

# Overview of the Income Tax Calculation

The following is an overview of Montana's individual income tax calculation.

## Total Income

Total income includes salaries and wages, interest and dividends, state refunds, alimony, net business income, capital gain income, pension income, rents and royalties, net farm income, unemployment compensation, social security benefits and any other miscellaneous income.

- ***Less Federal Adjustments to Income:***
  - Educator Expenses
  - Certain Business Expenses of Reservists, Performing Artists and Fee-Basis Government Officials
  - Health Savings Account Deduction
  - Moving Expenses
  - Deductible part of Self-Employment Tax
  - Self-Employed SEP, SIMPLE, and Qualified Plans
  - Self-Employed Health Insurance Deduction
  - Penalty on Early Withdrawal of Savings
  - Alimony Paid
  - IRA Deduction
  - Student Loan Interest Deduction
  - Tuition and Fees Deduction
  - Domestic Production Activities Deduction
  - Write-In Adjustments Allowed on Line 36, Federal Form 1040

## Equals: Federal Adjusted Gross Income (FAGI)

*Plus Additions and Less Subtractions* to arrive at Montana Adjusted Gross Income.

- ***Plus Additions***
  - Interest and Mutual Fund Dividends from State, County or Municipal Bonds from Other States
  - Dividends Not Included in Federal Adjusted Gross Income
  - Taxable Federal Refunds
  - Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income
  - Addition to Federal Taxable Social Security Benefits
  - Sole Proprietor's Allocation of Compensation to Spouse
  - Medical Care Savings Account Nonqualified Withdrawals
  - First-Time Home Buyer Savings Account Nonqualified Withdrawals
  - Farm and Ranch Risk Management Account Taxable Distributions
  - Addition for Dependent Care Assistance Credit Adjustment

- Addition for Smaller Federal Estate and Trust Taxable Distributions
- Federal Net Operating Loss Carryover
- Share of Federal Income Taxes Paid by Your S Corporation
- Title Plant Depreciation and Amortization
- Premiums for Insure Montana Small Business Health Insurance Credit
- Other Additions Including Passive and Rental Income or Loss Adjustment and Capital Loss Adjustment
- **Less Subtractions**
  - Exempt Interest and Mutual Fund Dividends from Federal Bonds, Notes, and Obligations
  - Exempt Tribal Income
  - Exempt Unemployment Compensation
  - Exempt Workers' Compensation Benefits
  - Exempt Capital Gains and Dividends from Small Business Investment Companies
  - State Income Tax Refunds
  - Recoveries of Amounts Deducted in Earlier Years that Did Not Reduce Montana Income
  - Exempt Military Salary of Residents on Active Duty
  - Exempt Income of Nonresident Military Servicepersons
  - Exempt Life Insurance Premiums Reimbursement for National Guard and Reservist
  - Partial Pension and Annuity Income Exemption
  - Partial Interest Exemption for Taxpayers 65 and Older
  - Partial Retirement Disability Income Exemption for Taxpayers Under Age 65
  - Exemption for Certain Taxed Tips and Gratuities
  - Exemption for Certain Income of Child Taxed to Parent
  - Exemption for Certain Health Insurance Premiums Taxed to Employee
  - Exemption for Student Loan Repayments Taxed to Health Care Professional
  - Exempt Medical Care Savings Account Deposits and Earnings
  - Exempt First-Time Home Buyer Savings Account Deposits and Earnings
  - Exempt Family Education Savings Account Deposits and Earnings
  - Exempt Farm and Ranch Risk Management Account Deposits
  - Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement
  - Subtraction for Federal Taxable Tier II Railroad Retirement Benefits
  - Passive Loss Adjustment
  - Capital Loss Adjustment
  - Subtraction of Sole Proprietor for Allocation of Compensation to Spouse
  - Montana Net Operating Loss Carryover
  - 40% Capital Gain Exclusion for Pre-1987 Installment Sales
  - Subtraction for Business-Related Expenses for Purchasing Recycled Material
  - Subtraction for Sales of Land to Beginning Farmers
  - Subtraction for Larger Federal Estate and Trust Taxable Distribution
  - Subtraction for Wage Deduction Reduced by Federal Targeted Jobs Credit

- Subtraction for Certain Gains Recognized by Liquidating Corporation
- Other Subtractions

## **Equals: Montana Adjusted Gross Income**

*Less Itemized Deductions or Standard Deduction*

*Less Personal Exemptions*

## **Equals: Montana Taxable Income**

*Montana Taxable Income x Tax Table Rate*

*Less 2% Capital Gains Credit*

## **Equals: Tax After Capital Gains Credits**

- ***Less Other Montana Tax Credits:***
  - Nonrefundable Credits that are Single-Year Credits and Have No Carryover Provision
    - Credit for an Income Tax Liability Paid to Another State or Country
    - College Contribution Credit
    - Qualified Endowment Credit
    - Energy Conservation Installation Credit
    - Alternative Fuel Credit
    - Health Insurance for Uninsured Montanans Credit
    - Elderly Care Credit
    - Recycle Credit
  - Nonrefundable Credits that Have a Carryover Provision
    - Oilseed Crushing and Biodiesel Biolubricant Production Facility Credit
    - Biodiesel Blending and Storage Credit
    - Contractor's Gross Receipts Tax Credit
    - Geothermal Systems Credit
    - Alternative Energy Systems Credit
    - Alternative Energy Production Credit
    - Dependent Care Assistance Credit
    - Historical Property Preservation Credit
    - Infrastructure Users Fee Credit
    - Empowerment Zone Credit
    - Increasing Research Activities Credit
    - Mineral Exploration Incentive Credit
    - Film Employment Production Credit
    - Adoption Credit
  - Refundable Credits

- Elderly Homeowner/Renter Credit
- Film Employment Production Credit
- Film Qualified Expenditures Credit
- Insure Montana Small Business Health Insurance Credit
- Temporary Emergency Lodging Credit

## **Equals: Montana Individual Income Tax Liability**