Montana Department of
REVENUE

2007 Montana Form 2

Individual Income Tax Forms and Instructions

Inside this booklet...

- Form 2
- Form 2EC
- Form 2 Worksheets

If you need help...

mt.gov/revenue

(866) 859-2254 (toll free), or

(406) 444-6900 (Helena area)

(406) 444-2830 TDD

★ *Tax Filing Deadline is April 15, 2008*
★ *Need to check the status of your refund? Refer to Where's My Refund? information on the back cover.*

This year, make it easy on yourself.

- File early.
  The earlier you file, the better service we can provide in getting your tax return processed.
- File electronically.
  It's simple, secure and convenient. This year, free online filing is available for Montana Form 2EC. See details inside.
- If you expect a refund, choose direct deposit.
  This simple option will reduce the time it takes for you to receive your refund.
- If you owe taxes, choose direct debit.
  When you file your tax return electronically, you can authorize us to withdraw the tax due from your bank account on a date you choose, up to the due date for the return.
- Find the answers you need.
  Please take some time to visit our website at mt.gov/revenue, where you'll find tax season updates, frequently asked questions and other helpful filing information.

Dear Montana Taxpayers:

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

Your Montana Department of Revenue is committed to providing the best possible tax services to the citizens of our great state. We've worked hard to make filing and paying your individual income taxes even more convenient than in past years.

- We've created three separate income tax booklets for Forms 2, 2M, and 2EZ. We think you'll benefit from using only the form and instructions that meet your personal needs.
- We've compiled a list of "What's New" on page 1 of this booklet, so you'll be aware of tax law changes, filing updates and new tax credits, including the refundable $140 Montana homeowner income tax credit for property taxes. Please review this information before you file your tax return.
- We've expanded the options for free electronic filing. Last year, we introduced free electronic filing of Form 2EZ (our short tax form). We're expanding our free electronic filing program this year to include two more forms, Form 2M (our medium tax form) and Form 2EC (elderly homeowner/renter tax credit). Free electronic filing of these forms will be available on our website at *mt.gov/revenue* in mid-January 2008. Next year, we will add Form 2 (our long tax form) as we expand free electronic filing for a variety of taxes and fees.

We strongly encourage you to file and pay electronically, if possible. Visit our website at *mt.gov/revenue* to learn more about the convenient options available to you. If you are expecting a refund, please consider having your refund directly deposited into your bank account. It's the no-hassle way to receive your tax refund.

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

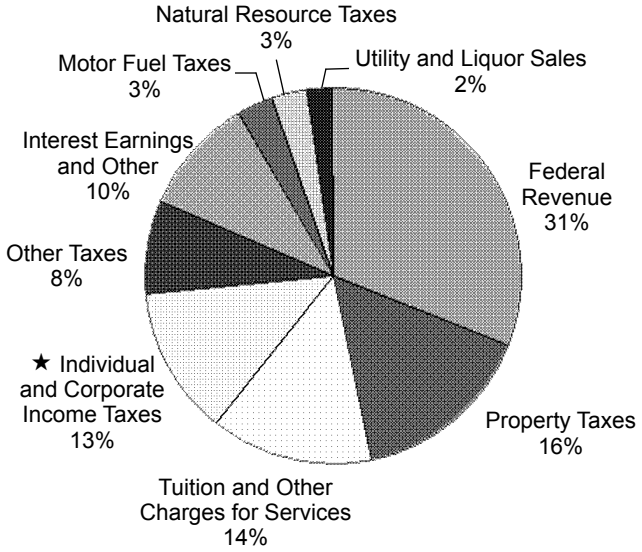
Best regards,

Dan Bucks
Director, Montana Department of Revenue

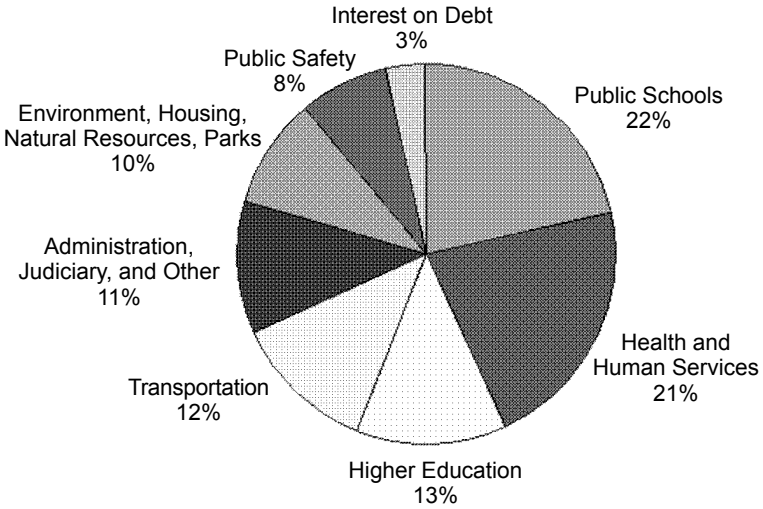
Your Tax Dollars at Work

The first chart shows the sources of revenue for both state and local governments in Montana for 2005, the most recent year for which totals are compiled. The second chart shows state and local spending.

What are Montana's Public Revenues?



Where Do Your Public Dollars Go?



★ Where Your Income Tax Dollar Goes

Education	49%
Health and Human Services	21%
Public Safety and Corrections	11%
Transfers to Local Governments	7%
General Government Operations	7%
Other	5%
Total Spending	100%

The table above shows where your individual and corporate income tax dollars—about 13% of total state and local revenues—were spent in 2006.

Important Numbers

These are not toll free numbers

Help Line .....(406) 444-6900

Forms Request.....(406) 444-6900

For the Hearing Impaired .....(406) 444-2830

We encourage you to file your Montana income tax return electronically....

The benefits to you are:

- **Faster Refunds.** The typical wait for e-filed refunds is 5-10 days. Taxpayers who file paper returns wait as long as 6-10 weeks for their refunds.
- **Fewer Errors.** Computer calculations are automatic and virtually error-proof.
- **Direct Deposits.** Refunds can be deposited directly into your bank account.
- **Avoid Post Office Lines.** No more last-minute postal runs or doubt about correct postage.
- **Immediate Verification of Receipt.** Returns can't be lost in the mail.
- **File Now, Pay Later.** E-file accepts both refund and tax due returns. Payments on balance due returns are to be made by April 15, 2008. Check out your electronic payment options on our web site at *mt.gov/revenue* and click on *Income Tax Express*.

Ways to file your return electronically:

- **E-file from your own computer.** Use our web site at *mt.gov/revenue* and click on *For Individuals*, and then *Electronic Filing*, for services available at no cost to eligible taxpayers and the commercial preparation software that is available for a fee.

Individual Income Tax Forms Available Upon Request

These forms may be available at local banks, courthouses, libraries and post offices.
Or, order your forms by calling us at (406) 444-6900, or by visiting our website at *mt.gov/revenue*.

Form Name	Description
2EZ Booklet	2007 Individual Income Tax Form 2EZ with Instructions
2M Booklet	2007 Individual Income Tax Form 2M with Instructions
2 Booklet	2007 Individual Income Tax Form 2 with Instructions
2EC	Montana Elderly Homeowner/Renter Credit
2101	W-2 Withholding Declaration
2441-M	Child and Dependent Care Expense Deduction
AEPC	Alternative Energy Production Credit
AFCR	Alternative Fuel Credit
BBSC	Biodiesel Blending and Storage Credit
CC	College Contribution Credit
DCAC	Dependent Care Assistance Credit
DS-1	Disability Income Exclusion Calculation
ECC	Elderly Care Credit
ENRG-A	Geothermal Systems Credit
ENRG-B	Alternative Energy Systems Credit
ENRG-C	Energy Conservation Installation Credit
ESA	Estimated Tax Annualization Worksheet
EST-I	Interest on Underpayment of Estimated Tax
ESW	Estimated Individual Income Tax Worksheet
EXT-07	Extension Payment Worksheet
FPC	Film Employment Production and Qualified Expenditures Credit
FTB	First-Time Home Buyer Savings Account
FTB-P	First-Time Home Buyer Savings Account Penalty
FRM	Farm and Ranch Risk Management Account
HI	Health Insurance for Uninsured Montanans Credit
IND	Indian Certification
IT-EST	Estimated Individual Income Tax Booklet
MINE-CRED	Mineral Exploration Incentive Credit
MSA	Medical Care Savings Account
MSA-P	Medical Care Savings Account Penalty
NOL	Montana Net Operating Loss Worksheet (1999 and subsequent years)
NOL-Pre 99	Montana Net Operating Loss Worksheet (1998 and prior years)
NR1	North Dakota Reciprocal Affidavit
NR2	Employee Certificate of North Dakota Residence
OSC	Oilseed Crushing and Biodiesel/ Biolubricant Production Facility Credit
PTC	Montana Homeowner Income Tax Credit for Property Taxes NEW
QEC	Qualified Endowment Credit
RSCH	Increase Research and Development Activities Credit
RCYL	Recycle Credit
VT	Veteran's Contribution
Worksheet VIII	Taxable Social Security Benefits
Worksheet IX	Tax Benefit Rule for Recoveries of Itemized Deductions

We have two different addresses to mail your individual income tax return.

If you have a refund or no payment due:
Montana Department of Revenue
PO Box 6577
Helena, MT 59604-6577.

If you are sending a payment and voucher:
Montana Department of Revenue
PO Box 6308
Helena, MT 59604-6308.

Table of Contents

WHAT'S NEW FOR 2007 ..... **1**

Please Note As Well... 1

GETTING STARTED **2**

GENERAL INFORMATION **2**

FORM 2 INSTRUCTIONS **6**

Exemptions 7

Federal Adjusted Gross Income 8

Tax Computation 11

Nonrefundable Credits 11

Recapture Taxes 11

Payments and Refundable Credits 12

The Amount You Owe 12

Montana Check-offs 14

Your Refund 14

FORM 2, SCHEDULE I - MONTANA ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME **14**

FORM 2, SCHEDULE II - MONTANA SUBTRACTIONS FROM FEDERAL ADJUSTED GROSS INCOME **17**

FORM 2, SCHEDULE III - MONTANA ITEMIZED DEDUCTIONS **23**

FORM 2, SCHEDULE IV - NONRESIDENT/ PART-YEAR RESIDENT TAX **27**

Reporting Your Montana Source Income 27

FORM 2, SCHEDULE V - MONTANA TAX CREDITS **30**

Nonrefundable Single-year Credits Form 2, Schedule V, Lines 1 through 12 30

Nonrefundable Carryover Credits Form 2, Schedule V, Lines 14 through 26 33

Refundable Credits Form 2, Schedule V, Lines 28 through 32 35

QUALIFIED MORTGAGE INSURANCE PREMIUMS DEDUCTION WORKSHEET FOR FORM 2 ..... **36**

FORM 2, SCHEDULES VI AND VII - CREDIT FOR INCOME TAX LIABILITY PAID TO ANOTHER STATE OR COUNTRY **36**

FORM 2, SCHEDULE VIII - REPORTING OF SPECIAL TRANSACTIONS **36**

WORKSHEET I - IRA DEDUCTION: (NO LONGER APPLICABLE AFTER TAX YEAR 2006) **37**

WORKSHEET II - TAX BENEFIT RULE FOR FEDERAL INCOME TAX REFUND **37**

WORKSHEET III - QUALIFIED CAPITAL GAIN EXCLUSION **38**

WORKSHEET IV - PARTIAL PENSION AND ANNUITY INCOME EXEMPTION **38**

WORKSHEET V - STANDARD DEDUCTION **39**

WORKSHEET VI - ITEMIZED DEDUCTION WORKSHEET **39**

WORKSHEET VII - CALCULATION OF INTEREST ON UNDERPAYMENT OF ESTIMATED TAXES - SHORT METHOD **40**

WORKSHEET VIII - TAXABLE SOCIAL SECURITY BENEFITS FOR FORM 2 ..... **41**

What's New For 2007

Homeowner Income Tax Credit for Property Taxes - A refundable tax credit of $140 is available for property taxes paid in 2007 for your principal residence, if you meet certain qualifications. Although there are similarities regarding who may qualify, this state income tax credit should not be confused with the $400 property tax refund issued to eligible homeowners in 2007 for property taxes paid in 2006 or an earlier year. Please see the instructions for Schedule V, line 29, on page 35, for more information.

Penalty for Late Payment of Taxes - Effective for tax years beginning on or after January 1, 2007, the penalty for not paying a tax when due decreases from 1.5% to 1.2% per month, or a fraction of a month, with a maximum penalty of 12% (formerly 18%).

Married Filing Separately - For tax years prior to 2007, married taxpayers who filed a joint federal return but filed separately for Montana purposes were required to recalculate some income and losses, and some deductions were disallowed when filing their state return. Legislation passed by the 2007 Montana Legislature allows taxpayers who are married but filing separate returns to report the same amount on their state return as they did on their federal return for the following items:

- Passive and rental activity losses (page 21)
- Capital losses (page 21)
- IRA contributions (page 10)
- Student loan interest deduction (page 10)
- Tuition and fees deduction (page 10)

See the instructions for these items on the pages indicated for additional information.

Due to this change, Worksheet I, IRA Deduction, is no longer required and has been discontinued.

Please note: In recent years, the net refund issued to married taxpayers filing separately on the same form may have been different than the amount reported to the Internal Revenue Service. This situation occurs because federal law treats these individuals as separate taxpayers even though they have received a single state refund check. To help ensure that the most appropriate amount is reported on federal Form 1099-G for each spouse, please allocate the payments in relationship to each spouse's separate tax liability. Additional information regarding this issue is included on page 12 in the instructions for lines 60 and 64.

Adoption Tax Credit - If you finalized the adoption of a child in 2007 that qualifies for the federal adoption credit, you are now eligible for a state income tax credit. The credit is equal to $1,000 in the tax year the adoption is final. See the instructions for Schedule V, line 26, page 35.

Qualified Mortgage Insurance Premiums - A federal change allows individuals who entered into a contract for qualified mortgage insurance in 2007 to claim the premiums paid during the year as an itemized deduction, if certain qualifications apply. If you are eligible, and your federal adjusted gross income exceeds $100,000, the amount you can deduct is reduced. The new Montana Qualified Mortgage Insurance Premiums Worksheet will assist you in determining the amount you can deduct. Please refer to the instructions for this worksheet on page 25 for additional information.

Please Note As Well...

Interest on Unpaid Individual Income Tax Liabilities - The 8% interest rate which became effective January 1, 2007 will continue to be in effect through December 31, 2008. The daily accrual interest rate for all unpaid individual income taxes depends on the rate set by the Internal Revenue Service and may fluctuate each year, but will never be less than 8%.

Capital Gains Tax Credit - Effective for tax years beginning on and after January 1, 2007, the tax credit for capital gains increases from 1% to 2% of the net capital gains included in your Montana taxable income.

Taxability of Homeowner Property Tax Refund - If you received the homeowner property tax refund of up to $400, authorized by the 2007 Montana Legislature, you may have to include it in your taxable income. The refund should be included in your taxable income if you claimed an itemized deduction in a prior tax year for the refunded property taxes. The appropriate line for reporting the refund will depend on whether you also itemized your deductions on your federal return. Please refer to the instructions for Schedule I, line 4 on page 15 for further information.

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

Amended Tax Return - If you file an amended tax return that reflects an increased tax liability, you may have the late payment penalty waived. In order to receive the waiver, simply check the "Amended Return" box on the top left-hand corner of the tax form and pay the tax and applicable interest in full. By checking this box, you are requesting a waiver of the late payment penalty.

Rural Physician's Credit Phase-out - The 2007 Montana Legislature passed a bill which phases out the credit for a physician practicing in a rural area, while expanding the educational loan repayment program for physicians serving these areas. Because of this change, 2007 is the last year a licensed physician can commence

practice in a rural area to qualify for the credit. Please see instructions on page 31.

Getting Started

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

- Complete your federal income tax return.
- Determine if you are a Montana resident, nonresident or part-year resident. See page 3.
- If you are a nonresident, complete your income tax return for your state of residency, if required.
- Determine which Montana tax form is right for you. See page 2.
- Decide if you will file electronically or use a paper tax return.
- File your Montana tax return or request an extension (include your payment, if taxes are due) by April 15, 2008.
- Remember to sign your tax return.
- When finished, please accept our thanks for a job well done!

General Information

Am I required to file a Montana individual income tax return?

If you are a resident, nonresident, or a part-year resident, you have to file a Montana individual income tax return when you have Montana source income and your federal gross income, excluding unemployment compensation, is equal to or greater than the corresponding amounts that are identified in the chart below.

IF your filing status is…	AND at the end of 2007 you were…	THEN you should file a return if your federal gross income, excluding unemployment compensation was at least…
Single, or married filing separately	Under 65	$3,730
	65 or older	$5,770
Head of household	Under 65	$5,420
	65 or older	$7,460
Married filing jointly with your spouse	Both under 65	$7,460
	One spouse 65 or older	$9,500
	Both spouses 65 or older	$11,540
If you or your spouse are blind, you are entitled to an additional exemption. Increase your federal gross income by $2,040 to determine if you are required to file.		

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

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

- I was a Montana resident for all of 2007.
- I am filing as a single person or as a married person filing a joint return.
- My spouse and I were under 65 and not blind at the end of 2007.
- I am claiming no dependents.
- My only income is from wages, interest, dividends, or unemployment.
- I am claiming the standard deduction rather than itemizing deductions
- The only tax credit I may be claiming is the Homeowner Income Tax Credit for Property Taxes.

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

- I was a Montana resident for all of 2007.
- I am filing as a single person, head of household, or as a married person filing a joint return.
- My only income is from wages, interest, dividends, capital gains, IRA distributions, pensions, annuities, unemployment, social security benefits or refunds.
- The only tax credit that I may be claiming is one (or more) of the following:
  - Adoption Credit
  - Elderly Homeowner/Renter Credit (Form 2EC)
  - College Contribution Credit (Form CC)
  - Energy Conservation Credit (Form ENRG-C)
  - Elderly Care Credit (Form ECC)
  - Developmental Disability Account Contribution
  - Alternative Energy Systems Credit (Form ENRG-B)
  - Homeowner Income Tax Credit for Property Taxes

You will have to use the Montana long form (Form 2) if you answer *yes* to *any* of the following:

- I was a resident of Montana for only part of 2007.
- I am a nonresident of Montana with Montana source income.
- I am married, filing a separate Montana income tax return.
- My income includes income from a business or profession, farm or ranch, rents, royalties, partnerships, S corporation or trust.
- My tax year ended on a date other than December 31, 2007.

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

You are a resident of Montana for individual income tax purposes if you live in Montana or if you maintain a permanent home in Montana. You will not lose your Montana residency if you left the state temporarily with the intention of returning. Your Montana residency is lost, or changed, when you establish a permanent residence outside of Montana with no intention of returning. Unless there is a specific statutory exception, if you establish Montana residency for any other purpose, you are considered a Montana resident for income tax purposes.

You are a nonresident of Montana if you did not consider Montana your home at any time during the tax year even though you may have lived and worked in Montana temporarily during the tax year.

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

How do I determine my legal residence for Montana income tax purposes?

Your legal residence is generally the place where you maintain your most important family, social, economic, political and religious ties. It is a place where you remain when you are not called elsewhere for work or for other temporary purposes. Your change in residency is not accomplished by being away from your home temporarily or for a prolonged period of time. Your change of residency is established when you leave your home and do not intend to return, but instead, intend to establish a new home elsewhere.

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

Your 2007 Form 2 tax return has to be filed by April 15, 2008. If you operate on a fiscal year, your return has to be filed by the 15th day of the fourth month following the close of your fiscal year. If you file after this date, you may have to pay penalties and interest.

How can I get an extension of time to file my Montana income tax return?

First of all, it should be clear that any extension of time to file your Montana income tax return is *not* an extension of time to pay your income tax liability. If you have a valid Montana extension but have not paid your complete income tax liability by April 15, 2008, you are relieved of late file penalties but you are not relieved of late payment penalties and interest on your outstanding Montana income tax liability.

You can be granted an extension of time for filing your Montana income tax return if you meet *both* of the following requirements:

1. By April 15, 2008, you have applied to the Internal Revenue Service by filing federal Form 4868 for an automatic six-month extension to file your federal income tax return.
2. You have paid 90% of your 2007 Montana income tax liability or 100% of your 2006 Montana income tax liability through your estimated tax payments, your withholding tax, or a combination of both your estimated and withholding tax payments.

Even though you have applied for an automatic six-month federal extension, this does not guarantee that you have a Montana extension unless you have met one of the requirements listed in number 2 above on or before April 15, 2008. You should examine and use the Montana EXT-07, which is the “Extension Payment Calculation” worksheet, in order to determine whether you have a Montana extension payment requirement. You can get a copy of this form by visiting our website at *mt.gov/revenue* or calling (406) 444-6900. If you are required to make an extension payment, please use the tax payment coupon found on this worksheet.

In order to complete your Montana extension, you have to check the extension indicator box found on the bottom right hand corner of Montana Form 2 and attach a copy of your federal Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, to your Montana income tax return. Please do not send us a copy of your federal Form 4868 prior to filing your Montana income tax return.

It is important that you follow the requirements stated above, or your extension will be denied and a late file penalty will be applied.

I am on active duty in the regular armed forces and currently serving in an area designated as a “combat zone” or “contingency operation.” I am unable to file my Montana individual income tax return by April 15, 2008. Can I (and my spouse) obtain an extension to file my 2007 Montana individual income tax return?

Yes, you can. Montana state law conforms to federal law and references the Servicemembers Civil Relief Act, which provides for the same extension of time for you to file your Montana individual income tax return that is provided on your federal income tax return. If you are serving in a combat zone or in a contingency operation, you (and/or your spouse) can extend the filing of your Montana income tax return for up to 180 days after the time you (and/or your spouse) are discharged from service.

If you are filing a return that is allowed to be extended by the Servicemembers Civil Relief Act, clearly write on the top of Montana Form 2, using red ink, “combat zone or contingency operations extension,” and file your return within 180 days after being discharged from service. In addition, if you file within 180 days of being discharged you are not assessed any penalties or interest.

What happens if I'm late in filing my Montana individual income tax return?

If you file your return late, you will be assessed a late file penalty of $50 or the amount of tax due, whichever is less. If you file a late return for which you are receiving a refund, you will not be charged a late fee.

What happens if my payment is late?

If you do not pay the full amount of your tax liability on or before April 15, 2008, you will be charged a late payment penalty. This penalty is 1.2% per month or fraction of a calendar month on the unpaid tax. This penalty cannot exceed 12% of the tax due.

If you do not pay your tax liability by April 15, 2008, you will also be charged interest at a rate of 8% per year accrued daily. If you can't pay your tax in full, you should file your return by the due date and pay as much as possible with your return. If you wish to set up a payment plan with us, please call us at (406) 444-6900 to discuss payment options and make arrangements to pay.

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

Penalties and interest are set at a higher rate than the rates noted above if you purposely and knowingly do not file a return timely or pay your Montana income tax liability timely.

If you pay your tax late or have established a payment plan with us, be sure to report clearly on your payment your name, social security number and the tax year for which the payment is to be applied. If you intend to have one payment applied to more than one social security number or tax year, please include a statement with your payment that indicates how you want your payment to be allocated.

Where do I file my Montana individual income tax return?

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

If you are filing a return that includes no payment or if you are due a refund, mail your return to: Montana Department of Revenue, PO Box 6577, Helena, MT 59604-6577.

If you are filing a return that includes a payment, mail your tax return and check to: Montana Department of Revenue, PO Box 6308, Helena, MT 59604-6308.

Can I file my Montana individual income tax return electronically?

Yes, you can—and we encourage you to do so. Montana participates in the joint Federal/State Electronic Filing Program and also in the Free Filing Alliance Program. This provides all taxpayers the opportunity to participate in electronic filing. If you file your return electronically, you will receive confirmation that the department has received your return. If you are expecting an income tax refund and have requested that this refund be electronically deposited into your checking or savings account at your financial institution, you will generally receive this refund within five to ten business days.

Your Montana Form 2 income tax return has to be filed electronically at the time you file your federal income tax return. You can file your Montana income tax return electronically even if you are required to attach one or more Montana supplemental tax forms to your return.

If I file electronically, do I have to send to the department a copy of my income tax return, supporting schedules, copies of my federal Forms W-2 and 1099 or signature verification?

No, you do not. If you file electronically, you don't have to mail in a paper copy of your return, any accompanying federal Forms W-2 and 1099, or any Montana supplemental forms. When you file your return electronically, you represent that you have kept all the documents required as your tax record and that you will provide copies of these to the department if we ask for them.

You also don't have to sign a copy of your tax return and submit it to the department. The act of completing and filing your income tax return electronically is considered an authorized signature.

How can I check on my refund?

If you are expecting a refund, you can check the status of this refund by calling our 24-hour service at (406) 444-9840. We will be glad to tell you the status of your refund once it has been entered into the department's computer system. Remember, if you file your return electronically, generally we will send you confirmation that your return was accepted within 48 hours after we receive your electronically filed income tax return. Also, when you file electronically, your refund is generally issued within five to ten business days.

You can also check the status of your refund online. Visit our website at *mt.gov/revenue* and go to the *Where's My Refund?* section.

To check the status of your refund either by phone or online, you will need to provide the following information:

- The social security number of the first name on your income tax return
- The amount of the refund requested as shown on your return

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

If you discover that your income tax return was incorrect, you have five years from the due date of the original return to file an amended Montana income tax return and to correct any mistake on your previous return. When you file this amended return, you will need to complete a new Montana form that reflects the corrections that you are making to your previously filed return. For tax years 2004 and earlier, you will also need to clearly write the words "Amended Return" on the face of your return. For tax years 2005 and later you should check the "Amended Return" box found in the upper left hand corner of your Montana forms. Include copies of any schedules submitted with the original filing even if none of the amounts previously reported have changed.

If you are amending your return to carry back a net operating loss, please check the "NOL" box found in the upper left hand corner of your Form 2.

Montana Form AMD is available to assist you in reconciling the amendments to the original return. This form is for your information and records. You do not need to send this to the department. The Form AMD can be found on our website at *mt.gov/revenue* under "Downloadable Forms." Please note that forms 2M and 2EZ cannot be used to amend years prior to tax year 2006.

If you file an amended return that reflects an increased tax liability, you may have the late payment penalty waived. Simply check the "Amended Return" box on the top left-hand corner of the tax form and pay the tax and applicable interest in full. By checking this box, you are requesting a waiver of the late payment penalty.

I have filed an amended federal income tax return with the Internal Revenue Service, or the Internal Revenue Service has adjusted my federal income tax return. What do I need to do to report this change on my Montana income tax return?

If the Internal Revenue Service changes your federal taxable income or if you voluntarily change your federal taxable income, you will need to file an amended Montana income tax return within 90 days of receiving notification of the change from the Internal Revenue Service or when you have filed your amended federal income tax return. If you do not notify us within 90 days of the change to your federal taxable income, we have five years from the date that the changes become final on your federal return to adjust your Montana income tax return to reflect the changes made on your federal income tax return.

My return is prepared by a tax professional. If the department has any questions concerning my return, can I give you authorization to talk to my tax professional about my tax return?

Yes you can. We have included a place on your return for you to authorize this. Place an "X" in the box marked "Yes" next to our heading, "May the DOR discuss this return with your tax preparer?" It appears at the bottom of all forms near the signature block on the return. If you check this box, we may contact your tax preparer or you for additional information for this tax year only. You, not the preparer, will be informed of any formal tax adjustments that we make.

How do I file if I've earned wages in North Dakota and I am a Montana resident?

Montana has a reciprocity agreement with North Dakota that exempts a Montana resident who earns wages in North Dakota from paying North Dakota income tax on these wages. However, this agreement does not extend to other types of income earned in North Dakota and you may have to file an income tax return and pay an income tax to North Dakota on this other income. If you are earning wages in North Dakota and you are a Montana resident, you can be exempt from North Dakota withholding tax on these wages. Complete North Dakota Form NDW-R and submit it to your North Dakota employer to be exempt from North Dakota withholding. You can get this form from your employer, on the Office of State Tax Commissioner's website at *nd.gov/tax* or from the Office of State Tax Commissioner, State Capitol, Bismarck, ND 58505.

I am a North Dakota resident earning wages in Montana. How do I file a Montana income tax return?

Montana has a reciprocity agreement with North Dakota that exempts a North Dakota resident who earns wages in Montana from paying Montana income tax on these wages. However, this agreement does not extend to other types of income earned in Montana and you may have to file an income tax return and pay an income tax to the State of Montana on this other income. If you are earning wages in Montana and you are a North Dakota resident, you can be exempt from Montana withholding on these wages. To be exempt from Montana withholding, complete Montana Form NR-2 annually, submit it to your employer and provide a copy to the Montana Department of Revenue. You can get this form from your employer, the Montana Department of Revenue, PO Box 5805, Helena, MT 59604-5805, or visit our website at *mt.gov/revenue* to download it.

If your Montana employer has withheld Montana income tax from your wages and you wish to get a refund for it, you should file a Montana income tax return Form 2, attaching Montana Form NR-1, North Dakota Reciprocal Affidavit, along with a copy of your North Dakota income tax return and mail these to the Montana Department of Revenue by April 15, 2008.

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

You are considered an "injured spouse" if you are a taxpayer who does not owe a child support obligation but who has reported income on a joint return with a taxpayer who does owe a past due child support obligation. If you do not want your refund to be applied against your spouse's child support obligation, you will have to file your Montana income tax return using filing status 3b, which is "married filing separate returns on separate forms." When filing under this filing status, each spouse claims his or her own income/loss, deductions, expenses and exemptions.

If you have filed a joint return with your spouse and you are considered an injured spouse, as defined above, you need to contact us within 30 days after you and/or your spouse have received notice of the offset. We will then work with you to have the correct tax return(s) filed.

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

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

How do I file for a deceased person?

If you are responsible for the financial affairs of a deceased person, you'll have to file a return for that person if his or her income exceeds the minimum filing requirements found on page 2 of these instructions. You can file a joint return if the deceased person was married. This return has to include the income of that deceased spouse from the beginning of the year to the date of death in addition to the income of the surviving spouse for the entire year.

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

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

Form 2 Instructions

Residents, part-year residents, or nonresidents of Montana can file Montana Form 2. You can use Form 2 if you are married filing separately with your spouse, if you claim itemized deductions or the standard deduction, if you claim a nonrefundable Montana tax credit, if you made estimated tax payments, or if you are applying your 2006 refund to your 2007 income tax liability.

Part-year Resident and Nonresident. If you are a part-year resident or a nonresident you will complete lines 7 through 48 as if you were a resident using the instructions for Montana Form 2. After you have completed your return through line 48 you will then determine your part-year resident or nonresident tax after capital gains tax credit by completing Form 2, Schedule IV.

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

- A copy of your federal income tax return including all federal forms and schedules.
- W-2s issued for all wages reported on Form 2, line 7. This includes your W-2s for wages earned in Montana and for wages earned outside of Montana.
- Montana Form 2, Schedule IV.
- A copy of your income tax returns filed with your home state and any other state.

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

If either the primary taxpayer or the spouse passed away during the tax year, check the appropriate box in the heading of the return. Additionally, attach a copy of federal Form 1310.

Filing Status - (Check only one box). Montana law does not require you to claim the same filing status that you claimed on your federal income 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 income tax return either jointly or separately. See the explanation below about the filing status available to you on your Montana individual income tax return.

Box 1 - Single. You can claim this filing status if on December 31, 2007 you:

- were single,
- were legally separated according to your state law under a decree of divorce or separate maintenance, or
- were widowed before January 1, 2007 and you did not remarry in 2007.

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

Box 2 - Married Filing Jointly. You can claim this filing status if:

- you were married as of December 31, 2007, even if you did not live with your spouse at the end of 2007; or
- your spouse died in 2007 and you did not remarry in 2007; or
- you were married as of December 31, 2007 and your spouse died in 2008 before filing a 2007 return.

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

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

Box 3a - Married Filing Separately on the Same Form. If both you and your spouse have income, you can file your Montana income tax returns separately, even if you filed your federal income tax return jointly. But, if you and your spouse file separately, you will each need to report your own adjusted gross income. You cannot arbitrarily assign income between the two of you.

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

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

Please note: Although submitted on the same *form*, married taxpayers electing to file using this status are submitting *two returns*. If both taxpayers are entitled to refunds, two separate checks or direct deposits will be issued. In the event both spouses owe additional tax, penalties or interest, we will mail separate Statements of Account (SOAs). If you are entitled to a refund and your spouse owes, and you file separate returns on the same form, you are directing the Department of Revenue to apply your refund to the amount owed by your spouse.

Box 3b - Married Filing Separately on Separate Forms. You and your spouse should use filing status 3b if both of you have Montana source income and one spouse is a resident of Montana and the other spouse is a nonresident. You can also use filing status 3b if you want to receive your own refund or pay your own tax. When you select this filing status, you will have to include your spouse's social security number in the space provided on Montana Form 2. The rules for the assignment of income and expenses (as explained in Box 3a) also apply when you use filing status 3b.

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

Box 3c - Married Filing Separately and Spouse Not Filing. You can use filing status 3c when:

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

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

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

Box 4 - Head of Household. You can qualify to file as head of household on your Montana income tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, attach your federal Form 1040 or 1040A, pages 1 and 2 to your Montana income tax return.

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

Boxes 5a through 5c - Residency Status. Check the appropriate box that describes your residency status. To determine your residency status, refer to the residency determination questions found on page 2 of the instructions. If you are married and one of you is a resident of Montana and the other is a nonresident of Montana, you cannot claim two residency statuses on the same return. You will have to file separate Montana income tax returns and use filing status 3b or 3c described above.

Exemptions

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

Line 6b - Spouse. If you are married and are filing jointly with your spouse, or if you file separately on the same form, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year, and an additional exemption if he or she is blind. You are not entitled to your spouse's exemption if you file separately on separate forms or if you file separately and your spouse does not file a Montana income tax return.

Line 6c - Dependents. You can claim a dependent exemption for each person who qualifies as your dependent. Please complete the table on line 6c, listing 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 will need to attach a separate list of these additional dependents and then include these additional dependents in the total on line 6c, columns A or B.

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

Your dependent is a person:

- for whom you have provided over half of his or her support during the tax year, and
- who does not have gross income of more than $800,
  - unless the dependent who is your child
    - has not reached the age of 19 at the close of your tax year, or
    - is a full-time student during five calendar months during your tax year at an educational institution or is pursuing a supervised on-farm training institutional program, and
- who is not filing a joint return with his or her spouse during the same tax year.

In addition to the requirements above, your dependent should 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		

- 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.
- An individual who is a descendant of your uncle or aunt, or
- An individual who is receiving institutional care as a result of a physical or mental disability.

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

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

- You provide more than half the disabled child's support.
- Your home is the disabled child's primary home.
- The disabled child has a permanent disability constituting 50% or more of the body as a whole.
- A licensed physician has certified the child's disability.

If you meet *all* the requirements above and this is the first year that you are claiming the additional exemption for this child, you will need to file a physician's certification of this qualifying disability with your individual income tax return.

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

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

Federal Adjusted Gross Income

Lines 7 through 37a - Your income on your Montana individual income tax return begins with your federal adjusted gross income. On lines 7 through 37, enter the amount corresponding to your federal individual income tax return Form 1040, 1040A, or 1040EZ. If you are married and if you have filed your federal income tax return jointly with your spouse, and if you are now filing your Montana income tax return separately with your spouse, you should apply the following rules as you allocate the income and deductions between you and your spouse:

- If you are married and filing separately with your spouse on the same form or on separate forms, you should each report your own adjusted gross income. You cannot arbitrarily assign income from one spouse to another.
- Income from wages, salaries, bonuses, commissions and other income that is earned in the act of

providing personal services as an employee or as an independent contractor should be reported by the spouse who earned it.

- Income such as rents, royalties, dividends and interest should be reported by the spouse who owns the property from which the income was earned. If you and your spouse jointly hold the property, you should split the income equally between both spouses unless you and your spouse can show a different proportional ownership.
- Income from you or your spouse's ownership in a sole proprietorship (federal Schedules C or F), partnership, S corporation or trust should be reported by the spouse who is the owner.

If you were required to complete and attach a federal schedule for any of the items on these lines, you should also attach those schedules when you submit your Montana return.

Detailed instructions for lines 7 through 37a are not provided for all lines. You will need to refer to your federal income tax instructions for detailed information on lines 7 through 37. Selected lines have been identified and further defined below for specific Montana tax details.

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

Line 9b - Qualified Dividends. Enter the total qualified dividends that you reported on your federal Form 1040, line 9b, or on your Form 1040A, line 9b. Since the qualified dividends that you reported on line 9b are also included in the ordinary dividends that you reported on line 9a, you do not have to add this amount on line 9b to your total income.

Line 10 - Taxable Refunds, Credits or Offsets of State and Local Income Taxes. Enter here the same amount that you reported on your federal income tax return. Your state refund is not taxable on your Montana return but you will need to include that state tax refund here and then report it as a subtraction from income on Form 2, Schedule II, line 6, to calculate your Montana adjusted gross income.

If you received the Montana homeowner property tax refund in 2007 but did not claim an itemized deduction for these property taxes on your federal return, do not report the refund amount on this line. Your refund will be taxable for state purposes if you itemized on your Montana return but that will be reported on Schedule I, line 4.

Line 12 - Business Income or (Loss). Enter in the box labeled "NAICS," your North American Industry Classification System principal business or professional activity code. This code is located in Box B on your federal Schedule C or C-EZ. If you are reporting your income or loss from more than one Schedule C or C-EZ on line 12, enter the NAICS code for the sole proprietorship that recorded the greatest amount of gross income from sales.

Line 13 - Capital Gain or (Loss). Enter here the same amount of your capital gain or loss that you reported on your federal income tax return. For married taxpayers filing separate Montana returns, the amount of gain or loss is reported by the spouse it is attributable to. If the gain or loss is not clearly attributable to one spouse, the amount is split equally. If you are married filing separately, you may need to adjust the amount that you listed as a capital gain or loss on your Montana Form 2, Schedule I, line 8 or Schedule II, line 25.

Lines 15a and 15b - IRA Distribution. Enter here the same amount of your IRA distribution that you reported on your federal income tax return. If your Montana basis for your IRA is different from your federal basis, you should adjust your taxable amount on Form 2, Schedule I, line 19 or Form 2, Schedule II, line 34.

Lines 16a and 16b - Pensions and Annuities. Enter here the same amount of your pension and annuity income that you reported on your federal income tax return. However, a portion may be exempt from Montana tax. Complete Form 2, Worksheet IV to determine if you are entitled to a partial exemption.

Line 17 - Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts. Enter here the same amount of your income or loss that you reported on your federal Schedule E. If you are married filing separately, you should adjust your passive and rental income loss on your Montana Form 2, Schedule I, line 7 or Form 2, Schedule II, line 24.

Line 19 - Unemployment Compensation. Enter here the same amount of the unemployment compensation that you reported on your federal income tax return. Unemployment compensation is not taxable in Montana; therefore, you should exclude this amount by reporting it on Form 2, Schedule II, line 3.

Line 20b - Taxable Social Security Benefits. Enter here the same amount of the taxable social security benefits that you reported on your federal income tax return. Montana taxable social security benefits may be different from your federal taxable social security benefits. You will need to complete Worksheet VIII on page 41 in order to determine your Montana taxable social security benefits. If your taxable benefits are higher or lower than your federal taxable benefits, you should either include or exclude the difference on Form 2, Schedule I, line 6, or Form 2, Schedule II, line 22.

Line 25 - Health Savings Account Deduction. Enter here the same amount of federal health savings account contributions that you reported on your federal return. Be careful not to confuse this deduction with the Montana Medical Care Savings Account exemption that you reported on Form 2, Schedule II, line 18.

Line 32 - IRA Deduction. Enter here the same IRA deduction that you reported on your federal income tax return. Beginning with tax years beginning after December 31, 2006, you are no longer required to recompute the allowable deduction if you filed a joint federal return but are filing separate Montana returns.

Line 33 - Student Loan Interest Deduction. Enter here the same amount of the student loan interest deduction that you reported on your federal income tax return. For tax years beginning after December 31, 2006, you are allowed this deduction if you filed a joint federal return but are filing separate Montana returns.

Line 34 - Tuition and Fees Deduction. Enter here the same amount of tuition and fees deduction that you reported on your federal income tax return. For tax years beginning after December 31, 2006, you are allowed this deduction if you filed a joint federal return but are filing separate Montana returns.

Line 36 - Add lines 23 through 35 and enter the result on line 36. Include in your total on line 36 any write-in adjustments that you made on your federal income tax return. Refer to your federal income tax instructions for a description of the allowable federal write-in adjustments.

Federal Write-ins Checkbox - Check this box if either spouse included federal write-in adjustments in the total on line 36.

Nonresident Aliens: If you are a nonresident alien who has earned income in Montana and have filed a federal nonresident alien income tax return Form 1040NR or 1040NR-EZ, and you are now filing a Montana income tax return in which your income is exempt under a federal tax treaty, exclude your income on line 36, to the extent it was included as wages in line 7, and write on the dotted line next to line 36 “nonresident alien tax treaty.”

Line 37a - Federal Adjusted Gross Income. If you are filing single (filing status 1), married filing jointly (filing status 2), or head of household (filing status 4), enter the amount from line 37 in line 37a. If you are using the same filing status on your federal income tax return, this amount should correspond to the amount of the federal adjusted gross income that you reported on your federal income tax return Form 1040, 1040A, or 1040EZ.

If you are filing married filing separately on separate forms (filing status 3b), or married filing separately and spouse is not filing (filing status 3c), enter the amount from line 37, column A on line 37a. Depending on what filing status you elected on your federal income tax return, this amount may correspond to the amount of federal adjusted gross income that you reported on your federal income tax return. In any circumstance, your federal adjusted gross income reported on your Montana income tax return plus your spouse’s federal adjusted gross income reported on a separate Montana income tax return, or that is not reported, should correspond to the amount of your combined federal adjusted gross income that you reported for federal income tax purposes.

If you are filing married filing separately on the same form (filing status 3a), combine the amounts on line 37, columns A and B and enter the result on line 37a. This combined amount should correspond to the amount of federal adjusted gross income that you reported on your federal income tax return Form 1040, 1040A, or 1040EZ.

Line 38 - Montana Additions to Federal Adjusted Gross Income. You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule I to determine the amount of additions to enter on Form 2, line 38. Refer to the section of instructions on Montana additions to federal adjusted gross income beginning on page 14 for a detailed explanation of these additions.

Line 39 - Montana Subtractions from Federal Adjusted Gross Income. You may be eligible to subtract items of income from your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Complete Form 2, Schedule II to determine the amount of your subtractions that you need to enter on Form 2, line 39. Refer to the section of instructions on Montana subtractions from federal adjusted gross income beginning on page 17 for a detailed explanation of these subtractions.

Line 40 - Montana Adjusted Gross Income. Add lines 37 and 38 then subtract line 39 and enter the result on Form 2, line 40. This is your Montana adjusted gross income. Transfer this amount to Form 2, page 2, line 41. (Caution: Do not include in your calculation the amount that you reported on line 37a.)

Line 42 - Standard or Itemized Deductions. In most cases, your state income tax will be less if you take the larger of either your itemized deductions or the standard deduction.

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

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

- **Standard Deduction.** To calculate your standard deduction, complete Worksheet V on page 39.
- **Itemized Deductions.** To figure your itemized deductions, complete Form 2, Schedule III. You can find the instructions for Form 2, Schedule III on page 23 of this instruction booklet.

Line 44 - Exemption. You are entitled to at least one exemption (your own). Multiply $2,040 times the number

of exemptions that you have claimed on Form 2, line 6d and enter the result on line 44.

Line 45 - Taxable Income. To compute your taxable income, subtract line 44 from line 43 and enter the result on line 45.

Tax Computation

Line 46 - Compute your tax using the tax table below.

2007 Tax Brackets and Table			
If your taxable income on Form 2, line 45 is:			
At least	But less than	Then your tax is	Less:
$0	$2,500	1% of your taxable income	
$2,500	$4,400	2% of your taxable income	($25)
$4,400	$6,600	3% of your taxable income	($69)
$6,600	$9,000	4% of your taxable income	($135)
$9,000	$11,600	5% of your taxable income	($225)
$11,600	$14,900	6% of your taxable income	($341)
$14,900 or more		6.9% of your taxable income	($475)

For example: Taxable income $4,500 X 0.03(3%) = $135. $135 minus $69 = $66 tax

Line 47 - Capital Gains Tax Credit. You can claim a capital gains credit against your Montana income tax of up to 2% of your net capital gains. Your net capital gains are the amount you reported on Form 2, line 13 less any amounts reported on Schedule II, line 25 or line 28. This credit is nonrefundable and it cannot reduce this liability below zero. This credit cannot be carried back or carried forward and it is applied before any other credits.

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

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

Line 48 - Resident Tax After Capital Gains Tax Credit. Complete line 48 if you are a resident, nonresident or a part-year resident.

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

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

Line 48a - Nonresident, Part-year Resident Tax After Capital Gains Tax Credit. If you are a nonresident or a part-year resident, you will need to go to Form 2, Schedule IV, Nonresident/Part-year Resident Tax to calculate your nonresident, part-year resident tax after capital gain credit. Enter the result of this calculation on Form 2, line 48a. See the instructions for Form 2, Schedule IV on page 27.

Line 49 - Tax on Lump-Sum Distributions. If you qualify on your federal return for special averaging of your lump-sum distribution and have not included it as ordinary pension income in federal adjusted gross income, you must pay Montana income tax on this distribution. Your Montana tax liability on the lump-sum distribution is 10% of the federal tax calculated on federal Form 4972. Part-year residents must calculate the tax on all lump sum distributions received while residing in Montana. Attach a copy of federal Form 4972.

Line 50 - If you are a resident, add lines 48 and 49 and enter the result on line 50. If you are a nonresident or part-year resident, add lines 48a and 49 and enter the result on line 50.

Nonrefundable Credits

Line 51 - Nonrefundable Single-year Credits. You may be eligible for one or more of the 12 nonrefundable single-year credits that are available on your Montana income tax return. Complete Form 2, Schedule V, lines 1 through 13 to determine the amount of your nonrefundable single-year credits that you need to enter on Form 2, line 51. Refer to the section of instructions for Form 2, Schedule V, Montana Tax Credits found on page 30 for a detailed explanation of these nonrefundable single-year credits.

Line 52 - Nonrefundable Carryover Credits. You may be eligible for one or more of the 13 nonrefundable carryover credits that are available on your Montana income tax return. Complete Form 2, Schedule V, lines 14 through 27 to determine the amount of your nonrefundable carryover credits that you will need to enter on Form 2, line 52. Refer to the section of instructions on Montana tax credits found on page 33 for a detailed explanation of these nonrefundable carryover credits.

Line 53 - Total Nonrefundable Credits. Add the amounts on lines 51 and 52 and compare the result to the amount on line 50. Enter the smaller amount on line 53. Your total nonrefundable credits cannot exceed your total tax.

Recapture Taxes

Line 54 - Family Education Savings Account Recapture Tax. If you have a recapturable withdrawal from your family education savings account, you will have to pay a 6.9% recapture tax on this withdrawal instead of including this withdrawal in your Montana adjusted gross income.

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

Multiply your recapturable withdrawal times 6.9% and enter the result on line 54. This is your family education savings account recapture tax.

Line 55 - Endowment Credit Recapture Tax. If you previously claimed an endowment credit and you have also taken a charitable deduction for a gift that you

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

Enter on line 55, the amount of your endowment credit recapture tax. If, in addition to your recapture tax, part of the amount that is recaptured was claimed as a charitable contribution in a prior year, you will have to include in your income on Form 2, Schedule I, line 5 any recoveries of this prior year deduction that reduced your tax liability in the year of that deduction. Complete Worksheet IX to determine if you will have to recapture any amount of your prior year deduction. You can download Worksheet IX from our website at *mt.gov/revenue* or call us at (406) 444-6900.

Line 56 - Rural Physician's Credit Recapture Tax. If you have previously claimed the rural physician's tax credit and have subsequently ended your practice within four years following the year that you claimed the credit in this rural area, you are required to pay back your previous credit(s) claimed.

For example, if you claimed four consecutive $5,000 rural physician's credits for a total of $20,000 in years 2001, 2002, 2003 and 2004 and then in 2007 you ended your practice in the rural area that qualified you for that credit, you are required to pay back $10,000 of your previous credits that you claimed in 2003 and 2004. You are entitled to the 2001 and 2002 credits since you maintained your practice in the rural area for at least four additional years after becoming eligible for this credit.

Enter on line 56 the amount of your rural physician's credit recapture tax.

Payments and Refundable Credits

Line 59 - Montana Income Tax Withheld. Enter the amount of the Montana income tax withheld from your income and reported in Box 17 of your federal Form W-2, or in Box 10 of your federal Form 1099-R. When you claim Montana income tax withheld, you are required to attach to your return a copy of your withholding statement(s) (federal Forms W-2 or 1099-R).

Line 60 - Estimated Tax Payments. If you have made estimated income tax payments for tax year 2007, enter the amount of these estimated tax payments. Include in this amount the 2006 refund that you requested us to apply to your 2007 estimated income tax payments and any amounts that are reported to you on Montana Form PT-WH and that you received from your ownership in an S corporation, partnership or disregarded entity. Do not include in this total any income taxes paid for a previous year since these are not estimated taxes paid for tax year 2007.

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

Line 61 - Extension Payment. If you paid an extension payment on or before April 15, 2008 in order to qualify for an automatic six-month extension to file your income tax return, enter that amount on Form 2, line 61. To determine whether you need to make an extension payment, complete the Extension Payment Worksheet, Montana Form EXT-07.

Line 62 - Refundable Credits. You may be eligible for one or more of the five refundable credits that are available on your Montana income tax return. Complete Form 2, Schedule V, lines 28 through 33 to determine the amount of the refundable credits to enter on Form 2, line 62. Refer to the section of instructions on Montana tax credits found on page 30 for a detailed explanation of these refundable credits.

Line 63 - Total Payments and Refundable Credits. Add lines 59 through 62 and enter the result on line 63. This is your total payments and refundable credits.

Line 64 - Net Tax Due or <Overpayment>. Subtract line 63 from line 58. This is your tax due or overpayment. Please note: For married taxpayers filing separately in situations where both taxpayers have an overpayment, the amount of each overpayment will be reported to the Internal Revenue Service. In situations where one spouse owes and the other has an overpayment, the amount reported to the Internal Revenue Service will be the gross overpayment amount for the spouse with the overpayment before netting the two columns. For example, if spouse A has an overpayment of $600 and spouse B owes $200, the amount reported for spouse A on federal Form 1099-G will be $600 even though the net refund check issued is $400.

Many taxpayers will not find this result acceptable because it may affect their federal taxable income for the following year. To try to minimize the difference between the amount reported on the 1099-G and the net state income tax refund received, please see the instructions for line 60 for reallocating the estimated payments.

The Amount You Owe

Line 66 - Interest on Underpayment of Estimated Taxes. You are required to pay your income tax liability throughout the year. You can make your payments through employer withholding, installment payments of estimated taxes, or a combination of employer withholding and estimated tax payments.

If you did not pay in advance at least 90% of your 2007 income tax liability (after applying your credits) or 100% of your 2006 income tax liability (after applying your credits), you may have to pay interest on the underpayment of your estimated tax.

To calculate your interest, please complete either Worksheet VII, or Form EST-I, 2007 Underpayment of Estimated Tax by Individuals and Fiduciaries. You can access this form by visiting our website at *mt.gov/revenue* or by calling us at (406) 444-6900.

Line 67 - Late File, Late Payment Penalties and Interest. *Please note:* If you and your spouse are married and filing separate returns, penalties and interest are based on the amount each spouse owes. In order to simplify calculations for the form, married taxpayers filing separately on the same form compute penalties and interest on the combined tax due. In the event that both spouses owe additional tax, penalties or interest, they will receive individual Statements of Account (SOAs) for the amount they owe. When one spouse owes tax but the other is overpaid, penalties and interest are based on the unpaid tax after applying the overpayment from the other spouse.

- **Late File Penalty**. If you file your return after April 15, 2008, or October 15, 2008 if you have a valid extension, you will be assessed a late file penalty if the amount on line 65 is a tax due. The penalty is equal to the lesser of $50 or the amount of tax you owe. If you are filing your return late and you have a refund, you are not assessed a late file penalty.

  To calculate your late file penalty, compare the amount on line 65 to $50. Your late file penalty is the lesser of these amounts.

- **Late Payment Penalty.** If you have not paid 100% of your income tax liability by April 15, 2008, you are liable for a late payment penalty. Your late payment penalty is equal to 1.2% per month or fraction of a calendar month on the unpaid balance from April 15, 2008 until it is paid. For example, if you do not pay your tax due until May 10, 2008, your late payment penalty will be 2.4% (two months or fractions of a month x 1.2%) of the unpaid tax. Please remember that an extension to file your return does not give you an extension to pay your tax.

  To calculate your late payment penalty, multiply the amount on line 65 by 1.2% per month or fraction of a calendar month your payment is late. In no instance will your late payment penalty exceed 12% (10 months X 1.2%) of the unpaid tax.

- **Interest.** If you have not paid 100% of your income tax liability by April 15, 2008 you will have to pay 8% annual interest, computed daily, on your unpaid balance. As with the late payment penalty, an extension of time to file your return does not extend the due date for paying your income tax so interest accrues from the original due date.

  To calculate your interest, multiply the amount on line 65 by 0.0002192 (0.02192%) times the number of days after April 15, 2008 your payment is received.

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

Type	Amount
Late file penalty	_____
Late payment penalty	_____
Interest	_____
Total	_____

Enter the total on Form 2, line 67. (You may wish to keep this information as part of your records for future reference.)

Line 68 - Other Penalties. Include on Form 2, line 68 any of the following other penalties if they apply to your situation. Your can get a copy of any of these forms by visiting our website at *mt.gov/revenue* or calling (406) 444-6900.

- **First-time Home Buyer Savings Account 10% Penalty.** If you withdrew funds from your first-time home buyer savings account for purposes other than to pay for eligible costs for the purchase of a single-family residence, you are required to pay a 10% penalty on this withdrawal unless this withdrawal is on the last business day of your business year, which is the last weekday in December. Complete Montana Form FTB-P, 2007 First Time Home Buyers Savings Account Penalty Calculation, and enter the amount of the penalty on line 68 and attach a copy of Form FTB-P to your income tax return.
- **Medical Care Savings Account 10% Penalty.** If you withdrew funds from your medical care savings account for purposes other than to pay for eligible medical costs, you are required to pay a 10% penalty on this withdrawal unless you made this withdrawal on the last business day of your business year, which is the last weekday in December. Complete Form MSA-P and enter the amount of the penalty on line 68 and attach a copy of Form MSA-P to your income tax return.
- **Farm and Ranch Risk Management Account 10% Penalty.** If you have not distributed your deposits and income from your farm and ranch risk management account within five years, they are considered distributed. You are required to pay a 10% penalty on the amount of tax due on this amount that is considered distributed. Enter on Form 2, line 68 the amount of your farm and ranch risk management account 10% penalty.

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

Montana Check-offs

Line 69 - Montana Check-off Programs. Montana's tax statutes provide you with the opportunity to contribute, via your income tax return, to the following programs. You can contribute any amount to any one of these four programs. Your contribution will increase the amount you owe or reduce the amount of your refund.

- **Line 69a - Nongame Wildlife Program.** Your contributions to this program are used to ensure the well-being of Montana's watchable wildlife species, such as eagles, herons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.

- **Line 69b - Child Abuse Prevention Program.** Your contributions to this program fund services and activities related to the prevention of child abuse and neglect. In addition, if you enclose a separate check with your timely filed return, you are allowed to take an itemized deduction for the amount of the contribution on the return you are filing with this contribution.

- **Line 69c - Agriculture in Montana Schools Program.** Your contributions to this program fund the development and presentation of educational programs. This program ensures Montana's young people have a better understanding of agriculture in our state and how it relates to the rest of the world.

- **Line 69d - End-stage Renal Disease Program.** Your contributions fund a program for persons suffering from end-stage renal disease. This program assists persons suffering from chronic renal disease in obtaining the medical, nursing, pharmaceutical and technical services necessary to care for the disease.

Line 70 - Total Penalties, Interest and Contributions. Add the amounts on lines 66, 67, 68 and 69 and enter the result on line 70. This is your total penalties, interest and check-off program contributions.

Line 71 - Amount You Owe. If the amount on line 65 is a net tax due, add lines 65 and 70 and enter the result on line 71. This is the amount you owe.

You can pay the amount you owe by personal check, money order, cashier's check, credit card or e-check. When you send your payment, please make it payable to the Montana Department of Revenue and use the coupon that we have provided with this income tax booklet. When you pay by personal check, money order or cashier's check, please write your social security number and "Tax Year 2007" on the memo line of your check.

If you wish to pay the amount that you owe by credit card or e-check, please visit our website at *mt.gov/revenue* and click on Income Tax Express. We accept only Visa or Mastercard when you use a credit card.

If you cannot pay the entire amount that you owe with your tax return, we encourage you to file your return timely and pay as much as possible. By filing and paying as much as you can by April 15, 2008, you will not be assessed a late file penalty and you can reduce the amount of your late payment penalties and interest that is assessed against your outstanding balance. If you need to establish a payment plan, please call us at (406) 444-6900 as soon as possible to discuss your options and make payment arrangements.

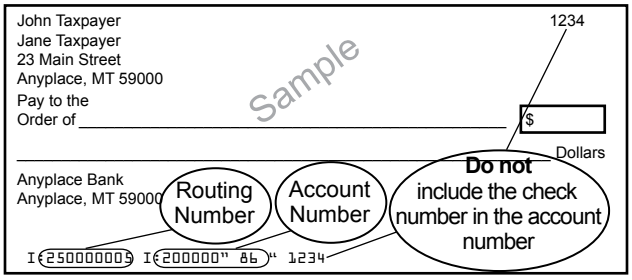
Your Refund

Line 72 - Your Overpayment. If the amount on line 65 is an overpayment, reduce the overpayment by the amount (if any) reported on line 70 and enter the result here as a positive number

Line 73 - Enter the amount of your overpayment from line 72, that you want to be applied to your 2008 estimated taxes.

Line 74 - Your Refund. Subtract line 73 from line 72 and enter the result on line 74. This is the amount of your refund. Only refunds more than $1.00 will be issued.

If you wish to use direct deposit, in the space provided enter your financial institution's routing number (RTN#), your account number (ACCT#) and whether this account is your checking or savings account. Your routing number will be nine digits and your account can be up to 17 characters (both numeric and alpha). A sample of a personal check is provided for your convenience. Your direct deposit will be rejected if the routing number or account number is incorrectly listed. If your direct deposit is rejected, we will mail you a refund check.



Form 2, Schedule I - Montana Additions to Federal Adjusted Gross Income

Line 1 - Interest and Mutual Fund Dividends from Other States' State, County, or Municipal Bonds. Enter the interest and dividend income that you received from bonds and obligations of another state or territory or county, municipality, district or other political subdivision of another state.

Line 2 - Dividends Not Included in Federal Adjusted Gross Income. Enter the amount of the dividends that you received as Montana source income that are not already included in your federal adjusted gross income. Please do not include your qualified dividends reported on Montana Form 2, line 9b, since these dividends are already in the total of your ordinary dividends reported on line 9a.

Line 3 - Taxable Federal Refund. If you received a 2006 federal income tax refund in 2007 and you claimed federal income taxes paid as an itemized deduction, you may need to report a portion or all of your federal refund as income on your 2007 Montana income tax return. This is called the *Tax Benefit Rule*. To the extent that the federal tax deduction that you claimed on your 2006 Montana income tax return reduced the amount of your 2006 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received it. In order to determine whether any of your refund is taxable in 2007, complete Worksheet II, Tax Benefit Rule for Federal Income Tax Refund, on page 37.

If you and your spouse filed your federal return jointly and are now filing your Montana return separately, you will each need to complete a separate tax benefit rule worksheet. Prorate your federal income tax refund between you and your spouse by applying the ratio of your 2006 federal income tax deduction to the total federal tax deducted.

NEW **Line 4 - Taxable Montana Homeowner Property Tax Refund.** Report the Montana homeowner property tax refund you received if *all* of the following apply:

- You received the refund in 2007
- The refund was for property taxes you claimed as an itemized deduction on your Montana tax return
- You did not claim these taxes as an itemized deduction on your federal tax return
- You did not include the refund on line 21 of your 2007 Montana Form 2

Line 5 - Other Recoveries of Amounts Deducted in Earlier Years that Reduced Montana Taxable Income. If in 2007, you received a reimbursement of an amount that you previously deducted on your Montana income tax return and this deduction originally reduced the amount of your Montana income tax liability in the year of the deduction, you may need to report as income a portion or all of the reimbursement that you received on your 2007 Montana income tax return. For example, you may have recovered amounts from more than one year, such as a federal income tax refund from 2004 and a casualty loss reimbursement from 2003. To the extent that these deductions reduced your income tax liability in 2003 and 2004, you are required to include these reimbursements as income in 2007. If you have a reimbursement from a prior year deduction other than your 2006 federal income tax refund, please call us at (406) 444-6900 to get Worksheet IX, Tax Benefit Rule for Recoveries of Itemized Deductions or you can download this worksheet from our website at *mt.gov/revenue*.

Line 6 - Addition to Federal Taxable Social Security/ Railroad Retirement. Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Worksheet VIII found on page 41 of this booklet. Before you can complete your social security worksheet, you will need to complete your partial pension and annuity income worksheet, Worksheet IV found on page 38.

After you have completed your social security worksheet and you find that your social security benefits taxable to Montana are greater than those that you reported on Form 2, line 20b, enter that difference on your Form 2, Schedule I, line 6. If your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, you should report that difference as a subtraction from federal adjusted gross income on your Form 2, Schedule II, line 22.

Line 7 - Passive and Rental Income or Loss Adjustment. Prior to tax year 2007, married taxpayers who filed a joint federal return were required to recalculate the allowable losses from passive or rental income if they filed separate Montana state returns. This adjustment may have resulted in a carryover amount for state purposes different from the federal amount.

Beginning with the 2007 tax year, married taxpayers are now allowed the same total amount for Montana purposes as they reported on their federal return even if they file separate Montana returns. In the event that your passive and/or rental income losses available are less for state purposes than the amount included in your federal adjusted gross income, enter the difference here.

You can learn more about passive activities by referring to IRS Publication 925, Passive Activity and At-Risk Rules.

Line 8 - Capital Loss Adjustment. Prior to tax year 2007, married taxpayers who filed a joint federal return were allowed a maximum of $1,500 in capital losses if they filed separate Montana state returns. This adjustment may have resulted in a carryover amount for state purposes different from the federal amount.

Beginning with the 2007 tax year, married taxpayers are now allowed the same total amount of capital loss for Montana purposes as they reported on their federal return even if they file separate Montana returns. In the event that your capital losses available are less for state purposes than the amount included in your federal adjusted gross income, enter the difference here.

Line 9 - Sole Proprietor's Allocation of Compensation to Spouse. If you are a sole proprietor reporting net income on your federal Forms C or F, you have to report

the full amount of your income in column A or B to determine your federal adjusted gross income on Form 2. However, if your spouse regularly and systematically provides substantial personal services in the operations of your business and is not paid a salary or wage, you can allocate a reasonable amount of compensation to your spouse. This allocation will be based on an amount that is equivalent to the services that your spouse provides. It is considered taxable income to your spouse. This allocation will further reduce your taxable income as the sole proprietor of the business.

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

Report on Schedule I, line 9 the amount of income allocated to your spouse and report the offsetting subtraction on Form 2, Schedule II, line 26.

Line 10 - Medical Care Savings Account Nonqualified Withdrawals. Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for detailed instructions. You should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on Schedule I, line 10.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions on Form 2, line 68, page 13 and on Form MSA-P for the Montana medical care savings account 10% penalty.

Line 11 - First-Time Home Buyer Savings Account Nonqualified Withdrawals. Your nonqualified withdrawal from a Montana first-time home buyer savings account is a withdrawal that you made during the tax year for any purpose other than to pay for the eligible cost of purchasing your single family residence. You can refer to Montana Form FTB for further detailed instructions. You should report any nonqualified withdrawals from your Montana first-time home buyer savings account as an addition to federal adjusted gross income on Schedule I, line 11.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions on Form 2, line 68, page 13, and on Form FTB-P for the Montana first-time home buyer savings account 10% penalty.

Line 12 - Farm and Ranch Risk Management Account Taxable Distributions. The distribution from your Montana farm and ranch risk management account is taxable if that distribution is from a fund that is previously excluded from Montana adjusted gross income as a farm and ranch risk management account deposit or if that distribution was not distributed within five years from the date that your original deposit was made. You can refer to Montana Form RFM for further detailed instructions. You should report your Montana farm and ranch risk management account taxable distributions as an addition to federal adjusted gross income on Schedule I, line 12.

You may also be subject to a penalty on your farm and ranch management account distribution if it is not distributed within five years from the date of the original deposit. See the instructions on Form 2, line 68, page 13, for the farm and ranch risk management account 10% penalty.

Line 13 - Dependent Care Assistance Credit Adjustment. If you have claimed business expenses for providing dependent care assistance on your federal Schedules C, E or F and now are claiming the Montana dependent care assistance credits on Schedule V, line 18, you will have to add the amount of the dependent care assistance expenses used to calculate your Montana dependent care assistance credits on Form DCAC as an addition to federal adjusted gross income on Form 2, Schedule I, line 13.

Line 14 - Addition for Smaller Federal Estate and Trust Taxable Distributions. The state 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 should report it on Schedule I, line 14.

Line 15 - Federal Net Operating Loss Carryover. The federal net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your Montana net operating loss carryover. You should record the amount of your federal net operating loss carryover that you reported on line 21, on Schedule I, line 15 and then compute your Montana net operating loss carryover, using Montana Form NOL.

If you have a 2007 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years preceding the loss year and then carry forward the balance of your 2007 net operating loss 20 years following the loss year. The federal special carry back rules apply for farm net operating losses and casualty losses. You may elect to forgo the carry back of your 2007 net operating loss and carry forward that loss. In order to forgo your carry back, you are required to make an election on Montana Form NOL by April 15, 2008, or, if you have a valid extension, by October 15, 2008. Once you have made this election, it is irrevocable and you will not be able to carry back your 2007 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, you will need to use

Montana Form NOL-Pre99 to determine your carryover amount.

Line 16 - Share of Federal Income Taxes Paid by Your S Corporation. If you are a shareholder in an S corporation that is required to pay a federal income tax on its income, you will have to add to your federal adjusted gross income that portion of your income that has been reduced by the federal income taxes paid by your S corporation. Refer to your federal Schedule K-1 to determine the amount of income that you are required to include as an addition to your federal adjusted gross income.

Line 17 - Title Plant Depreciation or Amortization. If you are taking a federal deduction for depreciation or amortization on a title plant, you should add back to your federal adjusted gross income the amount of this depreciation or amortization when you determine your Montana adjusted gross income.

Line 18 - Premiums for Insure Montana Credit - If you were the owner of a business that received a tax credit from the Insure Montana Small Business Health Insurance program, you are not allowed a deduction for the premiums used to calculate the credit. Because the credit cannot exceed 50% of the premiums, multiply the amount of credit you are claiming by two (2) and enter the result on line 18.

Line 19 - Other Additions. Enter any other additions to federal adjusted gross income not described in lines 1 through 18.

Form 2, Schedule II - Montana Subtractions from Federal Adjusted Gross Income

Line 1 - Exempt Interest and Dividends from Federal Bonds, Notes, and Obligations. If you have received interest on United States government obligations and mutual fund dividends attributable to that interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2, page 1. In addition, if you received interest on obligations from U.S. territory or government agency obligations that are specifically exempt by federal law or any mutual fund dividends attributable to this interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2, page 1.

Obligations that are guaranteed by the United States government are not tax exempt. If you have 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 can not subtract this interest or mutual fund dividends since they are not exempt under federal law.

United States obligations that are exempt include:

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

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

Line 2 - Exempt Tribal Income. If you are an enrolled member who lives and works on the reservation governed by your tribe, you can subtract from your federal adjusted gross income all reservation source wages and income that you have earned. If your wages or other income was earned from both reservation sources and nonreservation sources, you can exclude from your federal adjusted gross income only those wages or other income that you received while you lived and worked within the exterior boundaries of the reservation governed by your tribe. If you did not reside on your own reservation for the entire year, you can subtract only those wages or other income that you earned while you lived and worked on your own reservation.

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

If you are a tribal member whose federal gross income meets the filing requirements listed on page 2 of these instructions, you have to file a Montana individual income tax return even though your income may be exempt income. To exempt your income from Montana tax, you should complete your Montana Form 2 and attach Montana Form IND, “Certification of Enrollment,” which needs to be signed by a representative of your governing tribe who can attest to your residency on your reservation along with your tribal enrollment number.

Line 3 - Exempt Unemployment Compensation. If you have received unemployment benefits from Montana or from another state, these benefits are not taxable to Montana. If you reported taxable unemployment benefits on your Form 2, line 19, enter the amount of these benefits on Schedule II, line 3.

Line 4 - Exempt Workers’ Compensation Benefits. Benefits received under the workers’ compensation laws are not taxed by Montana. If you reported taxable workers’ compensation benefits in your federal adjusted gross income, enter the amount of these benefits on Schedule II, line 4.

Line 5 - Exempt Capital Gains and Dividends from Small Business Investment Companies. If you have capital gains or dividend income from an investment in a small business investment company (SBIC) included

in your federal adjusted gross income, you are allowed to exempt these capital gains or dividends in arriving at your Montana adjusted gross income. In order for you to exempt this income, you have to meet the following conditions:

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

Line 6 - State Income Tax Refunds. If you are required to include your state income tax refund in your federal adjusted gross income on Form 2, line 10, you can exclude this amount on Schedule II, line 6. Montana state income tax refunds and state income tax refunds received from another state are not taxable to Montana.

Line 7 - Recoveries of Amounts Deducted in Earlier Years That Did Not Reduce Montana Income. If you are required to include in your federal adjusted gross income any amounts that you recovered from a previous federal income tax deduction and if this previous deduction did not reduce your Montana income tax liability in the year of that deduction, you can subtract the amount of this recovery from your Montana adjusted gross income.

Line 8 - Exempt Military Salary of Residents on Active Duty. If you are a Montana resident receiving military compensation and if this compensation is included in your federal adjusted gross income, you can subtract from your federal adjusted gross income your basic, special and incentive pay that you receive from:

- serving on active duty as a member of the regular armed forces,
- being a member of a reserve component of the armed forces or as a member of the National Guard serving on active duty in a *contingent operation* as it is defined in 10 USC 101,
- being a member of the National Guard and assigned to active service authorized by the President of the United States or the Secretary of Defense for a period of more than 30 consecutive days for the purpose of responding to a national emergency declared by the president and supported by federal funds.

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

- Salaries that you have received for annual training and weekend duty
- Salaries that you have received for being a member of a reserve component of the armed forces that is not received under 10 USC 101
- Income you have received from retirement, retainer, equivalent pay or allowances

When you claim this exemption, you will need to attach verification of your military status (such as your military orders) to your income tax return.

Line 9 - Exempt Income of Nonresident Military Servicepersons and Spouses. If you are a nonresident of Montana, living in Montana solely by reason of compliance with your military orders, you are not required to establish residency in Montana and your military compensation is not considered Montana source income and is not taxable to Montana. You should subtract the military compensation that you included in your federal adjusted gross income on Form 2, line 7 on your Schedule II, line 9.

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

Line 10 - Exempt Life-Insurance Premiums Reimbursement for National Guard and Reservist. If you are a Montana National Guard member or Reservist who is serving on active duty in a contingency operation and you were reimbursed by the Montana Department of Military Affairs for the life insurance premiums that you paid for benefits under the service members' group life insurance program, you can deduct these reimbursements from your federal adjusted gross income in arriving at your Montana adjusted gross income.

The reimbursement that you received is considered a bonus and is included in taxable income for federal income tax purposes. In order to exempt this reimbursement, you will need to have paid the premiums and have served on active duty in a contingency operation after February 28, 2006. The maximum amount of premium reimbursement that you are entitled to exempt cannot exceed $17.50 a month for each month that you are on active duty in a contingency operation.

Line 11 - Partial Pension and Annuity (Retirement) Income Exemption. If you have reported taxable retirement income on your Form 2, lines 15b and/or 16b, you may be entitled to a partial exemption of this income. Before we determine if any of this retirement income is excluded, we want to first find out if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on Schedule II, line 23.

2007 # Montana Individual Income Tax Return **MONTANA** Form 2

For the year Jan 1 – Dec 31, 2007 or the tax year beginning_____,2007, ending _____,20____

❑ Check here if this is an Amended Return. ❑ Check here if this is a NOL Carryback.	Your first name and initial	Last name	Deceased ❑	Your social security number
	Spouse's first name and initial	Last name	Deceased ❑	Spouse's social security number
	Mailing address	City	State	Zip+4

Filing Status (check only one box)
1. ❑ Single
2. ❑ Married filing jointly
3a. ❑ Married filing separately on the same form
3b. ❑ Married filing separately on separate forms. Spouse's SSN _____
3c. ❑ Married filing separately and spouse not filing. Spouse's SSN _____
4. ❑ Head of household

Residency Status (check only one box)
5a. ❑ Resident full year
5b. ❑ Nonresident full year
5c. ❑ Resident part-year _____ Date of change _____ State moved to _____ State moved from

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
Exemptions	6a. ☒ Yourself ❑ 65 or older ❑ Blind Enter number checked ..... 6a.			
	6b. ❑ Spouse ❑ 65 or older ❑ Blind Enter number checked ..... 6b.			6b.
	6c. Dependent's first name / Last name / SSN / Relationship / Disabled			
	If additional dependents, see instructions on page 8. .....6c.			6c.
	6d. Add lines 6a thru 6c and enter total exemptions here. ..... 6d.			6d.

Enter amounts corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

Federal Income	7. Wages, salaries, tips, etc. Attach federal Form(s) W-2. ..... 7.			7.
	8a. Taxable interest. Attach federal Schedule B if required. ..... 8a.			8a.
	b. Tax-exempt interest. Do not include on line 8a. .8b. A: B: 8b.			
	9a. Ordinary dividends. Attach federal Schedule B if required. ..... 9a.			9a.
	b. Qualified dividends. .....9b. A: B: 9b.			
	10. Taxable refunds, credits, or offsets of state and local income taxes. ..... 10.			10.
	11. Alimony received. .....11.			11.
	12. Business income or (loss.) Attach federal Schedule C or C-EZ. NAICS: 12.			12.
	13. Capital gain or (loss.) Attach federal Schedule D if required. ..... 13.			13.
	14. Other gains or (losses.) Attach federal Schedule 4797. ..... 14.			14.
	15a. IRA distributions..... 15a. A: B: Taxable amount 15b.			15b.
	16a. Pensions and annuities .16a. A: B: Taxable amount 16b.			16b.
	17. Rental real estate, royalties, partnerships, S corporations, trust. Attach federal Schedule E. .17.			17.
	18. Farm income or (loss). Attach federal Schedule F. ..... 18.			18.
	19. Unemployment compensation. ..... 19.			19.
	20a. Social security benefits. 20a. A: B: Taxable amount 20b.			20b.
	21. Other income. List type and amount:_____ 21.			21.
	22. Add the amounts in the far right columns for lines 7 thru 21. **This is your total income.** 22.			22.
Federal Adjusted Gross Income	23. Educator expenses. ..... 23.			23.
	24. Certain business expenses or reservist, etc. Attach Schedule 2106 or 2106EZ. ..... 24.			24.
	25. Health savings account deduction. Attach federal Form 8889. ..... 25.			25.
	26. Moving expenses. Attach federal Form 3903. ..... 26.			26.
	27. One-half of self-employment tax. Attach federal Schedule SE. ..... 27.			27.
	28. Self-employed SEP, SIMPLE, and qualified plans. ..... 28.			28.
	29. Self-employed health insurance deduction. ..... 29.			29.
	30. Penalty on early withdrawal of savings. ..... 30.			30.
	31a. Alimony paid. 31b. Recipient's SSN A: B: 31a.			31a.
	32. IRA deduction. ..... 32.			32.
	33. Student loan interest deduction. ..... 33.			33.
	34. Tuition and fees deduction. Attach Form 8917. ..... 34.			34.
	35. Domestic production activities deduction. Attach federal Form 8903. ..... 35.			35.
	36. Add lines 23 through 35 and enter the result here. ❑ Federal write-ins ..... 36.			36.
	37. Subtract line 36 from line 22 and enter result here. ..... 37.			37.
	37a. Combine amounts on line 37 columns A and B and enter result here. **This is your federal adjusted gross income.** 37a.			37a.
Montana AGI	38. Enter Montana additions to federal AGI from Form 2, page 3, Schedule I, line 20. Attach Form 2, page 3, Schedule I. ..... 38.			38.
	39. Enter Montana subtractions from federal AGI from Form 2, page 4, Schedule II, line 35. Attach Form 2, page 4, Schedule II. ..... 39.			39.
	40. Add lines 37 and 38; subtract line 39. **This is your Montana adjusted gross income.** ..... 40.			40.

 Social Security Number:_____

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
Taxable Income	41. Montana adjusted gross income from line 40 ..... 41.			41.
	Deductions Check only one			
	42. (A) Standard Deduction (see Worksheet V on page 39) (A) ❑			
	(B) Itemized Deductions from Form 2, Schedule III, line 33. (B) ❑ 42.			42.
	43. Subtract line 42 from line 41 and enter the result here..... 43.			43.
	Exemptions (all individuals are entitled to at least one exemption.)			
	44. Multiply $2,040 by the number of exemptions on line 6d and enter result here .. 44.			44.
	45. Subtract line 44 from line 43 and enter the result here. If zero or less, enter zero. **This is your taxable income.** ..... 45.			45.
Tax	46. Tax from the tax table on page 11. If line 45 is zero, enter zero ..... 46.			46.
	47. 2% capital gains tax credit..... 47.			47.
	48. Subtract line 47 from line 46 and enter the result here, but not less than zero. **This is your resident tax after capital gains tax credit.** ..... 48.			48.
	48a. Nonresident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2, Schedule IV, line 21, but not less than zero. ..... 48a.			48a.
	49. Tax on lump-sum distributions. See instructions. Attach federal Form 4972..... 49.			49.
	50. Add lines 48 or 48a and 49 and enter the result here. **This is your total tax.** .. 50.			50.
Credits	51. Nonrefundable single-year credits from Form 2, Schedule V, line 13 ..... 51.			51.
	52. Nonrefundable carryover credits from Form 2, Schedule V, line 27 ..... 52.			52.
	53. Add lines 51 and 52 and enter the result here but do not enter an amount larger than the amount on line 50. **This is your total nonrefundable credits.** ..... 53.			53.
Recapture Taxes	54. Family education savings account recapture tax..... 54.			54.
	55. Endowment credit recapture tax..... 55.			55.
	56. Rural physician's credit recapture tax..... 56.			56.
	57. Add lines 54 through 56 and enter result here. **This is your total recapture tax.** 57.			57.
Tax	58. Add lines 50 and 57 and then subtract from this total the amount on line 53 and enter the result here. **This is your 2007 tax liability.** ..... 58.			58.
Payments and Refundable	59. Montana income tax withheld. Attach federal Form(s) W-2 and 1099..... 59.			59.
	60. 2007 estimated tax payments and amount applied from your 2006 return ..... 60.			60.
	61. 2007 extension payments from Form EXT-07 ..... 61.			61.
	62. Refundable credits from Form 2, Schedule V, line 33 ..... 62.			62.
	63. Add lines 59 through 62 and enter the result here. **This is your total payments and refundable credits.** ..... 63.			63.
	64. Subtract line 63 from line 58. **This is your net tax due or <overpayment>.** ... 64.			64.
Penalties, Interest and Contributions	65. Combine the amounts on line 64 columns A and B and enter the result here.....65.			65.
	66. Interest on underpayment of estimated taxes. (See instructions on page 12.) .....66.			66.
	67. Late file, late payment penalties and interest. (See instructions and worksheet on page 13.).....67.			67.
	68. Other penalties. (See instructions on page 13.) .....68.			68.
	69. Enter in boxes 69a through 69d your voluntary check-off contributions.			
	Nongame wildlife program 69a. / Child abuse prevention 69b. / Agriculture in schools 69c. / End-stage renal disease program 69d. — Enter the sum of 69a through 69d here .....69.			69.
	70. Add the amounts on lines 66, 67, 68, and 69 and enter the result here. **This is the sum of your total penalties, interest and contributions.** .....70.			70.
Amount You Owe or Your Refund	71. If the amount on line 65 is a net tax due, add lines 65 and 70 and enter the result here. **This is the amount you owe.**.....71. Visit our website at *mt.gov/revenue* to pay by credit card or E-check, or make a check payable to MONTANA DEPARTMENT OF REVENUE.			71.
	72. If the amount on line 65 is an overpayment, reduce the overpayment by the amount (if any) reported on line 70 and enter the result here as a positive number.....72.			72.
	73. Enter the amount on line 72 that you want applied to your 2008 estimated tax.....73.			73.
	74. Subtract line 73 from line 72 and enter the amount here. **This is your refund.** .....74.			74.

If you wish to use direct deposit, enter your RTN# and ACCT# below.

RTN# ☐☐☐☐☐☐☐☐☐ ACCT# ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ❑ Checking ❑ Savings

If applicable, check appropriate box.
- ❑ 2/3rd farming gross income
- ❑ Annualized estimated payments
- ❑ Do not mail 2008 forms and instructions

Name, address and telephone number of paid preparer.

SSN, FEIN or PTIN:

❑ Check this box and attach a copy of your federal Form 4868 to receive your Montana extension.

May the DOR discuss this return with your tax preparer? ❑ Yes ❑ No Questions? Call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired.

x			x	
Your signature is required	Date	Daytime telephone number	Spouse's signature	Date

I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.

 Social Security Number:_____

Schedule I - Montana Additions to Federal Adjusted Gross Income Enter on the corresponding line your additions to federal adjusted gross income. File Schedule I with your Montana Form 2.	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Interest and mutual fund dividends from state, county, or municipal bonds from other states ..... 1.			1.
2. Dividends not included in federal adjusted gross income ..... 2.			2.
3. Taxable federal refunds. Complete Worksheet II on page 37 ..... 3.			3.
4. Taxable Montana homeowner property tax refund ..... 4.			4.
5. Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX ..... 5.			5.
6. Addition to federal taxable social security/railroad retirement. Complete Worksheet VIII on page 41 ..... 6.			6.
7. Passive and rental income or loss adjustment ..... 7.			7.
8. Capital loss adjustment ..... 8.			8.
9. Sole proprietor's allocation of compensation to spouse ..... 9.			9.
10. Medical care savings account nonqualified withdrawals ..... 10.			10.
11. First-time home buyer savings account nonqualified withdrawals ..... 11.			11.
12. Farm and ranch risk management account taxable distributions ..... 12.			12.
13. Addition for dependent care assistance credit adjustment ..... 13.			13.
14. Addition for smaller federal estate and trust taxable distributions ..... 14.			14.
15. Federal net operating loss carryover reported on Form 2, line 21 ..... 15.			15.
16. Share of federal income taxes paid by your S. corporation ..... 16.			16.
17. Title plant depreciation and amortization ..... 17.			17.
18. Premiums for Insure Montana Small Business Health Insurance credit ..... 18.			18.
19. Other additions. Specify: _____ 19.			19.
20. Add lines 1 through 19. Enter total here and on Form 2, line 38. **This is your total Montana additions to federal adjusted gross income.** ..... 20.			20.

2007 Montana Individual Income Tax Table

If your taxable income is over	but not over	multiply your taxable income by	and subtract	equals your tax
$0	$2,500	0.010	$0	
$2,500	$4,400	0.020	$25	
$4,400	$6,600	0.030	$69	
$6,600	$9,000	0.040	$135	

If your taxable income is over	but not over	multiply your taxable income by	and subtract	equals your tax
$9,000	$11,600	0.050	$225	
$11,600	$14,900	0.060	$341	
$14,900 or more		0.069	$475	

For example: Taxable income $4,500 X 0.030 (3%) = $135. $135 minus $69 = $66 tax

 Social Security Number:_____

Schedule II - Montana Subtractions from Federal Adjusted Gross Income Enter on the corresponding line your subtractions from federal adjusted gross income. File Schedule II with your Montana Form 2.	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Exempt interest and dividends from federal bonds, notes, and obligations. ..... 1.			1.
2. Exempt tribal income. Attach Montana Form IND. ..... 2.			2.
3. Exempt unemployment compensation. ..... 3.			3.
4. Exempt workers' compensation benefits. ..... 4.			4.
5. Exempt capital gains and dividends from small business investment companies. ..... 5.			5.
6. State income tax refunds included in Montana Form 2, line 10. ..... 6.			6.
7. Recoveries of amounts deducted in earlier years that did not reduce Montana income. ..... 7.			7.
8. Exempt military salary of residents on active duty. ..... 8.			8.
9. Exempt income of nonresident military servicepersons and spouses. ..... 9.			9.
10. Exempt life-insurance premiums reimbursement for National Guard and Reservist. ..... 10.			10.
11. Partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below. ..... 11.			11.
12. Partial interest exemption from taxpayers 65 and older. ..... 12.			12.
13. Partial retirement disability income exemption for taxpayers under age 65. ..... 13.			13.
14. Exemption for certain taxed tips and gratuities. ..... 14.			14.
15. Exemption for certain income of child taxed to parent. ..... 15.			15.
16. Exemption for certain health insurance premiums taxed to employee. ..... 16.			16.
17. Exemption for student loan repayments taxed to health care professional. ..... 17.			17.
18. Exempt medical care savings account deposits and earnings. ..... 18.			18.
19. Exempt first-time home buyer savings account deposits and earnings. ..... 19.			19.
20. Exempt family education savings account deposits and earnings. ..... 20.			20.
21. Exempt farm and ranch risk management account deposits. ..... 21.			21.
22. Subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b. ..... 22.			22.
23. Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b. ..... 23.			23.
24. Passive loss carryover exclusion. ..... 24.			24.
25. Capital loss adjustment. ..... 25.			25.
26. Subtraction of sole proprietor for allocation of compensation to spouse. ..... 26.			26.
27. Montana net operating loss carryover from Montana Form NOL, Schedule B. . 27.			27.
28. 40% capital gain exclusion for pre-1987 installment sales. ..... 28.			28.
29. Subtraction for business related expenses for purchasing recycled material. ... 29.			29.
30. Subtraction for sales of land to beginning farmers. ..... 30.			30.
31. Subtraction for larger federal estate and trust taxable distribution. ..... 31.			31.
32. Subtraction for wage deduction reduced by federal targeted jobs credit. ..... 32.			32.
33. Subtraction for certain gains recognized by liquidating corporation. ..... 33.			33.
34. Other subtractions. Specify: _____ 34.			34.
35. Add lines 1 through 34, enter total here and on Form 2, line 39. **This is your total Montana subtractions from federal adjusted gross income.** ..... 35.			35.

Schedule III - Montana Itemized Deductions

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

				Column A (for single, joint, separate or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Medical and dental expenses.	1.	A:	B:			1.
2. Enter amount from Form 2, line 41.	2.	A:	B:			2.
3. Multiply line 2 by 0.075 (7.5%.)	3.	A:	B:			3.
4. Subtract line 3 from line 1 and enter result here but not less than zero. **This is your deductible medical and dental expense subject to 7.5% of Montana AGI.**	4.					4.
5. Medical insurance premiums not deducted elsewhere on your return.	5.					5.
6. Long term care insurance premiums not deducted elsewhere on your return.	6.					6.
Complete lines 7a through 7d reporting your total federal income tax payments made in 2007 before completing line 7e. You cannot deduct your self-employment taxes paid on lines 7a through 7d.						
7a. Federal income tax withheld in 2007.	7a.	A:	B:			7a.
7b. Federal estimated tax payments paid in 2007.	7b.	A:	B:			7b.
7c. 2006 federal income taxes paid in 2007.	7c.	A:	B:			7c.
7d. Other back year federal income taxes paid in 2007.	7d.	A:	B:			7d.
7e. Add lines 7a through 7d and enter result here. Do not enter more than $5,000 if you are filing single, married filing separately or head of household, or $10,000 if filing a joint return. **This is your federal income tax deduction.**						
OR						
General sales taxes paid in 2007. See instructions page 24.	7e.					7e.
8. Local income taxes paid in 2007. See instructions on page 24.	8.					8.
9. Real estate taxes paid in 2007.	9.					9.
10. Personal property taxes paid in 2007.	10.					10.
11. Other deductible taxes. List type and amount: _____	11.					11.
12. Home mortgage interest and points reported to you on federal Form 1098.	12.					12.
13. Home mortgage interest not reported to you on federal Form 1098. If paid to the person from whom you bought the house, provide name, SSN, and address. _____	13.					13.
14. Points not reported to you on federal Form 1098.	14.					14.
15. Qualified mortgage insurance premiums	15.					15.
16. Investment interest, Attach federal Form 4952.	16.					16.
17. Contributions made by cash or check during 2007.	17.					17.
18. Contributions made other than by cash or check	18.					18.
19. Contribution carryover from the prior year.	19.					19.
20. Child and dependent care expenses. Attach Montana Form 2441M.	20.					20.
21. Casualty and theft loss(es). Attach federal Form 4684.	21.					21.
22. Unreimbursed employee business expenses. Attach federal Form 2106 or 2106EZ.	22.	A:	B:			22.
23. Other expenses. List type and amount: _____	23.	A:	B:			23.
24. Add lines 22 and 23.	24.	A:	B:			24.
25. Enter the amount on Form 2, line 41	25.	A:	B:			25.
26. Multiply line 25 by 0.02 (2%)	26.	A:	B:			26.
27. Subtract line 26 from line 24 and enter the result here, but not less than zero.	27.					27.
28. Political contributions (limited to $100 per taxpayer)	28.					28.
29. Other miscellaneous deductions not subject to 2% of Montana AGI. List type and amount: _____	29.					29.
30. Gambling losses allowed under federal law.	30.					30.
31. Add lines 4 through 6; 7e through 21; and 27 through 30 and enter result here.	31.					31.
If the amount on Form 2, line 41 is more than $156,400 if married filing jointly, or more than $78,200 if married filing separately complete Worksheet VI - Itemized Deduction Worksheet, otherwise enter zero on line 32.						
32. Enter the amount from the itemized deduction Worksheet VI, line 11. **This is the amount of your non-allowed itemized deductions.**	32.					32.
33. Subtract line 32 from line 31 and enter the result here and on Form 2, line 42. **This is the amount of your allowable itemized deductions.**	33.					33.

Schedule IV - Nonresident/Part-year Resident Tax Enter on lines 1 through 15 your Montana source income that is included in Montana adjusted gross income on Form 2, lines 7 through 21 and line 38. File Schedule IV with your Montana Form 2.	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Montana wages, salaries, tips, etc. included on Form 2, line 7 ..... 1.			1.
2. Montana taxable interest included on Form 2, line 8a ..... 2.			2.
3. Montana ordinary dividends included on Form 2, line 9a ..... 3.			3.
4. Montana taxable refunds, credits, or offsets of state and local income taxes included on Form 2, line 10 ..... 4.			4.
5. Montana alimony received included on Form 2, line 11 ..... 5.			5.
6. Business income or (loss) included on Form 2, line 12 ..... 6.			6.
7. Capital gain or (loss) included on Form 2, line 13 ..... 7.			7.
8. Other gains or (losses) included on Form 2, line 14 ..... 8.			8.
9. Taxable IRA distribution included on Form 2, line 15b ..... 9.			9.
10. Taxable pension and annuities included on Form 2, line 16b ..... 10.			10.
11. Rental real estate, royalties, partnerships, S corporations, trust, etc. included on Form 2, line 17 ..... 11.			11.
12. Farm income or (loss) included on Form 2, line 18 ..... 12.			12.
13. Taxable social security benefits included on Form 2, line 20b ..... 13.			13.
14. Other income included on Form 2, line 21 ..... 14.			14.
15. Montana source additions to income reported on Form 2, Schedule I ..... 15.			15.
16. Add lines 1 through 15 and enter result here. **This is your Montana source income.** ..... 16.			16.
17. Add your total federal income from Form 2, line 22 and your Montana additions to federal adjusted gross income from line 38 and enter the result here. (If you are a nonresident military service person and spouse, skip line 17 and go to line 18). This is your total income from all sources. Skip line 18 and go to line 19. ..... 17.			17.
18. Nonresident military service persons and spouses only: Add from Form 2, lines 22 and 38, then subtract from this sum your exempt income reported on Form 2, Schedule II, line 9 and enter the result here. This is your total income from all sources ..... 18.			18.
19. Divide the amount on line 16 by the amount on line 17 (line 18 if you are a nonresident military service person and spouse) and enter the result here. Carry to 4 decimal places and do not enter more than 1.0000 ..... 19.			19.
20. Enter your resident tax after capital gains tax credit from Form 2, line 48 ..... 20.			20.
21. Multiply the tax on line 20 by the percentage on line 19 and enter the result here and on Form 2, line 48a. **This is your nonresident, part-year resident tax after capital gains tax credit.** ..... 21.			21.

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

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

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

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

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

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

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

For further information and a line by line description of what Montana source income is, refer to Form 2, Schedule IV.

Schedule V - Montana Tax Credits

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

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
Nonrefundable credits that are single-year credits and HAVE NO carryover provision			
1. Credit for an income tax liability paid to another state or country from Form 2, Schedules VI, line 10 or VII, line 10. ..... 1.			1.
2. College contribution credit. Attach Form CC. ..... 2.			2.
3. Qualified endowment credit. Attach Form QEC. ..... 3.			3.
4. Energy conservation installation credit. Attach Form ENRG-C. ..... 4.			4.
5. Alternative fuel credit. Attach Form AFCR. ..... 5.			5.
6. Rural physician's credit. ..... 6.			6.
7. Health insurance for uninsured Montanans credit. Attach Form HI. ..... 7.			7.
8. Elderly care credit. Attach Form ECC. ..... 8.			8.
9. Developmental disability account contribution credit. ..... 9.			9.
10. Recycle credit. Attach Form RCYL. ..... 10.			10.
11. Oilseed crushing and biodiesel/biolubricant production facility credit. Attach Form OSC. ..... 11.			11.
12. Biodiesel blending and storage credit and attach Form BBSC. ..... 12.			12.
13. Add lines 1 through 12 and enter result here and on Form 2, line 51. **This is your total nonrefundable single-year credits.** ..... 13.			13.
Nonrefundable credits that HAVE a carryover provision			
14. Contractor's gross receipts tax credit. ..... 14.			14.
15. Geothermal systems credit. Attach Form ENRG-A. ..... 15.			15.
16. Alternative energy systems credit. Attach Form ENRG-B. ..... 16.			16.
17. Alternative energy production credit. Attach Form AEPC. ..... 17.			17.
18. Dependent care assistance credit. Attach Form DCAC. ..... 18.			18.
19. Historic property preservation credit. Attach federal Form 3468. ..... 19.			19.
20. Montana capital company credit. ..... 20.			20.
21. Infrastructure user's fee credit. ..... 21.			21.
22. Empowerment zone credit. ..... 22.			22.
23. Increasing research activities credit. Attach Form RSCH. ..... 23.			23.
24. Mineral exploration incentive credit. Attach Form MINE-CRED. ..... 24.			24.
25. Film employment production credit. Attach Form FPC. Report your credit on this line if you have made the one-time four year carry forward election. ..... 25.			25.
26. Adoption credit. Attach federal Form 8839. ..... 26.			26.
27. Add lines 14 through 26 and enter result here and on Form 2, line 52. **This is your total nonrefundable carryover credits.** ..... 27.			27.
Refundable credits			
28. Elderly homeowner/renter credit. Attach Form 2EC. ..... 28.			28.
29. $140 Homeowner income tax credit for property taxes. See page 35. ..... 29.			29.
30. Film employment production credit. Attach Form FPC. ..... 30.			30.
31. Film qualified expenditure credit. Attach Form FPC. ..... 31.			31.
32. Insure Montana small business health insurance credit. Business EIN_____ ..... 32.			32.
33. Add lines 28 through 32 and enter result here and on Form 2, line 62. **This is your total refundable credits.** ..... 33.			33.

Montana Tax Credits

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

Nonrefundable single-year credits. Your nonrefundable single-year credits can only be used to offset your 2007 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion that exceeded your 2007 income tax liability cannot be used in future years.

Nonrefundable carryover credits. Your nonrefundable carryover credits can be used to offset your 2007 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. Your excess credits that were not applied against your 2007 income tax liability can be carried over and used to offset future year tax liabilities.

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

Schedule VI - Credit for an Income Tax Liability Paid to Another State or Country. Full-year resident only.	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter your income taxable to another state or country that is included in Montana adjusted gross income on Form 2, line 40. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S corporation or partnership ..... 1.			1.
2. Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. A: _____ B: _____ ..... 2.			2.
3. Enter your total Montana adjusted gross income from Form 2, line 40. Where applicable, this includes your share of income taxes paid that are claimed as a deduction by your S corporation or partnership..... 3.			3.
4. Enter your total income tax liability paid to the other state or country ..... 4.			4.
5. Enter your Montana tax liability from Form 2, line 48 ..... 5.			5.
6. Divide line 1 by line 2. Enter the percentage here, but not more than 100% ..... 6.			6.
7. Multiply line 4 by line 6 and enter the result here ..... 7.			7.
8. Divide line 1 by line 3. Enter the percentage here, but not more than 100% ..... 8.			8.
9. Multiply line 5 by line 8 and enter the result here ..... 9.			9.
10. Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. This is your credit for an income tax paid to another state or country..... 10.			10.

Schedule VII - Credit for an Income Tax Liability Paid to Another State or Country. Part-year resident only.	Column A (for single, joint, separate, or head of household)	Column B (for spouse, when filing separately using filing status 3a)	
1. Enter your income taxable to another state or country that is included in Montana source income on Form 2, Schedule IV, line 16, total Montana source income. Where applicable, this includes your share of income taxes paid that were claimed as a deduction by your S corporation or partnership ..... 1.			1.
2. Enter your total income from the other state or country you used in calculating your income tax paid to that state or country. Include in this total all income exempt from Montana income tax that was subject to tax in the other state or country. Indicate state's abbreviation. A: _____ B: _____ ..... 2.			2.
3. Enter your total Montana source income from Form 2, Schedule IV, line 16. Where applicable, this includes the share of income taxes paid that are claimed as a deduction by your S corporation or partnership..... 3.			3.
4. Enter your total income tax liability paid to the other state or country ..... 4.			4.
5. Enter your Montana tax liability from Form 2, line 48a ..... 5.			5.
6. Divide line 1 by line 2. Enter the percentage here, but not more than 100% ..... 6.			6.
7. Multiply line 4 by line 6 and enter the result here ..... 7.			7.
8. Divide line 1 by line 3. Enter the percentage here, but not more than 100% ..... 8.			8.
9. Multiply line 5 by line 8 and enter the result here ..... 9.			9.
10. Enter here and on Form 2, Schedule V, line 1, the smaller of the amounts reported on lines 4, 7, or 9 above. This is your credit for an income tax paid to another state or country..... 10.			10.

You are not entitled to a Montana tax credit for taxes paid to a foreign country if you claimed these foreign taxes paid as a foreign tax credit on your federal income tax return.

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

Schedule VIII - Reporting of Special Transactions

File Schedule VIII with your Montana Form 2

Complete Schedule VIII only if you and/or your spouse filed for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) you filed with your federal income tax return. If your answer is *"Yes"* to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.		Check *"Yes"* if you filed any of the following forms with the Internal Revenue Service.
1.	I filed federal **Form 8264 - Application for Registration of a Tax Shelter** with the Internal Revenue Service.....1. Form 8264 is required to be filed to register a tax shelter.	❑ Yes
2.	I filed federal **Form 8271 - Investor Reporting of Tax Shelter Registration Number** with the Internal Revenue Service. .....2. Form 8271 is used to report the tax shelter registration number that the Internal Revenue Service assigns to certain tax shelters required to be registered under 26 USC 6111 and to report the name and identifying number of the tax shelter.	❑ Yes
3.	I filed federal **Form 8824 - Like-Kind Exchanges** with the Internal Revenue Service.....3. NOTE: Check *"Yes"* if your like-kind exchange includes Montana property. Nonresidents do not have to report a like-kind exchange if the properties involved do not include Montana property. Form 8824 is used to report each exchange of business or investment property for property of a like kind.	❑ Yes
4.	I filed federal **Form 8865 - Return of U.S. Persons With Respect to Certain Foreign Partnerships** with the Internal Revenue Service. .....4. Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interest).	❑ Yes
5.	I am required to file federal **Form 8886 - Reportable Transaction Disclosure Statement** with the Internal Revenue Service. .....5. Form 8886 is used to disclose information for each reportable transaction in which you participated.	❑ Yes
6.	I filed federal **Form 13656 - Notice of Election by Executive and Related Person to Participate in Announcement 2005-19 Settlement Initiative** with the Internal Revenue Service. .....6. Form 13656 is an election to participate in the settlement initiative as described in Announcement 2005-19 and as contained in Internal Revenue Bulletin 2005-11 dated March 14, 2005.	❑ Yes
7.	I filed federal **Form 13750 - Election to Participate in Announcement 2005-80 Settlement Initiative** with the Internal Revenue Service.....7. Form 13750 is an election to participate in the settlement initiative as described in Announcement 2005-80 and as contained in Internal Revenue Bulletin 2005-46 dated November 14, 2005.	❑ Yes

2007 **Montana Elderly Homeowner/Renter Credit** **MONTANA** Form 2EC

File alone or with your Form 2 or Form 2M. Free electronic filing is available at mt.gov/revenue.

Amended Return ❑ Check the box above if this is an amended return.

Your first name and initial	Last name	Your social security number	If deceased, date of death
Spouse's first name and initial	Last name	Spouse's social security number	If deceased, date of death
Mailing address		City	State Zip+4

Part I – Qualifications

Yes	No		Yes	No	
❑	❑	I was age 62 or older as of December 31, 2007.	❑	❑	I resided in Montana for nine months or more during 2007.
❑	❑	I occupied a Montana residence as an owner or renter for a total of six months or more during 2007.	❑	❑	My gross household income was less than $45,000 in 2007.

If you answered "No" to any of the four statements above, you are not eligible for this credit.

Part II – Household Income

1. Enter your total household income received from wages, fees, bonuses, capital gains, dividends, interest, and other ordinary income. Do not include your losses in this total ..... 1.
2. Enter your total household income from a business, partnership, rent, royalties, etc. Do not include your losses in this total ..... 2.
3. Enter your total household interest income from federal, state, county and municipal bonds ..... 3.
4. Enter any alimony, public assistance, unemployment, state and federal tax refunds, prior year 2EC refunds, and other income that your household received during the year ..... 4.
5. Enter your total household pension, annuities, IRA distributions, benefits from railroad retirement, public employee's retirement, veteran's disability and social security ..... 5.
6. Add lines 1 through 5 and enter the result here. If the sum is greater than $45,000, stop here, because you do not qualify for the elderly homeowner/renter credit. **This is your gross household income.** ..... 6.
7. Entered here for you is your standard exclusion 7. $6,300
8. Subtract line 7 from line 6 and enter result here, but not less than zero. **This is your total household income.** 8.

Part III – Credit Computation

9. If you are a homeowner, enter the property tax that you were billed for 2007. This includes fees, special assessments, and SIDs on your residence and land not to exceed one acre. **This is your property tax billed.** 9.
10. If you rent your residence, enter the rent that you paid in 2007 for this residence ..... 10.
11. Multiply line 10 by .15 (15%) and enter the result here. **This is your rent equivalent tax paid.** ..... 11.
12. Add lines 9 and 11 and enter the result here ..... 12.
13. Enter your total household income reported on line 8 ..... 13.
14. Enter your multiplier rate from the Household Income Reduction Table located on the reverse side of Form 2EC ..... 14.
15. Multiply line 13 by line 14 and enter the result here. **This is your net household income.** ..... 15.
16. Subtract line 15 from line 12 and enter the result here. If the amount is zero or less, stop here. You cannot take the elderly homeowner/renter credit ..... 16.
17. Enter the lesser of line 16 or $1,000 ..... 17.

If your gross household income reported on line 6 is less than $35,000, skip line 18 and enter the amount from line 17 on line 19 below.

18. If your gross household income reported on line 6 is $35,000 or more, enter on line 18 the percentage multiplier listed below that corresponds to your gross household income reported on line 6 ..... 18.

If the amount on line 6 is	then	enter this percentage amount on line 18
$35,000 - $37,500		0.40 (40%)
$37,501 - $40,000		0.30 (30%)
$40,001 - $42,500		0.20 (20%)
$42,501 - $44,999		0.10 (10%)
$45,000 and over		0.00 (00%)

19. Enter the amount from line 17, or where applicable, multiply line 17 by the percentage reported on line 18 and enter result here. **This is your elderly homeowner/renter credit.** ..... 19.

- If you are filing Montana Form 2, enter on Form 2, Schedule V, line 28, the amount on line 19 above.
- If you are filing Montana Form 2M, enter on Form 2M, Schedule II, line 9, the amount on line 19 above.
- If you are not required to file Montana Form 2 or 2M, see instructions on the back of this form.

❑ Do not mail 2008 forms and instructions

If you wish to use direct deposit, enter your financial instiitution's RTN# and ACCT# below. See instructions.

RTN# ACCT# ❑ Checking ❑ Savings

Name, address and telephone number of paid preparer — Preparer SSN or FEIN

May the DOR discuss this return with your tax preparer? ❑ Yes ❑ No Questions? Call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired.

X — Your signature is required | Date | Daytime telephone number | X — Spouse's signature | Date

I declare under penalty of false swearing that the information in this tax return and attachments is true, correct and complete.

What is the Montana elderly homeowner/renter credit and how can I determine if the credit is available to me?

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

How can I find out more about this credit?

If you need additional information on this credit or other tax issues, you can call us at (406) 444-6900 or TDD (406) 444-2830, or visit our website at *mt.gov/revenue*.

If I am filing my income tax return electronically, do I have to send a copy of my property tax bill or rent receipts?

You do not need to send us your property tax bill or rent receipts. When you file electronically, you represent that you have competed Form 2EC and have all required documentation.

Instructions

Please write your name, address, and social security number in the space provided near the top of the form. If you are married, also enter your spouse's name and social security number. If either spouse is deceased during the claim year, enter the date of death in the appropriate box. If you are filing this credit with your Montana income tax return, Form 2 or Form 2M, enter the name, address and social security number as it appears on your Form 2 or Form 2M.

Part I - Qualifications

You will need to answer all four statements before you apply for your elderly homeowner/renter credit. If you answer *yes* to *all* of these statements, you are eligible for this credit and you should continue to complete this form. Any *no* answer means that you are not eligible for the credit.

- Age 62 test – If you are married and both spouses own or rent your residence, only one of you have to meet the age requirement.
- Nine month test – 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, 2007. If you are married filing this return with your spouse, and if your spouse, who would have been the only eligible individual, dies before October 1, 2007, you cannot claim this credit. You can claim this credit only if, as a surviving spouse, you are age 62 or older and you can continue to answer *yes* to the remaining three questions.
- Six month test – You can answer *yes* to this question as long as you have occupied one or more residences as an owner and/or renter during the year.
- Gross household income – Your gross household income includes all income received by individuals in the household.

Part II - Household Income

Enter your total household income on lines 1 through 5. Your total household income is all the income received, taxable and nontaxable, by all individuals who live in your household. In addition to federal adjusted gross income, the following are examples of items which are included in household income:

- Inheritances
- Pension and annuity income (this includes railroad retirement and veteran's disability benefits)
- Any capital gains that you excluded from your Montana adjusted gross income
- Alimony and support payments
- Nontaxable strike benefits
- Cash public assistance and relief
- Interest on federal, state, county, and municipal bonds
- All social security payments except those paid directly to a nursing home
- Federal income tax refunds
- State income tax refunds and elderly homeowner/renter credits allowed

Some items above may involve a basis. If applicable, you may reduce your income by the basis. Do not reduce your household income by any losses that you included in your federal adjusted gross income.

Part III - Credit Computation

You will need to attach a copy of your 2007 property tax bill and/or your signed rent receipts.

Line 9 – Property Tax Billed. Your property tax billed is your November, 2007 property tax statement of taxes assessed against your home and it includes your special assessments and fees. Do not include any amounts assessed for prior years but paid during 2007.

You are allowed only the property tax billed on your primary residence and up to one-acre of land that is associated with this residence. If the one-acre farmstead or primary acre is not separately identified on your tax bill and if your ownership is less than 20 acres, you can calculate your credit by dividing the total amount of property tax billed on the land by the total acres in order to arrive at your property tax billed.

If your property tax bill is on property that you held in a revocable trust and if you are the grantor(s) and trustee(s) of that property, you can qualify for this credit. If your property taxes are billed to your living trust or life estate, you can qualify for this credit. Property tax that is billed to an irrevocable or family trust qualifies as rent only.

Line 10 – Rent Equivalent Paid. Your rent is only the amount of money that you paid to occupy your home. It does not include amenities such as meals, housekeeping, nursing care, etc. If you live in a health care, long-term care, personal care or residential care facility, the rent allowed is the actual out of pocket rent that you paid. If the facility does not provide you with an adequate breakdown between your *rent* and *amenities*, your rent is limited to $20 a day and it cannot exceed $7,300 a year.

Household Income Reduction Table
If your household income on line 8 is:

At least	But not more than	Your multiplier is	At least	But not more than	Your multiplier is
$0	$1,999	0.000	$7,000	$7,999	0.035
$2,000	$2,999	0.006	$8,000	$8,999	0.039
$3,000	$3,999	0.016	$9,000	$9,999	0.042
$4,000	$4,999	0.024	$10,000	$10,999	0.045
$5,000	$5,999	0.028	$11,000	$11,999	0.048
$6,000	$6,999	0.032	$12,000	and over	0.050

Direct Deposit

If you want your refund to be deposited directly, enter your financial institution's routing and account numbers. If either the routing number or account number is incorrect, we cannot credit your account. If your direct deposit is returned to us, we will mail you a check.

NEW **File your Form 2EC electronically!** If you are not required to file Montana Form 2 or Form 2M, you can now file your Form 2EC at our website, *mt.gov/revenue*.

If you choose not to file electronically and you are not required to file Montana Form 2 or Form 2M, please mail your Form 2EC to Department of Revenue, PO Box 6577, Helena, MT 59604-6577

Premature distributions and early withdrawals of your retirement income do not qualify for the retirement income exclusion. Also, if you have received a disability pension, which is identified as a distribution code 3 on your federal Form 1099-R, you should use Montana Form DS-1, 2007 Disability Income Exemption, to determine your deduction instead of the retirement income exclusion.

If you have received retirement income other than Tier II Railroad Retirement benefits, you should complete Worksheet IV on page 38 in order to determine the amount of your exclusion. Your retirement exclusion is limited to the lesser of your taxable retirement income that you have received or $3,600, as long as your federal adjusted gross income is $30,000 or less and you are filing a single return, filing jointly with your spouse and only one of you has taxable retirement income, or you are filing as head of household. If you are filing jointly with your spouse, and both of you have retirement income, and your federal adjusted gross income is $30,000 or less, you both can exclude the lesser of your taxable retirement income that you receive personally or $3,600 each for a maximum of $7,200.

If both you and your spouse have received retirement income and you are filing your income tax return separately on the same form, or on separate forms, the lesser of your retirement income or $3,600 applies separately to both spouses as long as your separately stated federal adjusted gross income is $30,000 or less.

When your federal adjusted gross income exceeds $30,000, your retirement exclusion is reduced $2.00 for every $1.00 that your federal adjusted gross income is over $30,000. For example, if your federal adjusted gross income is $31,000, your retirement exclusion is $1,600 ($3,600 – ($1,000 x $2.00) = $1,600). You are not entitled to this retirement income exclusion if your federal adjusted gross income is greater than $31,800 ($3,600 – ($1,800 x $2.00) = $0) if you are filing single, married filing separately or as head of household. If you are married and filing jointly and both spouses have retirement income, then your retirement exclusion is phased out when your federal adjusted gross income is greater than $33,600 because your maximum retirement exclusion is $7,200 (($3,600 – ($1,800 x $2.00)) + ($3,600 – ($1,800 x $2.00)) = $0). You should complete Worksheet IV on page 38 to determine your partial pension and annuity income exemption.

Line 12 - Partial Interest Exemption for Taxpayers 65 and Older. If you are single and are age 65 or older at the end of 2007, you can exempt up to $800 of the interest income that you reported in your federal 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 2007, you can exempt up to $1,600 of the interest income that you reported in your federal adjusted gross income.

If you are married and filing your return separately and are age 65 or older at the end of 2007, you can exempt up to $800 of the interest income that you reported in your federal adjusted gross income. Please note, however, that you are not allowed to exclude interest income earned by and reported by your spouse.

For the purpose of this exclusion, when you determine the amount of your interest income, you should consider distributions commonly called dividends on deposits or share accounts as interest. Under no circumstances can you exclude more interest income than what you have reported in your federal adjusted gross income. Interest income reported on Schedule I, line 1 is not eligible for this exclusion.

Line 13 - Partial Retirement Disability Income Exemption for Taxpayers Under Age 65. You can qualify for a partial retirement disability income exclusion of up to $5,200 if you are:

- under the age of 65 and you are retired on disability, and
- not treating your disability income as a pension and annuity.

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

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

Line 14 - Exemption for Certain Taxed Tips and Gratuities. You can subtract from your federal adjusted gross income any tips and gratuities that you have received from patrons while you worked in the food, beverage or lodging industry. These should be reported as part of your federal adjusted gross income. All other tips and gratuities that you received for providing services in other business industries are not excluded from your federal adjusted gross income in arriving at your Montana adjusted gross income.

Line 15 - Exemption for Certain Income of Your Child Taxed to the Parents. If your federal adjusted gross income included unearned income of a dependent child as determined on federal Form 8814, you may be able to exclude the unearned income from your Montana adjusted gross income. You can exclude the unearned income from your adjusted gross income if your child's gross income does not exceed $3,730 or they file their own Montana income tax return.

Line 16 - Exemption for Certain Health Insurance Premiums Taxed to Employee. If you are a shareholder in an S corporation, you can subtract from your federal

adjusted gross income to arrive at your Montana adjusted gross income the cost of your health insurance premiums to the extent they are included in your federal adjusted gross income.

Line 17 - Exemption for Student Loan Repayments Taxed to a Health Care Professional. If you are a health care professional licensed in Montana, you can exclude from your federal adjusted gross income up to $5,000 of any health related student educational loan repayments that are paid on your behalf when this repayment is included in your federal adjusted gross income. In order for you to qualify for this exclusion you have to be a health care professional who:

- is licensed in Montana;
- participates in a federal, state or qualified private loan repayment program, and these repayment programs are generally through the U.S. Department of Health and Human Service Corp. and their Nursing Education Loan Repayment Program, the Montana Rural Physician Incentive Program, or a qualified private program with a licensed health care facility in Montana;
- 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), a medically underserved population (MUP), or a federal nursing shortage county.

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

Line 18 - Exempt Medical Care Savings Account (MSA) Deposits and Earnings. To determine your Montana adjusted gross income you can subtract from your federal adjusted gross income the amounts that you deposited into a Montana medical care savings account. Please don't confuse this Montana MSA with the federal health savings account (HSA) that is deductible on Form 2, line 25 since you are allowed to participate in both programs. See your federal income tax instructions for information on your federal HSA.

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

For further instructions on the Montana medical care savings account, see Montana Forms MSA and MSA-P. When you claim this exclusion, you will need to attach a copy of Montana Form MSA to your income tax return.

Line 19 - Exempt First-time Home Buyer Savings Account Deposits and Earnings. To determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the amounts you deposited into a Montana first-time home buyer savings account. Your Montana first-time home buyer savings account provides you with the opportunity to exclude from your Montana adjusted gross income up to $3,000 plus accumulated 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 accumulated interest or other earnings on this principal annually. To qualify for this exclusion, you will need to establish a separate or joint account with your spouse and contribute to your account(s) prior to purchasing your first-time home. If you file your income tax return separately with your spouse and if you have established a joint first-time home buyer savings account with your spouse, you cannot take this exclusion. Therefore, we recommend that you and your spouse establish separate first-time home buyer savings accounts instead of a jointly held account. These separate accounts will qualify both of you for the $3,000 annual exclusion whether you file jointly or separately with your spouse.

Once these funds are excluded from Montana adjusted gross income, they can be withdrawn only for the down payment and allowable closing costs for purchasing your single-family residence in Montana. If you withdraw any of these funds for other purposes, they are subject to tax in the year that they are withdrawn and they also may be subject to a 10% penalty if they are withdrawn on any day other than the last business day of the year.

For further instructions on the Montana first-time home buyer savings account see Montana Forms FTB and FTB-P. When you claim this exclusion, you will have to

attach a copy of Montana Form FTB to your income tax return.

Line 20 - Exempt Family Education Savings Account Deposits and Earnings. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of the contributions that you made during 2007 to one or more Montana family education savings accounts or $3,000. If you are married, both you and your spouse are entitled to exclude up to $3,000 for contributions that you made to one or more Montana family education savings accounts. This exclusion is allowed only for contributions that you make to a Montana family education savings account that is owned by you, your spouse, your child or stepchild as long as your child or stepchild is a Montana resident. You can not exclude contributions made to another state or private family education saving program.

Withdrawals of your contributions and earnings from a Montana family education savings account are not taxable to you if you withdraw them to pay for qualified higher educational expense defined under federal law. If you withdraw these contributions for purposes other than to pay for qualified higher educational expenses, they are subject to a recapture tax of 6.9%, which should be reported on Montana Form 2, line 54.

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

Line 21 - Exempt Farm and Ranch Risk Management Account Deposits. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income the lesser of 20% of the net income that is attributable to your agricultural business or $20,000 per year that you deposited into your Montana farm and ranch risk management trust account. This account is designed to be used as a risk management tool for your individual or family farm corporation's agricultural business. It is established as a Montana trust with your financial institution as the trustee.

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

Line 22 - Subtraction to Federal Taxable Social Security/Tier I Railroad Retirement. Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2, line 20b. You should determine your Montana taxable social security benefits by completing Montana Worksheet VIII, found on page 41 of the instruction booklet.

After you have completed your social security worksheet and find that your social security benefits taxable to Montana are less than those that you reported on Form 2, line 20b, enter that difference as a subtraction from federal adjusted gross income on Schedule II, line 22. If your social security benefits are greater than those that you reported on Form 2, line 20b, you should report that difference as an addition to federal adjusted gross income on your Form 2, Schedule I, line 6.

Line 23 - Subtraction for Federal Taxable Tier II Railroad Retirement Benefits. When you determine your Montana adjusted gross income, you can subtract your taxable Tier II Railroad Retirement benefits included on your Montana Form 2, line 16b from your federal adjusted gross income. Your taxable pension and annuity income may include your taxable portion of Tier II Railroad Retirement benefits that are paid by the railroad retirement board. These benefits are 100% exempt from Montana income tax.

Line 24 - Passive Loss Carryover Exclusion. Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were required to recompute the amount of allowable passive loss. This may have resulted in a larger passive loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of passive loss allowed using the federal rules for a married couple filing a joint return. If you have state passive loss carryover from a previous tax year that you can now use under the federal rules, report the adjustment on this line.

Line 25 - Capital Loss Adjustment. Prior to tax year 2007, married taxpayers who filed a joint federal return, but filed separate Montana returns, were only allowed to claim a capital loss of $1,500. This may have resulted in a larger capital loss carryover for state purposes. Beginning with the 2007 tax year, married taxpayers filing separate Montana returns are allowed to claim the same amount of capital loss allowed using the federal rules for a married couple filing a joint return. If you have state capital loss carryover from a previous tax year that was previously absorbed on your federal return, report the adjustment on this line. The total capital losses that can be claimed is still limited to $3,000, so a married couple cannot each claim $3,000.

Line 26 - Subtraction of Sole Proprietor for Allocation of Compensation to Spouse. If you are a sole proprietor reporting net income on your federal Forms C or F, you

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

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

Subtract from your federal adjusted gross income, Schedule II, line 26 the amount of income allocated to your spouse that is reported by your spouse as an addition to federal adjusted gross income on Schedule I, line 9.

Line 27 - Montana Net Operating Loss Carryover. The Montana net operating loss carryover that you reported on your Form 2, line 21 may be different from the amount of your federal net operating loss carryover. You should record the amount of the federal net operating loss carryover that you reported on your Form 2, line 21 on Schedule I, line 15 and then compute your Montana net operating loss carryover using Montana Form NOL. Report on Form 2, Schedule II, line 27 your Montana net operating loss from Montana Form NOL.

If you have a 2007 Montana net operating loss, generally you are required to first carry back this net operating loss to the two tax years preceding the loss year and then carry forward the balance of your 2007 net operating loss 20 years following the loss year. The federal special carryback rules apply for farm net operating losses and casualty losses. You can elect to forgo the carryback of your 2007 net operating loss and carry forward that loss. In order to forgo your carry back, you will have to make an election on Montana Form NOL by April 15, 2008, or, if you have a valid extension, by October 15, 2008. Once you have made this election, it is irrevocable and you will not be able to reverse your election and carry back your 2007 net operating loss.

If you are carrying forward a net operating loss that occurred prior to January 1, 1999, use Montana Form NOL-Pre99 to determine your carryover amount.

Line 28 - 40% Capital Gain Exclusion for Pre-1987 Installment Sales. If you have an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be allowed to exclude 40% of this capital gain from your federal adjusted gross income when you determine your Montana adjusted gross income. Complete Worksheet III, found on page 38, to determine your capital gain exclusion and then report this amount on Schedule II, line 28.

Line 29 - Subtraction for Business Related Expenses for Purchasing Recycled Material. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income 10% of the expenses that your business paid for purchasing recycled products. This deduction is allowed only to businesses within Montana and for products that they purchased that contain recycled material at a level consistent with industry standards and/or consistent with the standards established by the federal Environmental Protection Agency. If you are a shareholder in an S corporation, a partner in a partnership or a member or manager of a limited liability company, the share of this additional deduction allowed for your entity is based on the same proportion that you used to report your income or loss from your ownership in that entity for Montana income tax purposes.

Line 30 - Subtraction for Sales of Land to Beginning Farmers. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income 100% of your income or capital gain (up to a maximum of $50,000) that you recognized from the sale to a beginning farmer of at least 80 acres or more of land at 9% or less interest on a long-term contract. To qualify for this deduction, you need to apply to and be approved by the Agricultural Loan Authority of the Montana Department of Agriculture. You will need to attach a copy of this approval to your individual income tax return. To learn more about the Montana Beginning Farm/Ranch Loan Program, you can contact the Agricultural Finance Program Manager of the Montana Department of Agriculture at (406) 444-2402 or visit their website at *agr.mt.gov/business/bfrprog.asp.*

Line 31 - Subtraction for Larger Federal Estate and Trust Taxable Distribution. The state 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 federal adjusted gross income, and you should report it on Schedule II, line 31.

Line 32 - Subtraction for Wage Deduction Reduced by the Federal Targeted Jobs Credit. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income all wages and salaries paid by your business that were reduced for federal income tax purposes because of the fact that you applied for the federal targeted jobs credit on your federal income tax return. This additional deduction should be claimed in the tax year that you paid the wages, using the salaries that you used to calculate your federal targeted jobs credit.

If you are a shareholder in an S corporation, a partner in a partnership or a member or manager of a limited liability company, this additional deduction should first be applied

at the entity level to determine the entity's Montana income or loss. For Montana tax purposes your share of this additional deduction applied at the entity level is based on the same proportion that you used to report the income or losses of your ownership in the entity.

Line 33 - Subtraction for Certain Gains Recognized by a Liquidating Corporation. When you determine your Montana adjusted gross income, you can subtract from your federal adjusted gross income that portion of your gain from the liquidation of a reporting corporation to the extent that this gain is included in the gross income of the liquidating corporation's Montana corporate license tax return.

Line 34 - Other Subtractions. Enter on Schedule II, line 34, any other subtractions to federal adjusted gross income not described in lines 1 through 33.

Form 2, Schedule III - Montana Itemized Deductions

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

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

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

Line 1 - Medical Expenses. Enter your medical expenses paid in 2007 after you have deducted from these expenses any payments that you received from your insurance company or other sources. These expenses are the same medical and dental expenses that are allowed under the Internal Revenue Code with the exception of the following expenses that are not deductible on line 1:

- medical insurance and long-term care insurance premiums paid in 2007 that are claimed as a deduction on Schedule III, lines 5 and 6
- health insurance premiums paid by your employer and that are excluded from federal adjusted gross income in determining Montana adjusted gross income on Schedule II, line 16
- medical expenses paid with funds withdrawn from your Montana medical care savings account

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

Line 4 - Deductible Medical and Dental Expenses. Subtract line 3 from line 1 and enter the result on line 4 but do not enter an amount less than zero. This is your allowable deduction for medical and dental expenses.

Line 5 - Medical Insurance Premiums. If you pay your own medical insurance premiums for coverage for yourself and your family, you may be eligible to deduct 100% of these medical insurance premiums. To determine whether you can deduct 100% of your medical insurance premiums, you have to meet the following criteria:

- Your premiums have to be paid for health and medical insurance coverage. Your life insurance premiums are not deductible.
- Your premiums cannot have been paid through a federal or state medical care savings account, such as the federal Health Savings Account or the Montana Medical Care Savings Account.
- Your premiums cannot have been paid through an employer health benefit cafeteria plan in which your premium payments are considered "pre-taxed" payment and therefore not subject to federal or state income tax withholding, federal social security, or federal Medicare payments. If you are unsure whether your employer has a health benefit cafeteria plan, you may want to check with your employer's payroll office to discover whether your medical insurance premiums are covered by a health benefit cafeteria plan.
- Your premiums cannot be deducted as a self-employed health insurance deduction on your Form 2, line 29, or as a subtraction to federal adjusted gross income on your Form 2, Schedule II, line 16.
- Your premiums cannot be deducted as Medicare A premiums from your social security benefits. However, Medicare B premiums that are deducted from your social security benefits are 100% deductible on line 5.
- Medicare taxes that are withheld from your wages or paid as part of your self-employment tax are not deductible on line 5.

Line 6 - Long-term Care Insurance Premiums. If you pay for long-term care insurance premiums, you may be eligible to deduct 100% of the long-term care insurance premiums that you paid. To determine whether you can deduct 100% of your long-term care insurance premiums, you have to meet the following criteria:

- Your premiums have to be for long-term care coverage primarily for any qualified long-term care service that provides for the necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative service and personal care that is required for a chronically ill individual who is under the prescribed care of a licensed health care practitioner.
- Your premiums that you paid were for long-term care for yourself, your dependents, your parents or your grandparents.
- Your premiums have not been deducted elsewhere on your return when you determined your Montana adjusted gross income.
- Your premiums were not considered as qualified elderly care expenses when you claimed the elderly care credit that you reported on Schedule V, line 8.

Lines 7a through 7d - Federal Income Tax Deduction. Montana allows federal income taxes paid during the year as an itemized deduction. This does not include any state income taxes you may have paid to Montana or any other state even if you were able to deduct them on your federal return. Additionally, this does not include any self-employment taxes you have paid during the year.

As described below, the amount you can claim may be limited based on your filing status.

Complete lines 7a through 7d if you are electing to claim a deduction for federal income taxes paid in 2007. If you are taking your state and local sales taxes as a deduction, skip lines 7a through 7d and report your state and local sales tax deduction on line 7e.

- **Line 7a - Federal Income Tax Withheld.** Enter on line 7a the total amount of federal income tax withheld that was reported to you on your federal Forms W-2 and/or 1099. If you are married filing separately with your spouse, your federal income tax withheld should be reported by the spouse who earned the income. Do not include in this total the amount of the self-employment tax that you paid.
- **Line 7b - Federal Estimated Tax Payment Paid in 2007.** Enter on line 7b the total amount of the federal estimated income tax payments that you made in 2007. When you claim federal estimated tax payments, you should attach a copy of your federal Form 1040 or 1040A pages 1 and 2.
- **Line 7c - 2006 Federal Income Taxes Paid in 2007.** Enter on line 7c the balance of the total amount of the 2006 federal income tax that you paid in 2007.
- **Line 7d - Additional Back Year Federal Income Taxes Paid in 2007.** Enter on line 7d the total amount of additional back year federal income taxes that you paid in 2007. For example, you may have paid additional 2005 federal income taxes in 2007.

Line 7e - Federal Income Tax or General State and Local Sales Tax Deduction. Remember, you cannot claim both the federal income tax deduction and the general state and local sales tax deduction. Also, none of the resort, accommodations or similar taxes collected in Montana qualify as a general sales tax under the federal definitions so they cannot be deducted.

- **Federal Income Tax Deduction.** Beginning with tax year 2005, your federal tax deduction is limited as follows:
  - If your filing status is single, married filing separately or head of household, you should deduct the lesser of $5,000 or the sum of lines 7a through 7d. If you are married filing separately on the same form or on separate forms, you each are limited to the $5,000 federal tax deduction and you cannot arbitrarily allocate this deduction between spouses.
  - If you file your Montana income tax return jointly with your spouse, your federal income tax deduction is limited to the lesser of $10,000 or the sum of lines 7a through 7d.

OR

- **General State and Local Sales Tax Paid in 2007.** If you have elected to claim the state and local sales tax deduction on your federal income tax return, you will claim the state and local sales tax deduction on your Montana income tax return. Enter on line 7e the amount of state and local sales taxes that you paid in 2007 and that you reported as a deduction on your federal income tax return.

Line 8 - Local Income Taxes Paid in 2007. Enter on Schedule III, line 8 any local income taxes that you paid in 2007. No city in Montana imposes a local income tax so a Montana resident would be unlikely to take this deduction.

Line 9 - Real Estate Taxes Paid in 2007. Enter on Schedule III, line 9 any real estate taxes that you paid in 2007 on real estate that you own and that was not used for business. If you qualify and then apply for the elderly homeowner/renter credit, do not confuse this amount with the amount of your property tax billed that is used to determine the amount of your elderly homeowner/renter credit. See Montana Form 2EC for information on the Montana elderly homeowner/renter credit.

Line 10 - Personal Property Taxes Paid in 2007. Enter on Schedule III, line 10 any personal property taxes that you paid in 2007. In order to claim this deduction, these personal property taxes have to be based on value and charged on a yearly basis.

Your motor vehicle taxes that are based on the vehicle's value are considered a personal property tax and are deductible on line 10. Your motor vehicle fees that are not based on the vehicle's value are not deductible with the exception of the Montana light vehicle registration fee that is deductible—even though it is based not on the vehicle's value, but on the age of the vehicle. However, any light vehicle registration fee that you pay to another state is not deductible on your Montana return. The

taxes and fees that are listed on your Montana vehicle registration receipt that are deductible on line 10 include codes 14-COOPT and 61-LVREG.

Line 11 - Other Deductible Taxes. Enter any other deductible taxes that you paid in 2007 and that you did not report on lines 7a through 10. When you claim these other deductible taxes, list on line 11 the type and amount of tax that you paid.

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

You cannot take a deduction on your Montana individual income tax return for the following taxes that you paid in 2007: state income tax, federal excise tax, social security tax, Medicare tax, gasoline tax, lodging tax, alcoholic beverage tax, cigarette and tobacco taxes or selective sales taxes. Also, you cannot take a deduction for certain license fees paid in 2007—such as a hunting, fishing or driver's license fee.

Line 12 - Home Mortgage Interest. Enter your home mortgage interest and points allowed by federal law that was reported to you on your federal Form 1098.

Line 13 - Home Mortgage Interest Not Reported on Federal Form 1098. Enter any home mortgage interest that you paid that was not reported on your federal Form 1098. If you bought your home from another person, write that person's name, social security number and address in the space provided on line 13.

Line 14 - Points Not Reported to You on Federal Form 1098. Enter any points that you paid that were not reported to you on federal Form 1098.

NEW **Line 15 - Qualified Mortgage Insurance Premiums.** A federal change allows individuals who entered into a contract for "qualified mortgage insurance" in 2007 to claim the premiums paid during the year as an itemized deduction. "Qualified mortgage insurance" means insurance provided by the Veterans Administration, the Federal Housing Administration, the Rural Housing Administration or private mortgage insurance. In order to be eligible, the loan must have been issued during 2007 for you to buy or build your primary residence and the loan must be secured by that residence. Insurance on a loan not used to build or buy a residence such as an equity loan used to consolidate debt is not eligible even if the loan is secured by your residence. Mortgage insurance premiums you paid or accrued on any mortgage insurance contract issued before January 1, 2007, are not deductible as home mortgage interest. Mortgage insurance premiums you paid or accrued after December 31, 2007, or that are properly allocable to any period after December 31, 2007, are not deductible as home mortgage interest.

The deduction amount you can claim on your Montana tax return is the same amount you can claim on your federal tax return. If you did not itemize your deductions on your federal return, complete the Qualified Mortgage Insurance Premium Worksheet on page 36 to determine the amount you can deduct. Married taxpayers filing separately in Montana may allocate the total allowable amount between both spouses.

Line 16 - Investment Interest. Enter the investment interest deduction that you computed on your federal Form 4952. If you and your spouse are filing separately, you should compute your investment interest deduction on federal Form 4952 separately. You cannot use your interest expense that is related to exempt income when you compute your investment interest deduction.

Line 17 - Contributions Made by Cash or Check. The contributions allowed as a deduction in computing your net income for Montana income tax purposes are those same contributions allowed as a deduction for federal income tax purposes—with the following exceptions:

- Your contributions made in 2007 to the Montana veterans' service special revenue account, the Montana state veterans' cemetery program, or the surcharge for the purchasing of the Montana patriotic specialty license plate are included as an itemized deduction on your Montana income tax return as long as you did not already include these contributions as part of your federal contribution deduction. For further instructions about this contribution, see Montana Form VT.
- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted gross income when you determine your contributions that are allowed.
- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.
- Any portion of a contribution that you used to calculate your developmental disability account contribution cannot also be claimed as a contribution deduction.

Enter your contributions made by cash or check on Schedule III, line 17.

Line 18 - Contributions Made Other Than by Cash or Check. Your non-cash contributions allowed as a deduction for Montana income tax purposes are those same non-cash contributions that are allowed as a deduction for federal income tax purposes—with the following exceptions:

- When you apply the federal 50%, 30% and 20% contribution limitations, you should use your Montana adjusted gross income instead of your federal adjusted

gross income when you determine your contribution that is allowed.

- Any portion of a contribution that you used to calculate your qualified endowment tax credit cannot also be claimed as a contribution deduction.

Enter the contributions that you made by other than cash on Schedule III, line 18.

Line 19 - Contribution Carryover From the Prior Year. Enter any contribution carryover amounts that you were not allowed to deduct in an earlier year because they exceeded your Montana adjusted gross income limitation.

Line 20 - Child and Dependent Care Expense. If you pay for household or dependent care services for a child under the age of 15 or for a disabled dependent while you are searching for gainful employment or while you and your spouse both were at work, you can qualify for a child and dependent care expense deduction.

To qualify for this deduction, you have to maintain a household for a child under the age of 15 or for a dependent or spouse who is unable to care for himself or herself. You also have to meet the following income level requirements.

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

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

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

For further information on the child and dependent care expense deduction, see the instructions on Montana Form 2441M. When you claim this deduction, complete Montana Form 2441M and attach a copy of it to your Montana income tax return.

Line 21 - Casualty and Theft Loss. If you have a casualty and/or theft loss, you should complete federal Form 4684 to figure the amount of the Montana loss that you can enter on Schedule III, line 21. To determine your casualty and/or theft loss, you should use your Montana adjusted gross income in place of the federal adjusted gross income. And if you are filing separately with your spouse, you each should complete a separate federal Form 4684 to determine the amount of your separate casualty and/or theft loss.

Line 22 - Unreimbursed Employee Business Expenses. When you deduct unreimbursed employee business expenses on your Montana income tax return, you should use the same expenses that are allowed on your federal income tax return. To claim these expenses, complete federal Form 2106 or 2106EZ. Because you can claim only your own unreimbursed employee business expenses and not those of your spouse, when you and your spouse file your returns separately, you should report your own employee business expenses in the column that is associated with your income and expenses.

Line 23 - Other Expenses. Enter other expenses that are allowed on your federal income tax return. Examples of these expenses include, but are not limited to, your tax preparation fee, certain legal and accounting fees, clerical help and office rent and custodial fees.

Line 24 - Add lines 22 and 23 and enter the result on line 24.

Lines 25 and 26 - Your unreimbursed employee business expenses and other expenses reported on lines 22 and 23 are deductible only to the extent that these expenses exceed 2% of your Montana adjusted gross income. Enter on line 25 the amount that you reported on Form 2, line 41. Multiply the amount on line 25 by 0.02 (2%) and enter the result on line 26.

Line 27 - Subtract line 26 from line 24 and enter the result on line 27, but not less than zero! This is the amount of your unreimbursed employee business expenses and other expenses that are deductible in computing your net income.

Line 28 - Political Contributions. When you compute your net income, you can take a deduction for political contributions that you made during the year. These contributions are limited to a total of $100 for yourself and, if married, a total of $100 for your spouse. To qualify for this deduction, your contribution of money has to be made to:

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

Line 29 - Other Miscellaneous Deductions Not Subject to 2% of Montana Adjusted Gross Income. When you compute your net income, you can take a deduction for other miscellaneous expenses that are not subject

to 2% of your Montana adjusted gross income. These deductions are the same deductions that are allowed on your federal income tax return. They include a deduction for expenses paid in purchasing organic fertilizer and inorganic fertilizer that is produced as a by-product of mining or industrial operations in Montana. Other deductions you may be allowed are per capita livestock fees imposed for enforcement of the livestock laws of the state and for the payment of bounties on wild animals.

Line 30 - Gambling Losses. You can take a deduction for gambling losses that you incurred during the year. These losses are allowed only to the extent of the gambling winnings that you have reported on Form 2, line 21. If you are married and you and your spouse are filing your Montana return separately, the spouse who claims the gambling winnings on Form 2, line 21 should report the gambling losses on Schedule III, line 30.

Line 32 - Itemized Deduction Worksheet. If the Montana adjusted gross income that you reported on Form 2, line 41 is more than $156,400 (or more than $78,200 when you are married and you and your spouse are filing your returns separately), your total itemized deductions reported on Schedule III, line 31 may be limited. Complete Worksheet VI on page 39 in your instruction booklet to determine the portion of the itemized deductions that you reported on Schedule III, line 31 that are not deductible because you exceeded the Montana adjusted gross income limitations above.

Line 33 - Allowable Itemized Deductions. The amount of your allowable itemized deductions is the result of subtracting line 32, which is the total of your disallowed itemized deductions, from line 31, which is your total itemized deductions. Enter this result on Form 2, line 42.

Form 2, Schedule IV - Nonresident/ Part-year Resident Tax

If you are a nonresident or a part-year resident, you are subject to the same filing requirements as a resident unless you are specifically exempt. If you are unsure of your residency status, see page 3 of the instructions to determine whether you are a full-year resident, nonresident, or a part-year resident of Montana for individual income tax purposes. These instructions will also show how you can determine your legal residence for Montana income tax purposes.

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

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

For example: Suppose you relocated to Montana and established your residency July 1, 2007. You are filing your 2007 Montana income 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 after July 1, 2007 are Montana source income and are taxable to Montana.

If you are a nonresident servicemember of the United States armed forces living in Montana solely by reason of compliance with your military orders, the Servicemembers Civil Relief Act allows you and your spouse to maintain your original state of residency and it does not require you to establish residency in Montana. Any compensation that you received for military service is not Montana source income and should not be used to determine your nonresident, part-year resident tax after capital gain tax credit. Refer to the instructions for Form 2, Schedule II, line 9 on page 18, for the treatment of your military income.

Reporting Your Montana Source Income

Lines 1 through 16 - In general, as a nonresident of Montana, your Montana source income is all the income that you receive for work that you performed in Montana, income that you received from real or personal property that is located in Montana, and income that you received from a business conducted in Montana.

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

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

Line 1 - Montana Source Wages, Salaries, Tips, etc. If you are a nonresident, enter on line 1 that portion of your wages, salaries, tips and other compensation for services that you performed in Montana and that are included in your total on Form 2, line 7.

If you are a part-year resident, enter on line 1 all of your wages, salaries, tips and other compensation that you earned during the part of the year that you were a resident. Also include, where applicable, that portion of your wages, salaries, tips and other compensation that you received for services in Montana during the part of the year that you were a nonresident.

Line 2 - Montana Source Taxable Interest. If you are a nonresident, enter on line 2 that portion of your interest that you received from an installment sale of real property in Montana. Also include any interest that you received from your business or commercial property that is located in Montana and that is included in your total on Form 2, line 8a. As a nonresident, you do not have to include as Montana source income all the interest that you received from financial institutions, notes, dividends on capital stock, royalties from patents and copyrights and other income from intangible property.

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

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 line 3.

If you are a part-year resident, enter on line 3 all of the dividends that you received or accrued during the period of time that you were a Montana resident in 2007 and that are included in your total on Form 2, line 9a.

Line 4 - Montana Source Taxable Refunds or Other Recoveries. If you are a nonresident or a part-year resident and you have a taxable federal income tax refund or a recovery of an amount deducted in 2006 that is reported on Form 2, Schedule I, line 3, enter on Form 2, Schedule IV, line 4 that portion of your federal income tax refund and/or recovery that is determined to be Montana source income.

To determine that portion of your federal refund and/or recovery that is Montana source income, use the ratio of your Montana source income to total income that was reported on your 2006 Schedule IV, line 19. If you did not have any Montana source income in 2006 and you were not required to file a 2006 Montana income tax return, your federal income tax refund and/or recovery is not Montana source income.

If, in 2007, you received a taxable federal refund and/or recovery of a prior year deduction from a year other than tax year 2006 use the ratio of your Montana source income to total income that was determined in the year of the deduction.

Line 5 - Montana Source Alimony Received. If you are a nonresident, the alimony that you reported on Form 2, line 11 is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter on line 5 that portion of the alimony that you received during the period that you were a Montana resident in 2007 and that is included in your federal adjusted gross income on Form 2, line 11.

Line 6 - Montana Source Business Income or (Loss). If you are a nonresident, enter on line 6 that portion of your net income or loss that is reported on Form 2, line 12 that you received from a trade, business, profession, or occupation that you carried on in Montana.

If you are a part-year resident, enter on line 6 the net income or loss that you included in your total on Form 2, line 12 that you received from any trade, business, profession or occupation during the period that you were a resident. Also include, where applicable, that portion of any net income or loss that you received from a trade, business, profession or occupation that is carried on in Montana during that period of time that you were a nonresident.

Line 7 - Montana Source Capital Gain or (Loss). If you are a nonresident, enter on line 7 that portion of your gains or losses that are included in your total on Form 2, line 13 that you received on the sale or transfer of your tangible property located in Montana or for your tangible property that is used or held in connection with your trade, business or occupation that is carried on in Montana.

If you are a part-year resident, enter on line 7 all of your gains or losses that are included in your total on Form 2, line 13, that you received during the part of the year that you were a resident. Also, where applicable, include that portion of any gains or losses that you received during the part of the year in which you were a nonresident for the sale or transfer of your tangible property that is located in Montana or for the sale or transfer of any tangible property that is used or held in connection with your trade, business or occupation that is carried on in Montana.

Line 8 - Montana Source Other Gains or (Losses). If you are a nonresident, enter on line 8 that portion of your gains or losses that are included in your total on Form 2, line 14 related to what you received from the sale or exchange of business property located in Montana and reported on your federal Form 4797.

If you are a part-year resident, enter on line 8 all of the gains and losses that you included in your total on Form 2, line 14 that you received during the part of the year that you were a resident. Also include, where applicable, that portion of any gains or losses from the sale or exchange of business property located in Montana during the period of time that you were a nonresident.

Line 9 - Montana Source Taxable IRA Distribution. If you are a nonresident, the IRA distribution that you reported on Form 2, line 15b is not Montana source income and is not taxable to Montana.

If you are a part-year resident, enter on line 9 all the taxable IRA distributions that you included in your total on Form 2, line 15b that you received during the part of the year that you were a resident.

Line 10 - Montana Source Taxable Pension and Annuities. If you are a nonresident, the taxable pension and annuities that you reported on Form 2, line 16b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter on line 10 all of the taxable pensions and annuities that you included in your total on Form 2, line 16b for the part of the year that you received them as a resident.

Line 11 - Montana Source Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc. If you are a nonresident, enter on line 11 that portion of the following income or losses that you included in your total on Form 2, line 17:

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

If you are a part-year resident, enter on line 11 all of the income or losses included in your total on Form 2, line 17 that you received during the part of the year that you were a resident and, where applicable, include that portion of any income or loss that is attributable to Montana (as described in the preceding paragraph) during the period of time that you were a nonresident.

Line 12 - Montana Source Farm Income or Loss. If you are a nonresident, enter on line 12 that portion of your net income or loss that you reported on Form 2, line 18 that you received from the farming activity that you carried on in Montana.

If you are a part-year resident, enter on line 12 your net income or loss that you included in your total on Form 2, line 18 that you received from any farming activity during the period that you were a resident. Also include, where applicable, that portion of any net income or loss that you received from the farming activity that you carried on in Montana during the period of time that you were a nonresident.

Line 13 - Montana Source Taxable Social Security Benefits. If you are a nonresident, the taxable social security benefits that you reported on Form 2, line 20b are not Montana source income and are not taxable to Montana.

If you are a part-year resident, enter on line 13 only that portion of the taxable social security benefits that you received during the part of the year that you were a resident and that are included in your total on Form 2, line 20b. You should calculate your portion of taxable social security benefits by dividing the amount that you reported on Form 2, line 20b by 12 months and then multiply this result by the number of months that you were a resident of Montana in 2007. You will need to complete the social security Worksheet VIII on page 41 in order to determine your Montana source taxable social security benefits.

Line 14 - Montana Source Other Income. If you are a nonresident, enter on line 14, any other amounts of your income not included above that are derived from Montana sources. This includes, but is not limited to:

- Montana lottery winnings
- Non-employee compensation

Line 15 - Montana Source Additions to Income Reported on Form 2, Schedule I. If you are a nonresident, enter on line 15 any amount of income not included above that you reported on Form 2, Schedule I that was derived from Montana sources. This includes, but is not limited to:

- **Federal tax refunds.** If you received a federal income tax refund in 2007 and are now required to include this refund as income on Form 2, Schedule I, line 3, a portion of this refund may be considered Montana source income. To determine this portion, multiply the amount of the taxable federal refund that you reported on Form 2, Schedule I, line 3 by the percentage that you reported on Form 2, Schedule IV, line 19 of your 2006 Montana individual income tax return.
- **Recapture of a prior year tax benefit.** If you received a refund in 2007 of an amount that you claimed as a deduction in a prior year, you are now required to include this amount as income on Form 2, Schedule I, line 4. A portion of this refund may be considered Montana source income. To determine this portion, multiply the amount on your Form 2, Schedule I, line 4 by the percentage of your Montana source income divided by your total income from all sources that you reported on Form 2, Schedule IV, for the year in which you claimed this deduction.
- **Medical care savings account nonqualified withdrawals.** The amount that you deposited into your Montana medical care savings account while you were a resident maintains its character as Montana source income as long as you don't withdraw it to pay

for eligible medical expenses prior to the time that you establish your residency elsewhere.

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

Line 17 - Total Income from All Sources. For both nonresidents and part-year residents enter on line 17 the sum of Form 2, lines 22 and 38.

If you are a nonresident military service person who has Montana source income, you should add the amounts on Form 2, lines 22 and 38 and then subtract from this total the nonresident exempt military compensation that you reported on Form 2, Schedule II, line 9.

Line 21 - Nonresident, Part-year Resident Tax after Capital Gains Tax Credit. After you have finished completing Form 2, Schedule IV and have determined the amount of your nonresident, part-year resident tax after capital gains tax credit, enter that amount on Form 2, line 48a and then proceed to line 49. The instructions for lines 49 through 74 begin on page 11.

Form 2, Schedule V - Montana Tax Credits

There are three categories of credits available on your Montana individual income tax return. We have listed the 30 Montana tax credits available to you under these three categories to assist you in managing these credits. With the exception of the capital gains credit, which is required to be applied before any other credit, (refer to Form 2, line 47) you are not required to apply any of the other tax credits in a particular order.

- **Nonrefundable single-year credits.** Your nonrefundable single-year credits can only be used to offset your 2007 resident, nonresident, or part-year resident tax after capital gains credit and cannot reduce your tax liability below zero. The unused portion of your nonrefundable single-year credits that exceeded your 2007 income tax liability cannot be carried forward or backward to other tax years.
- **Nonrefundable carryover credit.** Your nonrefundable carryover credits can be used to offset your 2007 resident, nonresident, or part-year resident tax after capital gains credit. These credits cannot reduce your tax liability below zero. Your excess nonrefundable carryover credits that were not applied against your 2007 income tax liability can be carried and used to offset future year tax liabilities.
- **Refundable credits.** Your refundable credits are applied against your income tax liability with any unused credit refunded to you.

Nonrefundable Single-year Credits Form 2, Schedule V, Lines 1 through 12

Line 1 - Credit for Income Tax Paid to Another State or Country. You can use this credit only if you are filing as a full-year or part-year resident. If you claimed the foreign tax credit on your federal return, you can claim this credit on your Montana return only if you have unused federal credit that is not carried over to another tax year. The credit you are eligible for on your Montana return is the lesser of the amount calculated on Schedule VI (Schedule VII for Part-year residents) or the amount of unused federal credit.

If you are a resident and you paid an income tax to another state or country on income that is also taxed to Montana, you may be entitled to a credit against your Montana income tax liability for these income taxes paid to another state or country. To determine if you have a credit, you will need to complete Form 2, Schedule VI.

If you are a part-year resident and you paid an income tax to another state or country on income that is also taxed to Montana and if you included it as Montana source income on Form 2, Schedule IV, lines 1 through 16, you may be entitled to a credit against your Montana part-year resident income tax liability for these income taxes paid to another state or country. To determine if you have a credit, you will need to complete Form 2, Schedule VII.

If you are a shareholder of an S corporation or a partner in a partnership and your S corporation or partnership pays an income tax to another state or country, you can claim a credit for your share of these income taxes paid by the entity. In order for you to claim this credit, however, the income tax paid by the S corporation or partnership has to be measured by and imposed on net income. This credit also applies to excise taxes or franchise taxes that are paid by the S corporation or partnership as long as they are imposed on and measured by net income. However, you are not allowed to use other taxes paid by your S corporation or partnership such as, but not limited to, franchise or license taxes or fees that are not imposed on or measured by net income, gross receipt taxes or gross sales taxes. When you claim this credit for the taxes paid by your S corporation or partnership, you will have to add back to your federal adjusted gross income in determining your Montana adjusted gross income, on Form 2, Schedule I, line 16, your share of the S corporation's or partnership's federal tax deduction that is included in your total on Form 2, line 17. This is required whether or not your S corporation or partnership separately or non-separately stated the income tax deduction on your federal Form K-1.

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

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

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

Line 2 - College Contribution Credit. You can claim a credit against your income tax liability for contributions that you made in 2007 to a general endowment fund of the Montana University System foundations or a private Montana college, or its foundation. Your credit is equal to 10% of the contribution that you made with a maximum credit allowed of $500.

In order for you to qualify for this credit, your contribution has to be made to a Montana college or university that offers a baccalaureate degree level education program. In addition to this credit, your contribution may also be claimed as an itemized deduction on Form 2, Schedule III, line 17.

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

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

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

For further instructions on the qualified endowment credit, and to calculate this credit, see Montana Form QEC. Visit the Governor's Task Force on Endowed Philanthropy website at *endowmontana.org/* to learn more about the endowments statewide.

When you claim this credit, you will have to attach a copy of Montana Form QEC to your income tax return.

Line 4 - Energy Conservation Installation Credit. If you are a resident of Montana, you can claim a credit against your income tax liability for energy conservation investments that you made to your home or other buildings. Your credit is equal to 25% of your expenses for a maximum credit of up to $500 for the capital investments you made to your home or another building for energy conservation purposes or for the installation or replacement of a hot water heater or household heating or cooling system. If you are married, your spouse may also qualify for this credit as long as the building in which the investment is made is owned by both spouses.

In order to qualify for this credit, you will have to show, and provide to us upon request, verification of your expenditures and that your investment will reduce the waste or dissipation of energy or reduce the amount of energy that is required to accomplish a given amount of work. If you are unable to provide this documentation and verification, you will not be allowed to take this credit.

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

Line 5 - Alternative Fuel Credit. You can claim a credit against your income tax liability for the cost of converting your motor vehicle to operate on an alternative fuel. Your credit is equal to 50% of the cost to convert your motor vehicle for a maximum credit of up to $1,000.

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

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

Line 6 - Rural Physician's Credit. You can claim a credit against your income tax liability if you are a licensed physician practicing in a rural area. Your credit is up to $5,000 a year and is limited to $20,000 for four consecutive years.

In order to qualify for the entire $20,000 credit, you are required to locate or relocate your principal practice to a rural area and provide medical services to the general public for a period of eight years. The rural area that you service cannot be within a 30 mile radius of a hospital that has at least 60 beds.

You are required to begin your practice at least nine months before the end of your tax year to be eligible for

the credit your first year and you cannot claim the credit in the year that you cease your practice. If you close your practice in the rural area within four years of claiming this credit, you will be required to repay to the state the amount of the credit that you claimed in the prior year(s). See instructions on page 12 for Form 2, line 56 for the repayment of the rural physician's credit.

When taking this credit, attach to your Montana income tax return a statement providing the following information:

- The date your practice began
- The street address and city of the location where you began your practice
- The professional area of your medical practice, for example "family practice"
- The location of the nearest hospital

Important: The 2007 Montana Legislature enacted legislation impacting this credit. As a result of the changes, 2007 is the last year you can establish a practice that would qualify for the credit. You can continue to claim the credit after 2007, but only if you began your practice before January 1, 2008.

Line 7 - Health Insurance for Uninsured Montanans Credit. You can claim a credit against your income tax liability if your business provides health insurance coverage for its employees. Your credit is a percentage of the premium payments that you made throughout the year for a maximum credit of up to $3,000 per year.

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

- You have been in business in Montana for at least 12 months.
- You employ 20 or fewer employees who work at least 20 hours a week.
- You pay at least 50% of each of your employees' health insurance premiums.

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

Please note: If you are using insurance premiums to calculate the Insure Montana small business health credit (which is a separate credit), these premium payments cannot be used to calculate the health insurance for this credit.

For further instructions on the health insurance for uninsured Montanan's credit, and to calculate this credit, see Montana Form HI. When you claim this credit, you will have to attach a copy of Montana Form HI to your income tax return.

Line 8 - Elderly Care Credit. You can claim a credit against your income tax liability for paying certain expenses in order to provide care to an elderly family member. Your credit cannot exceed $10,000 in one tax year for the care of two or more family members.

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

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

Line 9 - Developmental Disability Account Contribution Credit. You can claim a credit against your income tax liability for contributions that you made to the Montana Developmental Disability Service Account administered by the Montana Department of Public Health and Human Services. Your credit is equal to 30% of the contributions that you made during the year but your credited contribution cannot exceed $10,000 in any one tax year.

In order to qualify for this credit, your contribution should be made to the Montana Department of Public Health and Human Services Developmental Disability Service Account. Any other contribution to another program that provides services to the developmental disabled does not qualify for this credit. When you claim this credit, you cannot take a charitable contribution deduction for this contribution elsewhere on your return.

For further information on the developmental disability account contribution, you can visit he Montana Department of Public Health and Human Services website at *dphhs.mt.gov/dsd/* or call them at (406) 444-2995.

Line 10 - Recycle Credit. You can claim a credit against your income tax liability for the investment that your business makes in depreciable equipment or machinery that you use to collect, process or manufacture a product from reclaimed material. Your credit is equal to 25% of the first $250,000 invested in the property, 15% of the next $250,000 invested, and 5% of the next $500,000 invested. You are not entitled to any additional credit for property that exceeds $1 million.

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

Line 11 - Oilseed Crushing and Biodiesel/Biolubricant Production Facility Credit. You can claim a credit for the cost of investments in qualifying depreciable property used to crush oilseed crops for the purpose of making biodiesel fuel or biolubricant, or used to construct or equip a facility in Montana to be used for producing biodiesel or biolubricant. This credit can be carried over for seven succeeding years if the facility is crushing oilseed during

that tax period. If the facility for which the credit is claimed ceases operations for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. For detailed instructions, see Form OSC. If this credit is claimed, attach a copy of Form OSC to the tax return.

Line 12 - Biodiesel Blending and Storage Credit. A credit can be claimed by a qualified taxpayer for the cost of investments in depreciable property used for storing or blending biodiesel made from Montana products with petroleum diesel for sale. This credit can be carried over for seven succeeding tax years if the facility is blending or storing biodiesel for blending. If the facility ceases blending biodiesel for sale for a period of 12 consecutive months within five years of claiming the credit, the credit is subject to recapture. If the facility's biodiesel sales are not at least 2% of all diesel sales by the end of the third year after the credit is initially claimed, the credit is subject to recapture. For detailed instructions, see Form BBSC. If this credit is claimed, attach a copy of Form BBSC to the tax return.

Nonrefundable Carryover Credits Form 2, Schedule V, Lines 14 through 26

Line 14 - 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 paid. Your credit is the gross receipts tax you paid throughout the year after you have applied your gross receipts tax against your personal property taxes.

If you report your income from your contracts on the percentage-of-completion method, your credit will need to be pro-rated accordingly. Your credit cannot exceed your tax liability and any credit balance remaining can be carried forward for up to five subsequent years.

When you claim this credit, attach to your income tax return a schedule that identifies the contractor's name, the date and the amount of the contract, the primary contractor, the subcontractor and the location of the job.

Line 15 - Geothermal Systems Credit. If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing a geothermal system in your principal home. The amount of the credit cannot exceed $1,500 and is applied in the year that you installed your geothermal system. The balance of your credit that is not used can be carried forward and applied against subsequent income tax liabilities for a period of seven years.

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

Line 16 - Alternative Energy Systems Credit. If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system that uses a recognized nonfossil form of energy such as, but not limited to, solar energy, wind energy, solid waste, and organic waste in your principal home. Your credit cannot exceed $500 per taxpayer and any balance of your credit that is not used in 2006 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

If you are a resident of Montana, you can claim a credit against your income tax liability for the cost of purchasing and installing an energy system using a low emission wood or biomass combustion device, such as a pellet or wood stove in your principal home. Your credit cannot exceed $500 per taxpayer and any balance of your credit that is not used in 2007 can be carried forward and applied to future income tax liabilities for a period of four succeeding tax years.

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

Line 17 - Alternative Energy Production Credit. You can claim a credit against your income tax liability for an investment of $5,000 or more that your business makes in depreciable property for the use of a commercial system or a net metering system that is located in Montana and that generates energy by means of an alternative renewable energy source.

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

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

Line 18 - Dependent Care Assistance Credit. If you are an employer in Montana, you can claim a credit against your income tax liability for the amount that you paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available to you that qualify for this credit, including:

- A day care facilities credit
- A dependent care assistance credit

- A dependent care information and referral service credit

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

Line 19 - Historic Property Preservation Credit. You can claim a credit against your income tax liability equal to 25% of your federal rehabilitation credit that is provided in IRC Section 47(a)(2) for the preservation of a qualified historic building. When you claim this credit, you will have to attach a copy of your federal Form 3468 to your income tax return.

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

Line 20 - Montana Capital Company Credit. You can claim a credit against your income tax liability if you have a Montana capital company credit carryover. No new credits are available at this time. This credit is available if you invested in a qualified Montana capital company within four years of July 1, 1987 or in a qualified Montana small business investment capital company within four years of July 1, 1991. Report your carryover Montana capital company credit on Form 2, Schedule V, line 20.

Line 21 - Infrastructure User's Fee Credit. You can claim a credit against your income tax liability for the infrastructure user's fee paid to a local government. Your credit is calculated based on the infrastructure fees paid by your new business to a local government.

When you claim this credit, you will have to attach a statement from the county certifying the amount of the infrastructure user's fee that you paid and the timeliness of your payment. You can carry back three years or carry forward seven years any of your unused infrastructure user's fee credit.

Line 22 - Empowerment Zone Credit. You can claim a credit against your income tax liability if you are an employer who has a business in an empowerment zone. The credit is based on the number of qualifying new employees and is equal to $500 for each qualifying employee in the first year of employment, $1,000 for each qualifying employee in the second year of employment, and $1,500 for each qualifying employee in the third year of employment. To be eligible for this credit, you have to be certified by the Montana Department of Labor and Industry.

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

Line 23 - Increasing Research Activities Credit. You can claim a credit against your income tax liability for the increase in qualified research expenses and basic research payments that your business conducted in Montana. Your credit is determined in accordance with Section 41 of the Internal Revenue Code, except that the percentage rate for your Montana credit is 5%.

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

Line 24 - Mineral Exploration Incentive Credit. You can claim a credit against your income tax liability for the certified expenditures for mining exploration activities involving mineral and coal deposits. Your credit cannot exceed 50% of that portion of your tax liability that is related to the production from the mining operation for which the exploration activity occurred.

In determining your credit, your qualified expenditures include those costs that you incurred for activities that directly support the exploration at a specific site.

For further instructions on the mineral exploration incentive credit, see Montana Form MINE-CRED. To qualify for this credit, you will first have to submit a request to us detailing the work performed and the expenses incurred. This request should be made within 60 days following the end of the calendar year. The department has until September 30 to certify your expenses.

Line 25 - Film Employment Production Credit. You can claim a credit against your income tax liability for employing residents of Montana in a state-certified production. The credit is equal to the sum of 14% of the first $50,000 or less that was compensated to each Montana resident who was employed in a state-certified production.

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

- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 25 and carrying forward any unused credit to be applied against your income tax liability in subsequent years, or
- applying the credit against your income tax liability by reporting it on Form 2, Schedule V, line 30 in which any unused credit is refunded to you.

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

NEW **Line 26 - Adoption Credit** You can claim a credit against your income tax liability if you finalized the adoption of an *eligible child* in 2007. An eligible child is:

- any child under age 18, or
- any disabled person physically or mentally unable to take care of himself or herself.

The amount of the credit is $1,000 per child. If the amount of the credit exceeds your tax liability for 2007, you can carry forward the unused credit to the next five tax years. You are not eligible for this credit if you finalized an adoption before January 1, 2007 but have unused federal adoption credit that you are carrying forward. Attach a copy of federal Form 8839.

Refundable Credits Form 2, Schedule V, Lines 28 through 32

Line 28 - Elderly Homeowner/Renter Credit. You can receive a refundable residential property tax credit if you can answer *yes* to the following four statements:

- I was age 62 or older as of December 31, 2007.
- I resided in Montana for nine months or more during 2007.
- I occupied a Montana residence as an owner or renter for a total of six months or more during 2007.
- My gross household income was less than $45,000 in 2007.

If you answered *yes* to these four statements, see Montana Form 2EC for further instructions and about how to calculate your 2007 elderly homeowner/renter credit.

After you have completed Form 2EC and when you file a Montana Form 2, enter the amount of your elderly homeowner/renter credit from Form 2EC, line 19, on Form 2, Schedule V, line 28.

NEW **Line 29 - Homeowner Income Tax Credit for Property Taxes.** The Montana Legislature enacted a law providing for a refundable $140 individual income tax credit for residential property taxes paid in 2007. In order to claim the credit, you must answer *yes* to all of the following:

- The property for which the credit is claimed is a single-family dwelling, unit of a multiple-unit dwelling, manufactured home, or mobile home.
- I occupied the property as the owner for at least seven months in 2007.
- I paid property taxes in 2007 on the listed property.

The $140 Homeowner Income Tax Credit for Property Taxes (credit) is based on property taxes you paid in 2007 on a principal residence you occupied as the owner for at least seven months in 2007. If you moved during the year, you are still eligible for the credit as long as the total amount of time you owned and occupied a Montana residence was at least seven months.

Please note: You must have been the direct owner of the residence in order to be eligible for the credit. If your residence was owned by a partnership, corporation or other legal entity, the credit cannot be claimed even if you own interest in the entity. Also, only one claim can be made with respect to any property.

This tax *credit* is similar to the Property Tax Refund of up to $400 (*refund*) many Montanans received in 2007 but there are reasons an individual could qualify for the *refund* but not the *credit* and vice versa. For instance, an individual who owned 20% or more of the entity that owned the residence could claim the *refund* as long as they met all the other qualifications but they cannot claim the *credit*. Additionally, the ownership and residency tests apply to separate years. For example, if you purchased and moved into a home December 15, 2006 and owned and occupied it as your residence for all of 2007, you are eligible for the $140 *credit* but you were not eligible for the *refund*. Conversely, if you owned your residence for 25 years until you sold it and moved into a rental unit in March 2007, you were eligible for the *refund* but you are not eligible for the $140 *credit*.

Qualified individuals who are 62 or older may also be eligible to claim the Elderly Homeowner/Renter credit on Form 2EC in addition to this credit.

To claim this credit, enter $140 on Schedule V, line 29. When you sign your tax return, you are declaring that you can answer *yes* to the three questions above and are eligible for the credit.

Married taxpayers who jointly own the property and are filing separately on the same form may allocate this credit.

Line 30 - Film Employment Production Credit. You can receive a refundable film employment production credit if you made the one time election to apply the credit against your income tax liability and requested a refund of the unused credit by reporting it on Form 2, Schedule V, line 30. You can also elect to carry forward your credit. If you have made this election, see Form 2, Schedule V, line 25 for further details and instructions.

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

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

Line 31 - Film Qualified Expenditures Credit. You can receive a refundable film qualified expenditures credit for expenditures made in Montana in connection with your state-certified production. Your credit is equal to 9% of the total qualified expenses that you incurred in connection with your production.

Expenses that qualify for the calculation of this credit are expenses that occur in Montana by your production company and that are directly related to your production. These expenses include lodging expenses, restaurant

and food expenses, location fees, lumber and construction materials, rental or production equipment and vehicles and supplies and materials that are used in the production.

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

Line 32 - Insure Montana Small Business Health Insurance Credit. If you were the owner of a business that received a tax credit from the Insure Montana Small Business Health Insurance program, enter the amount of credit you are entitled to on line 32. The amount of credit you may claim is the total credit amount issued to the business multiplied by your ownership percentage. For example, if you were a 50% owner and the business received $6,000 in tax credit, you are entitled to claim $3,000 ($6,000 x 0.5 (50%)).

Enter the Federal Employer Identification Number (FEIN) of the business which received the credit in the space provided. If you were the owner of more than one company receiving the credit, enter the FEIN of the company that received the highest amount of credit. Attach a copy of the most recent certificate from the State Auditor's Office providing the amount of tax credit the business received.

Additionally, the premiums paid for these policies are not allowed as a deduction. Please see instructions for Form 2, Schedule I, line 18 (Other Additions) on page 17.

Form 2, Schedules VI and VII - Credit for Income Tax Liability Paid to Another State or Country

See the instruction for Form 2, Schedule V, line 1 on page 30 of this instruction booklet and the instructions on Form 2, Schedules VI and VII to determine the amount of your credit for income tax paid to another state or country on income that is also taxed to Montana.

Form 2, Schedule VIII - Reporting of Special Transactions

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

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

Qualified Mortgage Insurance Premiums Deduction Worksheet for Form 2

1. Enter the total premiums you paid in 2007 for qualified mortgage insurance for a contract entered into in 2007. ..... 1. [ ]
2. Enter the amount from Form 2, line 37a. ..... 2. [ ]
3. Enter $100,000. ..... 3. [ ]
4. Is the amount on line 2 more than the amount on line 3?
   - ❑ **No.** Your deduction is not limited. Enter the amount from line 1 above on Form 2, Schedule III, line 15.
   - ❑ **Yes.** Subtract line 3 from line 2. If the result is not a multiple of $1,000, increase it to the next multiple of $1,000. For example, increase $425 to $1,000, increase $2,025 to $3,000; etc. ..... 4. [ ]
5. Divide line 4 by $10,000. Enter the result as a decimal. If the result is 1.0 or more, enter 1.0. ..... 5. [ ]
6. Multiply line 1 by line 5. ..... 6. [ ]
7. **Qualified mortgage insurance premiums deduction.** Subtract line 6 from line 1. Enter the result here and on Form 2, Schedule III, line 15. ..... 7. [ ]

Worksheet I - IRA Deduction: (No longer applicable after tax year 2006)

Worksheet II - Tax Benefit Rule for Federal Income Tax Refund

If you received a federal income tax refund in 2007 and you did not itemize deductions in 2006, stop here, none of your federal income tax refund is taxable to Montana.

You can only use Worksheet II to determine how much of your federal income tax refund is taxable to Montana if the only refund or reimbursement you received in 2007 is for federal income taxes that you claimed as an itemized deduction in 2006.

You cannot use Worksheet II if you received any of the following refunds or reimbursements in 2007. Instead you should use Worksheet IX, "Tax Benefit Rule Recovery of Itemized Deductions."

- A federal income tax refund in 2007 for a federal tax deduction claimed in a year prior to 2006;
- A refund or reimbursement other than a federal income tax refund, such as a real property tax refund; or
- Your itemized deductions were limited in 2006 because of the excess adjusted gross income test.

You can obtain Worksheet IX by visiting our web site at *mt.gov/revenue* or by calling us at (406) 444-6900.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Add lines 7a through 7d from 2006 Form 2, Schedule III and enter the result ..... 1.			1.
2. Enter the total of all the 2006 federal income tax refunds that you received in 2007. Do not include your refundable credits that you may have received ..... 2.			2.
3. Subtract line 2 from line 1 and enter the result here ..... 3.			3.
4. Enter the amount of Federal income tax deducted on your MT 2006 Form 2, Schedule III, line 7e ..... 4.			4.
5. Is line 3 larger than line 4? If yes, stop, your federal refund is not taxable. If no, subtract line 3 from line 4. ..... 5.			5.
6. Enter your total allowable MT itemized deductions from your 2006 Form 2, Schedule III, line 32. If you took the standard deduction, stop, your Federal income tax refund is not taxable ..... 6.			6.
7. Enter your 2006 MT adjusted gross income from Form 2, line 41 ..... 7.			7.
8. 2006 Standard deduction. Enter the amount corresponding to your 2006 Montana individual income tax filing status. • If your filing status was single or married filing separately, enter 0.20 (20%) of line 7, but not less than $1,650, or more than $3,710. • If your filing status was married filing jointly, or head of household, enter 0.20 (20%) of line 7, but not less than $3,300, or more than $7,420 ..... 8.			8.
9. Subtract line 8 from line 6. If the result is smaller than zero, stop; your federal refund is not taxable. ..... 9.			9.
10. Enter the smaller of line 5 or line 9 here ..... 10.			10.
11. Enter here your 2006 Montana taxable income from Form 2, line 45. If your amount is less than zero enter this amount as a negative amount ..... 11.			11.
12. If line 11 is zero or more enter the amount from line 10 here and on Form 2, Schedule I, line 3. **This is your taxable federal income tax refund.** If line 11 is less than zero (a negative amount), add lines 10 and 11. • If your result remains less than zero (a negative amount) enter zero and stop here; none of your federal refund is taxable to Montana. • If your result is greater than zero (a positive amount) enter that amount here and on Form 2, Schedule I, line 3. **This is your taxable federal income tax refund.** ..... 12.			12.

Worksheet III - Qualified Capital Gain Exclusion

If you had an installment sale(s) of a capital asset(s) that you entered into before January 1, 1987, you may be eligible for a 40% capital gain exclusion. Complete Worksheet III to determine the amount of your capital gain exclusion.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter the total amounts from your federal Schedule D line 11 and 12 that pertain to installment sales entered into before January 1, 1987 ..... 1.			1.
2. Enter the total amounts from federal Schedule D lines 7 and 15 ..... 2.			2.
3. Divide line 1 by line 2 and enter the percentage here ..... 3.			3.
4. Enter the amount from federal Schedule D, line 16, but not less than zero ..... 4.			4.
5. Multiply the amount on line 4 by the percentage (%) on line 3. _____x_____ % ..... 5.			5.
6. Multiply the amount on line 5 times 0.40 (40%). Enter here and on Form 2, Schedule II, line 28. **This is your Montana capital gain exclusion.** ..... 6.			6.

Worksheet IV - Partial Pension and Annuity Income Exemption

If you have reported taxable pension and annuity income on your Form 2, line 16b, or certain IRA distributions on Form 2, line 15b, you may be entitled to a partial exemption of this income. Complete Worksheet IV to determine the amount of your pension and annuity income exemption.

Early distributions from an IRA do not qualify for the exemption. Subtract any non-qualifying distribution(s) from Form 2, line 15b before reporting amounts on this worksheet.

If you receive Tier II Railroad Retirement benefits, see the instructions for Form 2, Schedule II, line 23 on page 21.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter your federal adjusted gross income from Form 2, line 37 here..... 1.			1.
2. Federal adjusted gross income limitation amount ..... 2.	$30,000	$30,000	2.
If line 1 is smaller than line 2, enter on Form 2, Schedule II, line 11 the smaller of your pension and annuity income, or $3,600 for each person who has pension and annuity income. Stop here; do not complete the remainder of this worksheet.			
3. If line 1 is larger than line 2, subtract line 2 from line 1 and enter the result here 3.			3.
4. Fill out only one of the following. If your filing status is:			
a. Single or jointly and only one spouse has pension and annuity income. Enter the smaller of that spouse's taxable pension and annuity income or $3,600..... 4a.			
b. Married filing separately. Enter the smaller of each spouse's taxable pension and annuity income or $3,600 in columns A and B ..... 4b.			4b.
c. Joint and both spouses have pension and annuity income. Enter the smaller of each spouse's taxable pension and annuity income or $3,600 in the following space: his_____ hers_____; then enter the total of his and her total pension and annuity income in Column A, line 4c ..... 4c.			
5. Double the amount on line 3 and enter the result here ..... 5.			5.
6. Pension and annuity exclusion. Subtract line 5 from line 4a, 4b, or 4c, whichever applies. If the result is zero or negative, you are not eligible for the pension and annuity exclusion. If the number is positive, enter the result here and on Form 2, Schedule II, line 11. **This is your partial pension and annuity exemption.** .... 6.			6.

Worksheet V - Standard Deduction

If you are filing your Montana individual income tax return Form 2 using filing status 3a, "married filing separately on the same form," each spouse will need to complete his or her own column of the standard deduction worksheet.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter your Montana adjusted gross income from Form 2, line 40 here. ..... 1.			1.
2. Multiply the amount on line 1 by 0.20 (20%) and enter the result here. ..... 2.			2.
3. Enter here the amount below that corresponds to your filing status. ..... 3.			3.
If your filing status is single or separately (Form 2 filing status 1, 3a, 3b, or 3c) enter $3,810. **This is your maximum standard deduction.**			
If your filing status is joint or head of household (Form 2 filing status 2 or 4) enter $7,620. **This is your maximum standard deduction.**			
4. Enter here the amount from line 2 or 3, whichever is smaller. ..... 4.			4.
5. Enter here the amount below that corresponds to your filing status. ..... 5.			5.
If your filing status is single or separately (Form 2 filing status 1, 3a, 3b, or 3c) enter $1,690. **This is your minimum standard deduction.**			
If your filing status is joint or head of household (Form 2 filing status 2 or 4) enter $3,380. **This is your minimum standard deduction.**			
6. Enter here and on Form 2, line 42 the amount from lines 4 or 5, whichever is larger. **This is your standard deduction.** ..... 6.			6.

Worksheet VI - Itemized Deduction Worksheet

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter your total itemized deductions from Form 2, Schedule III, line 31 here. .... 1.			1.
2. Add lines 4, 5, 6, 7e, 16, 20, 21, 28 and 30 from Schedule III, and enter the result here. ..... 2.			2.
3. Subtract line 2 from line 1 and enter the result here. If the result is zero, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ..... 3.			3.
4. Multiply the amount on line 3 above by 80% (0.80) and enter the result here. ... 4.			4.
5. Enter your Montana adjusted gross income from Form 2, line 41 here. ..... 5.			5.
6. Enter here $156,400 or $78,200 if married filing separately. ..... 6.			6.
7. Subtract line 6 from line 5. If the result is zero or less, stop here, and enter the amount from line 1 above on Form 2, line 42. You do not have to complete this worksheet. ..... 7.			7.
8. Multiply line 7 by 0.03 (3%) and enter the result here. ..... 8.			8.
9. Enter the smaller of the amounts on line 4 or line 8 here. ..... 9.			9.
10. Multiply the amount on line 9 by 2 and enter the result here ..... 10.			10.
11. Divide the amount on line 10 by 3 and enter the result here and on Form 2, Schedule III, line 32. **This is the amount of your itemized deductions not allowed.** ..... 11.			11.

Worksheet VII - Calculation of Interest on Underpayment of Estimated Taxes - Short Method

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

You are not required to make estimated tax payments if one of the following conditions relate to you:

- Your combined tax liability after you applied your withholding and estimated tax payments is less than $500.
- You did not have a 2006 income tax liability and you were a citizen or resident of the United States the entire year.
- Your underpayment was due to a casualty, disaster, or another unusual circumstance.
- You retired in either 2006 or 2007 after reaching the age of 62.
- You become disabled in either 2006 or 2007.
- You are a farmer or rancher and 66 2/3% of your 2007 gross income is derived from your farming and ranching operation. Your 66 2/3% farming and ranching income is determined annually and is based on your 2006 gross income. Please note that Montana does not use the same "look back" period that the Internal Revenue Service uses to determine the percentage of your farming and ranching income for federal income tax purposes.

If you did not pay in advance at least 90% of your 2007 income tax liability (after applying your credits) or 100% of your 2006 income tax liability (after applying your credits) you may have to pay interest on the underpayment of your estimated taxes.

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

- You made non-estimated tax payments or your payments were only Montana withholding, or;
- You made four equal estimated payments by the required due date.

If you are not eligible to use this short method to calculate your interest on your underpayment, use Montana Form EST-I, "Interest on Underpayment of Estimated Tax Payments." You can access this form by visiting our website at *mt.gov/revenue* or by calling us at (406) 444-6900.

1. Enter your 2007 combined total tax due reported on Form 2, line 58 here.	1.	
2. Multiply line 1 by 0.90 (90%) and enter the result here.	2.	
3. Combine the amounts on Form 2, line 59, that portion of line 60 that includes amounts credited from prior year's tax refunds, and line 62. (If you are "married filing separately on the same form", enter the sum of columns A and B). Enter the results here.	3.	
4. Subtract line 3 from line 1 and enter the result here. If your result is $500 or less, stop here, you do not owe interest on your underpayment.	4.	
5. Enter here the 2006 income tax liability that you reported on your 2006 Form 2, line 59, 2006 Form 2M, line 47, or 2006 Form 2EZ, line 16 here.	5.	
6. Enter the smaller of line 2 or line 5 here.	6.	
7. Combine the amount on line 3 above with the estimated tax payments that you reported on your 2007 Form 2, line 60. Enter the result here.	7.	
8. Subtract line 7 from line 6. If the result is zero or less, stop here, you do not owe interest on your underpayment. **This is your total underpayment for 2007**.	8.	
9. Multiply line 8 by 0.05320 and enter the result here.	9.	
10. If you paid the amount on line 8 on or after April 15, 2008, enter zero. If you paid the amount on line 8 before April 15, multiply the amount on line 8 by the number of days you paid before April 15 by 0.0002192 and enter the amount here.	10.	
11. Subtract line 10 from line 9 and enter the result here and on Form 2, line 66. **This is your interest on the underpayment of estimated taxes**.	11.	

Worksheet VIII - Taxable Social Security Benefits for Form 2

Your social security benefits taxable to Montana may be different from what is taxable federally. Complete this worksheet to determine your Montana taxable social security when filing Form 2.

Tier I Railroad Retirement benefits are not taxable to Montana. If the only social security benefits that you receive are from Tier I Railroad Retirement benefits and if you reported a portion of these benefits on your Form 2, line 20b as taxable benefits, enter this amount on Form 2, Schedule II, line 22.

	Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)	
1. Enter the total amount from box 5 of all your federal Form SSA-1099. ..... 1.			1.
2. Multiply line 1 by 0.50 (50%) and enter result here. ..... 2.			2.
3. Add the amounts on Form 2, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19 and 21 and enter the result here. ..... 3.			3.
4. Add the amount on Form 2, Schedule I, lines 1 through 5, and 7 through 19, along with tax exempt interest that you reported on Form 2, line 8b, which is not included on Form 2, Schedule I, line 1. .....4.			4.
5. Add lines 2, 3 and 4 and enter the result here. ..... 5.			5.
6. Add the amounts on Form 2, lines 23 through 32 plus any write-in adjustments on line 36 with the amounts on your Form 2, Schedule II, lines 2 through 21, and 23 through 34, and enter the result here. .... 6.			6.
7. Is the amount on line 6 less than the amount on line 5? ❑ No None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. ❑ Yes Subtract line 6 from line 5 and enter the result here. ..... 7.			7.
8. Enter the amount that corresponds to your filing status. $32,000 in column A if your filing status is "married filing jointly." $25,000 in column A if your filing status is "single" or "head of household." $16,000 in columns A and B if your filing status is any "married filing separately" option. ..... 8.			8.
9. Is the amount on line 8 less than the amount on line 7? ❑ No None of your social security benefits are taxable. Enter zero on line 18 and go to line 19. ❑ Yes Subtract line 8 from line 7 and enter the result here. ..... 9.			9.
10. Enter the amount that corresponds to your filing status. $12,000 in column A if your filing status is "married filing jointly." $9,000 in column A if your filing status is "single" or "head of household." $6,000 in columns A and B if your filing status is any "married filing separately" option. ..... 10.			10.
11. Subtract line 10 from line 9 and enter the result here. If less than zero, enter zero. ..... 11.			11.
12. Enter here the smaller of line 9 or line 10. ..... 12.			12.
13. Multiply line 12 by 0.50 (50%) and enter the result here. ..... 13.			13.
14. Enter the smaller of line 2 or line 13. ..... 14.			14.
15. Multiply line 11 by 0.85 (85%) and enter result here. If line 11 is zero, enter zero. ..... 15.			15.
16. Add lines 14 and 15 and enter the result here. ..... 16.			16.
17. Multiply line 1 by 0.85 (85%) and enter result here. ..... 17.			17.
18. Enter the smaller of line 16 or 17. **This is your Montana taxable social security benefits.** ..... 18.			18.
19. Enter the federal taxable amount of social security benefits that you reported on Form 2, line 20b. ..... 19.			19.
20a. If line 19 equals line 18, the amount of the federal taxable social security benefits that you reported on Form 2, line 20b is the same amount that is taxable to Montana. No adjustment is necessary.			
20b. If line 19 is less than line 18, enter the difference here and on Form 2, Schedule I, line 6. **This is the portion of your social security benefits that are exempt from federal tax and not included on Form 2, line 20b that are taxable to Montana.** ..... 20b.			20b.
20c. If line 19 is greater than line 18, enter the difference here and on Form 2, Schedule II, line 22. **This is the portion of your federal taxable social security benefits that are included on Form 2, line 20b that are not taxable to Montana.** ..... 20c.			20c.

Important Reminders

If you file your return by mail, be sure to:

- Check the appropriate box indicating your residency status.
- Check the appropriate box or boxes indicating your exemption(s).
- Check the appropriate box indicating whether you are taking the standard deduction or have elected to itemize your deductions.
- Sign the return. If you are filing a joint return, your spouse must also sign the return.
- Sign your check or money order if you have included a payment. Do not send cash.
- Include all W-2s and 1099s you were issued for 2007.
- Attach all state and federal schedules that support figures on your return. You do not need to attach worksheets. You also do not need to include schedules that are blank.
- Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.

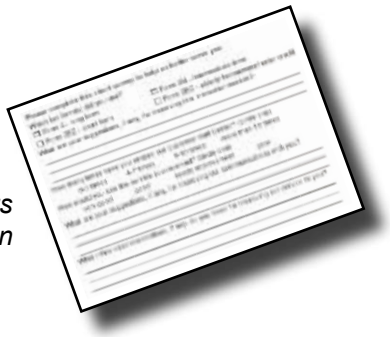
If you file your return electronically, be sure to:

- Receive confirmation that your return was accepted by the Montana Department of Revenue.
- Make an electronic payment or remember to send a check or money order before April 15, 2008 if you owe.
- Keep a copy of your return with all schedules, worksheets, receipts and other supporting documents.

We value your comments and suggestions.

The Montana Department of Revenue works for you.

That's why we look forward to hearing what you have to say. Please let us know how we are doing by completing the improvement survey attached to this instruction booklet. Your comments and suggestions will help us do an even better job for you. And that makes our tax system work for all Montanans!



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Where's My Refund?

mt.gov/revenue - click on Where's My Refund icon

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