

Worksheet II – Tax Benefit Rule for Federal Income Tax Refund

(Do not complete this worksheet if you claimed the Montana standard deduction on your 2013 Montana return.)

A tax benefit recovery occurs when an amount you claimed as a deduction or credit in an earlier tax year is returned to you. Recoveries are taxable to the extent that you received a tax benefit from the deduction or credit.

The most common recovery in Montana is when you receive a federal tax refund during the current tax year for the paid federal taxes you included as an itemized deduction on the previous year's Montana return. A simple way to check if your federal refund is taxable is to subtract the refund you received in 2014 from the total federal income taxes you reported on Schedule III, lines 7a through 7d on your 2013 Montana return. If the result is larger than the \$5,000 (or \$10,000 if filing a joint return) you were allowed to deduct on line 7e on Schedule III of your 2013 Montana return, none of the refund is taxable.

This worksheet will help you determine how much, if any, of your federal tax refund you received in 2014 is taxable to Montana. You may use this worksheet only if all three of the following conditions exist:

- You received a federal tax refund in 2014;
- You claimed itemized deductions on your 2013 Montana return; and
- Your only tax benefit recovery in 2014 was a refund of federal taxes you claimed as a deduction on your 2013 Montana return.

If all three conditions do not exist, you need to use Worksheet IX, Tax Benefit Rule Recovery of Itemized Deductions. You will also need to use Worksheet IX if you received a federal refund for taxes you reported in a year other than 2013 or you recovered any other item that you claimed as a deduction on your Montana return in 2013 or any other year (for instance, your insurance company reimbursed you for a medical expense you claimed as an itemized deduction).

You can obtain Worksheet IX by visiting our website at revenue.mt.gov or by calling us toll free at (866) 859-2254 (in Helena, 444-6900).

| Before you begin, see the instructions above and on page 14 for Schedule I, line 3 to determine if you need to complete Worksheet II. | | Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a) |
|---|--|--|---|
| 1 | Enter your total federal taxes paid in 2013 as reported on Form 2, Schedule III, lines 7a through 7d | 1 | 1 |
| 2 | Enter the federal tax refund you received in 2014..... | 2 | 2 |
| 3 | Enter any refundable credits claimed on your 2013 federal Form 1040, lines 64a, 65, 66, 70 and 71. If in 2013 you filed 1040A or 1040EZ, enter the amounts from Form 1040A lines 38a, 39 and 40; or Form 1040EZ line 8a. These items are not attributable to taxes you paid | 3 | 3 |
| 4 | Is line 3 greater than or equal to line 2? If yes, stop; your federal refund is not taxable. If no, subtract line 3 from line 2, and enter the result here. This is the portion of your federal refund that is a result of taxes you paid..... | 4 | 4 |
| 5 | Subtract line 4 from line 1 and enter the result here, but not less than zero. This amount is your federal income taxes paid that were not refunded to you..... | 5 | 5 |
| 6 | Enter the federal income taxes you deducted for 2013 as reported on Form 2, Schedule III, line 7e..... | 6 | 6 |
| 7 | Is line 5 larger than line 6? If yes, stop; your federal refund is not taxable. If no, subtract line 5 from line 6, and enter the result here. This is the amount of taxes you deducted that were refunded to you..... | 7 | 7 |
| 8 | Enter the itemized deduction you claimed on your 2013 Montana Form 2, Schedule III, line 30. If you took the standard deduction, stop; your federal income tax refund is not taxable..... | 8 | 8 |
| 9 | Enter your 2013 Montana adjusted gross income from Form 2, line 41..... | 9 | 9 |
| 10 | 2013 standard deduction. Enter the amount below that corresponds to your 2013 Montana individual income tax filing status. <ul style="list-style-type: none"> • If your filing status was single or married filing separately, enter 20% (0.20) of line 9, but not less than \$1,900 or more than \$4,270. • If your filing status was married filing jointly or head of household, enter 20% (0.20) of line 9, but not less than \$3,800 or more than \$8,540 | 10 | 10 |
| 11 | Subtract line 10 from line 8, and enter the result here. If the result is smaller than zero, stop; your federal refund is not taxable, because you didn't receive a benefit from deducting federal income taxes | 11 | 11 |
| 12 | Enter the smaller of line 7 or line 11 here. This is the portion of your federal tax deduction that reduced your taxable income and was refunded in 2014..... | 12 | 12 |
| 13 | Enter here your 2013 Montana taxable income from Form 2, line 45. If your amount is less than zero, enter this amount as a negative amount | 13 | 13 |
| 14 | If line 13 is zero or more, enter the amount from line 12 here and on Form 2, Schedule I, line 3. This is your taxable federal income tax refund. If line 13 is less than zero (a negative amount), add lines 12 and 13. <ul style="list-style-type: none"> • If your result remains less than zero (a negative amount), enter zero and stop here. None of your federal refund is taxable to Montana. • If your result is greater than zero (a positive amount), enter that amount here and on Form 2, Schedule I, line 3. This is your taxable federal income tax refund...... | 14 | 14 |