

# Montana Income Tax Simplification



BUSINESS &  
INCOME TAXES  
DIVISION  
MONTANA

# Overview

- Current Montana tax system
- Summary of Senate Bill 399 (2021)
- Calculating Montana taxable income in 2024
- Estates and trusts
- Pass-through entities
- Transition provisions

# **Current Montana Tax System**

# Montana filing statuses

Single

Head of household

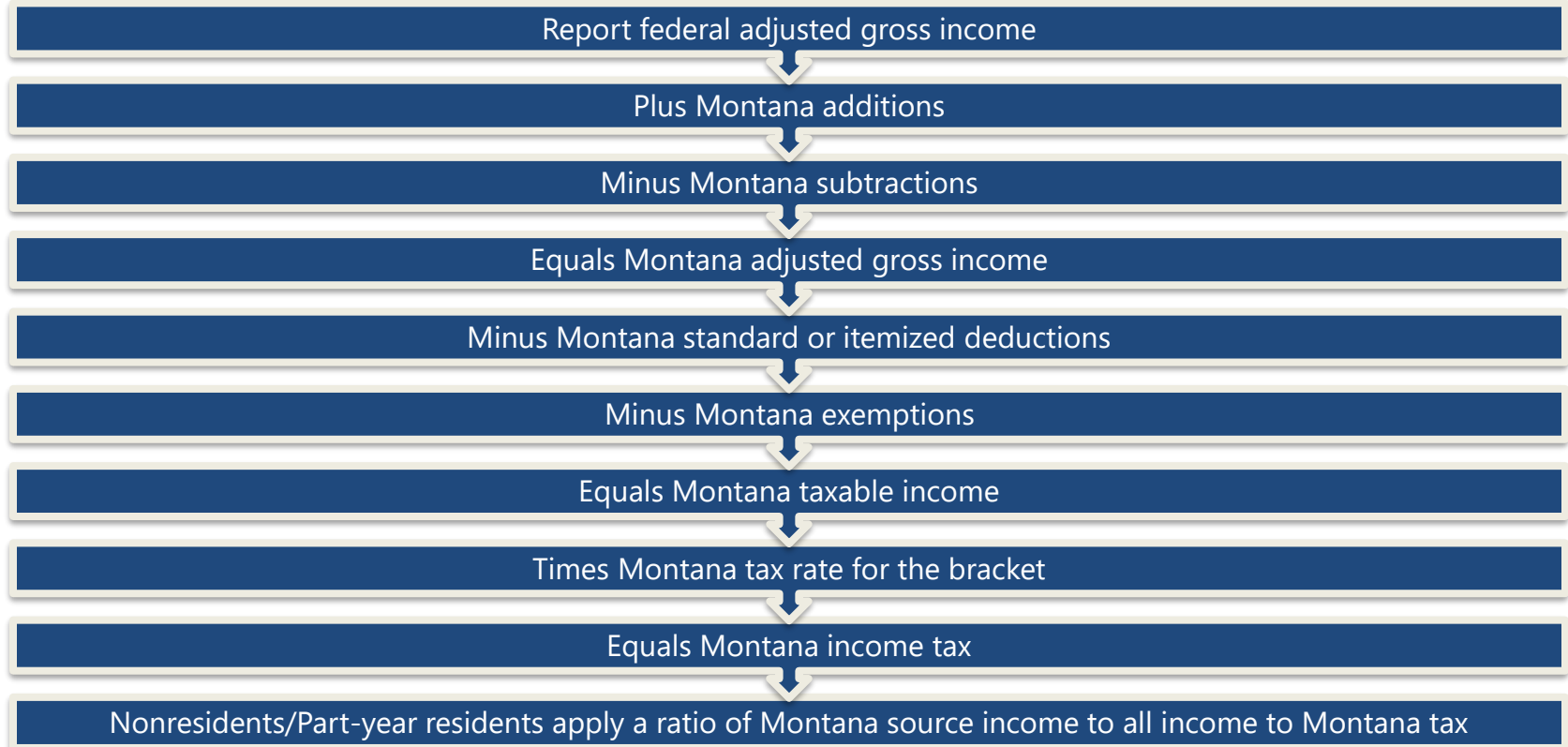
Married filing jointly

Married filing separately on the same form

Married filing separately on separate forms

Married filing separately and spouse not filing

# Calculating Montana Taxable Income and Tax



# **Senate Bill 399 (2021)**

## 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
- Two tax brackets that follow filing status
- The calculation of Montana taxable income begins with federal taxable income
- Several Montana-specific deductions are repealed

# 2024 Montana Individual Income Tax Table

<b>Married Filing Jointly/Qualifying Widower</b>		<b>Head of Household</b>			<b>Single, estates and trusts</b>			
If your taxable income is		Then your tax rate is	If your taxable income is		Then your tax rate is	If your taxable income is		Then your tax rate is
More than	But not more than		More than	But not more than		More than	But not more than	
\$0	\$41,000	4.7%	\$0	\$30,750	4.7%	\$0	\$20,500	4.7%
More than \$41,000		6.5%	More than \$30,750		6.5%	More than \$20,500		6.5%

[15-30-2103, MCA](#)



# Repealed Provisions

Montana AGI, standard/itemized deductions, and exemptions have been replaced by starting with federal taxable income

No recalculation of Social Security benefits and NOLs

2% capital gains tax credit (replaced with a subtraction of 30% of a long-term capital gain)

Unemployment

Tips for certain service industry workers

Partial pension, annuity, and IRA income exemption (replaced with a \$5,500 subtraction for taxpayers over 65)

Montana Medical Care Savings Account deposits

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

Partial interest exemption for taxpayers 65 and older

Partial retirement disability income

# What's changed?

## Before 1/1/2024

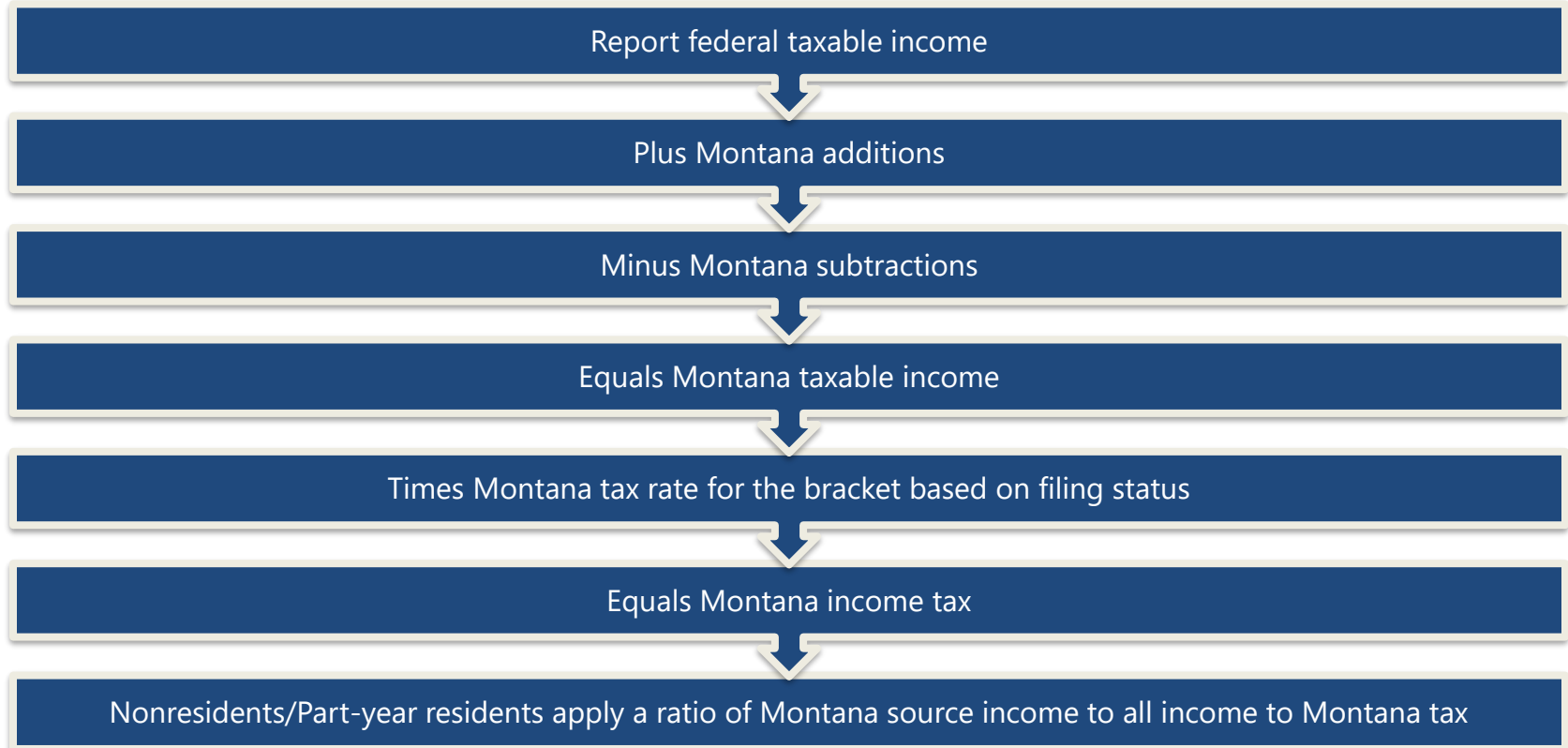
- Determine MT filing status
- Report federal AGI
- Plus Montana additions
- Minus Montana subtractions
- Equals Montana AGI
- Minus Montana standard/itemized deductions
- Minus Montana exemptions
- Equals Montana taxable income
- Times Montana tax rate for the bracket
- Equals Montana tax
- Nonresidents/Part-year residents apply a ratio of Montana source income to all income to Montana tax

## After 12/31/2023

- Report federal taxable income
- Plus Montana additions
- Minus Montana subtractions
- Equals Montana taxable income
- Times Montana tax rate for the bracket based on filing status
- Equals Montana tax
- Nonresidents/Part-year residents apply a ratio of Montana source income to all income to Montana tax

# Calculating Montana Taxable Income under Simplification

# Montana Taxable Income and Tax



# Federal Taxable Income

Income					
<b>1a</b>	Total amount from Form(s) W-2, box 1 (see instructions)			<b>1a</b>	
<b>b</b>	Household employee wages not reported on Form(s) W-2			<b>1b</b>	
<b>c</b>	Tip income not reported on line 1a (see instructions)			<b>1c</b>	
<b>d</b>	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			<b>1d</b>	
<b>e</b>	Taxable dependent care benefits from Form 2441, line 26			<b>1e</b>	
<b>f</b>	Employer-provided adoption benefits from Form 8839, line 29			<b>1f</b>	
<b>g</b>	Wages from Form 8919, line 6			<b>1g</b>	
<b>h</b>	Other earned income (see instructions)			<b>1h</b>	
<b>i</b>	Nontaxable combat pay election (see instructions)		<b>1i</b>		
<b>z</b>	Add lines 1a through 1h			<b>1z</b>	
<b>2a</b>	Tax-exempt interest	<b>2a</b>		<b>b</b>	Taxable interest
<b>3a</b>	Qualified dividends	<b>3a</b>		<b>b</b>	Ordinary dividends
<b>4a</b>	IRA distributions	<b>4a</b>		<b>b</b>	Taxable amount
<b>5a</b>	Pensions and annuities	<b>5a</b>		<b>b</b>	Taxable amount
<b>6a</b>	Social security benefits	<b>6a</b>		<b>b</b>	Taxable amount
<b>c</b>	If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>		
<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	<b>7</b>	
<b>8</b>	Other income from Schedule 1, line 10			<b>8</b>	
<b>9</b>	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>			<b>9</b>	
<b>10</b>	Adjustments to income from Schedule 1, line 26			<b>10</b>	
<b>11</b>	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>			<b>11</b>	
<b>12</b>	<b>Standard deduction or itemized deductions</b> (from Schedule A)			<b>12</b>	
<b>13</b>	Qualified business income deduction from Form 8995 or Form 8995-A			<b>13</b>	
<b>14</b>	Add lines 12 and 13			<b>14</b>	
<b>15</b>	Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>			<b>15</b>	

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.

Attach Sch. B if required.

**Standard deduction for—**  
 Single or Married filing separately, \$12,950  
 Married filing jointly or Qualifying surviving spouse, \$25,900  
 Head of household, \$19,400  
 If you checked any box under Standard Deduction, see instructions.

- Total income
- Minus total adjustments
- Equals federal adjusted gross income
- Minus standard deduction or itemized deductions
- Equals federal taxable income

# Montana Additions

- Interest and mutual funds 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
- **(NEW)** Federal Qualified Business Income
- **(NEW)** State income taxes

# State Income Tax Addition

- If the taxpayer itemized, the taxpayer must add back the amount of state income tax, not to exceed the amount required to reduce the federal itemized deduction amount to the standard deduction amount
- Example:
  - Single filer with \$15,000 itemized deduction (\$12,950 is standard deduction)
  - Takes a state income tax deduction of \$10,000
  - Must add back \$2,050 ( $\$15,000 - \$12,950 = \$2,050$ )
- Pass-throughs and estates and trusts must add back all state income tax deductions

# Montana Subtractions based on Federal Law

## Items exempt from Montana taxation under federal law:

- Interest and dividends from federal bonds
- Exempt tribal income
- Nonresident military servicemember and spouse pay
- Railroad Retirement benefits



# Montana Subtractions

State income tax refunds included in federal taxable income

Recoveries of income that didn't reduce Montana income tax

Military salary of resident active duty servicemember

Reimbursement for life-insurance premiums or death benefits for National Guard and Reservist

529 Account deposits (S, MFS, HoH: \$3,000; MFJ: \$6,000)

ABLE Account deposits (S, MFS, HoH: \$3,000; MFJ: \$6,000)

# Montana Subtractions

Business-related expenses for purchasing recycled material

Business expenses not included in federal taxable income due to an existing federal credit taken

Marijuana business expenses

Eligible sale of mobile home park

Sales of land to beginning farmers

Capital gains and dividends from Small Business Investment Companies

Certain gains recognized by a liquidating corporation

# New Montana Subtractions

Montana Medical Savings Account interest from contributions made before 1/1/2024

Montana First Time Homebuyer Account interest from contributions made before 1/1/2024

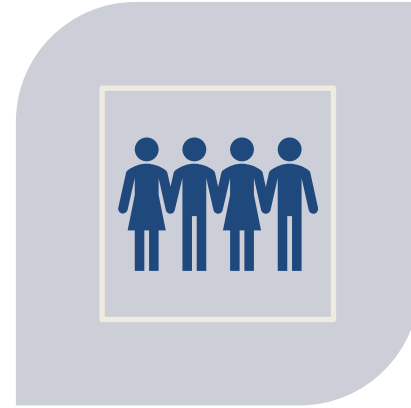
30% of net-long term capital gains

\$5,500 for taxpayers 65 and over (adjusted annually for inflation)

# Nonresident/Part-Year Resident



NO CHANGE TO CALCULATION OF  
MONTANA SOURCE INCOME AND TAX



NONRESIDENTS AND PART-YEAR  
RESIDENTS CAN'T USE THE JOINT  
STATUS ON THEIR MONTANA RETURN

# **Estates, Trusts, and Pass-Through Entities**

# Estates and trusts

- Single tax rate
- Income distribution deduction must be refigured to take Montana additions and subtractions into account

# Pass-Through Entities

- Pass-through withholding remains at the highest marginal rate
- Composite tax is calculated using single taxpayer status and using the federal standard deduction for single taxpayers

# Transition Provisions



# Transition Provision in 2024

- On or before the due date (including extensions) of the 2024 tax return, the taxpayer may file an election to make a transition adjustment to MT 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
  - Refund received after tax year 12/31/2022 and it resulted in a reduction to MT tax, a positive adjustment to MTI.

# Savings accounts

- MT Medical Savings Account – no time limit on distributions
- MT 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

# Get social with us!



@MTRevenue



@MTRevenue



MontanaRevenue



Montana Department of Revenue



Montana Department of Revenue



BUSINESS &  
INCOME TAXES  
DIVISION  
MONTANA