

# 2022 Montana Form 2

## Individual Income Tax Instructions

### MONTANA DEPARTMENT OF REVENUE



MONTANA  
DEPARTMENT OF  
REVENUE

Call us at (406) 444-6900  
[MTRevenue.gov](http://MTRevenue.gov)

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Dear Montana Taxpayer,

We want to thank you for filing your Montana tax return. Your timely filing and prompt payment of taxes greatly benefits your community and helps to make Montana a better place for all of us.

We continue to encourage you to file electronically if possible. 93 percent of individual Montana taxpayers electronically filed their 2021 tax returns.

Take advantage of these benefits with electronic filing:

- Taxpayers have found that e-filing is easy, convenient, and ensures more accurate processing.
- Electronic filing can also help you more quickly receive any refund you are owed. Be sure to visit [MTRevenue.gov](https://mtrevenue.gov) to learn more about filing options.

We are committed to assisting you with any questions you may have about your filing requirements. If you need more information or help, please visit [MTRevenue.gov](https://mtrevenue.gov), call (406) 444-6900 or Montana Relay at 711 for the hearing impaired, or email [DORHelp@mt.gov](mailto:DORHelp@mt.gov).

Best regards,

Your Montana Department of Revenue

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*These instructions are designed to address the laws for most tax filing situations. If you have a unique situation that is not addressed in the booklet, please refer to Title 15 of Montana law found at [leg.mt.gov](http://leg.mt.gov) or call us with your questions.*

## What's New?

Updates and items of interest relating to individual income tax.

### Due Date

The due date for filing a Montana income tax return is extended to April 18, 2023 due to the District of Columbia's observation of Emancipation Day on April 17. This is also the due date for any applicable payments normally due April 15.

### 2022 Montana Legislative Changes

**Income Tax Rate Reduction.** Montana's top marginal tax rate has decreased from 6.9% to 6.75% for Tax Year 2022. This rate will stay in effect for Tax Year 2023 subject to an American Rescue Plan Act (ARPA) Savings Clause. The Savings Clause may cause the rate to increase back to 6.9% for 2023 if Montana's receipt of ARPA funds is jeopardized. See [MTRevenue.gov](http://MTRevenue.gov) for more information about the ARPA Savings Clause.

#### Increased Elderly Homeowner/Renter Credit.

The maximum amount of Elderly Homeowner/Renter Credit has increased from \$1,000 to \$1,150. Additionally, the standard exclusion from household income has also increased from \$6,300 to \$12,600. These updates are subject to the American Rescue Plan Act (ARPA) Savings Clause. The Savings Clause may cause the tax credit to revert back to the credit and exclusion amounts in effect for Tax Year 2021 if Montana's receipt of ARPA funds is jeopardized. See [MTRevenue.gov](http://MTRevenue.gov) for more information about the ARPA Savings Clause.

#### Innovative Educational Program and Student Scholarship Organization Credits.

The tax credits for contributions made to a Montana public school district or an approved Student Scholarship Organization have increased from \$150 to \$200,000 per person in Tax Year 2022. For Tax Years 2023 and 2024, the credits are subject to the American Rescue Plan Act (ARPA) Savings Clause. The Savings Clause may cause the tax credit to revert back to the credit amounts for Tax Year 2021 if Montana's receipt of ARPA funds are jeopardized. See [MTRevenue.gov](http://MTRevenue.gov) for more information about the ARPA Savings Clause.

**Jobs Growth Incentive Credit.** The Jobs Growth Incentive Credit is a new tax credit available to qualifying employers in Montana that create qualifying

net employee growth in Montana beginning in Tax Year 2022 and through Tax Year 2028. The credit is equal to half of the eligible employer's taxes paid under Federal Insurance Contributions Act (FICA) for qualifying new employees. While the credit is nonrefundable, it may be carried forward for up to 10 years. Employers may apply to the Department of Labor and Industry to claim the credit. Taxpayers approved to claim the credit will complete the Form JGI and enter the claimable credit on the Nonrefundable Credits Schedule, line 14.

For Tax Years 2023 and 2024, the credit is subject to the American Rescue Plan Act (ARPA) Savings Clause. The Savings Clause may suspend the tax credit and credit carryforward if Montana's receipt of ARPA funds is jeopardized. See [MTRevenue.gov](http://MTRevenue.gov) for more information about the ARPA Savings Clause.

**Repealed Tax Credits.** The following tax credits were repealed beginning with Tax Year 2022. Tax Year 2021 was the last year these credits were available. While the credits are repealed, credits denoted with an asterisk may be carried forward until the amount of credit is exhausted or the carryforward period expires, whichever comes first.

- Adoption Credit\*
- Alternative Energy Production Credit\*
- Alternative Energy System Credit\*
- Alternative Fuel Credit
- Biodiesel and Blending Credit\*
- College Contribution Credit
- Dependent Care Assistance Credit\*
- Elderly Care Credit
- Emergency Lodging Credit
- Empowerment Zone Credit\*
- Energy Conservation Installation Credit
- Geothermal System Credit\*
- Health Insurance for Uninsured Montanans Credit
- Mineral and Coal Exploration Incentive Credit\*

### Form Changes

**Page 1.** There is a new checkbox for military spouses that qualify for relief under Military Spouse Residency Relief Act to process military spouses' returns faster. Military spouses mark this box if they receive wages and other Montana source income. Military spouses should also mark this box if they are filing to receive a refund of Montana income tax unnecessarily withheld from wages.

**Page 2–Direct Deposit Information.** The direct deposit section has been expanded to include the ability to directly deposit a refund into a 529 Qualified Tuition Program (Family Education Savings Account) or 529A Achieving a Better Life Experience Account. As a result page 12 has been eliminated.

**Page 4–Additions Schedule.** Line 10 was previously used to add back business expenses taken when calculating Federal Adjusted Gross Income for purposes of the Dependent Care Assistance Credit. This credit was repealed for beginning with Tax Year 2022. This line has been repurposed to report business expenses included in Federal Adjusted Gross Income when those expenses were used to claim a Montana tax credit.

**Page 5–Subtractions Schedule.** The line for the donation of mineral exploration information was removed because the deduction was repealed beginning with Tax Year 2022. As a result lines 31 through 36 were renumbered.

Additionally, a line was added to report Tier I Railroad Retirement benefits separately from taxable Social Security benefits.

**Page 9–Nonrefundable Credits Schedule.** The Nonrefundable Credits Schedule was redesigned to remove credits that were repealed beginning with Tax Year 2022. Taxpayers will report the carryforward of any repealed tax credits on lines 15a through 15c using the corresponding code on page 39 of the instructions.

Additionally, the lines for the Innovative Educational Program credit, Student Scholarship Organization credit, and the Media credit have been expanded for taxpayers to report the corresponding credit authorization number for approval to claim the particular credit.

**Page 11–Other Payments and Refundable Credits Schedule.** Loan-out withholding paid to a loan-out company on behalf of an owner or employee providing personal services in a qualified production will report this amount on line 4. The line for the Emergency Lodging Credit was removed because it was repealed beginning with Tax Year 2022. A line was added for payments made with an original return when a taxpayer is amending a return.



# General Instructions

## Filing Requirements

**Do you have to file?** In general, if during the tax year you were a resident or part-year resident of Montana, or if you were a nonresident who received Montana source income; and, if your federal gross income, excluding unemployment compensation, is equal to or greater than the threshold for your filing status as listed in the chart below, then you must file a Montana income tax return.

| IF your filing status is...             | AND at the end of 2022 you were... | THEN you must file a tax return if your federal gross income, excluding unemployment compensation was at least... |
|-----------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Single, or married filing separately    | Under 65                           | \$5,090                                                                                                           |
|                                         | 65 or older                        | \$7,800                                                                                                           |
| Head of household                       | Under 65                           | \$10,180                                                                                                          |
|                                         | 65 or older                        | \$12,890                                                                                                          |
| Married filing jointly with your spouse | Both under 65                      | \$10,180                                                                                                          |
|                                         | One spouse 65 or older             | \$12,890                                                                                                          |
|                                         | Both spouses 65 or older           | \$15,600                                                                                                          |

You are entitled to an additional exemption if you are blind or your spouse is blind. Increase the federal gross income minimums in the last column by \$2,710 to determine if you must file.

If you are not sure about your filing status, see page 5.

**Important:** You may qualify for the Elderly Homeowner/Renter Credit even if you do not have a Montana filing requirement. See page 3 for instructions on how to claim this credit.

To claim the Earned Income Tax Credit, you must still complete Form 2, pages 1 and 2, even if you do not meet the filing thresholds shown above. For more information about the Earned Income Tax Credit, see page 11.

**Filing requirement for taxpayers with losses.** If you incurred or reported losses (including passive losses and net operating losses), you must file a Montana tax return to track the sourcing of the losses and to use those losses in calculating your tax liability. Unreported losses may lead to the disallowance of their use in future years.

## Remote Workers

If you worked remotely from Montana during 2022 and are not a resident, you have a filing requirement. Montana source income includes wages, salary, tips, other compensation, and business income for services performed while physically located in Montana. See section [15-30-2101\(18\), MCA](#) for more information.

Nonresident or part-year resident individuals must report income earned in Montana on the Nonresident/Part-year Resident Ratio Schedule. Wages, salaries, tips, and other compensation is included in Montana source income to the extent that it was earned while physically located in the state. Business income from a partnership, S corporation, or disregarded entity is apportioned using the appropriate apportionment schedule. Partnerships and S corporations use the Form PTE to determine Montana source income. Montana source income is reported to members, partners, and shareholders on the Montana Schedule K-1 (PTE). Single member LLCs owned by nonresidents file the Form DER-1 and calculate Montana source income on the Worksheet DE. Sole proprietors may use a reasonable method suited to the nature of the business to determine Montana source income.

Some remote workers may establish residency while working in Montana. More information on residency is found on page 6.

## Nonresident Military Servicemembers and Spouses

In general, if you are a military service member, or the spouse of a military service member, and are located in Montana solely in compliance with military orders, you do not acquire residency status in Montana.

Under the Servicemembers Civil Relief Act, if you are a service member located in Montana solely in compliance with military orders, you retain residency in the state you were a resident of before moving to Montana. Your military compensation is not Montana source income.

## Spouse of Active Duty Servicemember

You qualify for relief under the Military Spouse Residency Relief Act if:

- You are the spouse of a nonresident military servicemember; and
- You are in Montana solely to be with your military spouse who is serving in compliance with military orders; and
- Both spouses are residents of the same state.

If you meet all three of these conditions, your compensation for personal services earned in Montana cannot be sourced to Montana but remains taxable in your state of residency.

If you or your spouse have Montana source income, such as rental income from real property located in Montana, you must file as nonresidents. You must exempt the military compensation on the Montana Subtractions Schedule, line 13, if you included this compensation in your Federal Adjusted Gross Income.

The compensation for services rendered in Montana and received by the nonresident spouse that is not in the military is not Montana source income and is not included on your Nonresident/Part-Year Resident Ratio Schedule, line 1.

Mark the Military Spouse box in the Filing Status section on Form 2, page 1, if you have Montana source income and compensation for services rendered in Montana. Also mark this box if Montana income tax was withheld from your compensation.

If you meet the requirements of either situation described above and you do not have any Montana source income, you do not have a filing requirement in Montana.

### **Enrolled Member of a Tribe**

If you are an enrolled member of a tribe and you live on the reservation governed by your tribe, you can subtract your income sourced to your reservation from your Federal Adjusted Gross Income. Other items of income are taxable and must be reported on Form 2.

Income that can be sourced to the reservation governed by your tribe includes:

- wages earned within the exterior boundaries of your reservation
- all interest, dividends, pensions, annuities, and any income received from the use of intangible properties
- income, including farming, from real properties located within the exterior boundaries of your reservation
- business income from activities carried on within the exterior boundaries of your reservation

Income sourced elsewhere includes:

- wages earned outside the exterior boundaries of the reservation governed by your tribe
- any income linked to real estate properties located outside the exterior boundaries of the reservation governed by your tribe
- any business income stemming from activities carried on outside the exterior boundaries of the reservation governed by your tribe

You may source business income from a pass-through entity to your reservation using a reasonable method suited to the nature of the business. Income already sourced to a state other than Montana can never be sourced to your reservation.

If all your income can be subtracted from Montana

income tax as a tribal member, you do not have to file a Montana income tax return, Form 2. Instead, you must file Form ETM.

If only part of your income can be subtracted from Montana income tax, and your nonexempt income exceeds the filing thresholds, you must file Form 2 with Form ETM. When you are required to file a Form 2, use the Montana Subtractions Schedule, line 8.

*Important:* If you live outside the boundaries of the reservation governed by your tribe, or if you live on another reservation that is not governed by your tribe, none of your income can be sourced to the reservation governed by your tribe.

Income derived directly from allotted or restricted lands that are held in trust by the United States and exempt from federal income tax is also exempt from Montana income tax.

### **When Must You File?**

File Form 2 and pay the tax due by April 18, 2023. An automatic extension of six months applies for filing your return, but this extension does not apply to payments.

If you file after the extended due date, you may have to pay a penalty for late filing. See instructions about interest and penalties on page 44.

If you were serving in, or in support of, the U.S. Armed Forces in a designated combat zone or contingency operation, the extension of time to file your Montana tax return is the same as the extension you receive for your federal tax return. See the IRS Publication 3 for more information.

### **How to File**

#### **Electronic Filing**

Filing electronically is recommended for faster, more accurate, and more secure service. If receiving a refund, you will receive it more quickly by filing electronically than if you file on paper.

You may be eligible for free tax software from Free File Alliance. Find Free File Alliance offers at [MTRevenue.gov](https://www.MTRevenue.gov).

#### **Paper Filing**

If you are filing your return on paper, you must include any applicable federal forms and schedules we requested on the return. You do not need to provide us with your entire federal return when you file your Montana return unless you are a nonresident or part-year resident. However, you should retain your federal return in your tax records and be able to provide it to us upon request.

Include only the pages of Form 2 on which you entered information. For example, if you are a resident and you only had to complete Form 2, Schedule 1, the Montana Subtractions Schedule, and you chose the standard deduction, you will only need to send pages 1, 2, 3, and 5.

If you choose to file a paper return, you must complete your federal Form 1040 first. Use blue or black ink to complete Montana Form 2.

You must sign and mail pages 1 and 2 to us. Include all pages with a completed schedule.

**TIP:** You will only need to send pages 1 and 2 of Form 2 if you meet **all** of the following:

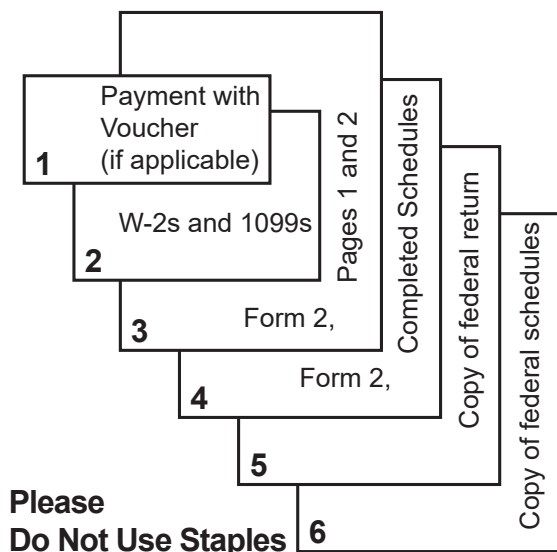
- You only received wages, dividends, or taxable interest.
- You have fewer than four dependents.
- You do not report any adjustments to income (see page 3.)
- You do not have any Montana additions or subtractions (see pages 4 and 5).
- You chose the standard deduction for 2022
- You are not claiming any credits in 2022.

**Important:** If you wish to contribute to a check-off program, you will have to use the Contributions, Penalties, and Interest Schedule, and include page 11 with the return you are mailing.

### ***Easy Steps to Assemble Your Return as Shown Below–Do Not Staple***

#### **From Top to Bottom**

1. Payment Voucher if you are making a payment
2. Forms W-2 and 1099 reporting Montana Withholding
3. Montana Form 2, pages 1 and 2
4. Montana Form 2, other pages with completed schedules
5. Copy of your federal tax return: Nonresident/part-year residents must include a copy of their entire federal return.
6. Copy of your federal schedules: Nonresident/part-year residents must include a copy of their completed federal schedules.



If you choose not to file electronically, we have two different mailing addresses for your paper return. 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 do not owe taxes or are expecting a refund, mail your tax return to:

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

If you are making a payment with your tax return, mail your tax return and check to:

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

### **Elderly Homeowner/Renter Credit**

Before you begin, gather all the information about the income of all the members of your household. You will need this information to verify eligibility and calculate the credit.

If you are required to file a return, you can calculate the credit on page 10 of Form 2 and claim it on the Other Payments and Refundable Credits Schedule on page 11.

If you are not required to file a return, and you wish to claim the Elderly Homeowner/Renter Credit, you can do so on our TransAction Portal (TAP) <https://tap.dor.mt.gov> or on paper by completing just Form 2, pages 1, 2, 10, and 11, in the following order:

- Page 10:
  - Complete the Elderly Homeowner/ Renter Credit Schedule (and, if applicable, the Long-Term Care Facility Rent Calculation Worksheet) to determine eligibility and calculate the amount of credit.
- Page 11:
  - Enter the amount of credit on the Other Payments and Refundable Credits Schedule, line 6.
- Page 1:
  - Provide your identification and filing status used to determine your filing requirement.
  - Check “Resident full-year” or “Resident part-year.” (To claim the credit, you must be a resident of Montana and have resided in the state for at least nine months of 2022.)
  - List dependents, if any.
  - Mark the box “65 or older” in the exemption section, if applicable.
  - Complete lines 1, 4a, 5a, and 6a when applicable. (Use any Forms W-2 and



- SSA-1099 or 1099-R you may have received to complete those sections.)
  - Report the amount of credit on lines 22 and 27.
- Page 2:
  - Complete the direct deposit section.
  - Sign at the bottom.

## Nonresident Tax

Nonresidents are taxed on their Montana source income. This tax is first calculated based on taxable income determined as if the taxpayer was a resident, and then apportioned to the amount of Montana source income included in Montana Adjusted Gross Income. This apportionment is determined using the Nonresident/Part-Year Resident Ratio Schedule. Do not exempt non-Montana source income on Montana Subtractions Schedule.

*Example:* Marla is a nonresident. Her Federal Adjusted Gross Income is \$50,500 and includes \$10,000 of rental income from a real property she owns in Montana. The rental income is Montana source income.

Marla must first calculate her taxable income as if she were a resident and calculate her resident tax. Her Federal Adjusted Gross Income includes \$500 of interest that is exempt in Montana. Since she reports the same additions and subtractions as a resident, she reports this interest on her Montana Subtractions Schedule. After additions and subtractions, Marla's Montana Adjusted Gross Income is \$50,000.

Marla must first calculate her taxable income as a resident. After claiming her itemized deductions and her personal and dependent exemptions, her taxable income is \$30,000.

Marla then calculates her nonresident ratio, using the Nonresident Ratio Schedule on Form 2, page 8. She reports \$10,000 of rental income on line 10. Her nonresident ratio is 20 percent (\$10,000/\$50,000).

Marla calculates her tax on the Tax Liability Schedule, line 1, which is \$1,422. Her nonresident tax is \$284 (\$1,422 x 0.20). She reports \$284 on her Tax Liability Schedule, line 3a, and on Form 2, line 18.

Part-year residents calculate their tax like nonresidents. However, a part-year resident must include in the numerator of their ratio all their income received while they were a resident.

See the residency instructions on page 7 to determine your residency status

## Amending Your 2022 Return

If you are amending your 2022 return, you must complete a new Form 2 with all the schedules, even if none of the amounts previously reported on them have changed, and do the following:

1. Mark the box on the top left of page 1.
2. Make sure you sign and date your return.
3. Complete the Amended Return Information section on page 2.
4. Include any payments made with or after filing the original return on line 8 of the Other Payments and Refundable Credits Schedule on page 11.
5. If you requested a refund or if you carried over all or part of the overpayment reported on your original return to 2023, make sure that you completed line 2 of the Contributions, Penalties, and Interest Schedule on page 11.

*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.

If the Internal Revenue Service changes or makes corrections to your federal Form 1040, you must amend your return within 180 days of the final determination date. The final determination date is the date in which all appeal rights have been waived or exhausted, by agreement, or, if appealed, by a final decision with respect to which all appeal rights have been waived. If you amend your federal return, you will need to amend your Form 2 within 180 days of filing your amended federal tax return.

## Interest Rate for 2023

Effective January 1, 2023, the annual interest rate assessed on outstanding balances is 5 percent. This rate also applies to underpayment of estimated taxes. Interest is calculated daily.

## Line Instructions

### Personal Information

Enter your name, address, and Social Security Number (SSN) or Individual Tax Identification Number (ITIN). An incorrect number may delay your refund.

Enter the address where you receive your mail. We will use this address to send correspondence and your refund (if applicable).

If either the primary taxpayer or the spouse died prior to filing this return, enter the date of death in the field next to his or her name. Include a copy of the federal Form 1310 unless you use Filing Status 2a (married filing separately on the same form) or Filing Status 4 (married filing jointly) 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.

**TIP:** If you are married, and both spouses report income, filing separately may result in less tax due.

### Filing Separately When Married.

If you and your spouse choose to file separately, you and your spouse must each report your own adjusted gross income. You cannot arbitrarily assign income or deductions between the two of you.

When filing separately, you must select whether you and your spouse are filing on the same form (Filing Status 2a), on separate forms (Filing Status 2b), or separately with your spouse not filing (Filing Status 2c).

When you choose to file separately, you are filing a separate return from your spouse, even if you file on the same form.

### How to allocate income and deductions when filing separately.

Apply the following general rules as you allocate income and deductions between you and your spouse.

When filing separately on the same form this allocation is done between Columns A and B, with each column constituting its own return.

**Allocation of income.** If you filed your federal tax return separately, report the items of income the same way you reported them on your federal Form 1040.

Allocate income as follows:

- 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 capital gains or losses, rents, royalties, dividends, and interest should be reported by the spouse who owns the property from which the income is derived. If you and your spouse jointly

hold the property, you must 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 must be reported by the spouse who is the owner. An allocation for services rendered by a spouse can also be made (see instructions for Montana Additions and Montana Subtractions Schedules.)

**Allocation of deductions.** In general, if you filed your federal return separately, report the items of deduction the same way you reported them on your federal Form 1040.

- Spouses must either both claim the standard deduction, or both 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 must be claimed by that spouse. This includes, for example, federal income tax withheld from your wages and the Student Loan Interest Deduction.
- Payments made from accounts owned by both spouses that pertain to expenses not attributable specifically to one spouse can be allocated to either spouse in any proportional amount.

*Important:* Review the following before choosing Filing Status 2a (Married Filing Separately on the Same Form).

### The Filing Status 2a election includes:

- An authorization to direct the department to automatically apply the overpaid tax reported by one spouse to the tax due by the other spouse, including when the return is revised. For example, if we discover a math or other computational error when processing the form, the correction may result in our applying one spouse's refund to the other spouse's increased tax automatically, even when neither of the spouses were expecting a refund.
  - If you file separately on the same form, before requesting any refund, you must apply your overpayment on Form 2, line 27 to the amount owed by your spouse, if any, on Form 2, line 26. See Filing Status 2a Payment Schedule on Form 2, page 2.
- An authorization to allow department employees to discuss all information on the form with either spouse, as permitted by Montana law. The department may also discuss any subsequent adjustments with either spouse.
  - The law, however, does not allow you to make decisions for your spouse or to receive information about an amount your spouse may owe.

- The opportunity to qualify for the Household and Dependent Care Services itemized deduction if you are married and you do not file jointly.
- The requirement to calculate your interest on underpayment of estimated tax on a combined basis.

If none of the above provisions apply to your tax situation and you still want to file separately, you must file on separate forms and choose Filing Status 2b.

### **Filing Status 1–Single**

You can claim this filing status if on December 31, 2022, you:

- were single
- were legally separated according to your state law under a decree of divorce or separate maintenance
- were widowed before January 1, 2022, and you did not remarry in 2022

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

### **Filing Status 2a–Married Filing Separately on the Same Form**

You can use Filing Status 2a if both spouses are residents or both spouses are nonresidents receiving Montana source income.

Although submitted on the same form, married taxpayers electing to file using this filing status are submitting two tax returns, so each spouse must complete their own column.

Penalties and interest are calculated separately. Do not forget to reallocate estimated tax payments to your spouse, on your Other Payments and Refundable Credits Schedule, page 11, if you determine that all or part of these payments should be applied to your spouse's account.

### **Filing Status 2b–Married Filing Separately on Separate Forms**

You can choose Filing Status 2b if you are both residents and choose not to file on the same form.

You and your spouse must use Filing Status 2b if one spouse is a resident of Montana and the other spouse is a nonresident who has Montana source income.

When you select this filing status, you must include your spouse's Social Security Number.

### **Filing Status 2c–Married Filing Separately and Spouse Not Filing**

You can use Filing Status 2c 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.
- Another taxpayer claims your spouse as a dependent. When you select this filing status, you must include your spouse's Social Security Number.

*Note:* When you use this filing status, you cannot claim your spouse as an exemption on your return.

### **Filing Status 3–Head of Household**

You qualify to file as Head of Household on your Montana tax return if you qualify as Head of Household for federal income tax purposes. When you use this filing status, include your federal Form 1040, page 1, with your Montana tax return.

Generally, when your filing status on your federal Form 1040 is Qualifying Widow(er), you can use Head of Household status. Verify that you qualify using the instructions for federal Form 1040 or IRS Publication 17.

### **Filing Status 4–Married Filing Jointly**

You can claim this filing status if you were married as of December 31, 2022, even if:

- You did not live with your spouse at the end of 2022.
- Your spouse died in 2022 and you did not remarry in 2022.
- You were married as of December 31, 2022, and your spouse died in 2023 before filing a 2022 return.

## **Residency Status**

Your Montana income tax liability depends on your residency status.

Montana has three residency statuses:

- Resident
- Part-Year Resident
- Nonresident

### **Resident**

You are a Montana resident if you are domiciled or maintain a permanent place of abode in Montana. Montana taxes all of a resident's income, even if that income is earned out-of-state.

There are a variety of factors when determining whether a person is domiciled or maintains a permanent place of abode in Montana.

These include, but are not limited to:

- voting in or registering to vote in Montana
- having a Montana driver's license
- having a Montana ID card
- having a Montana resident hunting or fishing license
- claiming Montana residency when applying for admission or financial aid at a Montana college or university

- receiving services from a program administered by the Montana Department of Public Health and Human Services, which is only available to Montana residents
- having a concealed weapon permit in Montana
- claiming Montana residency for tax purposes in prior or current years
- where an individual registers his or her motor vehicles
- where an individual owns, rents, or occupies a developed real estate property, a mobile home, or a recreational vehicle with sleeping and cooking arrangements, during the tax period
- where the individual regularly receives his or her mail
- the location of an individual's principal place of business, profession, or occupation
- where an individual's professional licenses were issued and used during the tax year
- where an individual obtains professional, financial, or healthcare services on a regular basis including, but not limited to, legal advice, accounting advice, dental care, or primary healthcare
- where an individual attends or is a member of his or her place of worship
- the location of any social, fraternal, athletic organizations, clubs, or lodges in which the individual is a member

This is not a complete list and a person does not need to meet all of the factors listed to be considered a resident. Each individual's circumstances and intentions are considered when determining residency.

If an individual maintains a place of abode in both Montana and another state, and both show similar permanency characteristics, the department may look at whether the individual has abandoned residency of one state in favor of another state through affirmative actions.

*Example:* Jim works in Wyoming for 11 months out of the year. However, Jim owns a home in Montana, is registered to vote in Montana, holds Montana resident hunting and fishing licenses, and holds a Montana driver's license. These are all indications that he is a Montana resident. As a result, all of Jim's income, even what he earned in Wyoming, is taxable on his Montana tax return.

*Note:* 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 must file separate Montana tax returns and file using Filing Status 2b or Filing Status 2c described above.

## Part-Year Resident

You are a part-year resident of Montana if you either:

- were a Montana resident at the start of the year and then established residency in another state during the year.
- were a nonresident at the start of the year and then established residency in Montana during the year.

Part-year residents must file an income tax return as a part-year resident and use the Nonresident/Part-Year Resident Schedule to determine their Montana tax liability. Montana taxes the income that a part-year resident receives while living in Montana plus any income received from Montana sources when not living in Montana.

*Example:* Pam lived in Montana for four months of the year, then moved to Pennsylvania. The income she earned during those four months is considered Montana source income and is taxable in Montana.

The following individuals are examples of who would not be considered part-year residents:

- retirees (commonly referred to as "snowbirds") who are residents of Montana but live in another state for a portion of each year.
- a resident of another state who works in Montana on a seasonal basis but does not establish residency in Montana.
- a Montana resident attending an out-of-state college who has not established residency elsewhere

## Nonresident

You are a nonresident of Montana if you are neither a resident of Montana nor a part-year resident. Montana taxes all of a nonresident's income from Montana sources. Nonresidents may still owe Montana income tax if they received Montana source income.

*Example:* If you lived and worked in California for part of the year, then worked remotely in Montana for the rest of the year, your wages earned while working in Montana are considered Montana source income. These wages are subject to tax, even though you are a nonresident.

## North Dakota Reciprocity

Montana has an income tax reciprocity agreement with the state of North Dakota that allows a resident of one state to be exempt from wage withholding and individual income tax on compensation received for work performed in the other state.

If you are a resident of North Dakota, wages you received in 2022 for work performed in Montana are



not taxable in Montana. The following instructions are for residents of North Dakota whose income from Montana is only wages.

If your employer withheld Montana income tax, you must complete Form 2, pages 1 and 2, to request the refund as follows:

1. Complete the personal information section at the top of page 1, as instructed.
2. File this form as a nonresident.
3. Mark the box for "North Dakota Reciprocity."
4. Leave the dependents and exemptions sections blank.
5. Enter the Federal Adjusted Gross Income shown on your federal Form 1040, line 11.
6. Fill in the amount of the Montana income tax withheld from your wages on Form 2, line 21, and also include this amount on Form 2, lines 25 and 27.
7. File this form with a copy of your federal return and Form(s) W-2 showing Montana income tax withholding.

If you received wages and other types of income from Montana, you must complete Form 2 following the instructions. See the Nonresident/Part-Year Resident Ratio instructions for the treatment of your wages.

If you do not want your employer to withhold Montana income tax from your wages, you must claim the North Dakota reciprocity exemption on Montana Form MW-4 and give that form to your employer.

## Military Spouse

If you are a military spouse filing to receive a refund of your wage withholding, or had wages and Montana source income, such as rental income from real property located in Montana, mark this box. Enter your wages on Subtractions Schedule, line 13. Do not include this amount on the Nonresident/Part-year Resident Ratio Schedule.

If you do not want your employer to withhold Montana income tax from your wages, you must claim the military spouse exemption on Montana Form MW-4 and give that form to your employer.

## Dependents

List each dependent's first name, last name, Social Security Number, and his or her relationship to you. If you have more than three dependents, you need to include a separate list of these additional dependents.

A person who meets **all** the following requirements is considered your dependent for Montana income tax purposes. Some of Montana's dependency requirements are different from the federal dependency requirements.

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 \$2,710, 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 must 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 because 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. You can claim your uncle as a dependent, but you cannot claim your uncle's spouse. Similarly, you cannot claim your spouse's uncle as a dependent, only your spouse can.

A child who is under age 19 at the end of the year (or under 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 Child

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 "Mark if Disabled" column in the same row you listed your disabled child.

You are allowed this disabled child exemption if you meet all the following requirements:

- 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 to 50 percent or more of the body. 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 must 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. We do not require you to file it again unless the circumstances of your disabled child change.

## Exemptions

You and your spouse are 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.

**a—Yourself.** You are always allowed one exemption for yourself. We placed an "X" in your box 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.

**b—Spouse.** Mark the box only if you are married and filing jointly with your spouse, or if you file separately on the same form. No exemption for the spouse is allowed on this form if you and your spouse chose Filing Status 2b or 2c.

**c—Exemptions for Dependents.** You can claim a dependent exemption for each person who qualifies as your dependent.

If you are filing separately, and the same individual is the dependent of both, you must allocate this dependent to one or the other spouse. The same dependent cannot be claimed twice.

When adding your exemptions for dependents, add two exemptions, instead of one, for each dependent who is a disabled child in the column or on the form of the spouse claiming the dependent.

## Federal Adjusted Gross Income

Your income on your Montana tax return begins with your Federal Adjusted Gross Income. Refer to your federal income tax instructions for detailed information about how to complete Form 2, lines 1 through 11 and Form 2, Schedule 1, on page 3. Selected lines have been identified in these instructions to provide additional information about specific Montana tax details.

If you were required to complete and include a federal schedule for any of the items on these lines, you must include those schedules with your Montana tax return submission.

### Lines 1 through 11

On lines 1 through 11, enter the amounts corresponding to your federal tax return Form 1040. Complete the Form 2, Schedule 1 on page 3, if needed.

**Line 1**—Enter the amount from Form 1040, line 1z.

**Line 3b—Ordinary Dividends.** Enter the total ordinary dividends that you reported on your federal Form 1040, line 3b. Montana taxes all dividends as ordinary dividends and does not have a specific qualified dividend tax rate.

**Lines 4a-5b—IRA Distributions, Pensions and Annuities.** IRA distributions, pensions, and annuities may entitle you to a partial exemption. See the Montana Subtractions Schedule, line 34, and related instructions.

**Lines 6a and 6b—Taxable Social Security Benefits.** Your Montana taxable amount of Social Security benefits may be different than your federal taxable amount if your Montana Adjusted Gross Income differs from your Federal Adjusted Gross Income. First, Montana grants a partial exemption for pension, annuity, and IRA income to some taxpayers. Second, the state uses the adjusted gross income after Montana additions and subtractions, including the exemption amount, to determine the taxable and excludable portion of your benefits. These adjustments to your taxable amount of benefit must be reported on the Montana Additions Schedule on page 4 or the Montana Subtractions Schedule on page 5.

**Line 7—Capital Gain or (Loss).** Enter the same amount of your capital gain or loss that you reported on your federal income tax return.

**Treatment of losses.** Married taxpayers who are filing jointly for federal tax purposes, but separate for Montana tax purposes, may allocate the amount of losses shown on the federal joint return between the spouses. If you and your spouse jointly held the property, you must split the income equally between both spouses unless you and your spouse can show a different proportional ownership.

*Example:* Jack and June are married and file jointly for federal tax purposes and separately for Montana. They sold a property they jointly owned. They realized a loss and reported \$3,000 of capital losses directly related to that sale on their federal Form 1040. Jack and June can claim \$1,500 loss each. If June had owned the property, June could have reported \$3,000 of capital loss and Jack \$0.

If you are married and are both residents, and you filed a joint return for federal tax purposes, you can also report your gains or losses individually and separately. You must follow the federal rules for filing separately, including the limitation on losses in Internal Revenue Code 1211. In addition, reporting your gains and losses individually and separately may result in short-term gains or losses for one of the spouses. When using this method, we recommend each spouse recompute their own net gain or loss using the federal Schedule D.

**Caution:** If each spouse has capital gains and losses, this method can result in additional Montana tax being imposed on some of the gains and/or a different amount of carryover losses for Montana tax purposes than for federal tax purposes.

**TIP:** If you are a resident, reporting capital gains on this line entitles you to a tax credit of 2 percent of the amount reported. See the Nonrefundable Credits Schedule, line 1, and related instructions.

**Nonresident and part-year residents** calculate their capital gains credit using the amount reported on the Nonresident/Part-Year Resident Ratio Schedule, line 7.

**Line 11—Federal Adjusted Gross Income.** If you are filing Single, Married Filing Jointly, or Head of Household, this amount must correspond to the amount of your Federal Adjusted Gross Income you reported on your federal Form 1040.

If you file separately, the sum of both columns must equal the Federal Adjusted Gross Income reported on your federal Form 1040 unless only one of the spouses had a capital loss.

## Montana Taxable Income

**Line 12—Montana Additions.** Montana additions are all items of income that are not included in Federal Adjusted Gross Income and that must be added to determine Montana Adjusted Gross Income. To figure the amount of additions you must report on this line, see the instructions for the Montana Additions Schedule on page 16. If you report one or more additions, you must include page 4 of Form 2 with your return.

**Line 13—Montana Subtractions.** Montana subtractions are all items of income that are included in Federal Adjusted Gross Income and that must be deducted to determine Montana Adjusted Gross Income. To figure the amount of subtractions you must report on this line, see the instructions for the Montana Subtractions Schedule on page 19. If you report one or more subtractions, you must include page 5 of Form 2 with your return.

**Line 15—Standard or Itemized Deductions.** You must choose between the standard deduction or itemized deductions. To figure which is more beneficial (generally the larger of the two) complete the Standard Deduction Worksheet and the Itemized Deductions Schedule on page 7.

When you and your spouse file, you must both use the standard deduction or itemize your deductions. You cannot use two different methods. If one spouse itemizes, the other one must itemize as well.

When you elect to itemize your deductions, you must mark the box and include page 7 of Form 2 with your return. If you do not mark the box or do not include page 7, the processing of your return may be delayed, or your return may be adjusted using the standard deduction.

**Line 16—Exemptions.** Multiply \$2,710 times the number of exemptions that you calculated on the Exemptions Section, line d.

## Tax, Credits and Payments

### Line 18—Tax Liability Before Credits.

**Residents:** If you are a full-year resident, and you owe neither any recapture tax (see page 35), nor any taxes on lump-sum distributions (see page 36), compute your tax using the following table and report the result on line 18.

**2022 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                                 | \$3,300           | 1% (0.010)                      | \$0          |                  |
| \$3,300                             | \$5,800           | 2% (0.020)                      | \$33         |                  |
| \$5,800                             | \$8,900           | 3% (0.030)                      | \$91         |                  |
| \$8,900                             | \$12,000          | 4% (0.040)                      | \$180        |                  |
| \$12,000                            | \$15,400          | 5% (0.050)                      | \$300        |                  |
| \$15,400                            | 19,800            | 6% (0.060)                      | \$454        |                  |
| More Than \$19,800                  |                   | 6.75% (0.0675)                  | \$603        |                  |

If you owe recapture taxes or the tax on lump-sum distributions, see the instructions on page 35 to complete the Tax Liability Schedule on Form 2, page 8, to figure the amount you need to report on line 18.

**Nonresidents and part-year residents:** See the instructions on pages 30 through 35 to complete the Nonresident/Part-Year Resident Ratio and Tax Liability Schedules and report the amount of tax liability on line 18. Include Form 2, page 8, with your return.

**Line 19—Nonrefundable Credits.** For information about nonrefundable credits, including the capital gains credit and credit for taxes paid to another state, see the instructions on page 37.



If you are claiming a nonrefundable credit you must include Form 2, page 9, with your return.

**Line 21—Montana Tax Withheld on Forms W-2 and 1099.** Enter the sum of all the Montana income tax withheld from any Forms W-2 or 1099 you received.

This includes, for example, Forms W-2 and any 1099 received related to wages, pensions, self-employment, or royalties (including mineral royalties):

- If you received wages, the Montana tax withheld is reported in Box 17 of your federal Form W-2.
- If you received pensions, the Montana tax withheld is reported in Box 14 of your federal Form 1099-R.
- If you received Montana mineral royalties, the tax withheld is generally reported in Box 16 of your federal Form 1099-MISC. Royalty payments made to owners of Montana mineral rights are subject to state tax withholding if certain thresholds are met. This amount is no more than 6 percent of your Montana royalty payments and should not be confused with the production taxes that are also subtracted from your royalty payments.

When you claim Montana income tax withheld, you are required to include a copy of your withholding statements (federal Forms W-2 or 1099-R) with your return.

**Line 22—Other Payments and Refundable Credits.**

This line consists of all other refundable credits, including the Elderly Homeowner/Renter Credit. See the instructions on page 43 to complete the Other Payments and Refundable Credits Schedule. Include page 11 of Form 2 with your return.

If you or an entity made estimated tax payments on your behalf, pass-through entity withholding payments on a Montana Schedule K-1, or any other payments not reported on Forms W-2 and 1099, you must complete the Other Payments and Refundable Credits Schedule.

**Line 23—Earned Income Tax Credit.** You are allowed a Montana Earned Income Tax Credit (EITC) of 3 percent of the federal EITC claimed on your federal return. Your Montana EITC is refundable. This means that if the credit is more than your Montana tax liability after applying withholding taxes and credits, the difference will be refunded to you.

Nonresidents and married taxpayers filing separately on separate forms do not qualify for the Montana EITC. If you are a nonresident or married filing separately on separate forms, enter 0 (zero) on line 23a and line 23b.

**Line 23a.** Enter the federal earned income credit amount from your federal Form 1040, page 2, line 27 on line 23a.

**Line 23b.** Multiply line 23a by 3 percent (0.03) and enter the result on line 23b (Example 1) ONLY if you

are a full-year resident and you are not:

- an enrolled tribal member living on the reservation of your tribe; or
- a member of an agricultural organization provided for in section 501(d) of the Internal Revenue Code.

If your filing status is 2a (Married and Filing Separately on the Same Form), the amount of the credit may be allocated between spouses. See Example 2.

*Example 1:* Filing status is Single, Head of Household, or Married Filing Jointly.

Your EITC claimed on your federal return is \$2,000. Enter \$2,000 on line 23a. Your Montana EITC is \$60 (3 percent of your federal EITC). Enter \$60 on line 23b.

*Example 2:* Filing status is Married Filing Separately on the Same Form (Filing Status 2a).

Your EITC claimed on your federal tax return is \$2,000. Enter \$2,000 on line 23a. Your Montana EITC is \$60 (3 percent of your federal EITC). You may choose to enter any portion of \$60 in any column of line 23b, and the remainder on the other column. For example, you may enter \$20 on line 23b, column A and \$40 on line 23b, column B, for a total of \$60.

If you are a part-year resident, an enrolled tribal member living on the reservation of your tribe, a member of an agricultural organization provided for in section 501(d) of the Internal Revenue Code, or a servicemember of the armed forces, you are allowed the Montana EITC in the proportion of your Montana earned income over your total earned income. Use the Montana EITC Reduction Worksheet on page 11 to calculate the amount you can claim on line 23b.

On this worksheet, Montana earned income means the following:

- If you are a part-year resident, earned income used for the calculation of the federal EITC that was earned in Montana while you were a resident. In general, Montana earned income is the addition of all income reported on the Part-Year Resident Ratio Schedule, lines 1, 6, and 11. Earned income sourced to Montana while you were not a resident is not Montana earned income. See Example 3.
- If you are an enrolled tribal member living on the reservation of your tribe, the amount of earned income received for services performed outside the reservation. See Form ETM to calculate your Montana earned income.
- If you are a member of an agricultural organization provided for in section 501(d) of the Internal Revenue Code, your Montana



earned income is your federal earned income minus any dividends received from the agricultural organization that are included in the federal earned income used to calculate the federal EITC.

- If you are a servicemember with the armed forces, the amount of earned income that is not exempt from individual income tax in Montana. See Example 6.

## Montana EITC Reduction Worksheet

|   |                                                                                                                          |  |
|---|--------------------------------------------------------------------------------------------------------------------------|--|
| 1 | Enter the federal EITC reported on page 1, line 23a                                                                      |  |
| 2 | Multiply line 1 by 3% (0.03)                                                                                             |  |
| 3 | Enter your federal earned income used for the calculation of the credit                                                  |  |
| 4 | Enter your Montana earned income                                                                                         |  |
| 5 | Divide line 4 by line 3,                                                                                                 |  |
| 6 | Multiply line 2 by line 5.<br><b>This is your Montana EITC.</b><br><b>Report the result on Form 2, page 1, line 23b.</b> |  |

**Example 3: Part-year Resident.** You are Married Filing Jointly (Filing Status 4) as part-year residents who received \$30,000 of earned income including \$15,000 of wages in Montana while being residents, \$5,000 of wages earned in Montana while being nonresidents, and another \$10,000 of wages in another state. Your Montana earned income is \$15,000. Assume your federal EITC is \$2,000. Your Montana EITC before reduction is \$60 (3 percent of your federal EITC). Your Montana EITC after reduction is \$30 ( $\$60 \times \$15,000 / \$30,000$ ).

**Example 4: Enrolled Tribal Member.** You are single and an enrolled member of a tribe living on the reservation of your tribe in Montana. You received \$30,000 of earned income including: \$10,000 of wages earned while working outside the reservation, and another \$20,000 earned on your reservation. Your Montana earned income is \$10,000. Assume your federal EITC is \$2,000. Your Montana EITC before reduction is \$60 (3 percent of your federal EITC). Your Montana EITC after reduction is \$20 ( $\$60 \times \$10,000 / \$30,000$ ).

**Example 5: Member of a 501(d) Organization.** You are Married Filing Jointly (Filing Status 4), and a member of an agricultural organization provided for in section 501(d) of the Internal Revenue Code, and you received \$30,000 of earned income. On your federal Form 1040, you included \$10,000 of dividends received from the agricultural organization as earned income for the purpose of determining your federal earned income. Your Montana earned income is \$20,000.

Assume your federal EITC is \$2,000. Your Montana EITC before reduction is \$60 (3 percent of your federal EITC). Your Montana EITC after reduction is \$40 ( $\$60 \times \$20,000 / \$30,000$ ).

**Example 6: Member of the Armed Forces.** You are a resident member of the armed forces Married Filing Jointly (Filing Status 4), who is also a resident of Montana. Your federal earned income is \$30,000, including wages of \$5,000 earned by your spouse. Your military compensation is exempt from taxation in Montana. Assume your federal EITC is \$2,000. Your Montana EITC before reduction is \$60 (3 percent of your federal EITC). Your Montana EITC after reduction would be \$10 ( $\$60 \times \$5,000 / \$30,000$ ).

## Line 24—Contributions, Penalties, and Interest.

Complete this schedule if you are:

- Making one or more contributions to a voluntary check-off program (see page 44)
  - Nongame Wildlife Program
  - Child Abuse Prevention Program
  - Agriculture Literacy in Montana Schools Program
  - Montana Military Family Relief Funds Program
- Filing an amended return and your initial return showed an overpayment, (see page 44), or
- Reporting interest or penalties related to savings and management accounts (see page 45)

**Line 26—Tax Due.** If line 25 is less than line 20, subtract line 25 from line 20 and enter the result on line 26. This is the amount you owe.

**Important:** If your filing status is 2a (Married Filing Separately on the Same Form) and your spouse has an amount overpaid on line 27, go to Filing Status 2a Payment Schedule before making a payment. If you both have an amount owed on line 26, you may make two payments.

You can pay the amount you owe by:

- electronic funds withdrawal when e-filing return. You can schedule your withdrawal for a later date.
- e-check or credit/debit card. Visit [MTRevenue.gov](https://mtrevenue.gov) and click on "Filing and Payment Options" and choose TransAction Portal (TAP). There is a fee when paying with a credit or debit card.
- personal check, money order, or cashier's check. Include the payment voucher available at [MTRevenue.gov](https://mtrevenue.gov). Make your check payable to the Montana Department of Revenue, sign your check, and write your Social Security Number and "Tax Year 2022" on the memo line.



**529 and 529A Account Direct Deposit.** You may directly deposit all or a portion of your tax refund into a Montana or out-of-state 529 Qualified Tuition Program (Family Education Savings Account) or 529A Achieving a Better Life Experience (ABLE) Account. The 529 or 529A account must already be open to make a deposit. Montana 529A accounts require a minimum deposit of \$25. If the amount you elect to deposit exceeds your available overpayment for any reason, your deposit will be canceled, and any remaining funds will be refunded by check or direct deposit.

For more information about Montana Family Education Savings plans, contact Achieve Montana.

<https://achievemontana.com/>

[ClientService@AchieveMontana.com](mailto:ClientService@AchieveMontana.com)

(877) 486-9271

For more information about Montana Achieving a Better Life Experience plans, visit <https://savewithable.com/> or call (888) 609-3461.

### Signature, Paid Preparer, and Third-Party Designee

Your tax return is not complete unless you sign it. If your filing status is Married Filing Jointly or Married Filing Separately on the Same Form, 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.

### Electronic Return Signatures

If you are filing your return electronically, 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.

If your paid preparer is also a third-party designee (see below), you can enter your paid preparer phone number here.

### Paid Preparer

**Signature.** Anyone you pay to prepare your return must sign it. Someone who prepares your return but does not charge you should not sign your return.

**PTIN/SSN.** The paid preparer must include his or her Preparer Tax Identification Number (PTIN) in the space provided.

**FEIN.** The paid preparer must also include his or her firm's Federal Employer Identification Number (FEIN), if applicable.

**Third-Party Designee Box.** You (not the paid preparer) must mark the box if you want the paid preparer to be a third-party designee. When the third-party designee box is not checked, we cannot talk to the paid preparer about your return, which may delay the processing of the return. For more information about third-party designees, see below.

The paid preparer must give you a copy of the return for your records.

### Third-Party Designee

To allow us to discuss your 2022 Form 2 return with your paid preparer and/or your friend, family member, or any other person you choose, mark the appropriate boxes and provide the required information on Form 2, page 2, Signature, Paid Preparer, and Third-Party Designee section.

The Paid Preparer designation box is located to the right of the "Firm's FEIN" boxes. You must include the Preparer's daytime phone number.

To designate someone other than, or in addition to, the paid preparer, mark the box below the "Paid preparer's signature" field and above the "Name" field. You must include your designee's name and phone number.

By selecting a Third-Party Designee, you are authorizing the designee to:

- discuss your 2022 Form 2 return
- give us any information that is missing from your return, such as a missing Form W-2
- call us for information about the processing of your return or the status of your refund or payments
- respond to 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 designee to discuss any other tax year, receive any refund check, bind you to anything, or otherwise represent you before us.

The third-party designee authority **only lasts one year** from the due date of the 2022 return (without regard to extensions) and is invalid for amended returns filed one year after the original due date. This is April 18, 2024, for most people.



Please be aware that you cannot revoke this authorization.

If you want to expand the third-party designee's authorization (for example, to verify any estimated payments you'll be making in the future or to discuss other tax years), use Form POA (Power of Attorney, Authorization to Disclose Tax Information). Form POA is available at [MTRevenue.gov](https://tap.dor.mt.gov), or you can submit a POA through our TransAction Portal (TAP) at <https://tap.dor.mt.gov>.

If you are married filing separately on the same form or filing a joint return, review the following instructions carefully:

- If you and your spouse are filing separately on the same form or filing a joint return, and a Third-Party Designee is marked, each of you is authorizing us to discuss the return with the designee.
- If you are filing a joint return, you are automatically authorizing us to discuss the joint return with either spouse.

## Farming Business Net Operating Loss Carryback Waiver

Mark the box if you choose to not carry back a farming business loss calculated on the 2022 Montana Form NOL. You must make this election by the due date, including the extension for filing Form 2. This election cannot be revoked.

## Amended Return Information

When amending a return, check the appropriate box(es) reflecting the reason(s) why you are amending your return. In the table, provide information about the lines you corrected that result in a change to your taxable income or to the credit(s) you are claiming.

## Form 2, Schedule 1

### Additional Income and Adjustments to Income

**Line 1—Taxable Refunds, Credits, or Offsets of State and Local Income Taxes.** Enter the same amount that you reported on your federal tax return. You need to include your state tax refund here and then report it as a subtraction from income on your Montana Subtractions Schedule, line 1, to calculate your Montana Adjusted Gross Income.

**Line 7—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. Subtract this same amount on the Montana Subtractions Schedule, line 7.

**Lines 8a–d, p, and x—Other Income.** Enter the amounts from federal Form 1040, Schedule 1, lines 8a, 8b, 8c, 8d, and 8p on the corresponding lines. Combine the amounts from federal Form 1040, Schedule 1 lines 8e through 8o, 8q through 8u, and 8z and enter on line 8x.

### Global Intangible Low-Taxed Income (GILTI):

Include the same amount of GILTI that you included on your federal income tax return. If you made the election to have your GILTI taxed at the corporate rate for federal tax purposes under Internal Revenue Code 962, this election does not apply for Montana individual income tax. Your GILTI will be taxed at the individual income tax rate.

**Excess Business Loss Adjustment.** Include the same amount of excess business loss that you included on your federal income tax return. If you have a federal excess business loss you may have a Montana excess business loss.

If you are married filing separately on the same form, complete the federal Form 461 using the single filing threshold. Then, report the new adjustment on Subtractions Schedule, line 22.

If you are a nonresident, complete the Form NOL, Montana Excess Business Loss Limitation Schedule to determine your Montana adjustment. Report your Montana adjustment on the Nonresident/Part-year Resident Ratio Schedule, line 14.

**Line 13—Health Savings Account Deduction.** Enter the same amount of federal health savings account contributions that you reported as deductible on your federal tax return.

*Note:* Be careful not to confuse this deduction with the Montana Medical Care Savings Account subtraction.

**Line 24—Other Adjustments.** List the type of other adjustments you are taking. If additional space is needed, attach a statement. Enter the amount from Form 1040, Schedule 1, line 25.

## Montana Medical Savings Account (MSA) Schedule

An account holder who establishes a Medical Savings Account (or whose employer establishes an account for them) to pay for eligible expenses can exclude contributions plus interest and other income earned on the account during the year. In 2022 contributions are limited to \$4,500.

Do not confuse this Montana MSA with the federal Health Savings Account (HSA) that is deductible on Form 2, Schedule 1, line 13. You can participate in both programs. See your federal income tax instructions for information on your federal HSA.



MSA accounts are usually self-administered. If you are married filing jointly with your spouse or married filing separately with your spouse, each of you can qualify for your own Montana MSA and you each can exclude up to \$4,500 plus interest or other earnings earned on this account during the year. You must each establish a separate account. In addition, you cannot commingle other funds with an MSA account.

### Subtraction

Each MSA account holder must report their beginning and ending balance in this section.

**Line 2—Total contributions for the year.** Report the total amount of contributions for the year, limited to \$4,500 in 2022.

**Line 3—Earnings from the account: interest, dividends, capital gains, etc.** Report the earnings for 2022 on line 3. Earnings can be found on the Form 1099 you received from the financial institution where the account is held. Do not include earnings that are tax-exempt for federal purposes on this line. Only residents of Montana are eligible to be account holders. If you established residency in another state, your ending balance must show 0 (zero) on line 5.

### Nonqualified Withdrawal and Penalty

When you withdraw funds from your Montana Medical Savings Account for some purpose other than payment of eligible expenses, you must add this nonqualified withdrawal to Montana Additions Schedule, line 6. You incur a 10 percent penalty on these withdrawals unless you withdraw them on the last business day of your tax year.

Eligible expenses are medical and dental expenses usually allowed as itemized deductions under Internal Revenue Code 213(d), long-term care expenses, annuities and insurance, and family leave expenses. An eligible expense can be withdrawn from the account until January 15 of the following tax year, even if you established residency in another state.

A family leave expense means an expense, calculated monthly, approximating wages lost by an immediate family member for the purposes allowed under the Family and Medical Leave Act of 1993. The approximation is reached by multiplying the hourly wage that the caregiver would have been paid by the number of hours of work lost.

**Line 1—Total withdrawals made during the year.** Report your total withdrawals made during the year. In general, this line must equal the beginning balance minus the ending balance, plus the subtraction calculated for the year on line 4.

For accounts other than traditional savings and checking accounts (e.g., investment accounts), where the balance may vary periodically, report the total amount you withdrew on this line without regard to the formula referenced in the instructions. This reporting will reflect the actual withdrawals of your MSA for the year.

**Line 2—Withdrawals for eligible expenses.** Report your withdrawals of eligible expenses on line 2. You must be able to substantiate your eligible expenses with appropriate documentation. Any expense not substantiated by an invoice, receipts, or an employer's statement, depending on the circumstances, is not an eligible withdrawal and cannot be reported on this line.

**Line 3—Nonqualified withdrawals.** Calculate your nonqualified total withdrawals by subtracting eligible withdrawals on line 2 from total withdrawals on line 1.

**Line 4—Nonqualified withdrawals not subject to the 10 percent penalty.** Report your nonqualified withdrawal not subject to the 10 percent penalty. It includes nonqualified withdrawals made on the last business day of the year, and if you established residency in another state, the balance on your account on the date you became a nonresident.

**Line 5—Nonqualified withdrawals subject to penalty.** The nonqualified withdrawal subject to penalty is calculated by subtracting line 4 from line 3. If you established residency in another state during the year and the result is less than zero, enter 0 (zero).

Your penalty on nonqualified withdrawals must be reported on your Contributions, Penalties, and Interest Schedule, line 5.

### Montana Additions Schedule

To determine your Montana Adjusted Gross Income you may have to make some additions to your Federal Adjusted Gross Income.

#### General Additions

**Line 1—Recovery of Federal Income Tax Deducted in 2021.** If you received a federal income tax refund in 2022 from federal taxes you claimed as an itemized deduction on your 2021 Montana tax return, you may need to report a portion or all your federal refund as income on your Montana tax return.

No addition is necessary if you claimed the standard deduction on your Form 2 for 2021, or if you limited your deduction to the amount of income tax after nonrefundable credit included on your 2021 return.

If you did not limit your 2021 deduction to federal income taxes assessed on your federal Form 1040, after nonrefundable credits, you may have to include a recovery on your Montana Additions Schedule. Payments of refundable credits are not included in

this calculation because these refundable credits are not deductible as itemized deductions.

If your deduction for federal taxes paid in 2021 was limited to \$5,000, or \$10,000 if you filed jointly, your refund may or may not be taxable.

**TIP:** Use the Recovery of Federal Income Tax Deducted in 2021 Worksheet on Form 2, page 4, to figure how much of your refund is taxable.

If you and your spouse filed your federal tax return jointly and are now filing your Montana tax return separately, you each need to complete a separate Recovery of Federal Income Tax Deducted in 2021 Worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2020 federal income tax deduction to the total federal tax deducted.

If you received a refund for an amount deducted in 2021 other than federal income tax, you must report any recovery of that refund on Montana Additions Schedule, line 2.

### ***Recovery of Federal Income Tax Deducted in 2021 Worksheet***

**Line 2.** Include in your federal refund the portion of payments that you deducted as payments of federal income tax but that were used to pay taxes which were not income taxes.

Some of the payments included on Itemized Deductions Schedule, lines 4a and 4b of your 2021 return may be pre-payments of taxes other than federal income tax. For the purpose of the federal income tax deduction, federal income tax includes:

- tax calculated on line 16 of your federal Form 1040, excluding any repayment of excess advance payments of the Health Coverage Tax Credit from federal Form 8885
- Alternative Minimum Tax reported on your federal Form 1040, Schedule 2, line 1
- Net Investment Income Tax reported on your federal Form 1040, Schedule 2, line 8 (federal Form 8960)
- any recapture tax based on any federal credit or deduction
- Internal Revenue Code 965 net tax liability reported on your federal Form 1040, Schedule 2, line 9
- tax on excess golden parachute payments, Form W-2, code K
- tax on accumulation distribution of trusts, federal Form 4970

If the combined amount of federal tax withheld (line 4a) and the federal estimated tax payments

(line 4b) reported in 2021 is more than the sum of all the taxes listed above after deduction of all federal credits on your 2021 federal Form 1040, enter this excess on line 2 of the worksheet. This amount includes the refund you received in 2022 and the payment that you were not allowed to deduct in 2021 that did not result in a refund of your federal taxes.

**Line 3.** Report any refundable federal tax credits you received in 2021, including your federal Earned Income Credit, recovery rebate credit, and the refundable portions of the child tax credit and American Opportunity Credit.

**Line 6.** If you claimed nonrefundable credits, reduce the amount of your income taxes included on your 2021 federal Form 1040, line 16, by the amount of nonrefundable credits reported on your 2021 federal Form 1040, line 21.

### **Line 2—Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income.**

To the extent that an itemized deduction you claimed on one of your previous Montana returns reduced the amount of your Montana income tax liability, any subsequent refund of the amount deducted is considered income in the year the refund is received.

If you received a refund of an expense you could have claimed as an itemized deduction in the year you used the standard deduction, your refund is not taxable.

For example, you may have received a refund in 2022, such as a federal income tax refund from 2020 and a casualty loss reimbursement for a loss claimed as a deduction in 2021. You elected to use the standard deduction in 2020. No addition is needed related to your refund from 2020 federal income tax return. To the extent that your deduction for casualty loss reduced your 2021 tax liability, you must include this reimbursement as income in 2022.

Recoveries must be added to your Montana income in the year you received the funds, up to the amount that the deductions reduced your Montana tax in the earlier year. To calculate your recovery, you will need to use the Taxable Recovery for Itemized Deductions Worksheet, on page 48 of the instructions. This worksheet helps you determine the amount of this addition for each previous tax year that some recovered funds were itemized. Complete a separate worksheet for each year.

### **Line 5—Adjustment for Smaller Federal Estate and Trust Taxable Distributions.**

The Montana taxable distribution that you received from an estate or trust may be 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 report it on this line.

**Caution:** Your Montana Schedule K-1 (FID-3) received from the trust or estate may show some specific additions, such as interest and mutual fund dividends from state bonds. Report these additions to the corresponding lines on the Montana Additions Schedule, not on this line.

## Savings Accounts

**Line 6—Medical Savings Account.** If you made some nonqualified withdrawals from your account in 2022, report the amount here. See the Montana Medical Savings Account Schedule instructions on page 15.

**Line 7—First-time Home-Buyer Savings Account Nonqualified Withdrawals.** If you made nonqualified withdrawals from your account in 2022, report the amount here. Refer to Montana Form FTB for detailed instructions.

## Business Additions

**Line 8—Allocation of Compensation to Spouse in Sole Proprietorship.** If you are the spouse of a sole proprietor reporting net income on your federal Schedules C or F, and you regularly and systematically provide substantial personal services in the operations of the business and are not paid a salary or wage, your spouse can allocate a reasonable amount of compensation to you to reduce his or her taxable income.

This allocation of income is available only if you file separately (Filing Statuses 2a, 2b, or 2c).

Your spouse must base this allocation on an amount that is equivalent to the value of the services that you provide. It is considered taxable income to you.

Services that you provided for operating your household or services that are incidental to your spouse's operations cannot be used as a basis for allocation of income.

Report on this line the amount of income allocated to you corresponding to the subtraction on the Montana Subtractions Schedule, line 21 (on the spouse's column if using Filing Status 2a).

**Line 9—Federal Net Operating Loss Deduction.** The federal Net Operating Loss deduction that you reported on Form 2, Schedule 1, line 8a, may be different from the amount of your Montana Net Operating Loss deduction calculated on the Montana Form NOL. Enter the amount of your federal Net Operating Loss carryover from Form 2, Schedule 1, line 8a. You will need to determine your Montana Net Operating Loss deduction using Montana Form NOL and report it on the Montana Subtractions Schedule, line 22.

**Line 10—Expenses used to claim a Montana tax credit.** If you claim a Montana tax credit and reduced your Federal Adjusted Gross Income by deducting business expenses associated with that credit,

you must add the amount of the expenses used to calculate your credit as an addition to Federal Adjusted Gross Income on this line.

**Line 11—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
- The distribution was not distributed within three years from the date the original deposit was made.

Refer to Montana Form FRM for detailed instructions. Report your Montana Farm and Ranch Risk Management Account taxable distributions as an addition to your 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 three years from the date of the original deposit. See the instructions for Contributions, Penalties, and Interest Schedule, line 5, for more information on the Farm and Ranch Risk Management Account 10 percent penalty.

**Line 12—Total Additions from Montana Schedule K-1 (PTE), Part 3, Column I, Line 1.** If you received Montana Schedules K-1 from a pass-through entity, report the total amount of everywhere additions (Column I). Do not report these additions separately on the Additions Schedule. Include a copy of the Montana Schedules K-1 you received.

**Line 13—Title Plant Depreciation and Amortization.** If you are taking a federal deduction for depreciation and amortization on a title plant, you must add back to your Federal Adjusted Gross Income the amount of this depreciation and amortization when you determine your Montana Adjusted Gross Income.

**Line 14—Other Additions.** Enter any other additions to Federal Adjusted Gross Income not described in lines 1 through 13. 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. If this results in larger reportable capital gains, enter the additional amount. Note that when computing your Montana Adjusted Gross Income, you can carry over capital losses incurred prior to



becoming a Montana resident or losses from activity in another state.

- If you are a shareholder in an S corporation that is required to pay a federal income tax on its income, and this S corporation did not issue a Montana Schedule K-1, 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 must include as an addition to your Federal Adjusted Gross Income.
- You must add back to your Federal Adjusted Gross Income any expenses you claimed for state income tax paid. This can include the pro-rata share of a state income tax deduction for taxes paid by a pass-through entity in another state or mineral royalty withholding taken as an expense on your Form 1040, Schedule E.

## Retirement

**Line 15—Subtotal to Figure Taxable Social Security Benefits.** Combine lines 1 through 14. This subtotal helps you figure your taxable amount of Social Security benefits for Montana tax purposes. If you did not receive any Social Security benefits in 2022, enter the amount on line 15 on line 17.

**Line 16—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 6b. Determine if you must enter an addition by completing the Taxable Social Security Benefits Schedule on Form 2, page 6. Before you can complete your Taxable Social Security Benefits Schedule, you must complete your Montana Subtractions Schedule up to line 34.

## Montana Subtractions Schedule

To determine your Montana Adjusted Gross Income you may have to make some subtractions from your Federal Adjusted Gross Income.

### General Subtractions

**Line 1—State Income Tax Refunds.** Income tax refunds received from Montana or another state are not taxable. If you are required to include your state income tax refund in your Federal Adjusted Gross Income on Form 2, Schedule 1, line 1, you can exclude that amount on this line.

**Line 2—Interest and Mutual Funds 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 may subtract these amounts

from your Federal Adjusted Gross Income if they are included in your Federal Adjusted Gross Income on Form 2. Additionally, 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 if they are included in your Federal Adjusted Gross Income on Form 2.

Interest on obligations that are only guaranteed by the United States government are 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, H, and I savings bonds
- U.S. treasury bills
- U.S. government notes
- U.S. government certificates.

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

**Line 3—Partial Interest Exemption for Taxpayers 65 and Older.** If you are single and age 65 or older at the end of 2022, 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 2022, 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 2022, you can exempt up to \$800 of the interest income that you reported in your Montana Adjusted Gross Income. Note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

When you determine the amount of your interest income subject to this exemption, consider the distributions commonly called dividends on deposits or share accounts as interest. Under no circumstances may you exempt more interest income than what you have reported in your Montana Adjusted Gross Income.

**Line 4—Adjustment for Larger Federal Estate and Trust Taxable Distribution.** The Montana taxable distribution that you received from an estate or trust may be 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 report it on this line.



**Caution:** Your Montana Schedule K-1 received from the trust or estate may show some specific subtractions, such as exempt interest. Report them on the corresponding lines on the Montana Subtractions Schedule, not on this line.

**Line 5—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 Montana Adjusted Gross Income if your child's gross income does not exceed \$5,090 or if they file their own Montana tax return.

**Line 6—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 recovery of amounts that were refunded to you after you claimed the deduction of the expense on a prior federal income tax return, 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.

A distribution received from a pension trust or similar tax deferral scheme allowed under the Internal Revenue Code does not constitute a recovery for federal tax purposes, but the amount is included in gross income.

## Employment

**Line 7—Unemployment Compensation.** If you received unemployment benefits from Montana or from another state, these benefits are exempt from Montana tax. If you reported taxable unemployment benefits on Form 2, Schedule 1, line 7, enter the same amount of these benefits on this line.

**Line 8—Tribal Income When Exempt.** If you are an enrolled member of a tribe who lives on the reservation governed by your tribe, you can subtract the following income that can be sourced to the reservation governed by your tribe:

- wages earned within the exterior boundaries of your reservation
- all interest, dividends, pensions, annuities, and any income received from the use of intangible properties
- income, including farming, from real properties located within the exterior boundaries of your reservation
- any business income from activities carried on within the exterior boundaries of your reservation

If you did not reside on the reservation governed by your tribe 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.

Report the details on Montana Form ETM and include it with your Form 2.

**Line 9—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—cannot be subtracted.

**Line 10—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 11—Certain Health Insurance Premiums Taxed to Employee.** If you are a shareholder in an S Corporation, subtract the cost of your health insurance premiums to the extent they are included in your Federal Adjusted Gross Income.

Your premiums cannot be deducted more than once on Form 2. If the premiums were already deducted on the Form 2, Schedule 1, line 17, or on the Itemized Deductions Schedule, line 2, you cannot report them on this line.

**Line 12a—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.

To qualify for this exclusion, you must be a health care professional who meets all three of the following:

- 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 Services and its Nursing Education Loan Repayment Program, the Montana Rural Physician Incentive Program, or a qualified private program with a licensed health care facility in Montana)
- 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 or go to [dphhs.mt.gov](http://dphhs.mt.gov).

**Line 12b—Student Loan Repayments for Educator Included in Gross Income.** If you are an educator who received loan assistance through the Quality Educator Loan Assistance Program, you can subtract up to \$5,000 for the amount of loan repayment assistance you received during the tax year from your Federal Adjusted Gross Income. The Quality Educator Loan Assistance Program provides paid loan assistance to educators who worked in a subject identified as a “critical quality educator shortage area” and teach or work at an “impacted school.” For information on the program, contact the Montana Office of Public Instruction at (406) 444-4523 or go to [opi.mt.gov](http://opi.mt.gov).

*Note:* The amount of employer-paid student loan payments that have been excluded from an employee’s gross income, are not eligible deductions on lines 12a or 12b. Only amounts in excess of the federal exclusion are eligible for the deductions on lines 12a and 12b.

## **Military**

**Line 13—Military Salary of Active Duty Service Person.** If you are receiving military compensation as a member of the regular U.S. Armed Forces on active duty, or as a member of the National Guard under Title 10 USC orders, and this compensation is included in your Federal Adjusted Gross Income, you can use this line to subtract your basic, special, and incentive pay from your Federal Adjusted Gross Income.

If you receive wages under the Combat Zone Exclusion that are not included on your Form W-2, Box 1, they will not be included in your Federal Adjusted Gross Income, so do not subtract that pay again. Do not include this amount on this line. However, if you are a commissioned officer who could not exclude all 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 because you were hospitalized as a result of your service there, you may include the additional combat pay that was included in your Federal Adjusted Gross Income on this line.

If you are a Reserve member, include the salaries you received when on active duty in the regular armed forces on this line. Compensation received when completing your annual training and inactive duty trainings is not deductible and must not be included on this line.

If you are a member of the National Guard, you can add your compensation received under Title 10 orders, or as part of a homeland defense activity as defined in 32 USC 901, or as part of a contingency operation as defined in 10 USC 101, to this line. Compensation received for completing your annual training, inactive duty trainings, or when you engaged in “active Guard and Reserve duty” as defined in 10 USC 101, is not deductible and must not be included on this line.

Do not add any retirement, retainer, equivalent pay, or allowances on this line.

If you claim this exemption, include verification of your military status (such as your military orders) with your income tax return. Contact the department or visit [MTRevenue.gov](http://MTRevenue.gov) for more information.

If you are the spouse of a military serviceperson and are in Montana solely to be with your military spouse who is serving in compliance with military orders, and your wages are exempt from taxation in Montana under the Military Spouse Residency Relief Act, report them on this line.

## **Line 14—Life Insurance Premiums Reimbursement or Death Benefits 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.

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, and this death benefit is included in your Federal Adjusted Gross Income, that amount is exempt from state taxes in Montana and you can subtract it here.

## Saving Accounts

### Line 15—Medical Care Savings Account (MSA)

**Deposits and Earnings.** Report the amount on the MSA Schedule, Subtraction section, line 4.

### Line 16—First-Time Home Buyer Savings Account

**Deposits and Earnings.** Your Montana First-Time Home Buyer Savings Account provides you with the opportunity to subtract 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, establish a separate or joint account with another person who also qualifies as a First-Time Home Buyer, 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 you 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 qualify both of you for the \$3,000 annual exclusion whether you file jointly or separately with your spouse.

The contributed funds 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, broker'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 percent 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, include a copy of Form FTB with your Montana tax return.

#### Note for lines 17 and 18

If you are planning to deposit all or part of your refund for Tax Year 2022 in a 529 or 529A account, this contribution will be deductible on line 17 or 18 in the tax year the contribution was made. For example, if the contribution is made in 2023 with the filing of your 2022 tax return, it will be deductible on the 2023 return.

### Line 17—Family Education Savings Account

**Deposits and Earnings.** You can subtract up to \$3,000 of the contributions that you made during 2022 to one or more Montana Family Education Savings Accounts.

If you are married, both you and your spouse can exclude up to \$3,000 for contributions that you made to one or more Education Savings Accounts. This exclusion is allowed for contributions that you make to an 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 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 that child is a Montana resident.

Withdrawals of your contributions and earnings from an Education Savings Account are not taxable to you if you withdraw them to pay for qualified education expenses. Qualified education expenses are defined in 26 U.S.C. 529 and include:

- tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible postsecondary school
- expenses for special needs services needed by a special needs beneficiary in connection with enrollment or attendance at an eligible postsecondary school
- expenses for room and board for students who are enrolled at least half-time at an eligible postsecondary school
- computer or peripheral equipment, software, or internet access if it is used by the beneficiary while enrolled at an eligible postsecondary school
- fees, books, supplies, and equipment related to the participation in an eligible apprenticeship program certified with the U.S. Secretary of Labor,
- up to \$10,000 of principal or interest on a qualified student loan for a designated beneficiary or a designated beneficiary's sibling
- up to \$10,000 of tuition for enrollment at an elementary or secondary (K-12) public, private, or religious school

If you withdraw these contributions for purposes other than to pay for qualified education expenses, they are subject to a recapture tax of 6.75 percent, which should be reported on Tax Liability Schedule, line 2.

To establish your Montana Family Education Savings Account or for additional information, call the Achieve Montana Program at (877) 486-9271 or visit [achievemontana.com](https://achievemontana.com).

Contributions to another state's 529 College Savings Plan qualify for the deduction. The rules on qualifying contributions to the Montana Family Education Savings



Program apply to these contributions as well. Please note that contributions to a state's prepaid tuition plan do not qualify. The department may ask for a copy of any statement(s) from the plan administrator after you file your return.

**Line 18—Exempt Montana Achieving a Better Life Experience Act (ABLE) Account Deposits.** You can subtract contributions that you made to one or more qualifying Achieving a Better Life Experience (ABLE) accounts during the tax year, not to exceed \$3,000.

Generally, qualified ABLE accounts are established to support another person's qualified disability expenses and meet the requirements of 26 USC 529A. If you are married, you and your spouse can each exclude up to \$3,000 for contributions that you made to one or more qualifying ABLE accounts. This exclusion is only allowed for contributions that you make to qualifying ABLE accounts that are owned by you, your spouse, or a child, a grandchild, or a sibling related to you by blood, marriage, or legal adoption.

### **Pre-2007 Status Adjustments**

**Line 19—Capital Loss Adjustment.** You may have capital losses previously used on your federal return before 2007 but not on your Montana return. This occurs with married taxpayers who were limited to a net capital loss of \$1,500, resulting in different carryover amounts. Married couples filing separate Montana returns are now allowed a combined net capital loss of up to \$3,000.

Use this line if you reported capital losses separately and individually on tax returns of previous years, and you have capital losses carryover for Montana tax purposes not included in your federal capital losses carryover. The sum of capital losses reported on Form 2, line 7, and the amount of capital losses reported on this line, cannot exceed the maximum capital losses allowable on a joint return or a married filing separately return.

**Line 20—Passive Loss Adjustment.** You may have passive losses previously used on your federal return before 2007 but not on your Montana return.

This occurs with married taxpayers who were required to recompute the allowable passive loss resulting in different carryover amounts. Married couples filing separate Montana returns are now allowed the same combined passive loss amount as if they were filing a joint return.

### **Business Subtractions**

Business subtractions result from differences in the tax treatment of business income and business deductions.

**Line 21—Allocation of Compensation to Spouse in Sole Proprietorship.** This subtraction is available to a sole proprietor reporting net income on Form 2 from their federal Schedules C or F, and who is filing separately (Filing Statuses 2a, 2b, or 2c). If you are filing jointly, you cannot use this subtraction.

This allocation usually results in less overall taxes for the spouses.

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 subtract a reasonable amount of compensation equivalent to the services that your spouse provides on this line.

This allocation reduces your taxable income as the sole proprietor of the business.

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

This allocation is considered taxable income to your spouse. It must be reported as an addition on your Montana Additions Schedule, line 8 (on the spouse's column if your filing status is 2a).

### **Line 22—Montana Net Operating Loss Carryover.**

The Montana Net Operating Loss (NOL) deduction carried over from previous years may be different from the amount of your federal Net Operating Loss deduction carryover. On this line, enter the amount of your Montana NOL deduction from the Class A/B NOL Carryover Determination Schedule on the 2022 Montana Form NOL. For further instructions on how to determine your Montana NOL deduction, see the Montana Form NOL instructions.

### **Line 23—Subtraction for Business-Related Expenses for Purchasing Recycled Material.**

You can subtract 10 percent 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 U.S. 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 24—Business expenses not included on Form 2, line 11, due to an existing federal credit taken.** If you incurred a business expense which was disallowed because you claimed a federal credit, you can deduct this business expense for Montana tax purposes. This subtraction includes wage deductions reduced by federal targeted jobs credit or the credits for the portion of employer Social Security taxes paid with respect to employee cash tips.

Do not include any recoveries of capital expenditures through depreciation, depletion, or amortization. Depreciation, depletion, or amortization deductions must be the same for federal and Montana income tax purposes.

**Line 25—Certain Expenses Incurred by Marijuana Businesses.** If you are a marijuana business registered in the state of Montana, you can subtract on this line your ordinary and necessary business expenses typically disallowed under Internal Revenue Code 280E.

Under Internal Revenue Code 280E, businesses are generally not allowed a deduction on their federal return for business expenses associated with the production and sale of marijuana other than those directly related to the cost of manufacturing the product.

**Line 26—Sales of Land to Beginning Farmers.** You can subtract 100 percent of your income or capital gain (up to a maximum of \$50,000) that you recognized from the sale of at least 80 acres or more of land to a beginning farmer at 9 percent or less interest on a long-term contract. 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 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, call the agricultural finance program manager of the Montana Department of Agriculture at (406) 444-5420 or visit <https://agr.mt.gov/Topics/E-G/Grants-Pages/Beginning-Farm-Ranch-Loans>.

**Line 27—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 can exempt these capital gains or dividends if all the following conditions are met:

- The SBIC must be organized with the purpose of diversifying and strengthening employment opportunities of companies in Montana.
- Within one year of being licensed by the U.S. Small Business Administration, 75 percent of the SBIC's investments must be in manufacturing or timber companies located in Montana.

- The SBIC's manufacturing and timber companies must have at least 50 percent of their employees working in Montana.

**Line 28—Certain Gains Recognized by a Liquidating Corporation.** You can subtract from your Federal Adjusted Gross Income the 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 income tax return.

**Line 29—Farm and Ranch Risk Management Account Deposits.** You can subtract any deposits you made into a Farm and Ranch Risk Management Account equal to the lesser of 20 percent 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 third year from the date that this contribution was deposited are considered distributed and are assessed a 10 percent 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, include a copy of Form FRM with your Montana tax return.

**Line 30—Capital Gain on Eligible Sale of Mobile Home Park.** 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 subtract all of the capital gain you recognized.

**Line 31—Total subtractions from Montana Schedules K-1 (PTE), Part 3, Column I, Line 2.** If you received Montana Schedules K-1 from a pass-through entity, report the total amount of everywhere subtractions (Column I). Do not report these subtractions separately on the Subtractions Schedule. Include a copy of the Montana Schedules K-1 you received.

## Retirement

### Line 32—Partial Retirement Disability Income

**Exemption for Taxpayers Under Age 65.** You can qualify for a partial retirement disability income exemption of up to \$5,200 if you are:

- under the age of 65; and
- 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. It can also be reported on your Form W-2.

The exemption is phased out when your Montana Adjusted Gross Income is above \$15,000. This limitation applies to married couples based on their combined Adjusted Gross Income. Complete this following worksheet to figure your exemption. When married couples are both claiming the exemption, they can allocate the exemption amount on line 11 (see below) as desired.

|    |                                                                                                                                            | Column A | Column B |
|----|--------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| 1  | Retirement disability benefits received                                                                                                    |          |          |
| 2  | Multiply \$100 by the number of weeks you received benefits                                                                                |          |          |
| 3  | Enter the smaller of line 1 or line 2                                                                                                      |          |          |
| 4  | Add column A and B                                                                                                                         |          |          |
| 5  | Enter the total of Montana Subtractions Schedule, line 35, without this exemption                                                          |          |          |
| 6  | Deduct line 5 from Form 2, line 11                                                                                                         |          |          |
| 7  | Add Montana Additions Schedule, line 16, to line 6                                                                                         |          |          |
| 8  | Combine column A and B of line 7                                                                                                           |          |          |
| 9  | Your income limitation                                                                                                                     | \$15,000 |          |
| 10 | Subtract line 9 from line 8 and enter the result, but not less than zero                                                                   |          |          |
| 11 | Subtract line 10 from line 4 and enter the result, but not less than zero.<br>This is your partial retirement disability income exemption. |          |          |

### Line 33—Subtraction for Federal Taxable Tier II Railroad Retirement Benefits.

Subtract your taxable Tier II Railroad Retirement benefits included on Form 2, line 5b, on this line. 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 percent exempt from Montana income tax.

### Line 34—Partial Pension, Annuity, and IRA Income

**Exemption.** If your Federal Adjusted Gross Income from page 1, line 11 is \$38,660 or less, you may qualify for an exemption of all or part of the first \$4,640 of your reported taxable retirement income on page 1, line 4b or 5b.

Qualifying pension, annuity, and IRA income is reported on federal Form 1099-R with distribution code 7. Distributions reported on federal Form 1099-R with distribution code 2 qualify if the plan participant met the years of service for retirement eligibility.

Death benefits and premature distributions of retirement income do not qualify for the exemption.

Your retirement exemption is subject to two limitations:

- First, you cannot exclude more than \$4,640 per taxpayer for the 2022 tax year;
- Second, your exclusion is reduced by \$2 for every dollar your 2022 Federal Adjusted Gross Income exceeds \$38,660, regardless of your filing status.

If you are filing jointly with your spouse, you can exclude the lesser of each spouse's retirement income or \$4,640 (up to \$9,280) if your joint Federal Adjusted Gross Income is \$38,660 or less.

*Example:* Jim and Pam are married filing jointly and have a Federal Adjusted Gross Income of \$35,400. Jim has a \$25,000 retirement distribution and Pam has a \$2,300 retirement distribution. Jim's retirement exemption is \$4,640, which is the lesser of \$4,640 or his retirement income. Pam's exemption is \$2,300, which is the lesser of her retirement income or \$4,640. Their Partial Pension, Annuity, and IRA Income Exemption is \$6,940.

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 \$4,640 applies separately to both spouses as long as your separately stated Federal Adjusted Gross Income is \$38,660 or less.

When your Federal Adjusted Gross Income exceeds \$38,660, your retirement exemption is reduced \$2 for every \$1 that your Federal Adjusted Gross Income is over \$38,660.

For example, if your Federal Adjusted Gross Income is \$39,400, your retirement exemption is \$3,160 (\$4,640 - (\$740 x \$2) = \$3,160).

If your Federal Adjusted Gross Income is more than \$40,980 (\$4,640 - (\$2,320 x \$2) = \$0), you are not eligible for the exemption.

**TIP:** If you are married and both of you receive pension, annuity, or IRA income you are more likely to be able to deduct \$4,640 each if you file separately.

Complete the Partial Pension, Annuity, and IRA Income Exemption Schedule on Form 2, page 6, to determine the amount of your exemption.

**Line 35—Subtotal to Figure Taxable Social Security Benefits.** Combine lines 1 through 34. This subtotal helps you figure your taxable amount of Social Security benefits for Montana tax purposes. If you did not receive any Social Security benefits in 2022, report 0 (zero) on line 36.

**Line 36—Subtraction 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 6b. Determine if you must enter a subtraction by completing the Taxable Social Security Benefits Schedule on Form 2, page 6.

**Line 37—Subtraction for Federal taxable Tier I Railroad Retirement benefits.** Montana does not tax Tier I Railroad Retirement benefits. Report the Tier I Railroad Retirement benefits included on Form 2, line 6b on this line.

## Partial Pension, Annuity, and IRA Income Exemption, and Taxable Social Security Benefits Schedules

If you did not receive pension, annuity, IRA income, or Social Security benefits, do not complete this page and do not include it with your return.

**Partial Pension, Annuity, and IRA Income Exemption Schedule.** If you are married filing jointly and both spouses have retirement income, complete lines 2 and 3a in Columns A and B as if you were filing separately. Complete lines 3b–7 in Column A only. All other filing statuses will follow the instructions for lines 1 through 7.

**Line 2.** If you are married filing jointly and both spouses have retirement income, enter the primary spouse's retirement income in Column A and the secondary spouse's retirement income in Column B.

**Line 3a.** If you are married filing jointly and both spouses have retirement income, enter the smaller of \$4,640 or the spouse's total retirement income in the

column attributable to each spouse.

**Line 3b.** Only taxpayers married filing jointly complete this line. Combine each spouse's exemption from lines 3a in Columns A and B.

**Lines 4–7.** If you are married filing jointly, complete Column A only.

**Taxable Social Security Benefits Schedule.** Your Montana taxable amount of Social Security benefits may be different than your federal taxable amount because of Montana adjustments. First, Montana grants a partial exemption for pension and annuity income to some taxpayers. Second, the state uses the adjusted gross income after Montana additions and subtractions, including the exemption amount, to determine the taxable and excludable portion of your benefits. These adjustments to your taxable amount of benefit must be reported on the Montana Additions or Montana Subtractions Schedules.

**Line 3.** Subtract the amount of your federal taxable Social Security benefits reported on page 1, line 6b from your federal total income reported on page 1, line 9.

**Line 21.** Do not include Tier I Railroad Retirement benefits on this line.

## Standard Deduction Worksheet

Use this worksheet to calculate the standard deduction you can claim if you do not choose to itemize your deductions. Note that if you choose to use the standard deduction, you do not need to include Form 2, page 7, with your return.

## Itemized Deductions Schedule

Use the Itemized Deductions Schedule to calculate your itemized deductions. Your Montana itemized deductions may be different from your federal itemized deductions as some federal deductions are not allowed on your Montana tax return, and some state deductions are not allowed your federal tax return.

Do not forget to mark the box on Form 2, line 15, if you elect to itemize your deductions.

## Medical and Dental Expenses

**Line 1—Medical and Dental Expenses.** Enter your medical expenses paid in 2022 after you have deducted from these expenses any payments that you received from your insurance company or other sources. The expenses allowed on line 1 are the same medical and dental expenses that are allowed under the Internal Revenue Code. Do not include expenses that are already deductible on another line, such as:

- Medical insurance and long-term care insurance premiums paid in 2022 that are claimed as a deduction on lines 2 and 3 below;



- Health insurance premiums that are paid by your employer and are excluded from Federal Adjusted Gross Income on your Montana Subtractions Schedule, line 11; or
- Medical expenses paid with funds withdrawn from your Montana Medical Savings Account.

Follow the instructions for lines 1c and 2 to figure the amount of your medical and dental expenses you can deduct.

**Line 2—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 percent 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 percent deductible on this line.

To qualify to deduct 100 percent of your medical insurance premiums, you must meet all of the following criteria:

- Your premiums must 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 “pretax” 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, check with your employer’s payroll office.
- Your premiums cannot be deducted as a Self-Employed Health Insurance Deduction on your Form 2, Schedule 1, line 17, or as a subtraction from Federal Adjusted Gross Income on your Montana Subtractions Schedule, line 11.
- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on this line.

**Line 3—Long-Term Care Insurance Premiums.** You may be eligible to deduct 100 percent of the long-term care insurance premiums that are deductible on your federal Schedule A (under Internal Revenue Code 213(d)) without regard to the federal limitation. You must meet all of the following criteria:

- Your payments must be for long-term care policies covering primarily qualified long-term care services such as 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 must 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.

## Taxes

**Line 4—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.

Enter the total amount of federal income tax paid in 2022.

**4a.** Enter the income tax withheld that was reported to you on your federal Forms W-2 and 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.

**4b.** Enter the amount of federal estimated income tax payments.

**4c.** Enter the balance of the total amount of the 2021 federal income tax that you paid in 2022.

**4d.** Enter the total amount of additional back year federal income taxes that you paid in 2022. For example, you may have paid additional 2019 federal income taxes in 2022.

Add lines 4a through 4d. Your federal tax deduction is limited as follows:

- If your filing status is Single, Married Filing Separately, or Head of Household, your deduction is limited to \$5,000.
- If your filing status is Married Filing Separately, you are each 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 \$10,000.

*Note:* The detail provided on line 4 allows you to calculate the sum of income tax payments made in 2022.

If the combined amount of federal tax withheld on line 4a and federal estimated tax payments on line 4b is more than the sum of all the taxes listed above after nonrefundable credits on your 2022 federal



Form 1040, the difference represents payments that are not deductible. To avoid a recovery on your Montana income tax return for 2023, you may reduce the amount you can report on lines 4a and 4b by the amounts you paid for federal liabilities that were not income taxes. See page 17 for a list of liabilities that are considered federal income taxes.

If the combined amount you paid is less than the sum of all taxes listed, part or all your return payment you make in 2023 will be deductible on your 2023 tax return.

Make sure that the taxes you paid for other back years on line 4d are income taxes. For example, back-year self-employment taxes, or additional taxes on IRA or other qualified plans distributions are not income taxes and cannot be deducted.

**Line 5—State and Local Taxes Limited to \$10,000.**

You can deduct the state and local taxes you paid in 2022, excluding state income taxes. If you are a resident, state income taxes paid to another state may be claimed as a nonrefundable credit on the Nonrefundable Credits Schedule, page 9.

**5a. General State and Local Sales Taxes:** You may claim the general state and local sales taxes you paid in 2022 as a deduction. Montana does not have a general sales tax. 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.

If you are a nonresident and you did not save your receipts, you can fill out the worksheet and use the optional General Sales Tax Tables in the instructions for Form 1040, Schedule A or use the Sales Tax Deduction Calculator available on the IRS's website at [apps.irs.gov/app/stdc/](https://apps.irs.gov/app/stdc/).

**5b. Local Income Tax:** Enter any local income taxes that you paid in 2022. No city in Montana imposes a local income tax, so a Montana full-year resident would be unlikely to take this deduction.

**5c. Real estate tax paid:** Enter any real estate taxes that you paid in 2022 on real estate that you own and did not use for business.

**TIP:** 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.

**5d. Value-based personal property taxes:** Enter any personal property taxes based on value that you paid in 2022.

Only personal property taxes that are based on value and charged on a yearly basis are deductible on this line.

**TIP:** When registering or renewing a registration of a light vehicle in Montana, you pay a registration fee and a county option tax. The county option tax is value-based and must be reported on line 5d. The light vehicle registration fee must be reported on line 6.

**Line 6—Montana Light Vehicle Registration Fees.**

You may claim the Montana Light Vehicle Registration Fees (LVREG) you paid in 2022. These fees are identified on specific lines of your vehicle registration bills.

**Line 7—Per Capita Livestock Fees.** You may claim the per capita livestock fees you paid in Montana in 2022 as a deduction.

**Line 8—Other Deductible Taxes Paid.** Enter any other deductible taxes that you paid in 2022 and that you did not report on lines 4 through 7. 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 Internal Revenue Code 59A, and taxes paid to a foreign country. Note that you can only deduct foreign taxes on your Montana tax return if you claimed 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 2022: 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 2022—such as hunting, fishing, or driver license fees.

**Interest**

**Line 9—Home Mortgage Interest and Points.** Enter your home mortgage interest and points allowed by federal law that were reported to you on your federal Form 1098.

Enter any home mortgage interest and points that you paid that were not reported on your federal Form 1098.

*Note:* For acquisition indebtedness incurred after Dec. 15, 2017, the deduction of interest is limited to the first \$750,000.

If you bought your home from another person, write that person's name, Social Security Number and address in the space provided.

**Line 10—Investment Interest.** Determine your Montana Investment Interest Expense Deduction by following the computation on federal Form 4952 but include any Montana adjustments to income. You cannot use interest expense related to income that is exempt from Montana tax when computing your Investment

Interest Deduction. If you and your spouse are filing separately, compute your Investment Interest Deduction on federal Form 4952 separately.

## Gifts to Charity

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 and the same documentation rules apply. Montana does have the following exceptions:

- You can include your contributions made in 2022 to the Montana Veterans' Service Special Revenue Account or the Montana State Veterans' Cemetery Program, or the surcharge you paid for purchasing a Montana patriotic specialty license plate, 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, available at [MTRevenue.gov](https://mtrevenue.gov).
- Any portion of a contribution that you used to calculate your Qualified Endowment Tax Credit, Innovative Educational Program Credit, or Student Scholarship Organization 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.

In general, excess charitable contributions can be carried over five years.

You may deduct your 2022 contributions to the Child Abuse and Neglect Prevention Program on line 11 or 12. If you decide to use the checkoff provided on your Contributions, Penalties, and Interest Schedule, line 1b, you may deduct this contribution on the 2022 return. Just add it to line 11.

Make sure this deduction matches the contribution you are going to report on the checkoff box.

### Line 11—Contributions Made by Cash or Check.

The deduction of cash contributions to charitable organizations listed in IRC 170(b)(1)(A) is limited to a percentage of your Montana Adjusted Gross Income.

**Line 12—Contributions Made Other Than by Cash or Check.** Enter your non-cash contributions on this line. Non-cash contributions are subject to the federal substantiation requirements. (See IRS Pub. 526 and 561 for details.)

*Note:* The contribution limit to charitable organizations listed in Internal Revenue Code 170(b)(1)(A) remains 50 percent of the Montana Adjusted Gross Income when the contribution is made with property other than cash or check.

If you are filing on paper and making a non-cash

contribution of over \$500, include a copy of your federal Form 8283 with your return.

**Line 13—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.

## Miscellaneous Deductions

**Line 14—Child and Dependent Care Expenses.** 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 must 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 must 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 |

To qualify for this deduction if you are married, you must either file Married Filing Jointly (Filing Status 4) or file Married Filing Separately on the Same Form (Filing Status 2a). When you file separately on the same form, your deduction must 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 15—Casualty and Theft Loss.** You may deduct a casualty and theft loss from a federally declared disaster (other than net qualified disaster losses). If you have a casualty and/or theft loss, 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, use your Montana Adjusted Gross Income in place of the Federal Adjusted Gross Income. 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.

Deductions for all other casualty and theft losses are suspended until tax years beginning after December 31, 2025.

**Line 16–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 \$100 for your spouse. To qualify for this deduction, your contribution of money must be made to one of the following:

- 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
- a local committee of a national political party

**Line 17–Gambling Losses.** You can take a deduction for gambling losses that you incurred during the year.

This deduction for losses is allowed only to the extent of the amount of gambling winnings that you have reported on Form 2, Schedule 1, line 8b. If you are married and you and your spouse are filing your Montana tax return separately, the spouse who claims the gambling winnings should report the gambling losses on this line.

*Note:* Gambling losses include any expense otherwise allowable under the Internal Revenue Code in conducting gambling activities. These expenses must not be reported or included on any other line of Form 2.

**Line 18–Other Miscellaneous Deductions.** These deductions are the same deductions that are allowed on your federal Form 1040, Schedule A, line 16.

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.

## Nonresident/Part-Year Resident Ratio Schedule

If you are a nonresident or part-year resident, you must complete this schedule. Up to this point, you have reported your income as if you were a resident

because you need to first calculate the tax as if you were a resident. This tax is reduced to your portion of Montana source income included in your Montana Adjusted Gross Income by applying the nonresident/part-year resident ratio.

## Reporting Your Montana Source Income

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

If you are a part-year resident, your Montana source income includes all the income you received during the part of the year you were a Montana resident, no matter where you earned it.

For example, you relocated to Montana and established your residency on July 1. You are filing your Montana tax return as a part-year resident 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 are Montana source income and are taxable to Montana.

## Adjusting for Montana Additions and Subtractions

Amounts reported on lines 1 through 15 must include any related Montana sourced additions and subtractions. If you are a part-year resident, this means that you must prorate your income received as a resident after you adjust for any related Montana additions and subtractions. Adjustments from pass-through entities are reported on line 13.

*Example 1:* You relocated to Montana and established your residency July 1, 2022. You are filing your 2022 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, 2022, are Montana source income and are taxable to Montana.

*Example 2:* You worked in Montana and earned \$15,000 in wages included in the amount on



Form 2, line 1. If those wages include \$2,000 in eligible tips that can be subtracted by reporting them on the Montana Subtractions Schedule, line 9, the amount to report on line 1 is \$13,000 (\$15,000 - \$2,000).

**Example 3:** You were a resident of Michigan in 2022 and must file a Montana return due to royalty income from wells located in Montana. Additionally, on the Montana Additions Schedule, line 3, you reported \$1,500 in interest income received evenly throughout the year. This interest is exempt from federal tax but is included in income taxable to Montana because the interest is from bonds issued by the State of Ohio. Yet this interest is not Montana source income. All the royalty income is reported on line 10, but the \$1,500 of interest is not included on line 2.

**Example 4:** Assume the same facts as Example 3 except that you became a Montana resident on July 1. The appropriate amount to include on the Nonresident/Part-Year Resident Ratio, line 2, is \$750 because one-half of the interest was earned while you were a Montana resident.

**Example 5:** You received federally taxable pension distributions evenly throughout the year totaling \$28,000 and became a Montana resident on March 31. Because your Federal Adjusted Gross Income is low enough, you are eligible for the maximum Partial Pension, Annuity, and IRA Income Exemption (see page 25) of \$4,640. That results in \$23,360 (\$28,000 - \$4,640) being included in Montana Adjusted Gross Income. The appropriate amount to include on line 9 is \$17,520 because you were a Montana resident for only three-fourths of the year.

**Example 6:** You were a Montana resident for several years and had been making deposits into a Montana Medical Care Savings Account (MSA) and claiming your contributions as a subtraction. On July 15, you moved to Arizona and became a resident of that state. Because your MSA had a balance when you established residency in another state, you must report an amount on the Montana Additions Schedule, line 6, as a Montana addition to federal income. The same amount is included on line 14 as Montana source income.

## Reporting Montana Source Losses

Montana source losses all stem from business carried on in the state directly or through a pass-through entity,

from the sale of tangible assets located in the state or used or held in connection with a trade or business, or from any losses incurred or received from a pass-through entity while a resident of the state.

You must report your Montana source losses on this schedule if you took them for federal tax purposes (except Net Operating Losses; see below.)

Any suspended losses or capital losses carried over to another year can only be taken as Montana source losses on this schedule until such time when you use them on your federal return. When a loss is taken on the federal return in a given year, it cannot be taken a second time in a subsequent year on this schedule. Consequently, a taxpayer cannot “reserve” a loss for future years.

**Example:** Daniel is a resident of Washington state, and he owns interests in two partnerships. In 2020, Partnership A, doing business inside and outside Montana, reported a large loss, part of which was Montana source. In 2021, Daniel acquired an interest in Partnership B, doing business only in Washington State. Assume that in 2021, Partnership A had nearly no income, and Partnership B's income is more than Partnership A's loss from 2020.

On his 2021 federal return, Daniel uses the 2021 loss from Partnership A to reduce the 2021 income from Partnership B. If in 2022, Partnership A has Montana source income, Daniel cannot use the Montana source loss from 2020 to reduce his 2022 Montana source income because that loss was taken on his federal return in 2021.

### Montana Net Operating Losses (NOL)

A Class A NOL is incurred from losses in a tax year beginning before January 1, 2018.

A Class B NOL is incurred from losses in tax years beginning after December 31, 2017. These NOLs cannot be carried back unless they were incurred in 2018, 2019, and 2020 (under the CARES act provisions). They can be carried forward indefinitely. Class B NOLs resulting from farming losses can be carried back two years. Class B NOLs are subject to the federal NOL limitations.

See the Montana Form NOL for more information.

If your Montana Adjusted Gross Income includes any Montana Class A NOL carryover, you must remove it from your Montana Adjusted Gross Income on the Nonresident/Part-year Resident Ratio Schedule, line 17.



**Line 1—Montana Source Wages, Salaries, Tips, etc.**

If you are a nonresident, enter the amount 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 1.

If you are a part-year resident, enter all the wages, salaries, tips, and other compensation that you earned during the period of the year you were a resident, regardless of where you earned this income. Also include, where applicable, the 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 on this line. 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 when protected by the Service Members Civil Relief Act (see page 1 of the instructions), some federally taxed tips and gratuities, health insurance premiums taxed to the employee, student loan repayments taxed to a health care professional, or wages covered by the Montana/North Dakota reciprocal agreement.

If your employer did not break out your wages earned while working in Montana, you will determine your Montana source wages based on how your employer pays you. Hourly employees multiply the hourly rate by the number of hours spent working in Montana.

*Example:* You are paid \$25 per hour and worked in Montana full-time for three weeks. Your Montana source wages are \$3,000 (\$25 multiplied by 120 hours (three 40-hour work weeks)).

Salaried employees multiply the percentage of time worked in Montana by the annual salary.

Salaried employees whose wages are not broken out by the location where they were earned report Montana source income based on the amount time worked in Montana. Salaried employees may apply a ratio of the amount of time worked in Montana to the total amount of time worked in the year. The employee may also use a method that is reasonable based on the type of work they perform.

*Example:* You earn \$600,000 per year and spent 4 months working in Montana. Four months of the year is 33 percent of the year. Your Montana source wages are \$200,000 (33 percent of your yearly salary).

**Line 2—Montana Source Interest.** If you are a nonresident, enter the amount 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 the interest that you received or accrued during the period you were a resident and that is included in the totals on Form 2, line 2b, and on your Montana Additions Schedule, line 3.

**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 the dividends that you received or accrued during the period you were a Montana resident in 2022 and that are included in your total on Form 2, line 3b.

**Line 4—Montana Source Refunds, Credits, or Offsets of Local Income Tax.** If you are a nonresident or a part-year resident and you have a taxable income tax refund or a recovery of an amount deducted in 2021 that is reported on Form 2, Schedule 1, line 10 or line 25, enter that portion of your taxable refund and/or recovery that is determined to be Montana source income. Do not include any state income tax refund in this amount.

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 you reported on your 2021 refund. If you did not have any Montana source income in 2021 and you were not required to file a 2021 Montana tax return, your income tax refund and/or recovery is not Montana source income.

If, in 2022, you received a refund and/or recovery of a prior-year deduction from a year other than Tax Year 2021, 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 Schedule 1, line 2a, is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter the amount of the alimony that you received during the period that you were a Montana resident in 2022 and that is included in your Federal Adjusted Gross Income on Form 2, Schedule 1, line 2a.

**Line 6—Montana Source Business Income or (Loss).** If you are a nonresident, enter the net income or loss that is included in the amount reported on Form 2, Schedule 1, line 3, that you received from a trade, business, profession, or occupation 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, Schedule 1, line 3. 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 you were a nonresident. If you operate your business as a sole proprietorship you may use a reasonable method suited to the nature of the business to determine your Montana source business income or (loss).

If you operate your business as a single member LLC, you must file a Form DER-1 to report your source income.

**Line 7—Montana Source Capital Gain or (Loss).** If you are a nonresident, enter the Montana source gains or losses used in the determination of your net gains or losses reported on Form 2, line 7.

*Example:* If you reported a loss of (\$3,000) on Form 2, line 7, which is the result of a capital loss of (\$13,000) from Oregon, and a capital gain of \$10,000 of Montana source income, you must report the \$10,000 of Montana source income on this line.

Montana source capital gains or losses are those from 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 your gains or losses included in your net gains or losses reported on Form 2, line 7, received during the period you were a resident. Make sure to reduce any net capital gains by the amount of capital loss carryovers for Montana purposes you may have reported on the Montana Subtractions Schedule, line 19.

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.

In general, 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 need to contact them.

If you sold an interest in a single-member limited liability company or any disregarded entity, it is considered a sale of the assets of the company, not as the sale of an interest in an entity. Report any capital gain related to the sale of tangible assets located in Montana on this line. If you sold your interest while a resident (or a part-year resident) report the entire gain.

Report your distributable share of any separately stated Montana source capital gain from a pass-through entity on this line. Only capital gains reported on this line will be used for the computation of the Capital Gains Tax Credit if you are a nonresident or part-year resident. Your distributable share of Montana source capital gain or loss is computed using lines 8 through 9 of your Montana Schedules K-1.

If you reported an exemption on Montana Subtractions Schedule, line 27, you must reduce the capital gains sourced to Montana by the same amount.

Report the net amount of your Internal Revenue Code 1231 gain or loss sourced to Montana on this line if it is a gain. To figure if you have an Internal Revenue Code 1231 overall gain, you must add all your Montana source Internal Revenue Code 1231 gains and losses from your Montana Schedules K-1 and your federal Form 4797 you filed as a sole proprietor.

A gain or loss from the disposition of an Internal Revenue Code 1231 property is sourced to Montana when the property is located in Montana.

If the overall net amount of your Internal Revenue Code 1231 gains or losses is a loss, report this loss on line 8.

**Line 8—Montana Source Other Gains or (Losses).**

If you are a nonresident, enter the amount of gains or losses included in your total on Form 2, Schedule 1, line 4, related to what you received from the sale or exchange of business property located in Montana. This gain is an ordinary gain as determined on your federal Form 4797.

If you are a part-year resident, enter all the gains and losses included in your total on Form 2, Schedule 1, line 4, received during the part of the year you were a resident. Also include, where applicable, any gains or losses from the sale or exchange of business property located in Montana during the period 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.

**Line 9—Montana Source IRA, Pensions, and**

**Annuities.** If you are a nonresident, the IRA distributions on Form 2, line 4b, and pensions and annuities that you reported on Form 2, line 5b, are not

Montana source income and are not taxable to Montana. If you are a part-year resident, enter all the taxable IRA distributions on Form 2, line 4b, and pensions and annuities included in your total on Form 2, line 5b, received during the part of the year that you were a resident.

**Line 10—Montana Source Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.** If you are a nonresident, enter the following income or losses that you used to determine the total on Form 2, Schedule 1, line 5:

- 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 and/or S Corporation income derived from a trade, business, occupation, or profession carried on in Montana. This is the amount reported as Total Montana Source Income on your Montana Schedules K-1. Do not include the gains or losses you already reported on lines 7 and 8
- Montana source trust income.

If you are a part-year resident, enter all the income or losses included in your total on Form 2, Schedule 1, line 5, received during the part of the year that you were a resident. Where applicable, include the portion of any income or loss attributable to Montana (as described in the preceding paragraph) during the period you were a nonresident.

*Example:* You are a part-year resident who was a resident of Montana for three months in 2022. You reported \$12,000 from a partnership on Schedule 1, line 5. You received a Montana Schedule K-1 from this partnership showing \$5,000 of Montana source income on Part 5, line 1. The amount to report on line 10 is \$6,750 (\$3,000 from the three first months of the year you were a resident, plus 3/4 of \$5,000 (\$3,750) for the nine months of the year you were a nonresident).

Mark the box if you have Montana source losses that you are carrying over to Tax Year 2023 on your federal return. This information will help us process your return faster.

**Line 11—Montana Source Farm Income or (Loss).** If you are a nonresident, enter the portion of your net income or loss reported on Form 2, Schedule 1, line 6,

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, Schedule 1, line 6, 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 you were a nonresident.

**Line 12—Montana Source Taxable Social Security Benefits.** If you are a nonresident, the taxable Social Security benefits that you reported on Form 2, line 6b, 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 need to complete the Taxable Social Security Benefits Schedule on Form 2, page 6, first, and report the required addition or subtraction, whichever applies. Then you need to calculate your portion of taxable Social Security benefits sourced to Montana by dividing the amount calculated on line 20 of the schedule by 12 months, and then multiply this result by the number of months you were a resident of Montana in 2022. You can use a similar calculation based on the number of weeks if this gives you a better result.

**Line 13—Other Income and Adjustments to Income.** 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
- Nonemployee compensation

### **Federal Adjustments to Income**

Your Montana Adjusted Gross Income includes deductions taken on federal Schedule 1. Deductions directly related to the production of Montana source income also reduce Montana source income. Voluntary expenses, such as contributions to a health savings account or contributions to a pension plan, are not considered directly related to the production of Montana source income and do not result in an adjustment.

Deductions taken as a part-year resident while a resident can reduce Montana source income.

*Example 1:* You are an educator and a part-year resident. You can reduce your Montana source wages derived from your activity as an educator by the portion of Educator Expenses allowed on federal Schedule 1 that is related to your Montana source wages received as an educator.

*Example 2:* You are a nonresident and self-employed, and you must pay self-employment tax (SE Tax) on your self-employment income. You



can reduce your Montana source self-employment income by the portion of SE tax related to your Montana source self-employment income. The portion related to your Montana source self-employment income is the ratio of Montana source self-employment over your self-employment from all sources.

*Example 3:* You are a nonresident and self-employed. You took a deduction for a contribution to a self-employed qualified plan. Your self-employment Montana source income is NOT adjusted, because this deduction is voluntary.

*Example 4:* You are a part-year resident, you can deduct the portion of interest expenses paid while a resident.

### **Montana Adjustments from Montana Schedule K-1**

Report your total Montana source adjustments from Part 3 of your Montana Schedules K-1 on line 13. Subtract column II, line 2, from line 1 and report the result. This amount may be a positive or a negative number.

**Line 14—Montana Source Additions to Income.** If you are a nonresident, enter any amount of income not included above that you reported on your Montana Additions Schedule derived from Montana sources. This includes, but is not limited to:

- **Federal Tax Refunds and Other Recoveries**

If you received a federal income tax refund or a refund that is required to be included in Montana Adjusted Gross Income as an addition on the Montana Additions Schedule, lines 1 and 2, a portion of such additions may be considered Montana source income. To determine this portion for each addition, multiply the amount of your addition by the nonresident/part-year resident ratio of the year you took the deduction. Add the results to this line.

- **Medical Care Savings Account Nonqualified Withdrawals**

Include on this line the entire amount you reported on the Montana Additions Schedule, line 6.

- **First-time Home Buyer Savings Account Nonqualified Withdrawals**

Include on this line the entire amount you reported on the Montana Additions Schedule, line 7.

### **Line 15—Montana Source Net Operating Loss.**

Enter the amount of Montana source losses included in the Montana NOL deduction reported on the Montana Subtractions Schedule of this return for your Montana Class B NOL.

## **Tax Liability Schedule**

If you are a full-year resident, and you do not have to pay any recapture taxes, line 2, nor any taxes on lump-sum distributions, line 4, you do not need to complete this page. For instructions on how to calculate your income tax, see page 10, line 18—Tax Liability Before Credits. Enter the result on Form 2, line 18.

**Line 1 –Tax from Tax Table.** Use the income tax table at the bottom of Form 2, page 8, to calculate the tax. Use your taxable income you reported on Form 2, line 17, to determine your tax.

**Line 2—Recapture Taxes.** Some Montana code sections that allow deductions and/or 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 succeeding tax years. All taxpayers, resident or not, can be subject to recapture tax.

If you must report a recapture, report the appropriate two-letter code and amount on this line. If your filing status is 2a, and each spouse is subject to a different recapture tax, or several recapture taxes applies to the same spouse, provide a statement with your return to indicate to which spouses the recapture are applied.

The four possible recapture taxes are:

**BD—Biodiesel/Bio-lubricant Production Facility, Biodiesel Blending and Storage, and Oilseed Crushing Credit Recapture Tax.** If you previously claimed any of the tax credits for biodiesel or bio-lubricant 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/Bio-lubricant 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 must 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 you 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, include in your



income on the Montana Additions Schedule, line 2, any recoveries of this prior-year deduction that reduced your tax liability in the year of that deduction. Complete the Taxable Recovery for Itemized Deductions Worksheet to determine if you must recapture any amount of your prior-year deduction. See the worksheet at the end of these instructions.

#### **FE—Family Education Savings Account**

**Recapture Tax.** If you have a recapturable withdrawal from your Family Education Savings Account, you must pay a 6.75 percent recapture tax on this withdrawal instead of including this withdrawal in your Montana Adjusted Gross Income.

A recapturable withdrawal is a withdrawal from your Family Education Savings Account within one year from the date you opened the account, or a withdrawal of contributions that reduced Montana Adjusted Gross Income in previous years that is not used to pay for qualified education expenses.

To determine the portion of withdrawal that reduced Montana Adjusted Gross Income you must:

1. Take your total contributions divided by the total account balance before the withdrawal. This is your ratio.
2. Multiply the amount of the withdrawal by the ratio. This is the amount of contribution included in the withdrawal.
3. If the amount from step 2 is more than the contributions that have not been previously used to reduce Montana Adjusted Gross Income, the difference is subject to recapture.

*Example:* Brenda is the account owner of a Family Education Savings Account. The balance on the account is \$20,000, including \$12,000 of contributions that were claimed as deductions over the years, \$4,000 of contributions that did not reduce Montana Adjusted Gross Income, and \$4,000 of earnings (20 percent of the total). Brenda makes a withdrawal of \$10,000 to pay for nonqualified education expenses. The recapturable withdrawal is \$4,000 (\$10,000 - \$2,000 of earnings - \$4,000 of contributions that did not reduce Montana Adjusted Gross Income).

Multiply your recapturable withdrawal by 6.75 percent, enter the result on this line, and enter the code “FE” in the space indicated. This is your Family Education Savings Account recapture tax.

#### **AB—Montana Achieving a Better Life Experience**

**(ABLE) Recapture Tax.** If you have a recapturable withdrawal from your Montana ABLE account, you must pay a 6.75 percent recapture tax on this withdrawal instead of including this withdrawal in your Montana Adjusted Gross Income.

A recapturable withdrawal is a withdrawal from contributions that reduced Montana Adjusted Gross Income that is not used to pay for qualified disability expenses of the beneficiary of the account.

The portion of the withdrawal that is from contributions that reduced Montana Adjusted Gross Income is calculated the same way as for the Family Education Savings Plan.

Multiply your recapturable withdrawal by 6.75 percent, enter the result on this line and enter the code “AB” in the space indicated. This is your Montana ABLE account recapture tax.

**Line 3a—Nonresident Tax.** Nonresidents must calculate their nonresident tax using the nonresident ratio determined on Form 2, page 8, and add the recapture tax from line 2 if applicable. Enter the result on this line and on Form 2, line 18.

**Line 3b—Alternative tax method for certain nonresidents.** You may elect to pay a tax of 0.5 percent on the gross receipts made in Montana in lieu of paying the individual income tax that is based on net income.

You may make this election if you meet all the following criteria:

- Your only activities in Montana consist of receipts.
- Your Montana activities do not include owning or renting real or tangible personal property.
- The dollar volume of gross receipts made during the tax year within Montana did not exceed \$100,000.

If you elect to pay the alternative tax, enter the calculated tax liability, and include a statement showing the detailed calculation. See [15-30-2104, MCA](#).

If you elected to pay the alternative tax but also owed some recapture tax, add the amount reported on lines 3a and 3b and report this sum on Form 2, line 18.

**Line 4—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 percent 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 5—Part-Year Resident Tax.** Part-year residents must calculate their Part-Year Resident tax using the Part-Year Resident Ratio determined on Form 2, page 8, and add the recapture tax from line 2 and/or the tax on lump-sum distributions on line 4 if applicable. Enter the result on this line and on Form 2, line 18.

**Line 6—Resident Tax.** Residents who owe recapture taxes and/or lump-sum distribution tax, and income tax from the tax table must add lines 1, 2, and 4. Enter the result on this line and on Form 2, line 18.

## Nonrefundable Credits Schedule

- **Nonrefundable Single-Year Credits**

Your nonrefundable single-year credits can only be used to offset your 2022 tax and cannot reduce your tax liability below zero. The unused portion of your nonrefundable single-year credits cannot be carried forward or carried back to other tax years.

- **Nonrefundable Carryover Credits**

Your nonrefundable carryover credits can be used to offset your 2022 tax. These credits cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2022 income tax liability can be carried forward and used to offset future year tax liabilities.

## Nonrefundable Single-Year Credits (Lines 1-7)

**Line 1—Resident Capital Gains Credit.** If you are a resident, you can claim a credit against the taxes imposed. This credit is equal to 2 percent of your net capital gains reported on Form 2, line 7.

Before calculating the credit, you must reduce the amount of net capital gains reported on Form 2, line 7, by any amount of capital loss carryover for Montana purposes you may have reported on your Montana Subtractions Schedule, lines 19 or 27.

Part-year residents must use line 2.

**Line 2—Nonresident/Part-Year Resident Capital Gains Credit.** If you are a nonresident or a part-year resident, you can claim a credit against the taxes imposed on your Montana source income. This credit is equal to 2 percent of your Montana source net capital gains reported on the Nonresident/Part-Year Resident Ratio Schedule, line 7.

**Line 3—Credit for Income Tax Paid to Another State or Country.** You can claim this credit only if you are filing as a full-year or part-year resident, and you paid income tax to another state or country on an item of income included in your Montana Adjusted Gross Income while a resident of Montana.

To compute this credit, use the Credit for Income Tax Paid to Another State or Country Schedule on page 9.

You must complete a new schedule for taxes paid to each state or country for which you are claiming a credit. Include as many copies of page 9 as needed. Complete the Nonrefundable Credits Schedule only once.

**Wages for work performed in North Dakota:** If you worked in North Dakota while a resident of Montana, the wages you receive for this work are not taxable by North Dakota under the income tax reciprocity agreement between the two states.

If this applies to you, but your employer withheld North Dakota income tax from the wages, you cannot take this credit. Instead, file a North Dakota individual income tax return to obtain a refund of the North Dakota income tax withheld.

**Income other than wages from North Dakota sources:** You may be eligible for this credit if you must pay income tax to North Dakota on income other than wages, provided you earn or receive the income while a Montana resident.

**Line 4—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 Internal Revenue Code 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 percent 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 contributed to a qualified Montana endowment, you are entitled to a credit equal to 20 percent of your share of the entity's outright gift or 40 percent of your share of the entity's planned gift. 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 the Itemized Deductions Schedule for 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 [mtnonprofit.org/endow-montana](https://mtnonprofit.org/endow-montana) to learn more about the endowments statewide. When you claim this credit, include a copy of Form QEC with your tax return.

**Line 5—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 percent of the first \$250,000 invested in the property, 15 percent of the next \$250,000 invested, and 5 percent of the next \$500,000 invested. You are not entitled to any additional credit for investment 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, include a copy of Form RCYL with your tax return.

**Line 6—Apprenticeship Credit.** If you are a Montana employer who is a Montana Registered Apprenticeship Program sponsor, you may be eligible to receive a tax credit for any new position hired for on-the-job training.

For more information visit [apprenticeship.mt.gov](http://apprenticeship.mt.gov).

Applications for the credit must be submitted to the Department of Labor and Industry (DLI), Workforce Services Division.

The credit equals either:

- \$750 for each new registered apprentice
- \$1,500 for each new registered apprentice who is a veteran

If the employer is a pass-through entity, the credit is calculated first at the entity level and owners may claim their distributive share of credit on this line.

The credit must be claimed on the income tax return of the year it is approved by DLI.

**Line 7—Trades Education and Training Credit.** You can claim a credit against your tax liability for the expenses incurred in providing education and training in a trade profession for an employee. The credit is equal to 50 percent of the cost of the qualifying trade profession education or training expenses, not to exceed \$2,000 per employee and \$25,000 total. The credit is claimed in the year the cost is incurred. The employee must work or plan to work in Montana for at least 6 months of the year in which the education or training occurs.

For further instructions on the Trades Education and Training Credit, and to calculate this credit, see Montana Form TETC. When you claim this credit, include a copy of Form TETC with your tax return.

## **Nonrefundable Carryover Credits (Lines 8-15c)**

### **Line 8—Innovative Educational Program Credit.**

The Innovative Educational Program credit is available to taxpayers who donate to a Montana public school district for the purpose of providing supplemental funding for the district's Innovative Educational Programs. The credit is equal to the donation up to \$200,000. Any excess may be carried forward for up to three years. The credit must be preapproved before a taxpayer may claim it. If preapproved, the public school district will provide you with a donation receipt,

which you must attach to your tax return. Enter the confirmation code shown on your receipt on this line.

You may not take this credit if you deducted the same amount as a charitable contribution on your Itemized Deductions Schedule.

### **Line 9—Student Scholarship Organization Credit.**

The Student Scholarship Organization Credit is available to taxpayers who donate to approved student scholarship organizations to provide scholarships for eligible students to attend instruction offered by a qualified education provider. The credit is equal to the donation up to \$200,000. Any excess may be carried forward for up to three years. The credit must be preapproved before a taxpayer may claim it. If preapproved, the student scholarship organization will provide you with a donation receipt, which you must attach to your tax return. Enter the confirmation code shown on your credit certificate on this line.

You may not take this credit if you deducted the same amount as a charitable contribution on your Itemized Deductions Schedule.

### **Line 10—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 Contractor's Gross Receipts (CGR) Account ID in the space provided. This Account ID was created when your CGR account was registered with the department and is where your gross receipts tax has been deposited. If you are requesting credit from more than one CGR account, mark the box indicating multiple accounts and include a statement detailing how much credit should be taken from each CGR account. If you do not know your CGR Account ID, call us at (406) 444-6900 and we will provide it to you.

**Line 11—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 percent of the federal rehabilitation credit provided for in Internal Revenue Code 47(a)(2). The credit may not be allocated between spouses unless the property is used by a S corporation or a partnership in which they are shareholders or partners. When you claim this credit, 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, must claim the Montana credit.



**Line 12–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, 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, include a copy of Form IUFC with your tax return.

**Line 13–Media Credit.** You may claim the Media Credit against your income tax liability if you received a validation letter from the Department of Revenue with your approved Media Credit amount, or a Form MEDIA CLAIM with your Montana Schedule K-1 from a pass-through entity or trust or estate. You may also claim the Media Credit if you received the credit via a registered transfer. Enter the UCRN found in your validation letter. The Media Credit may be carried forward up to five years from the date of issuance. The UCRN indicates the years in which the credit can be claimed. If you are claiming the Media Credit, you must submit Form MEDIA CLAIM with your tax return. Please see Form MEDIA CLAIM and its instructions for the submission process.

**Line 14–Jobs Growth Incentive Credit.** Qualifying employers in Montana that create qualifying net employee growth in Montana beginning in Tax Year 2022 and through Tax Year 2028 can claim a tax credit that is equal to half of the eligible employer's taxes paid under Federal Insurance Contributions Act (FICA) for qualifying new employees. While the credit is nonrefundable, it may be carried forward for up to 10 years. Employers may apply to the Montana Department of Labor and Industry to claim the credit. For further instructions on the Jobs Growth Incentive Credit, and to calculate this credit, see Montana Form JGI. When you claim this credit, include a copy of Form JGI with your tax return.

**Lines 15a–15c–Carryforward amount from an expired or repealed tax credit.** Report the code and carryforward amount you may have from a tax credit that was repealed. If you are claiming a carryforward, include a detailed schedule of the credit carryforward with your tax return.

- **Code: BBSC** – Biodiesel Blending and Storage Credit. This credit was repealed beginning in Tax Year 2022. You may carry this credit forward for up to seven years from the first year it was claimed.

- **Code: IRAC** – Increasing Research Activities Credit. This credit expired on December 31, 2010 and can be carried forward for up to 15 years.
- **Code: GEOT** – Geothermal Systems Credit. This credit was repealed beginning in Tax Year 2022. You may carry this credit forward for up to seven years.
- **Code: AESC** – Alternative Energy Systems Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to four years.
- **Code: AEPC** – Alternative Energy Production Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to seven years.
- **Code: DCAC** – Dependent Care Assistance Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to five years.
- **Code: EMPZ** – Empowerment Zone Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to seven years.
- **Code: ADPT** – Adoption Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to five years.
- **Code: MINE** – Mineral and Coal Exploration Credit. This credit was repealed beginning in Tax Year 2022. It may be carried forward for up to fifteen years.

### **Credit for Income Tax Paid to Another State or Country Schedule**

If you are filing as a full-year or part-year resident and paid income tax to another state or country, use this schedule to determine the amount of nonrefundable credit that you may be able to claim on your Montana tax return.

You are not entitled to this credit if the other state or country in which you 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 income tax on the same income in Montana.

**Owners of a pass-through entity (S Corporation or Partnership).** If you are an owner of a pass-through entity and your entity pays an income tax to another state (including composite tax paid on your behalf) or country, you can claim a credit for your share of these income taxes paid by the entity. The income tax paid by the S Corporation or partnership must be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the pass-through entity if 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.

If your pass-through entity paid an entity level tax in another state, you may take this credit. However, you must report your pro-rata share of the state income tax deduction on Additions Schedule, line 12.

When you claim this credit for the taxes paid by your S Corporation or partnership, in determining your Montana Adjusted Gross Income, you must add back your share of the S Corporation's or partnership's federal tax deduction that may be included in your total on Form 2, Schedule 1, line 5, to your Federal Adjusted Gross Income on Montana Additions Schedule, line 12. 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.

**Sourced and Taxable.** In the following instructions, sourced and taxable means any income that must be reported to another state or foreign country in accordance with the other state's or country's rules, and that is not subject to an exemption. If the income is partially exempt, only the part that is nonexempt can be used for the calculation of this credit. On a practical level, income that is sourced and taxable to another state is found on the line after state-specific additions and subtractions to Federal Adjusted Gross Income, but before state standardized or itemized deductions and personal exemptions. In general, this line is labeled as the state-specific Adjusted Gross Income.

**Taxes Paid to Another Country.** Individuals are not entitled to a Montana tax credit for taxes paid to a foreign country when they claim a federal Foreign Tax Credit the same year. For example, if you received Canada source income, you paid income tax to Canada, and you claimed the federal foreign tax credit on federal Form 1116, then you cannot claim any foreign tax credit on your Montana return.

You can claim a credit for foreign taxes paid to another country if you did not claim the federal Foreign Tax Credit, if you do not take the foreign taxes as a deduction on your Itemized Deductions Schedule, and if the foreign country does allow a credit for taxes paid to Montana.

**Line 1.** Enter the total income sourced and taxable to the other state that is also included in your Montana Adjusted Gross Income (Form 2, line 14) if you are a resident, or your Montana source income (Nonresident/Part-Year Resident Ratio Schedule, line 16) if you are a part-year resident.

Only report the part that is included in Montana taxable income and in the taxable income of the other state or country. Make sure that exemptions of any kind are accounted for before completing this schedule.

*Example:* If you worked in both Utah and Montana while a resident of Montana during the year, and

your total wages were \$50,000, with \$10,000 earned in Utah, then enter \$10,000 on line 1.

Do not include income on this line that is not taxable in Montana. For example, if a portion of your total wages came from \$2,000 you earned in tips in Utah and you included that portion in the subtraction you claim on Montana Subtractions Schedule, line 9, then do not report the tip income on this line.

**Line 2.** Enter the total income sourced and taxable to the other state or country. See "Sourced and Taxable" above to find the appropriate amount of income on another state return.

**Line 4.** Enter the actual tax liability paid by you or on your behalf to the other state or country. This amount comes from either an individual income tax return you filed, or a composite tax return filed on your behalf by a partnership or S Corporation.

Do not include any penalties and interest paid to the other state or country.

**Line 5.** If you are a resident, and you do not have to complete the Tax Liability Schedule on Form 2, page 8, your tax liability can be found on Form 2, line 18.

If you are a resident, and you must complete the Tax Liability Schedule because you must pay either a recapture tax or a tax on lump-sum distribution, your tax liability can be found on the Tax Liability Schedule, line 2.

If you are a part-year resident, report the tax liability you reported on the Tax Liability Schedule, line 5, without regard to the taxes on lump-sum distribution or recapture taxes.

**Line 9.** If you have capital gains included on line 1 and you claimed a capital gains credit on the Nonrefundable Credits Schedule, line 1, complete the worksheet and enter the result on line 9.

| Capital Gains Tax Credit Adjustment for Credit for<br>Income Tax Paid to Another State or Country |                                                                                                                                |  |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--|
| <b>1</b>                                                                                          | Enter your Montana tax liability from Credit for Income Tax Paid to Another State or Country Schedule, line 5.                 |  |
| <b>2</b>                                                                                          | Enter your percentage from Credit for Income Tax Paid to Another State or Country Schedule, line 8.                            |  |
| <b>3</b>                                                                                          | Multiply line 1 by line 2.                                                                                                     |  |
| <b>4</b>                                                                                          | Enter the amount of capital gain income included on Credit for Income Tax Paid to Another State or Country Schedule, line 1.   |  |
| <b>5</b>                                                                                          | Multiply line 4 by 2% (0.02).                                                                                                  |  |
| <b>6</b>                                                                                          | Subtract line 5 from line 3. Enter this amount on the Credit for Income Tax Paid to Another State or Country Schedule, line 9. |  |

*Example:* Brian is a resident of Montana and sold a house in Idaho. Brian is reporting a capital gain of \$10,000 for the sale of this house, which is included on line 1. Brian is claiming \$200 of

capital gains credit (2 percent of \$10,000) related to the sale of this house. Brian's tax liability before credits is \$2,500 and the ratio calculated on line 8 is 15 percent. The amount to report on line 9 is \$175  $((\$2,500 \times 15\%) - \$200)$ .

## Elderly Homeowner/Renter Credit Schedule

If you claim the credit, you must include a copy of your 2022 property tax bill and/or your signed rent receipts. 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 retained the required documents in your tax records and will provide those documents to us upon request.

When you claim this credit, you attest that you meet the following tests:

- **Age 62 Test:** You are 62 or older as of December 31, 2022.
  - If you are married and both spouses own or rent your residence, only one of you must meet the age requirement.
- **Six-Month Test:** You occupied a Montana residence as a renter, owner or lessee for at least six months during the tax year.
- **Nine-Month Test:** You have lived in Montana for at least nine months during the tax year.
- **Gross Household Income Test:** Your total household income of all household members is less than \$45,000 for the tax year.
- A household means an association of persons who live in the same dwelling, sharing its furnishings, facilities, accommodations or expenses. You do not need to be related to be in the same household.

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, 2022.

If you are married filing this claim with your spouse and if your spouse, who would have been the only eligible individual, died before October 1, 2022, you are not eligible for this credit. You are eligible only if, as a surviving spouse, you are age 62 or older as of December 31, 2022.

**Note:** If either spouse died during the claim year, enter the date of death in the appropriate box on top of page 1.

If you do not meet all these requirements, you cannot take the credit.

**Note:** Only one claim is allowed per household, and married taxpayers who are living apart may qualify for only one credit per year.

Enter the physical address of the residence related to your claim in the specified space at the beginning of the Schedule, if it is different than the mailing address shown on Form 2, page 1. If you had multiple residences during the year, enter the address of the one you occupied the longest.

### Gross Household Income

The gross household income is the sum of all the incomes received by the members of the household. This amount includes income that is both taxable and nontaxable to you, as well as the taxable and nontaxable income of each member of your household.

If members of your household, including the claimant, are filing a Form 2 for Tax Year 2022, use the information on each Form 2 to complete lines 1 through 4. If a member of your household is not filing a Form 2 for Tax Year 2022, but is filing a federal Form 1040, use the information on this federal Form 1040 to complete lines 1 through 4.

If members of the household, including the claimant, are not filing a Form 2 nor a federal Form 1040 for Tax Year 2022, report the incomes of these household members on lines 6 through 9.

**Line 1—Enter the Federal Adjusted Gross Income from Form 2, line 11.** The calculation starts with the Federal Adjusted Gross Income of each member of the household. Combine the amounts reported on Form 2, line 11, of each 2022 Montana individual income tax return or Federal Form 1040 completed by each member of the household.

**Line 2—Enter the exempt interest from line 2a.** Your Federal Adjusted Gross Income does not include tax-exempt interest reported on line 2a of Form 2 or federal Form 1040. Combine all the amounts reported on lines 2a of all Forms 2 or federal Forms 1040 completed by each member of the household.

**Line 3—Enter any IRA distribution reported on line 4a not included on line 4b.** Do not include nontaxable rollovers. Your Federal Adjusted Gross Income only includes the taxable amount of the income reported on Form 2, line 4b. However, some amounts may be reported on Form 2, line 4a, and must be added back to your Federal Adjusted Gross Income for the purpose of the calculation of the Elderly Homeowner/Renter Credit.

Amounts reported on Form 2, line 4a, that are not reported on Form 2, line 4b, and must be reported on this line are:

- Qualified charitable distributions made by the trustee of your IRA



- Health funding distributions you elected to exclude from gross income for federal tax purposes
- A conversion from a traditional IRA to a Roth IRA

**Line 4—Enter any pensions and annuities reported on Form 2, line 5a not included on line 5b.** Do not include non-taxable rollovers.

**Line 6—Social Security payment not reported, except when paid directly to a nursing home.** If you received Social Security benefits that are not included on lines 1, 3, and 4, report them here, even if the funds were ultimately used to pay a nursing home.

If members of the household are not required to file a Form 2, nor a federal Form 1040, enter all the Social Security benefits received that were not reported on previous lines, and that were not directly paid to a nursing home.

**Line 7—Refundable credits received, including the Elderly Homeowner/Renter Credit.** Combine all the refundable credits received by the members of the household in 2022. Refundable credits include the federal and Montana Earned Income Tax Credit, the federal Child Tax Credits, the Unlocking Public Land Credit, and the Elderly Homeowner/Renter Credit.

**Line 8—Other income not listed above.** Enter all items of income received by the members of the household that were not reported on lines 1 through 7. Such items of income may include:

- Pension and annuity income. If you received pension or annuity income or a distribution from a traditional IRA, include the federally taxable amount as shown on your Form 1099.
- Disability benefits including, but not limited to, veteran's disability, SSI payments, and workers' compensation.
- Capital gains. Report capital gains that members of the household excluded from their Montana Adjusted Gross Income, such as the gain from the sale of your primary residence.
- Interest on federal, state, county, and municipal bonds.
- Long-term care insurance benefits.

In addition, members of the household who are not filing a Form 2 or a Federal Form 1040 must report all wages, business income, and investment income not listed above.

A household member may have a basis (the amount you invested) in some items above. If applicable, the amount received as an item of income may be reduced by the household member's basis in that item. For example, if you paid \$50,000 for the ownership of a primary residence, \$50,000 is your basis. If you sell that residence for \$80,000, your gross household

income only includes the gain of \$30,000 (\$80,000 sales price minus \$50,000 basis).

**Line 9—Enter all losses included on Form 2, line 11.**

The gross household income cannot be reduced by any losses. If losses are included on line 1, you must add them back here as a positive number. Include net operating losses taken on federal Schedule 1, line 8a.

**Line 10—Gross Household Income.** The total amount of income from all household members used to determine your eligibility is called "Gross Household Income." Gross household income does not always equal the taxable income that individuals report on their Montana income tax return. It also includes income that is normally not taxable.

If the gross income of the household is more than \$45,000, stop here. You cannot claim the credit.

## Net Household Income

Complete lines 11 through 14 to calculate your net household income. The net household income represents the amount of your gross household income you can use to pay for part of the property tax. This amount is determined through a formula.

You must first deduct \$12,600 from your gross household income. Then multiply the result by the corresponding multiplier in the Household Income Reduction Table on page 10.

## Credit Computation

**Line 15—Property Tax Billed.** Report the amount of taxes, special assessments and fees that were billed on the property tax statement. Do not report the amount of property tax you paid.

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, your property tax to be used in the credit calculation is the larger of: 80 percent of the total amount of property tax billed; or the total amount of property tax billed divided by the total acreage.

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 16—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, excluding services provided by staff, such as board expenses including meals, housekeeping, and transportation, and medical or paramedical expenses such as nursing care, assisted living care, and memory care. The out-of-pocket rent can be determined using a facility statement providing the breakdown between rent and these amenities. If you do not receive a statement from your facility, use the Long-Term Care Facility Rent Calculation Worksheet to determine the amount that would be considered board for purposes of calculating the credit.

If you wish to claim the credit for a previous tax year still open and you were living in a long-term care facility, you must use the rules that applied during these years. Refer to the instructions of each tax year.

Do not use rent you pay for an apartment or a facility that is exempt from property tax because the credit is not allowed in these situations. Verify with your landlord or facility that the property is subject to property taxes beyond assessments such as sewer and garbage fees. You may also contact us for assistance in determining if the property is exempt from property tax. Items that also should not be included as rent equivalent paid on line 16 are as follows (this list is not all-inclusive):

- Mortgage payments, including mortgage interests
- 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 gross household income)

## Other Payments and Refundable Credits Schedule

### Payments

If you file separately, you may reallocate part or all of your estimated tax payments to your spouse to reduce the assessment of any interest and penalties. Only estimated payments (line 1), and overpayments from 2021 (line 2), can be reallocated. Withholding must be reported by the spouse whose name appears on the federal Forms W-2 or 1099.

**Line 1—2022 Estimated Tax Payments.** If you made estimated income tax payments for Tax Year 2022, enter the amount of these estimated tax payments.

Estimated tax payments include any payment you made on or before April 18.

**Line 2—Overpayment applied from 2021 return.** Report the amount of the 2021 overpayment that you requested us to apply to your 2022 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 2022. You can view your payment history on our TransAction Portal (TAP), at <https://tap.dor.mt.gov>.

### Line 3—Total Withholding from Montana

**Schedules K-1.** Report the amount of withholding taxes shown on the Montana Schedules K-1 you received from pass-through entities.

Combine the total pass-through withholding on Part 5, line 3c, and the mineral royalty withholding reported on Part 5, line 4, of the Montana Schedule K-1, and report the total here.

### Line 4—Loan-out withholding from Form

**LOWCERT.** If you are an employee or owner of a loan-out company, report the amount of loan-out withholding from Form LOWCERT.

## Refundable Credits

**Line 5—Unlocking Public Lands Credit.** The Unlocking Public Lands Program allows a landowner to enter into a contractual agreement with the Montana Department of Fish, Wildlife and Parks to provide public recreational access where no legal public access currently exists.

The landowner may receive an annual tax credit in the amount of \$750 per agreement (up to a maximum of \$3,000 tax credit per year) for allowing such access. For additional information, refer to [fwp.mt.gov](http://fwp.mt.gov).

**Line 6—Elderly Homeowner/Renter Credit.** The Montana Elderly Homeowner/Renter Credit is a property tax relief program that provides a refundable tax credit of up to \$1,150. To claim this credit, you must live in a household where the total income of all household members is less than \$45,000 for that year, be 62 or older, have lived in Montana for more than nine months during the tax year, and occupied a Montana residence as a renter, owner, or lessee for a total of six months or more during the year.

To calculate this credit, use the Elderly Homeowner/Renter Credit Schedule on Form 2, page 10. See instructions on pages 41 through 43.

If you do not have a filing requirement and you wish to claim the credit, see page 3.

**Line 7—Other Payments.** Use this line if you made any payment after April 18 for Tax Year 2022, including payments made for returns that are being filed on extension. This line does not include payments you make with your return.

**Line 8—If filing an amended return, payments made with original return.** Enter any payments made when you filed your original return and any subsequent payments that were applied to your 2022 tax liability.

## Contributions, Penalties, and Interest Schedule

This schedule includes all the adjustments that reduce your overpayment, or increase your amount owed.

**Line 1—Voluntary Contributions.** Per Montana law, you can use your tax return to donate any amount to the following programs. Your contribution will increase the amount you owe or reduce the amount of your refund. Each taxpayer can contribute. When married filing jointly, all contributions must be made on Column A.

If you are amending your return, your original donations to voluntary contribution programs no longer apply. You can confirm or modify your contributions by marking one of the boxes or entering the dollar amount you wish to donate for any program you choose.

**Line a—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 b—Child Abuse Prevention.** 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 can take an itemized deduction for this contribution on the tax return you are filing with this contribution.

**Line c—Agriculture Literacy in Montana Schools.** 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 d—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. Calculate the total of your contributions and enter the result on this line.

**Line 2—If Filing an Amended Return, enter Overpayments Already Refunded or Applied to Tax Year 2022.** If you are filing an amended return and you had an overpayment on your original Tax Year 2022 return, or on the last amended return filed for 2022 if this is not your first amendment, report this overpayment here. You may have chosen to apply this overpayment to your Tax Year 2023 estimated taxes.

If you made a payment with any of your previous return(s) filed for Tax Year 2022, report that payment on the Other Payments and Refundable Credits Schedule, line 8.

**Line 3—Interest on Underpayment of Estimated Taxes.** You must 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. (See Publication 1 for more information about the Montana pay-as-you-go system.)

If you did not pay at least 90 percent of your 2022 income tax liability in advance (after applying your credits) or 100 percent of your 2021 income tax liability (after applying your credits), you may have to pay interest on the underpayment of your estimated tax with your return.

You do not have to make estimated tax payments if at least two-thirds of your gross income is derived from farming or ranching operations. Mark the "2/3 farming gross income" box if this applies to you.

Mark the "estimated payments were made using the annualization method" box if you used the annualization method to make your estimated tax payments for 2022.

Taxpayers filing separately on the same form must calculate their interest on underpayment of estimated taxes on a combined basis. This often results in having less interest to pay.

To calculate your interest, complete either the Calculation of Interest of Underpayment of Estimated Taxes—Short Method Worksheet on Form 2, page 11, or Form EST-I (2022 Underpayment of Estimated Tax by Individuals, Estates and Trusts). This form is available at [MTRevenue.gov](http://MTRevenue.gov) or call us at (406) 444-6900.

You can use the short method to determine your interest only if your taxable year was 12 full months and 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.

**Line 4—Late Filing Penalty, Late Payment Penalty, and Interest.** This line allows you to use a simplified worksheet to estimate the penalties and interest you may owe.

**Caution:** The calculation of penalties and interest you report on your return is an approximation. The department will recalculate this amount and adjust penalties and interest if necessary. This adjustment may result in more or less penalties and interest owed.



If you and your spouse are filing on separate returns, penalties and interest are based on the amount that each spouse owes. If both spouses owe additional tax, penalties, or interest, they will receive individual Notices of Assessment for the amount they owe.

**Interest.** If you do not pay 100 percent of your income tax liability by April 18, 2023, you must pay 5 percent annual interest, computed daily on the amount you owe. Multiply your amount owed by 0.0001370 for each day your payment is late. If you made payments after April 18, you must adjust the amount owed after each payment for the calculation of interest. You must calculate the interest between each payment separately and add the interest owed for each period on this line.

*Example:* George owed \$2,000 on April 18. He made a payment of \$1,000 on June 14. He pays the remaining \$1,000 with his return on October 16. George has two interest calculation periods. He must first calculate the interest for 57 days based on \$2,000. Then, he calculates the interest for 124 days based on \$1,000. His interest is  $(\$15.62 + \$16.99 = \$32.60)$ .

**Late Filing Penalty.** If you file your return after October 16, you must pay a late filing penalty. The penalty is equal to 5 percent per month on the amount owed on the extended due date, up to 25 percent of the amount owed on October 16, until the return is filed. The minimum penalty is \$50, even if you are claiming a refund.

If the taxes and interest are paid within 30 days of the first Notice of Assessment sent by the department, the late filing penalty may be waived.

**Late Payment Penalty.** The late payment penalty is equal to 0.5 percent per month, calculated daily, on the unpaid amount from April 18, 2023, until it is paid. The daily rate is 0.0164 percent. Your late payment penalty will never exceed 12 percent (24 months x 0.5 percent) of the unpaid tax. Late payment penalty is automatically waived if you pay all the tax and interest with your return, or within 30 days of the first notice from the department.

If you are planning to pay the entire amount owed with the tax return, you do not need to calculate the late payment penalty.

If you are not able to pay the entire amount owed with your tax return, use the calculation worksheet below to determine an estimation of the late payment penalty accumulated up until the date you file your return.

The total amount to report on line 4 can be figured using the Penalties and Interest Worksheet below.

**Line 5—Other Penalties.** Include on this line the sum of the following penalties if they apply to your situation.

- **First-Time Home Buyer Savings Account 10 percent 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 must pay a 10 percent penalty on this withdrawal unless the withdrawal was on the last business day in December. Complete the penalty calculation on Montana Form FTB, 2022 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 percent Penalty**

If you withdrew funds from your Medical Care Savings Account for purposes other than to pay for eligible medical costs, you must pay a 10 percent penalty on this withdrawal unless you made this withdrawal on the last business day in December. Enter the penalty calculated on the Montana MSA Schedule, Nonqualified Withdrawal and Penalty section, line 6.

- **Farm and Ranch Risk Management Account 10 percent Penalty**

If you have not distributed your deposits and income from your Farm and Ranch Risk Management Account within three years, they are considered distributed. You must pay a 10 percent 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 percent penalty.

## Penalties and Interest Worksheet

| Penalties and Interest Worksheet |                                                                                                                                                         |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1                                | Form 2, line 20                                                                                                                                         |
| 2                                | Form 2, line 21                                                                                                                                         |
| 3                                | Form 2, line 22                                                                                                                                         |
| 4                                | Net amount owed on April 18: subtract lines 2 and 3 from line 1.                                                                                        |
| 5                                | Number of days since April 18, 2023                                                                                                                     |
| 6                                | Interest: multiply line 4 by line 5, and by 0.0001370<br>(if you made payments after April 18, see instructions)                                        |
| 7                                | Net amount owed on October 16                                                                                                                           |
| 8                                | Divide line 7 by 4                                                                                                                                      |
| 9                                | If the return is late, (filed after October 16), enter the number of months and parts of a month the return is late                                     |
| 10                               | Late filing penalty: Enter the greater of \$50 or your base amount, which is the lesser of 5% of line 7 multiplied by line 9, or line 8.                |
| 11                               | Late payment penalty: If applicable, multiply line 7 by line 5, and by 0.000164. Enter the result or 12% of line 4, whichever is smaller, on this line. |
| 12                               | Total: combine lines 6, 10, and 11, and report this total on the Contributions, Penalties, and Interest Schedule, line 4.                               |

### Penalties and Interest Worksheet Instructions

If you are paying or filing late, use the instructions for this worksheet to calculate any penalties and interest you may owe.

**Line 4.** Net amount owed on April 18: If you make payments after April 18, 2023, these payments are reported on the Other Payments and Refundable Credits Schedule, line 7. You must subtract these payments from the net amount owed and report the result on this line.

**Line 6.** This worksheet assumes you have not made any payment since April 18, 2023. If you made payments after April 18, you must adjust the amount owed after each payment for the calculation of interest. You must calculate the interest between each payment separately and add the interest owed for each period on this line.

**Line 7.** Report the amount from line 4 on this line. If you made payments between April 18 and October 16, you must deduct them from the amount reported on line 4.

## Tax Benefit Rule for Recoveries of Itemized Deductions Long Worksheet Instructions

### What documentation will you need to complete this worksheet?

You will need the original Form 2, the Itemized Deduction Schedule when applicable, and documentation recording the original deductions. You will also need any document or worksheet you used to record refunds related to expenses you itemized or any recoveries already reported on a previous return plus any form or worksheet that was used to limit allowable deductions.

### Federal Income Tax Refund Section

This section helps you calculate the recovery for a refund of federal income tax received in 2022 if you deducted these payments of federal income tax on a prior return. If, in 2022, you only received a refund of federal income taxes paid in 2021, you must use the Recovery of Federal Income Tax Deducted in 2021 Worksheet on Form 2, page 4, of the return to figure how much of your refund is taxable.

### Other (recoveries)

Enter the amount of refund of expenses, other than federal income tax, that you deducted in the year for which you are completing this worksheet. If you received refunds for several items you deducted that year, enter the sum of these refunds.

**Note:** When the original deduction was limited to a portion of the expense you originally incurred, either because of a floor (such as for medical expenses) or a ceiling (such as for the overall limitation on itemized deductions) the amount of your recovery is limited to the amount you effectively deducted. To determine how much of your refund was effectively deducted you may have to recalculate your itemized deduction for the year of the deduction using the original expense reduced by the amount of refund you received. Your recovery would be the difference between the original deduction taken and the deduction calculated after taking the refunds into account.

### Standard Deduction Benefit Rules and Rates

When you deduct an expense as an itemized deduction, the amount of taxes you must pay is reduced. This reduction in tax is the tax benefit of the deduction. If you receive a refund of that expense in a following year, that refund is income in the year it is received. This recovery may be less than the amount of refund you received. This happens when the deduction you took on your previous return, reduced

by the refund you received, would have resulted in more tax than choosing the standard deduction. The worksheet compares whether the itemized deductions net of the refund or the standard deduction would have been more advantageous, and reduces the recovery accordingly. This tax benefit rule is applied on an individual basis regardless of your filing status. It does not constitute a change to your election to use itemized deductions in either year.

*Example:* Assume Anna, a single taxpayer, chose to itemize her deductions in 2018 and recorded \$3,000 of property tax deduction and \$7,000 of casualty loss. In 2022, Anna received a refund of the \$7,000 that she deducted as a casualty loss in 2018. That refund is a recovery. In 2018, without the casualty loss, her itemized deduction would have been \$3,000. Yet, she would have been able to deduct \$4,200 if she had elected for the standard deduction. That is \$1,200 more than the itemized deduction considered after the refund. As a result, her taxable recovery is limited to \$5,800 (\$7,000 - \$1,200).

Do not use this worksheet if you received a refund for a given tax year and a previous recovery for the same tax year was already limited by the tax benefit rule. This may occur when, over the course of several years, you receive several refunds of expenses reported as deductions for that given tax year.

For purposes of the worksheet, "deduction year" means the year you took an itemized deduction for the expense you incurred. You must use a new worksheet for each deduction year for which you may have to report a recovery.

## Standard Deduction for Past Years

Multiply the amount on the worksheet, line 13 by 20 percent (0.20). Enter this amount on line 14 of the worksheet, but not more than the maximum amount or less than the minimum amount reported below that corresponds with the tax year for which you are calculating your tax benefit rule recovery amount.

In the following table statuses are referenced as:

- Single: S
- Married Filing Jointly: MFJ
- Married Filing Separately: MFS
- Head of Household: HoH

| Tax Year | Status     | Minimum | Maximum |
|----------|------------|---------|---------|
| 2021     | S or MFS   | \$2,140 | \$4,830 |
|          | MFJ or HoH | \$4,280 | \$9,660 |
| 2020     | S or MFS   | \$2,130 | \$4,790 |
|          | MFJ or HoH | \$4,260 | \$9,580 |
| 2019     | S or MFS   | \$2,090 | \$4,710 |
|          | MFJ or HoH | \$4,180 | \$9,420 |
| 2018     | S or MFS   | \$2,030 | \$4,580 |
|          | MFJ or HoH | \$4,060 | \$9,160 |
| 2017     | S or MFS   | \$2,000 | \$4,510 |
|          | MFJ or HoH | \$4,000 | \$9,020 |
| 2016     | S or MFS   | \$1,980 | \$4,460 |
|          | MFJ or HoH | \$3,960 | \$8,920 |
| 2015     | S or MFS   | \$1,940 | \$4,370 |
|          | MFJ or HoH | \$3,880 | \$8,740 |
| 2014     | S or MFS   | \$1,940 | \$4,370 |
|          | MFJ or HoH | \$3,880 | \$8,740 |
| 2013     | S or MFS   | \$1,900 | \$4,270 |
|          | MFJ or HoH | \$3,800 | \$8,540 |
| 2012     | S or MFS   | \$1,860 | \$4,200 |
|          | MFJ or HoH | \$3,720 | \$8,400 |



# Taxable Recovery for Itemized Deductions from Tax Year \_\_\_\_\_

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Column A<br>(for single, joint,<br>separate, or head<br>of household) | Column B<br>(for spouse when<br>filing separately<br>using filing<br>Status 2a) |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Federal Income Tax Refund</b>           | 1 Enter the total of your federal income tax deducted on Form 2, Itemized Deductions Schedule, for the deduction year (indicated above).                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 1                                                                     |                                                                                 |
|                                            | 2 Enter the total refund(s) you received in 2022 and prior years from the federal income tax reported on line 1. This amount should not include any refundable credits that are not attributable to income taxes you paid.                                                                                                                                                                                                                                                                                                                                                                                       | 2                                                                     |                                                                                 |
|                                            | 3 Subtract line 2 from line 1. This is your federal income tax not refunded.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 3                                                                     |                                                                                 |
|                                            | 4 Enter the federal income taxes you deducted on Form 2, Itemized Deductions Schedule, in the deduction year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4                                                                     |                                                                                 |
|                                            | 5 Is line 3 larger than line 4? If yes, enter 0 here. If no, subtract line 3 from line 4 and enter the result here. This is the amount of taxes you deducted that were refunded to you.                                                                                                                                                                                                                                                                                                                                                                                                                          | 5                                                                     |                                                                                 |
|                                            | 6 Enter the total of all taxable recoveries of federal income tax already reported in previous year returns, if you received consecutive refunds for the deduction you took.                                                                                                                                                                                                                                                                                                                                                                                                                                     | 6                                                                     |                                                                                 |
|                                            | 7 Subtract line 6 from line 5. This is your federal income tax recovery for 2022.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 7                                                                     |                                                                                 |
| <b>Other</b>                               | 8 Enter the total of all other itemized deductions recovered in 2022.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 8                                                                     |                                                                                 |
| <b>Total</b>                               | 9 Add lines 7 and 8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 9                                                                     |                                                                                 |
| <b>Standard Deduction<br/>Benefit Rule</b> | 10 Enter the total Montana allowable itemized deductions for the deduction year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 10                                                                    |                                                                                 |
|                                            | 11 Enter any taxable recovery you reported on returns prior to the 2022 and related to the deduction year. These recoveries must not be included in lines 7 or 8.                                                                                                                                                                                                                                                                                                                                                                                                                                                | 11                                                                    |                                                                                 |
|                                            | 12 Subtract line 11 from line 10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 12                                                                    |                                                                                 |
|                                            | 13 Montana Adjusted Gross Income for the deduction year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 13                                                                    |                                                                                 |
|                                            | 14 Enter the standard deduction for the deduction year. (See instructions)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 14                                                                    |                                                                                 |
|                                            | 15 Subtract line 14 from line 12. If the result is zero or less, stop here. The amount on line 9 is not taxable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 15                                                                    |                                                                                 |
|                                            | 16 Enter the smaller of line 9 or line 15.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 16                                                                    |                                                                                 |
| <b>Taxable<br/>Recovery</b>                | 17 Enter your Montana taxable income for the deduction year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 17                                                                    |                                                                                 |
|                                            | 18 If line 17 is zero or more, enter the amount from line 16. If line 17 is a negative amount, add lines 16 and 17 and enter the result, but not less than zero. This is your recovery amount. You must follow the instructions below to include this amount in your income for 2022                                                                                                                                                                                                                                                                                                                             | 18                                                                    |                                                                                 |
| <b>Allocation</b>                          | If line 18 equals line 9, enter the amount from line 7 on Form 2, Montana Additions Schedule, line 1, and enter the amount from line 8 on Form 2, Montana Additions Schedule, line 2.<br>If line 18 is less than line 9, and either line 7 or line 8 is zero:<br>If there is an amount on line 7, enter the amount from line 18 on Form 2, Montana Additions Schedule, line 1.<br>If there is an amount on line 8, enter the amount from line 18 on Form 2, Montana Additions Schedule, line 2.<br>If line 18 is less than line 9 and there are amounts on both lines 7 and 8, complete lines A, B, and C below. |                                                                       |                                                                                 |
|                                            | A Divide the amount on line 7 by the amount on line 9. Enter the percentage here.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | A                                                                     |                                                                                 |
|                                            | B Multiply the amount on line 18 by the percentage on line A.<br>Enter the result here and on Form 2, Montana Additions Schedule, line 1.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | B                                                                     |                                                                                 |
|                                            | C Subtract the amount on line B from the amount on line 18.<br>Enter the result here and on Form 2, Montana Additions Schedule, line 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | C                                                                     |                                                                                 |