Initial	**Last Name**	**Spouse's Social Security Number**	**Deceased? Date of Death**
			M M D D Y Y Y Y

Mailing Address	City	State	Zip+4

Filing Status ☒ Mark only one box.

- ☐ 1 Single
- ☐ 2 Married filing jointly
- ☐ 3a Married filing separately on the same form
- ☐ 3b Married filing separately on separate forms
- ☐ 3c Married filing separately and spouse not filing → Spouse's SSN
- ☐ 4 Head of household

Residency Status ☒ Mark only one box.

- ☐ 5a Resident full year
- ☐ 5b Nonresident full year
- ☐ 5c Resident part-year

Resident Part-Year Required Information

Date of change ▶ M M D D Y Y Y Y

State moved to ▶ State moved from ▶

MONTANA e-file

Did you know? You can e-file this form. *revenue.mt.gov/efile*

Dependents

First Name	Last Name	Social Security Number	Relationship	Disabled
				◀ Yes
				◀ Yes
				◀ Yes
				◀ Yes

Exemptions

						Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
6a	X ◀ Yourself	☐ ◀ 65 or older	☐ ◀ Blind	Enter number marked ▶	6a		
6b	☐ ◀ Spouse	☐ ◀ 65 or older	☐ ◀ Blind	Enter number marked ▶	6b		
6c	Enter the total number of dependents. If more than 4 dependents, see instructions on page 3. ▶				6c		
6d	Add lines 6a through 6c and enter total exemptions here. ▶				6d		

Federal Income

Enter amounts on lines 7 through 38 corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

7	Wages, salaries, tips, etc. Include federal Form(s) W-2. ▶				7		00	00
8a	Taxable interest. Include federal Schedule B if required. ▶				8a		00	00
8b	Tax-exempt interest. Do not include on line 8a. ▶	8b	00	00				
9	Ordinary dividends. Include federal Schedule B if required. ▶				9		00	00
10	Taxable refunds, credits, or offsets of state and local income taxes. ▶				10		00	00
11	Alimony received. ▶				11		00	00
12	Business income or (loss). Include federal Schedule C or C-EZ. NAICS: ▶				12		00	00
13	Capital gain or (loss). Include federal Schedule D if required. ▶				13		00	00
14	Other gains or (losses). Include federal Schedule 4797. ▶				14		00	00
15a	IRA distributions. ▶	15a	00	00	Taxable amount. ▶	15b	00	00
16a	Pensions and annuities. ▶	16a	00	00	Taxable amount. ▶	16b	00	00
17	Rental real estate, royalties, partnerships, S corporations, trusts. Include federal Schedule E. ▶				17		00	00
18	Farm income or (loss). Include federal Schedule F. ▶				18		00	00
19	Unemployment compensation. ▶				19		00	00
20a	Social security benefits. ▶	20a	00	00	Taxable amount. ▶	20b	00	00
21	Other income; list type. ▶				Amount. ▶	21	00	00
22	Add the amounts in columns A and B for lines 7 thru 21.				**This is your total income.** ▶	22	00	00

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 Social Security Number:

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Federal Adjusted Gross Income						
23	Your total income from line 22. ▶	23		00		00
24	Educator expenses. ▶	24		00		00
25	Certain business expenses of reservist, etc. Include federal Form 2106 or 2106-EZ. ▶	25		00		00
26	Health savings account deduction. Include federal Form 8889. ▶	26		00		00
27	Moving expenses. Include federal Form 3903. ▶	27		00		00
28	Deductible part of self-employment tax. Attach federal Schedule SE. ▶	28		00		00
29	Self-employed SEP, SIMPLE, and qualified plans. ▶	29		00		00
30	Self-employed health insurance deduction. ▶	30		00		00
31	Penalty on early withdrawal of savings. ▶	31		00		00
32a	Alimony paid. ▶	32a		00		00
32b	Recipient's SSN. ▶ 32b					
33	IRA deduction. ▶	33		00		00
34	Student loan interest deduction. ▶	34		00		00
35	Tuition and fees. ▶	35		00		00
36	Domestic production activities deduction. Include federal Form 8903. ▶	36		00		00
37	Add lines 24 through 36 and enter the result here. ☐ Federal write-ins. ▶	37		00		00
38	Subtract line 37 from line 23 and enter the result here. ▶	38		00		00
38a	Combine amounts on line 38 columns A and B and enter here. **This is your federal adjusted gross income.** ▶	38a		00		
Montana AGI						
39	Enter Montana additions to federal adjusted gross income from Form 2, page 4, Schedule I, line 17. ▶	39		00		00
40	Enter Montana subtractions from federal adjusted gross income from Form 2, page 5, Schedule II, line 35. ▶	40		00		00
41	Add lines 38 and 39; subtract line 40. **This is your Montana adjusted gross income.** ▶	41		00		00
Taxable Income						
42	Deductions (☒ mark only one box) ☐ Standard Deduction (see Worksheet V on page 46) ☐ Itemized Deductions (from Form 2, Schedule III, line 32) ▶	42		00		00
43	Subtract line 42 from line 41 and enter the result here. ▶	43		00		00
44	Exemptions (All individuals are entitled to at least one exemption.) Multiply $2,190 by the number of exemptions on line 6d and enter the result here. ▶	44		00		00
45	Subtract line 44 from line 43 and enter the result here. **This is your taxable income.** ▶	45		00		00
Tax, Nonrefundable Credits and Recapture						
46	Tax from the tax table on page 7 or from Form 2, page 4. If line 45 is zero or less than zero, enter zero. ▶	46		00		00
47	2% capital gains tax credit. ▶	47		00		00
48	Subtract line 47 from line 46; enter the result here, but not less than zero. **This is your resident tax after capital gains tax credit.** ▶	48		00		00
48a	Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 22, but not less than zero. ▶	48a		00		00
49	Tax on lump-sum distributions. Include federal Form 4972. ▶	49		00		00
50	Add lines 48 or 48a and 49 and enter the result here. **This is your total tax.** ▶	50		00		00
51	Enter the amount from Form 2, Schedule V, line 23, but do not enter an amount larger than the amount on line 50. **This is your total nonrefundable credits.** ▶	51		00		00
52	Recapture tax(es) (see instructions on page 7). Code ☐☐ ☐☐ Code ▶	52		00		00
53	Add lines 50 and 52, then subtract the amount on line 51 and enter the result here. **This is your 2011 tax liability.** ▶	53		00		00

Questions? Call us toll free at (866) 859-2254 or in Helena at 444-6900 or TDD (406) 444-2830 for hearing impaired.

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 Social Security Number:

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Payments and Refundable Credits						
54	Your 2011 tax liability from line 53. ▶	54		00		00
55	Montana income tax withheld. Include federal Form(s) W-2 and 1099. ▶	55		00		00
56	Montana mineral royalty tax withheld. Include federal Form(s) 1099 and supporting schedule, if any. ▶	56		00		00
57	Montana pass through entity withholding. Include Montana Schedule K-1 or Form PT-WH. ▶	57		00		00
58	2011 estimated tax payments and amount applied from your 2010 return. ▶	58		00		00
59	2011 extension payments from Form EXT-11. ▶	59		00		00
60	Refundable credits from Form 2, Schedule V, line 29. ▶	60		00		00
61	**If filing an amended return:** Payments made with original return. ▶	61		00		00
62	**If filing an amended return:** Previously issued refunds. ▶	62		00		00
63	Add lines 55 through 61. Subtract line 62, enter the result here. **This is your total payments.** ▶	63		00		00
64	If line 54 is greater than line 63, subtract line 63 from line 54. **This is your tax due.** ▶	64		00		00
65	If line 63 is greater than line 54, subtract line 54 from line 63. **This is your tax overpaid.** ▶	65		00		00
Penalties, Interest and Contributions						
66	Interest on underpayment of estimated taxes (see instructions on page 9). ▶	66		00		
	If applicable, ☒ mark appropriate box: ☐ 2/3 farming gross income ☐ Estimated payments were made using the annualization method					
67	Late file penalty, late payment penalty and interest (see instructions on page 10). ▶	67		00		
68	Other penalties (see instructions on page 10). ▶	68		00		
69	Total voluntary check-off contribution programs from lines 69a through 69d. ▶	69		00		
69a	Nongame Wildlife Program ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69b	Child Abuse Prevention ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69c	Agriculture in Schools ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
69d	Montana Military Family Relief Fund ☐ ◀ $5 ☐ ◀ $10 00 ◀ other amount					
70	Add lines 66 through 69 and enter the result. **This is the sum of your total penalties, interest and contributions.** ▶	70		00		
Amount You Owe or Your Refund						
71	If you have tax due (amount on line 64), add lines 64 and 70 OR, if you have a tax overpayment (amount on line 65) and it is less than line 70, subtract line 65 from line 70. Enter the result here. If married filing separately and there are amounts on lines 64 and 65, please see instructions on page 11. **This is the amount you owe.** ▶	71		00		
	Why not e-pay? See your options at revenue.mt.gov. *If writing a check, make it payable to MONTANA DEPARTMENT OF REVENUE.*					
72	If you have a tax overpayment (amount on line 65) and it is greater than line 70, subtract line 70 from line 65 and enter the result here. **This is your overpayment.** ▶	72		00		
73	Enter the amount from line 72 that you want applied to your 2012 estimated taxes. ▶	73		00		
74	Subtract line 73 from line 72 and enter the result here. **This is your refund.** ▶	74		00		

For Direct Deposit of your refund, complete 1, 2, 3, and 4 (please see instructions on page 12).

1. RTN#

2. ACCT#

3. If using direct deposit, you are required to mark one box. ▶ ☐ Checking ☐ Savings

4. Is this refund going to an account that is located outside of the United States or its territories? ▶ ☐ Yes ☐ No

Under penalties of false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Your Signature is Required	Date	Daytime Telephone Number	Spouse's Signature	Date
Paid Preparer's Signature		Paid Preparer's PTIN/SSN	Firm's FEIN	

Third Party Designee	Third Party Designee's Printed Name
Do you want to allow your spouse and another person to discuss this return with us (see page 13)? ☐ Yes ☐ No	Third Party Designee's Phone Number

☐ ☒ Mark this box if you do not want forms and instructions mailed to you next year.

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 Social Security Number:

Schedule I - Montana Additions to Federal Adjusted Gross Income

Enter your additions to federal adjusted gross income on the corresponding line.
File Schedule I with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Interest and mutual fund dividends from state, county, or municipal bonds from other states. ►	1		00		00
2	Dividends not included in federal adjusted gross income. ►	2		00		00
3	Taxable federal refunds. Complete Worksheet II on page 44. ►	3		00		00
4	Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at *revenue.mt.gov*). ►	4		00		00
5	Addition to federal taxable social security benefits. Complete Worksheet VIII on page 48. ►	5		00		00
6	Sole proprietor's allocation of compensation to spouse. ►	6		00		00
7	Medical care savings account nonqualified withdrawals. ►	7		00		00
8	First-time home buyer savings account nonqualified withdrawals. ►	8		00		00
9	Farm and ranch risk management account taxable distributions. ►	9		00		00
10	Addition for dependent care assistance credit adjustment. ►	10		00		00
11	Addition for smaller federal estate and trust taxable distributions. ►	11		00		00
12	Federal net operating loss carryover reported on Form 2, line 21. ►	12		00		00
13	Share of federal income taxes paid by your S corporation. ►	13		00		00
14	Title plant depreciation and amortization. ►	14		00		00
15	Premiums for Insure Montana small business health insurance credit. ►	15		00		00
16	Other additions. Specify: ► ►	16		00		00
17	Add lines 1 through 16. Enter total here and on Form 2, line 39. **This is your total Montana additions to federal adjusted gross income.** ►	17		00		00

2011 Montana Individual Income Tax Table

If Your Taxable Income Is More Than	But Not More Than	Multiply Your Taxable Income By	And Subtract	This Is Your Tax
$0	$2,700	1% (0.010)	$0	
$2,700	$4,700	2% (0.020)	$27	
$4,700	$7,200	3% (0.030)	$74	
$7,200	$9,700	4% (0.040)	$146	
$9,700	$12,500	5% (0.050)	$243	
$12,500	$16,000	6% (0.060)	$368	
More Than $16,000		6.9% (0.069)	$512	

For Example: Taxable Income $6,800 X 3% (0.030) = $204 $204 Minus $74 = $130 Tax

11CF0188

 Social Security Number:

Schedule II - Montana Subtractions from Federal Adjusted Gross Income

Enter your subtractions from federal adjusted gross income on the corresponding line.
File Schedule II with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Exempt interest and mutual fund dividends from federal bonds, notes, and obligations. ►	1		00		00
2	Exempt tribal income. Include Form IND. ►	2		00		00
3	Exempt unemployment compensation. ►	3		00		00
4	Exempt workers' compensation benefits. ►	4		00		00
5	Exempt capital gains and dividends from small business investment companies. ►	5		00		00
6	State income tax refunds included on Form 2, line 10. ►	6		00		00
7	Recoveries of amounts deducted in earlier years that did not reduce Montana income tax. ►	7		00		00
8	Exempt military salary of residents on active duty. ►	8		00		00
9	Exempt income of nonresident military servicepersons. ►	9		00		00
10	Exempt life insurance premiums reimbursement for National Guard and Reservist. ►	10		00		00
11	Partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below. Complete Worksheet IV on page 45. ►	11		00		00
12	Partial interest exemption for taxpayers 65 and older. ►	12		00		00
13	Partial retirement disability income exemption for taxpayers under age 65. Include Form DS-1. ►	13		00		00
14	Exemption for certain taxed tips and gratuities. ►	14		00		00
15	Exemption for certain income of child taxed to parent. ►	15		00		00
16	Exemption for certain health insurance premiums taxed to employee. ►	16		00		00
17	Exemption for student loan repayments taxed to health care professional. ►	17		00		00
18	Exempt medical care savings account deposits and earnings. Include Form MSA. ►	18		00		00
19	Exempt first-time home buyer savings account deposits and earnings. Include Form FTB. ►	19		00		00
20	Exempt family education savings account deposits. ►	20		00		00
21	Exempt farm and ranch risk management account deposits. Include Form FRM. ►	21		00		00
22	Subtraction from federal taxable social security benefits/Tier I Railroad Retirement reported on Form 2, line 20b. Complete Worksheet VIII on page 48. ►	22		00		00
23	Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b. ►	23		00		00
24	Passive loss adjustment. ►	24		00		00
25	Capital loss adjustment. ►	25		00		00
26	Subtraction of sole proprietor for allocation of compensation to spouse. ►	26		00		00
27	Montana net operating loss carryover from Montana Form NOL, Schedule B. ►	27		00		00
28	40% capital gain exclusion for pre-1987 installment sales. Complete Worksheet III on page 45. ►	28		00		00
29	Subtraction for business-related expenses for purchasing recycled material. Include Form RCYL. ►	29		00		00
30	Subtraction for sales of land to beginning farmers. ►	30		00		00
31	Subtraction for larger federal estate and trust taxable distribution. ►	31		00		00
32	Subtraction for wage deduction reduced by federal targeted jobs credit. ►	32		00		00
33	Subtraction for certain gains recognized by liquidating corporation. ►	33		00		00
34	Other subtractions. Specify: ► ►	34		00		00
35	Add lines 1 through 34, enter total here and on Form 2, line 40. **This is your total Montana subtractions from federal adjusted gross income.** ►	35		00		00

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 Social Security Number:

Schedule III - Montana Itemized Deductions

Enter your itemized deductions on the corresponding line.
File Schedule III with your Montana Form 2.

												Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
1	Medical and dental expenses.	▶	1		00		00								
2	Enter the amount from Form 2, line 41.	▶	2		00		00								
3	Multiply line 2 by 7.5% (0.075).	▶	3		00		00								
4	Subtract line 3 from line 1 and enter the result here, but not less than zero. **This is your deductible medical and dental expense subject to 7.5% of Montana AGI.**	▶							4		00		00
5	Medical insurance premiums not deducted elsewhere on your return.	▶							5		00		00
6	Long term care insurance premiums not deducted elsewhere on your return.	▶							6		00		00

Complete lines 7a through 7d reporting your total federal income tax payments made in 2011 before completing line 7e. You cannot deduct your self-employment taxes paid on lines 7a through 7d.

7a	Federal income tax withheld in 2011.	▶	7a		00		00							
7b	Federal estimated tax payments paid in 2011.	▶	7b		00		00							
7c	2010 federal income taxes paid in 2011.	▶	7c		00		00							
7d	Other back year federal income taxes paid in 2011. Include federal Form 1040 or 1040A.	▶	7d		00		00							
7e	Add lines 7a through 7d and enter the result here, but not more than $5,000 if you are filing single, head of household, or married filing separately; or $10,000 if filing a joint return with your spouse. **This is your federal income tax deduction.**	▶							7e		00		00
8	General state and local sales taxes paid in 2011 (see instructions on page 24).	▶							8		00		00
9	Local income taxes paid in 2011 (see instructions on page 24).	▶							9		00		00
10	Real estate taxes paid in 2011.	▶							10		00		00
11	Personal property taxes paid in 2011 (see instructions on page 24).	▶							11		00		00
12	Other deductible taxes paid in 2011. List type and amount: ▼	▶							12		00		00
13	Home mortgage interest and points reported to you on federal Form 1098.	▶							13		00		00
14	Home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. ▼	▶							14		00		00
15	Points not reported to you on federal Form 1098.	▶							15		00		00
16	Qualified mortgage insurance premiums (see instructions on page 25).	▶							16		00		00
17	Investment interest. Include federal Form 4952.	▶							17		00		00
18	Charitable contributions made by cash or check during 2011.	▶							18		00		00
19	Charitable contributions made by other than cash or check during 2011.	▶							19		00		00
20	Charitable contribution carryover from the prior year.	▶							20		00		00
21	Child and dependent care expenses. Include Montana Form 2441-M.	▶							21		00		00
22	Casualty or theft loss(es). Include federal Form 4684.	▶							22		00		00
23	Unreimbursed employee business expenses. Include federal Form 2106 or 2106-EZ.	▶	23		00		00							
24	Other expenses. List type and amount: ▼	▶	24		00		00							
25	Add lines 23 and 24.	▶	25		00		00							
26	Enter the amount from Form 2, line 41.	▶	26		00		00							
27	Multiply line 26 by 2% (0.02).	▶	27		00		00							
28	Subtract line 27 from line 25 and enter the result here, but not less than zero.	▶							28		00		00
29	Political contributions (limited to $100 per taxpayer).	▶							29		00		00
30	Other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: ▼	▶							30		00		00
31	Gambling losses allowed under federal law.	▶							31		00		00
32	Add lines 4 through 6; 7e through 22; and 28 through 31 and enter result here and on Form 2, line 42. **This is your total itemized deductions.**	▶							32		00		00

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Schedule IV - Nonresident/Part-Year Resident Tax

Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and lines 39 and 40.

File Schedule IV with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Montana wages, salaries, tips, etc. ►	1	00	00
2	Montana interest. ►	2	00	00
3	Montana ordinary dividends. ►	3	00	00
4	Montana refunds, credits, or offsets of state and local income taxes. ►	4	00	00
5	Montana alimony received. ►	5	00	00
6	Montana business income or (loss). ►	6	00	00
7	Montana capital gain or (loss). ►	7	00	00
8	Other Montana gains or (losses). ►	8	00	00
9	Montana IRA distribution. ►	9	00	00
10	Montana pensions and annuities. ►	10	00	00
11	Montana rental real estate, royalties, partnerships, S corporations, trust, etc. ►	11	00	00
12	Montana farm income or (loss). ►	12	00	00
13	Montana social security benefits. ►	13	00	00
14	Any other Montana income (see instructions). ►	14	00	00
15	Montana source additions to income reported on Form 2, Schedule I (do not include net operating losses reported on Schedule I, line 12). ►	15	00	00
16	Add lines 1 through 15 and enter the result here. **This is your Montana source income.** ►	16	00	00
17	Add your total federal income from Form 2, line 22 and your Montana additions to federal adjusted gross income from Form 2, Schedule I (do not include net operating losses reported on Schedule I, line 12), and enter the result here. ►	17	00	00
18	Subtract your Montana net operating losses (reported on Form 2, Schedule II, line 27) from your total Montana subtractions from federal adjusted gross income (reported on Form 2, Schedule II, line 35). Enter the result here. ►	18	00	00
19	Subtract line 18 from line 17. **This is your total income from all sources.** ►	19	00	00
20	Divide the amount on line 16 by the amount on line 19 and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000. ►	20	.	.
21	Enter your resident tax after capital gains tax credit from Form 2, line 48. ►	21	00	00
22	Multiply the tax on line 21 by the percentage on line 20 and enter the result here and on Form 2, line 48a. **This is your nonresident, part-year resident tax after capital gains tax credit.** ►	22	00	00

How do I determine what qualifies as my Montana source income when I am a nonresident of Montana?

In general, as a nonresident of Montana your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

How do I determine my Montana source income when I am a part-year resident of Montana?

As a part-year resident you are considered a resident for part of the year and a nonresident for the other part of the year.

In general, for the part of the year that you are a nonresident, your Montana source income is all the income that you receive for work that you perform in Montana, income that you receive from real or personal property that is located in Montana, and income that you receive from a business conducted in Montana.

For the part of the year that you are a resident, all of your income that you receive, no matter where you earn it, is Montana source income.

Where can I find further information on what is included in my Montana source income?

For further information and a line-by-line description of what Montana source income is, refer to Form 2, Schedule IV instructions beginning on page 27.

 Social Security Number:

Schedule V - Montana Tax Credits

Enter your Montana tax credits on the corresponding line.
File Schedule V with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)		Column B (for spouse when filing separately using filing status 3a)	
Nonrefundable credits that are single-year credits and HAVE NO carryover provision						
1	Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10. ▶	1		00		00
2	College contribution credit. Include Form CC. ▶	2		00		00
3	Qualified endowment credit. Include Form QEC. ▶	3		00		00
4	Energy conservation installation credit. Include Form ENRG-C. ▶	4		00		00
5	Alternative fuel credit. Include Form AFCR. ▶	5		00		00
6	Health insurance for uninsured Montanans credit. Include Form HI. ▶	6		00		00
7	Elderly care credit. Include Form ECC. ▶	7		00		00
8	Recycle credit. Include Form RCYL. ▶	8		00		00
Nonrefundable credits that HAVE a carryover provision						
9	Oilseed crushing and biodiesel/biolubricant production facility credit. Include Form OSC. ▶	9		00		00
10	Biodiesel blending and storage credit. Include Form BBSC. ▶	10		00		00
11	Contractor's gross receipts tax credit. If multiple CGR accounts, please ☒ mark here. ☐ CGR Account ID: ▶ ☐☐☐☐☐☐☐ – ☐☐☐ – CGR ▶	11		00		00
12	Geothermal systems credit. Include Form ENRG-A. ▶	12		00		00
13	Alternative energy systems credit. Include Form ENRG-B. ▶	13		00		00
14	Alternative energy production credit. Include Form AEPC. ▶	14		00		00
15	Dependent care assistance credit. Include Form DCAC. ▶	15		00		00
16	Historic property preservation credit. Include federal Form 3468. ▶	16		00		00
17	Infrastructure users fee credit. Include Form IUFC. ▶	17		00		00
18	Empowerment zone credit. ▶	18		00		00
19	Increasing research activities credit. Include Form RSCH. ▶	19		00		00
20	Mineral and coal exploration incentive credit. Include Form MINE-CRED. ▶	20		00		00
21	Film employment production credit. Include Form FPC. Report your credit on this line if you have made the one-time four-year carryforward election. ▶	21		00		00
22	Adoption credit. Include federal Form 8839. ▶	22		00		00
23	Add lines 1 through 22 and enter the result here and on Form 2, line 51. **This is your total nonrefundable credits.** ▶	23		00		00
Refundable credits						
24	Elderly homeowner/renter credit. Include Form 2EC. ▶	24		00		00
25	Film employment production credit. Include Form FPC. ▶	25		00		00
26	Film qualified expenditures credit. Include Form FPC. ▶	26		00		00
27	Insure Montana small business health insurance credit. Business FEIN: ▶ ☐☐ – ☐☐☐☐☐☐☐ ▶	27		00		00
28	Temporary emergency lodging credit. Include Form TELC. ▶	28		00		00
29	Add lines 24 through 28 and enter the result here and on Form 2, line 60. **This is your total refundable credits.** ▶	29		00		00

Montana Tax Credits

We have listed the 26 Montana tax credits available to you under three categories. With the exception of the capital gains tax credit, which is required to be applied before any other credit, you are not required to apply any of these 26 tax credits against your income tax liability in any particular order. For more information about these tax credits, please see the instructions on page 30.

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 Social Security Number:

Schedule VI - Credit for an Income Tax Liability Paid to Another State or Country
Full-year Resident Only

File Schedule VI with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Enter your income taxable to another state or country that is included in Montana adjusted gross income on Form 2, line 41. ▶	1	00	00
2	Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. ▼ ▼ ▶	2	00	00
3	Enter your total Montana adjusted gross income from Form 2, line 41. ▶	3	00	00
4	Enter your total income tax liability paid to the other state or country. ▶	4	00	00
5	Enter your Montana tax liability from Form 2, line 48. ▶	5	00	00
6	Divide line 1 by line 2. Enter the percentage here, but not more than 100%. ▶	6	. %	. %
7	Multiply line 4 by line 6 and enter the result here. ▶	7	00	00
8	Divide line 1 by line 3. Enter the percentage here, but not more than 100%. ▶	8	. %	. %
9	Multiply line 5 by line 8 and enter the result here. ▶	9	00	00
10	Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. **This is your credit for an income tax paid to another state or country.** ▶	10	00	00

Schedule VII - Credit for an Income Tax Liability Paid to Another State or Country
Part-year Resident Only

File Schedule VII with your Montana Form 2.

			Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Enter your income taxable to another state or country that is included in Montana source income on Form 2, Schedule IV, line 16, total Montana source income. ▶	1	00	00
2	Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. ▼ ▼ ▶	2	00	00
3	Enter your total Montana source income from Form 2, Schedule IV, line 16. ▶	3	00	00
4	Enter your total income tax liability paid to the other state or country. ▶	4	00	00
5	Enter your Montana tax liability from Form 2, line 48a. ▶	5	00	00
6	Divide line 1 by line 2. Enter the percentage here, but not more than 100%. ▶	6	. %	. %
7	Multiply line 4 by line 6 and enter the result here. ▶	7	00	00
8	Divide line 1 by line 3. Enter the percentage here, but not more than 100%. ▶	8	. %	. %
9	Multiply line 5 by line 8 and enter the result here. ▶	9	00	00
10	Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. **This is your credit for an income tax paid to another state or country.** ▶	10	00	00

- You are not entitled to a Montana tax credit for taxes paid to a foreign country to the extent you claimed these foreign taxes paid as a foreign tax credit on your federal income tax return.
- If you claim this credit for an income tax paid by your S corporation or partnership, see the instructions for Form 2, Schedule V, line 1 on page 30.
- Your credit is limited to an income tax liability paid on income that is also taxed by Montana.
- Your income tax paid includes your share of any excise or franchise taxes paid by your S corporation or partnership if they are imposed on the entity itself and measured by the entity's net income.
- This is a nonrefundable credit and cannot reduce your Montana tax liability below zero.
- This is a nonrefundable single-year credit. No unused credit amount can be carried forward.
- You will need to complete a separate Schedule VI or VII for each state or country to which you have paid an income tax liability. You cannot combine payments on one schedule.
- If you are a part-year resident, you will need to allocate your income using Form 2, Schedule IV before completing Form 2, Schedule VII.

 Social Security Number:

Schedule VIII - Reporting of Special Transactions

File Schedule VIII with your Montana Form 2.

Complete Schedule VIII only if you and/or your spouse filed any of the federal income tax forms described below. Mark the appropriate box indicating which form(s) you filed with the Internal Revenue Service for this tax year. If your answer is "Yes" to one or more of these forms, you will need to include a complete copy of your federal income tax return Form 1040.

☒ Mark "Yes" if you filed any of the following forms with the Internal Revenue Service.

1 I filed federal **Form 8824 - Like-Kind Exchanges** with the Internal Revenue Service. ► 1 Yes ►

NOTE: Mark "Yes" if your like-kind exchange includes Montana property. Nonresidents do not have to report a like-kind exchange if the properties involved do not include Montana property.
Form 8824 is used to report each exchange of business or investment property for property of a like kind.

2 I filed federal **Form 8865 - Return of U.S. Persons With Respect to Certain Foreign Partnerships** with the Internal Revenue Service. ► 2 Yes ►

Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest).

3 I filed federal **Form 8886 - Reportable Transaction Disclosure Statement** with the Internal Revenue Service. ► 3 Yes ►

Form 8886 is used to disclose information for each reportable transaction in which you participated.

Did you know? You can e-file this form. revenue.mt.gov/efile

2011 Montana Elderly Homeowner/Renter Credit

Form 2EC

File alone or with your Form 2 or Form 2M. Free electronic filing is available at *revenue.mt.gov.*

☐ Mark this box if this is an **amended form**.

First Name and Initial	Last Name	Social Security Number	Deceased? Date of Death
			M M D D Y Y Y Y
Spouse's First Name and Initial	**Last Name**	**Spouse's Social Security Number**	**Deceased? Date of Death**
			M M D D Y Y Y Y

Mailing Address	City	State	Zip+4

Part I - Qualifications (You must answer "Yes" to each of the following four statements in order to qualify for this credit.)

I was age 62 or older as of December 31, 2011.	◀ Yes	◀ No
I occupied a Montana residence as an owner or renter for a total of six months or more during 2011.	◀ Yes	◀ No
I resided in Montana for nine months or more during 2011.	◀ Yes	◀ No
My gross household income was less than $45,000 in 2011.	◀ Yes	◀ No

Part II - Household Income

1	Enter your total gross household income (see Income Source Worksheet in the instructions). ▶	1	00
2	Your standard exclusion is entered here for you. ▶	2	6300 00
3	Subtract line 2 from line 1 and enter the result here, but not less than zero. ▶	3	00
4	Enter your multiplier rate from the Household Income Reduction Table located in the instructions. ▶	4	.
5	Multiply line 3 by line 4 and enter the result here. **This is your net household income.** ▶	5	00

Part III - Credit Computation

6	Enter the property tax that you were billed for your principal residence in 2011. ▶	6	00
7	Enter the rent that you paid in 2011 for your principal residence. ▶ 7 00		
8	Multiply line 7 by 0.15 (15%) and enter the result here. ▶	8	00
9	Add lines 6 and 8; enter the result here. ▶	9	00
10	Subtract line 5 from line 9 and enter the result here, but not less than zero. ▶	10	00
11	Enter the lesser of line 10 or $1,000. ▶	11	00
12	Enter the percentage from the Credit Multiplier Table in the instructions that corresponds to your gross household income reported on line 1. ▶	12	.
13	Multiply line 11 by the percentage reported on line 12. **This is your elderly homeowner/renter credit.** ▶	13	00

- If filing Form 2, enter the amount from line 13 above on Schedule V, line 24. Include Form 2EC with Form 2.
- If filing Form 2M, enter the amount from line 13 above on Schedule II, line 7. Include Form 2EC with Form 2M.
- If not required to file Montana Form 2 or 2M, mail Form 2EC to the Montana Department of Revenue.

Mail your completed Form 2EC to:
Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

For Direct Deposit of your refund, complete 1, 2, 3, and 4. Please see instructions on page 2EC-2.

1. RTN#
2. ACCT#
3. If using direct deposit, you are required to mark one box. ▶ ☐ Checking ☐ Savings
4. Is this refund going to an account that is located outside of the United States or its territories? ▶ ☐ Yes ☐ No

Under penalties of perjury, I declare that I have examined this claim, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Your Signature is Required	Date	Daytime Telephone Number	Spouse's Signature	Date

Paid Preparer's Signature	Paid Preparer's PTIN/SSN	Firm's FEIN

Third Party Designee	Third Party Designee's Printed Name
Do you want to allow another person to discuss this return with us (see page 2EC-3)? ☐ Yes ☐ No	Third Party Designee's Phone Number

☐ Mark this box if you do not want forms and instructions mailed to you next year.

Questions? Call us toll free at (866) 859-2254 (in Helena, 444-6900) or TDD (406) 444-2830 for hearing impaired.

11CA0188

Instructions for Elderly Homeowner/Renter Credit Form 2EC

If you are not required to file an income tax return but are filing Form 2EC, please write your name, address, and social security number in the space provided near the top of the form. If you are married, also enter your spouse's name and social security number.

If you will be filing this form with an income tax return, you only need to enter your social security number(s).

If either spouse is deceased during the claim year, enter the date of death in the appropriate box. If filing an individual tax return is not required and this claim is for either a deceased individual or a married couple who are both deceased, please include federal Form 1310. Otherwise, please refer to the instructions of the tax return to be filed to determine if a federal Form 1310 should be included.

Part I – Qualifications

You will need to answer all four statements before you apply for the elderly homeowner/renter credit. Any "No" answer means you are not eligible for the credit. If you are able to answer "Yes" to all of these statements, you are eligible for this refundable credit of up to $1,000. Even though you may be eligible for the credit, after completing Parts II and III of this form, it may be that you are not entitled to receive any credit. Please note that only one claim is allowed per household and that married taxpayers who are living apart may qualify for only one credit per year.

Age 62 Test

If you were 62 or older as of December 31, 2011, you can answer "Yes" to this statement. If you are married and both spouses own or rent your residence, only one of you has to meet the age requirement.

Six Month Test

You can answer "Yes" to this question as long as you have occupied one or more residences as an owner and/or renter for six months or more during the year.

Nine Month Test

You must have resided in Montana for nine months or more during the year to answer "Yes" to this statement. If you are the personal representative of the estate of an eligible individual who died during the year, you cannot claim this credit if that individual died before October 1, 2011. If you are married filing this claim with your spouse, and if your spouse, who would have been the only eligible individual dies before October 1, 2011, you are not eligible for this credit. You are eligible only if, as a surviving spouse, you are age 62 or older and you can continue to answer "Yes" to the other statements.

Gross Household Income

If your gross household income was less than $45,000, you can answer "Yes" to this question. Your gross household income includes all income received by all individuals in the household.

Part II – Household Income

Enter your gross household income on line 1. Your gross household income is all the income received, taxable and nontaxable, by all individuals who live in your household. This includes, but is not limited to, the income of adult children and unrelated individuals living in your household. In addition to federal adjusted gross income, the following are examples of items that are included in household income:

- Inheritances
- Pension and annuity income (this includes railroad retirement)
- Disability benefits including, but not limited to, veteran's disability, SSI payments and workers' compensation
- Any capital gains that you excluded from your Montana adjusted gross income such as the gain from the sale of your primary residence
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief including, but not limited to, food stamps and LIEAP (Low Income Energy Assistance Program)
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds
- State income tax refunds and elderly homeowner/renter credits allowed

Some items above may involve a basis (amount you invested). If applicable, you may reduce your income by the basis or by the amount that is the return of what you invested. For example, if you paid $5,000 for stock in a company, that is your basis. If you sell the stock for $8,000, your household income only includes the gain of $3,000 ($8,000 sales price minus $5,000 basis). Do not reduce your household income by any losses that you included in your federal adjusted gross income.

The following Income Source Worksheet can be used to help you calculate your gross household income.

Income Source Worksheet	
Income Source	Amount
1. Wages, salaries, bonuses, tips, etc.	
2. Business, partnership, rent, royalties (do not include losses).	
3. Dividends, interest (including interest from federal, state, county and municipal bonds) and capital gains (do not include capital losses).	

(Worksheet is continued on the next page.)

4. State and federal tax refunds.	
5. Prior year 2EC refunds.	
6. Alimony, public assistance, unemployment.	
7. Pension, annuities, IRA distributions, benefits from railroad retirement, public employee's retirement, veteran's disability and social security (do not include social security income paid directly to a nursing home).	
8. Income from any source or other household members not included above.	
9. Add lines 1 through 8; enter the total here and on Form 2EC, line 1. This is your gross household income.	

Line 4 – Household Income Reduction Table

If your household income on line 3 is:		
At least	But not more than	Your multiplier is
$0	$1,999	0.000
$2,000	$2,999	0.006
$3,000	$3,999	0.016
$4,000	$4,999	0.024
$5,000	$5,999	0.028
$6,000	$6,999	0.032
$7,000	$7,999	0.035
$8,000	$8,999	0.039
$9,000	$9,999	0.042
$10,000	$10,999	0.045
$11,000	$11,999	0.048
$12,000 and greater		0.050

Part III – Credit Computation

You will need to include a copy of your 2011 property tax bill and/or your signed rent receipts when you file Form 2EC. If you are unable to get signed rent receipts, a statement detailing the rent paid during the year signed by your landlord is an acceptable substitute. If you are filing electronically, you do not need to send us your property tax bill or rent receipts. When you file electronically, you represent that you have completed Form 2EC, retained the required documents in your tax records and will provide those documents to us upon request.

Line 6 – Property Tax Billed

Your property tax billed is your November 2011 property tax statement of taxes assessed against your home and it includes your special assessments and fees. Do not include any amounts assessed for prior years but paid during 2011.

You are allowed only the property tax billed on your primary residence and up to one acre of land that is associated with this residence. If the one-acre farmstead or primary acre is not separately identified on your tax bill and if your ownership is less than 20 acres, you can calculate your credit by dividing the total amount of property tax billed on the land by the total acres in order to arrive at your property tax billed.

If your property tax bill is on property that you held in a revocable trust and if you are the grantor(s) and trustee(s) of that property, you can qualify for this credit. If your property taxes are billed to your living trust or life estate, you can qualify for this credit. If the property occupied by you is in a name other than your own, the property taxes billed for that property can qualify as rent only.

Line 7 – Rent Equivalent Paid

Your rent is only the amount of money that you paid to occupy your home. If you live in a health care, long-term care, personal care or residential care facility, the rent allowed is the actual out-of-pocket rent that you paid. If the facility does not provide you with an adequate breakdown between your rent and amenities, your rent is limited to $20 a day and it cannot exceed $7,300 a year.

Items that should not be included as rent equivalent paid on line 7 are as follows (this list is not all inclusive):

- Mortgage payments
- Amenities such as meals, housekeeping, nursing care, etc.
- Nursing home costs that are paid directly from social security to the facility
- Rent paid for you by a rental assistance program (this amount should also not be included in your household income)

Line 12 – Credit Multiplier Table

If the amount on line 1 is:	Enter this figure on line 12:
Less than $35,000	1.00 (100%)
$35,000 to $37,500	0.40 (40%)
$37,501 to $40,000	0.30 (30%)
$40,001 to $42,500	0.20 (20%)
$42,501 to $44,999	0.10 (10%)
$45,000 and greater	0.00 (0%)

Direct Deposit

If you would like to use direct deposit, enter your financial institution's routing number (RTN#) and your account number (ACCT#) in the space provided. Your routing number will be nine digits and your account can be up to 17 characters, including numbers and letters. Mark whether your account is a checking or savings account and if your refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa,

US Virgin Islands, Federated States of Micronesia, and Guam).

If your financial institution does not accept the direct deposit or if the direct deposit information that you provided is incomplete, we will mail you a refund check.

Sign Your Credit Claim

This form is not considered a valid claim unless you sign it. If you are filing a joint claim, your spouse must also sign. If you have someone prepare your Form 2EC, you are still responsible for the correctness of the claim.

Electronic Signatures

If you are filing your claim electronically, you are not required to actually sign your claim. The act of filing your claim electronically signifies your declaration, under the penalty of false swearing, that:

- You are the taxpayer identified in the claim; and
- The information in the claim is true, correct, and complete.

Your filing electronically, with this declaration, is your signature.

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your claim. We may have questions about items on this form and if you are able to answer our questions over the phone, we may be able to continue processing your claim without mailing you a letter. If you are filing a joint claim, you can enter either your or your spouse's daytime phone number.

Paid Preparer

Anyone you pay to prepare your claim must sign it and include his or her Preparer Tax Identification Number (PTIN) in the space provided. Preparers should have a PTIN, but the preparer's Social Security Number (SSN) may be used when the paid preparer does not have a PTIN. The paid preparer must also include his or her firm's Federal Employer Identification Number (FEIN), if applicable. The preparer must give you a copy of this form for your records. Someone who prepares your claim but does not charge you should not sign your claim.

Third Party Designee

If you want to allow your preparer, a friend, a family member, or any other person you choose to discuss your 2011 Form 2EC with the department, mark the "Yes" box in the bottom of the signature block. You must also enter the designee's printed name and phone number. If you do not complete this section in its entirety, we cannot discuss your claim with a third party.

If you mark the "Yes" box, you, and your spouse if filing a joint claim, are authorizing the department to call the designee to answer any questions that may arise during the processing of your claim. You are also authorizing the designee to:

- Give us any information that is missing from your claim;
- Call us for information about the processing of your claim or the status of your refund;
- Receive copies of notices or transcripts related to your claim, upon request; and
- Respond to notices from us about math errors, offsets and claim preparation.

You are not authorizing the designee to discuss any other tax year, receive any refund check, bind you to anything or otherwise represent you before the department. If you want to expand the designee's authorization, please view information about granting someone power of attorney at *revenue.mt.gov*.

The authorization will automatically end no later than the due date (without regard to extensions) for filing your 2012 return. This is April 15, 2013 for most people.

File Your Form 2EC Electronically

File Form 2EC with your Form 2 or 2M, or alone if not required to file a Montana tax return, through our website. For further information on filing Form 2EC electronically, please visit our website at *revenue.mt.gov*.

If you choose not to file electronically and you are not required to file Montana Form 2 or 2M, please mail your Form 2EC to:

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

How can I find out more about this credit?

If you need additional information on this credit or other tax issues, please call us toll free at (866) 859-2254 (in Helena, 444-6900) or visit our website at *revenue.mt.gov*.

You May Qualify for Other Property Tax Relief!

The Elderly Homeowner/Renter Credit is just one option for Montanans to receive property tax relief. If you own your home, you may also be eligible for assistance with your property tax bill.

To see if you qualify for the Property Tax Assistance Program (PTAP) or Disabled American Veterans (DAV) Property Tax Benefits, or to receive an application form, you may do any of the following:

- Visit our website at *revenue.mt.gov*. Go to our A-Z Index and click on "Property Tax Relief"
- Contact your local Department of Revenue county office
- Call us toll free (866) 859-2254 (Helena area, 444-6900)

The due date for applying for these tax relief programs is April 15, 2012.

Did you know? You can e-file this form. revenue.mt.gov/efile

2011 Montana Elderly Homeowner/Renter Credit

Form 2EC

File alone or with your Form 2 or Form 2M. Free electronic filing is available at *revenue.mt.gov.*

☐ Mark this box if this is an **amended form**.

First Name and Initial	Last Name	Social Security Number	Deceased? Date of Death
			M M D D Y Y Y Y
Spouse's First Name and Initial	**Last Name**	**Spouse's Social Security Number**	**Deceased? Date of Death**
			M M D D Y Y Y Y

Mailing Address	City	State	Zip+4

Part I - Qualifications (You must answer "Yes" to each of the following four statements in order to qualify for this credit.)

I was age 62 or older as of December 31, 2011.	◀ Yes	◀ No
I occupied a Montana residence as an owner or renter for a total of six months or more during 2011.	◀ Yes	◀ No
I resided in Montana for nine months or more during 2011.	◀ Yes	◀ No
My gross household income was less than $45,000 in 2011.	◀ Yes	◀ No

Part II - Household Income

1	Enter your total gross household income (see Income Source Worksheet in the instructions). ▶	1	00
2	Your standard exclusion is entered here for you. ▶	2	6300 00
3	Subtract line 2 from line 1 and enter the result here, but not less than zero. ▶	3	00
4	Enter your multiplier rate from the Household Income Reduction Table located in the instructions. ▶	4	.
5	Multiply line 3 by line 4 and enter the result here. **This is your net household income.** ▶	5	00

Part III - Credit Computation

6	Enter the property tax that you were billed for your principal residence in 2011. ▶	6	00
7	Enter the rent that you paid in 2011 for your principal residence. ▶ 7 00		
8	Multiply line 7 by 0.15 (15%) and enter the result here. ▶	8	00
9	Add lines 6 and 8; enter the result here. ▶	9	00
10	Subtract line 5 from line 9 and enter the result here, but not less than zero. ▶	10	00
11	Enter the lesser of line 10 or $1,000. ▶	11	00
12	Enter the percentage from the Credit Multiplier Table in the instructions that corresponds to your gross household income reported on line 1. ▶	12	.
13	Multiply line 11 by the percentage reported on line 12. **This is your elderly homeowner/renter credit.** ▶	13	00

- If filing Form 2, enter the amount from line 13 above on Schedule V, line 24. Include Form 2EC with Form 2.
- If filing Form 2M, enter the amount from line 13 above on Schedule II, line 7. Include Form 2EC with Form 2M.
- If not required to file Montana Form 2 or 2M, mail Form 2EC to the Montana Department of Revenue.

Mail your completed Form 2EC to:
Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

For Direct Deposit of your refund, complete 1, 2, 3, and 4. Please see instructions on page 2EC-2.

1. RTN#
2. ACCT#
3. If using direct deposit, you are required to mark one box. ▶ ☐ Checking ☐ Savings
4. Is this refund going to an account that is located outside of the United States or its territories? ▶ ☐ Yes ☐ No

Under penalties of perjury, I declare that I have examined this claim, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Your Signature is Required	Date	Daytime Telephone Number	Spouse's Signature	Date

Paid Preparer's Signature	Paid Preparer's PTIN/SSN	Firm's FEIN

Third Party Designee	Third Party Designee's Printed Name
Do you want to allow another person to discuss this return with us (see page 2EC-3)? ☐ Yes ☐ No	Third Party Designee's Phone Number

☐ Mark this box if you do not want forms and instructions mailed to you next year.

Questions? Call us toll free at (866) 859-2254 (in Helena, 444-6900) or TDD (406) 444-2830 for hearing impaired.

11CA0188

Individual Income Tax Forms Available Upon Request

These forms are available on our website at *revenue.mt.gov,* and may be available at your library, post office, or your Department of Revenue county or IRS offices. You can also request forms by calling us toll free (866) 859-2254 (in Helena, 444-6900).

Form Name	Description
2EZ Booklet	2011 Individual Income Tax Form 2EZ with Instructions
2M Booklet	2011 Individual Income Tax Form 2M with Instructions
2 Booklet	2011 Individual Income Tax Form 2 with Instructions
2EC	Montana Elderly Homeowner/Renter Credit
2101	W-2 Withholding Declaration
2441-M	Child and Dependent Care Expense Deduction
AEPC	Alternative Energy Production Credit
AFCR	Alternative Fuel Credit
AMD Worksheet	Amended Return Reconciliation
BBSC	Biodiesel Blending and Storage Credit
CC	College Contribution Credit
DCAC	Dependent Care Assistance Credit
DS-1	Disability Income Exclusion Calculation
ECC	Elderly Care Credit
ENRG-A	Geothermal Systems Credit
ENRG-B	Alternative Energy Systems Credit
ENRG-C	Energy Conservation Installation Credit
ESA	Estimated Tax Annualization Worksheet
EST-I	Interest on Underpayment of Estimated Tax
ESW	Estimated Individual Income Tax Worksheet
EXT-11	Extension Payment Worksheet
FPC	Film Employment Production and Qualified Expenditures Credit

Form Name	Description
FRM	Farm and Ranch Risk Management Account
FTB	First-Time Home Buyer Savings Account
HI	Health Insurance for Uninsured Montanans Credit
IND	Tribal Member Certification (formerly known as Indian Certification)
IUFC	Infrastructure User Fee Credit
MHPE	Mobile Home Park Exclusion
MINE-CRED	Mineral and Coal Exploration Incentive Credit
MSA	Medical Care Savings Account
NOL	Montana Net Operating Loss Worksheet (1999 and subsequent years)
NOL-Pre 99	Montana Net Operating Loss Worksheet (1998 and prior years)
NR-1	North Dakota Reciprocal Affidavit
NR-2	Employee Certificate of North Dakota Residence
OSC	Oilseed Crushing and Biodiesel/ Biolubricant Production Facility Credit
QEC	Qualified Endowment Credit
RCYL	Recycle Credit
RSCH	Increase Research and Development Activities Credit
TELC	Temporary Emergency Lodging Credit
VT	Veteran's Program Contribution and Deduction
Worksheet VIII	Taxable Social Security Benefits
Worksheet IX	Tax Benefit Rule for Recoveries of Itemized Deductions

Important Numbers

Tax Questions and Assistance..... toll free (866) 859-2254 (in Helena, 444-6900)
Forms Request..... toll free (866) 859-2254 (in Helena, 444-6900)
For the Hearing Impaired..... (406) 444-2830
Fax..... (406) 444-6642

Montana Department of Revenue
Post Office Box 5805
Helena, MT 59604-5805

PRSRT STD
U.S. POSTAGE
PAID
MONTANA DEPARTMENT
OF REVENUE

No Return

Filing Checklist

If you file your return electronically, be sure to:

- ☐ Receive confirmation that your return was accepted by the Montana Department of Revenue.
- ☐ Schedule an electronic payment or send a check or money order by April 17, 2012 if you have tax due.
- ☐ Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.

If you file your return by mail, be sure to:

- ☐ Sign the return. If you are filing a joint return, your spouse must also sign the return.
- ☐ Sign your check or money order if you have included a payment. Do not send cash.
- ☐ Include all W-2s and any 1099s reporting Montana withholding that you were issued for 2011.
- ☐ Include all state schedules that support figures on your return. Do not include worksheets or blank schedules.
- ☐ Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.
- ☐ Mail your return to the correct address.

<u>If you have a refund or no payment due:</u>

Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577

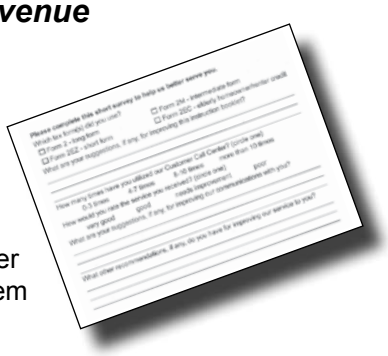
<u>If you are sending a payment and voucher:</u>

Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308

We value your comments and suggestions.

The Montana Department of Revenue works for you.

That's why we look forward to hearing what you have to say. Please let us know how we are doing by completing the improvement survey attached to this instruction booklet. Your comments and suggestions will help us do an even better job for you. And that makes our tax system work for all Montanans!



Where's My Refund?

revenue.mt.gov

Click on the Where's My Refund link.