

Worksheet II - Tax Benefit Rule for Federal Income Tax Refund

Before you begin, see the instructions below and on page 4 for Form 2M, line 23, to determine if you need to complete Worksheet II.

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

You cannot use this worksheet if:

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

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

1. Add lines 7a through 7d from 2009 Form 2, Schedule III or 2009 Form 2M, Schedule I and enter the result here.	1.	
2. Enter the federal tax refund you received in 2010 minus any federal refundable credits claimed on your 2009 federal tax return (for example, earned income credit, additional child tax credit, and American opportunity credit), but not less than zero.	2.	
3. Subtract line 2 from line 1 and enter the result here, but not less than zero.	3.	
4. Enter the amount of federal income tax deducted on line 7e of your Montana 2009 Form 2, Schedule III, or 2009 Form 2M, Schedule I.	4.	
5. Is line 3 larger than line 4? If yes, stop; your federal refund is not taxable. If no, subtract line 3 from line 4.	5.	
6. Enter the Montana itemized deductions you claimed on your 2009 Form 2, Schedule III, line 34 or 2009 Form 2M, Schedule I, line 31. If you took the standard deduction, stop; your federal income tax refund is not taxable.	6.	
7. Enter your 2009 Montana adjusted gross income from Form 2, line 41 or Form 2M, line 38.	7.	
8. 2009 Standard deduction. Enter the amount corresponding to your 2009 Montana individual income tax filing status. <ul style="list-style-type: none"> • If your filing status was single enter 20% (0.20) of line 7, but not less than \$1,750, or more than \$3,950. • If your filing status was married filing jointly, or head of household, enter 20% (0.20) of line 7, but not less than \$3,500, or more than \$7,900. 	8.	
9. Subtract line 8 from line 6. If the result is smaller than zero, stop; your federal refund is not taxable.	9.	
10. Enter the smaller of line 5 or line 9 here.	10.	
11. Enter here your 2009 Montana taxable income from Form 2, line 45 or Form 2M, line 42. If your amount is less than zero enter this amount as a negative amount.	11.	
12. If line 11 is zero or more, enter the amount from line 10 here and on Form 2M, line 23. This is your taxable federal income tax refund. If line 11 is less than zero (a negative amount), add lines 10 and 11. <ul style="list-style-type: none"> • If your result remains less than zero (a negative amount), enter zero and stop here. None of your federal refund is taxable to Montana. • If your result is greater than zero (a positive amount), enter that amount here and on Form 2M, line 23. This is your taxable federal income tax refund. 	12.	

Worksheet IV - Partial Pension and Annuity Income Exemption

If your federal adjusted gross income from Form 2M, line 21 is \$32,140 (\$33,960 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 \$3,640 of your reported taxable pension and annuity income (Form 2M, line 11b) or IRA distributions not considered premature for federal income tax purposes (Form 2M, line 10b). Complete Worksheet IV to determine the exemption amount.

Early distributions which required payment of the federal 5% or 10% additional tax do not qualify. Subtract any non-qualifying distribution(s) from Form 2M, line 10b before reporting amounts on this worksheet.

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

1. Enter your federal adjusted gross income from Form 2M, line 21 here.	1.	
2. Federal adjusted gross income limitation amount.	2.	\$30,320
If line 1 is smaller than line 2, enter on Form 2M, line 29, the smaller of your pension and annuity income, or \$3,640 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.	
4. Fill out only one of the following. If your filing status is:		
a. Single or head of household. Enter the smaller of your pension and annuity income or \$3,640.	4a.	
b. Joint. Enter the smaller of each spouse's taxable pension and annuity income or \$3,640 in the following space:		
Spouse 1 <input style="width: 60px;" type="text"/>	Spouse 2 <input style="width: 60px;" type="text"/>	
Add together Spouse 1 and Spouse 2; enter the total here.	4b.	
5. Multiply the amount on line 3 by 2 and enter the result here.	5.	
6. Pension and annuity exemption. Subtract line 5 from line 4a or 4b, whichever applies. If the result is zero or negative, you are not eligible for the pension and annuity exemption. If the number is positive, enter the result here and on Form 2M, line 29. This is your partial pension and annuity exemption.	6.	

Worksheet V - Standard Deduction

1. Enter your Montana adjusted gross income from Form 2M, line 38 here.	1.	
2. Multiply the amount on line 1 by 20% (0.20) and enter the result here.	2.	
3. Enter here the amount below that corresponds to your filing status.	3.	
If your filing status is single (Form 2M filing status 1) enter \$3,990. This is your maximum standard deduction.		
If your filing status is joint or head of household (Form 2M filing status 2 or 3) enter \$7,980. This is your maximum standard deduction.		
4. Enter here the amount from line 2 or 3, whichever is smaller.	4.	
5. Enter here the amount below that corresponds to your filing status.	5.	
If your filing status is single (Form 2M filing status 1) enter \$1,770. This is your minimum standard deduction.		
If your filing status is joint or head of household (Form 2M filing status 2 or 3) enter \$3,540. This is your minimum standard deduction.		
6. Enter here and on Form 2M, line 39 the amount from line 4 or 5, whichever is larger. This is your standard deduction.	6.	

Worksheet VI - Qualified Mortgage Insurance Premiums

1. Enter the total premiums you paid in 2010 for qualified mortgage insurance for a contract issued after December 31, 2006.	1.	
2. Enter the amount from Form 2M, line 21.	2.	
3. Enter \$100,000.	3.	
4. Is the amount on line 2 more than the amount on line 3?		
<input type="checkbox"/> No. Your deduction is not limited. Enter the amount from line 1 above on Form 2M, Schedule I, line 14.		
<input type="checkbox"/> 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, etc.		4.
5. Divide line 4 by \$10,000. Enter the result as a decimal. If the result is 1.0 or more, enter 1.0.	5.	
6. Multiply line 1 by line 5 and enter the result here.	6.	
7. Subtract line 6 from line 1. Enter the result here and on Form 2M, Schedule I, line 14. 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 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 2009 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 2009 or 2010 after reaching the age of 62.
- You become disabled in either 2009 or 2010.
- You are a farmer or rancher and 66 2/3% of your 2010 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 2010 income tax liability (after applying your credits) or 100% of your 2009 income tax liability (after applying your credits) you may have to pay interest on the underpayment of your estimated taxes.

If you are required to pay interest on your underpayment, you can use this short method to determine your interest, but you can use this short method only if:

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

If you are not eligible to use this short method to calculate your interest on your underpayment, use Montana Form EST-I, Interest on Underpayment of Estimated Tax Payments. You can get this form by visiting our website at revenue.mt.gov or by calling us toll free (866) 859-2254 (in Helena, 444-6900).

1. Enter your 2010 total tax liability reported on Form 2M, line 47 here.	1.	
2. Multiply line 1 by 90% (0.90) and enter the result here.	2.	
3. Combine the amounts on Form 2M, line 48, that portion of line 49 that includes amounts credited from prior year's tax refunds, and line 51. Enter the result here.	3.	
4. Subtract line 3 from line 1 and enter the result here. If your result is \$500 or less, stop here; you do not owe interest on your underpayment.	4.	
5. Enter here the income tax liability that you reported on your 2009 Form 2, line 53, 2009 Form 2M, line 47 or 2009 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 2010 Form 2M, line 49. Enter the result here.	7.	
8. Subtract line 7 from line 6. If the result is zero or less, stop here; you do not owe interest on your underpayment. This is your total underpayment for 2010.	8.	
9. Multiply line 8 by 0.05320 and enter the result here.	9.	
10. If you paid the amount on line 8 on or after April 15, 2011, enter zero. If you paid the amount on line 8 before April 15, multiply the amount on line 8 by the number of days you paid before April 15 and then by 0.0002192 and enter the amount here.	10.	
11. Subtract line 10 from line 9 and enter the result here and on Form 2M, line 57. This is your interest on underpayment of estimated taxes.	11.	

Worksheet VIII - Taxable Social Security Benefits

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

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

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