

Montana Tax Simplification in Tax Year 2024



BUSINESS &
INCOME TAXES
DIVISION
MONTANA

Overview

- Current Montana tax system
- Summary of simplification
- Calculating Montana taxable income in 2024
- Estates and trusts
- Pass-through entities
- Transition provisions
- DOR's implementation items

Current Calculation Montana Taxable Income and Tax



Simplification

Tax years after 12/31/2021

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

*subject to transition period

Tax years after 12/31/2023

- Taxpayers must use federal filing statuses
- Filing requirement follows federal requirement after Montana adjustments
- New ordinary income tax bracket that follows federal filing status
- New long-term capital gains tax bracket that follows federal filing status
- The calculation of Montana taxable income begins with federal taxable income
- Several Montana-specific deductions are repealed

2024 Montana Ordinary Tax Rates

Single, Married Filing Separately, Estates, and Trusts			Head of Household			Married Filing Jointly/Qualifying Widow(er)		
<i>If your taxable income without long-term capital gains is</i>	<i>But less than</i>	<i>The following rate applies</i>	<i>If your taxable income without long-term capital gains is</i>	<i>But less than</i>	<i>The following rate applies</i>	<i>If your taxable income without long-term capital gains is</i>	<i>But less than</i>	<i>The following rate applies</i>
\$0	\$20,500	4.7%	\$0	\$30,750	4.7%	\$0	\$41,000	4.7%
More than \$20,500		5.9%	More than \$30,750		5.9%	More than \$41,000		5.9%

2024 Montana Long-Term Capital Gains Tax Rates

Single, Married Filing Separately, Estates, and Trusts			Head of Household			Married Filing Jointly/Qualifying Widow(er)		
<i>For long- term capital gains above</i>	<i>But less than</i>	<i>The following rate applies</i>	<i>For long- term capital gains above</i>	<i>But less than</i>	<i>The following rate applies</i>	<i>For long- term capital gains above</i>	<i>But less than</i>	<i>The following rate applies</i>
\$0	\$20,500 minus ordinary income	3%	\$0	\$30,750 minus ordinary income	3%	\$0	\$41,000 minus ordinary income	3%
\$20,500 minus ordinary income		4.1%	\$30,750 minus ordinary income		4.1%	\$41,000 minus ordinary income		4.1%
If ordinary income exceeds \$20,500		4.1%	If ordinary income exceeds \$30,750		4.1%	If ordinary income exceeds \$41,000		4.1%

Repealed Provisions

- Montana-specific adjusted gross income, standard/itemized deductions, and exemptions have been replaced by starting with federal taxable income
- No recalculation of Social Security benefits and net operating losses
- 2% capital gains tax credit (replaced with lower tax rates for long-term capital gains)
- Partial pension, annuity, and IRA income exemption and partial interest exemption for taxpayers 65 and older (replaced with a \$5,500 subtractions for taxpayers over 65)
- Unemployment
- Tips for certain service industry workers
- Partial retirement disability income
- Montana First-time Homebuyer Account deposits
- Farm and Ranch Risk Management Account deposits
- Income of child taxed to a parent
- Health insurance premiums taxed to an employee
- Student loan repayments for health care professionals and qualified educators

Calculating Montana Taxable Income and Tax under Simplification

Report federal taxable income

Make Montana adjustments (additions/subtractions)

Equals Montana taxable income

Determine Montana ordinary/capital gains tax rate for the bracket based on filing status and character of income

Federal Taxable Income

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a			
	b	Household employee wages not reported on Form(s) W-2		1b			
	c	Tip income not reported on line 1a (see instructions)		1c			
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d			
	e	Taxable dependent care benefits from Form 2441, line 26		1e			
	f	Employer-provided adoption benefits from Form 8839, line 29		1f			
	g	Wages from Form 8919, line 6		1g			
	h	Other earned income (see instructions)		1h			
	i	Nontaxable combat pay election (see instructions)		1i			
	z	Add lines 1a through 1h		1z			
	Attach Sch. B if required.	2a	Tax-exempt interest	2a		b Taxable interest	2b
3a		Qualified dividends	3a		b Ordinary dividends	3b	
4a		IRA distributions	4a		b Taxable amount	4b	
Standard Deduction for— <ul style="list-style-type: none"> • Single or Married filing separately, \$13,850 • Married filing jointly or Qualifying surviving spouse, \$27,700 • Head of household, \$20,800 • If you checked any box under Standard Deduction, see instructions. 	5a	Pensions and annuities	5a		b Taxable amount	5b	
	6a	Social security benefits	6a		b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions)			<input type="checkbox"/>		
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here			<input type="checkbox"/>	7	
	8	Additional income from Schedule 1, line 10				8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9	
10	Adjustments to income from Schedule 1, line 26				10		
11	Subtract line 10 from line 9. This is your adjusted gross income				11		
12	Standard deduction or itemized deductions (from Schedule A)				12		
13	Qualified business income deduction from Form 8995 or Form 8995-A				13		
14	Add lines 12 and 13				14		
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income				15		

Montana Additions to Federal Taxable Income

- Interest and mutual fund dividends from other states
- S corporation shareholder's share of federal taxes paid by S corporation
- Depreciation or amortization taken on a title plant
- Anything that was recovered during the tax year that reduced a taxpayer's liability in a previous year
- Income, deduction, or expense used to calculate federal taxable income if claiming a Montana tax credit
- Nonqualified withdrawal from a Montana Medical Savings Account
- Nonqualified withdrawal from a Montana First Time Homebuyers Account
- Federal Qualified Business Income Deduction
- State income taxes

Montana Subtractions based on Federal Law

- Interest and dividends from federal bonds
- Exempt tribal income
- Nonresident military servicemember and spouse pay
- Tier I and II Railroad Retirement Benefits

Montana Subtractions from Federal Taxable Income

- (NEW) Subtraction of \$5,500 for taxpayers 65 and older
- (NEW) An exemption of 50% of military retirement benefits for working military retirees
- State income tax refunds
- Recoveries of amounts deducted in earlier years included in federal taxable income that didn't reduce Montana income tax
- Interest earned on the principal of a Montana First-Time Homebuyers Account from before January 1, 2024
- Deposits in and interest from a Montana Medical Savings Account
- 529 Plan contributions (\$3,000 for single, married filing separately, head of household, and qualifying widow(er) filers; \$6,000 for married filing jointly)
- ABLE Account contributions (\$3,000 for single, married filing separately, head of household, and qualifying widow(er) filers; \$6,000 for married filing jointly and qualifying widower filers)

Montana Subtractions from Federal Taxable Income (continued...)

- Business-related expenses for purchasing recycled materials
- Business expenses not included in federal taxable income because a federal tax credit was taken
- Certain business expenses incurred by cannabis businesses
- Sales of land to beginning farmers
- Capital gains and dividends from Montana small business investment companies
- Certain gains recognized by liquidating corporations
- Capital gains on the eligible sale of a mobile home park

Nonresident/Part-Year Resident Taxation

- Montana source income determination stays the same
- Montana source income ratio stays the same
- Joint filers with spouses having separate states of residency report will apply the ratio to the spouses' Montana source income

Estates and trusts

- Use the single filer tax rate and are eligible to use the capital gains tax rate
- Start at federal taxable income
- Federal income distribution deduction must be adjusted for Montana additions and subtractions

Pass-Through Entities

- Pass-through withholding and pass-through entity tax remains at the highest marginal rate
- Composite tax is calculated using single filer tax rate and the federal standard deduction for single taxpayers
- Capital gains tax rate cannot be used to calculate any of the pass-through taxes

Transition Provision

- Carryovers from repealed tax credits may be utilized until the claim period is exhausted
- On or before the due date (including extensions) of the 2024 tax return, the taxpayer *may make an election* to make a transition adjustment to Montana taxable income
 - Passive activity losses
 - Positive adjustment if the carryover is smaller than the federal carryover
 - Negative adjustment if the carryover is larger than the federal carryover
 - Excess long-term or short-term capital losses
 - Positive adjustment if the carryover is smaller than the federal carryover
 - Negative adjustment if the carryover is larger than the federal carryover
 - Differing cost or basis
 - As a result of a credit that was taken.
 - Contributions to an IRA because of married filing separately on same form status
 - Tax Year 2023 refund received in 2024 and it resulted in a reduction to MT tax, a positive adjustment to Montana taxable income

Transition Provisions for Savings Accounts

- First-time Homebuyer Account – funds must be distributed within 10 years of when the account was opened
- Farm and Ranch Risk Management Account – funds must be distributed within 3 years of deposit

DOR Implementation Items

- Tax Form Updates
 - Wage withholding – [Form MW-4](#) and the [Employer and Information Agent Guide](#)
 - Publication 1
 - Form 2
 - Form FID-3
 - Miscellaneous forms
- Gentax/Computer Systems
- Montana Administrative Rules Updates
- Communication and Outreach