

Director's Income Tax Season Update

Dan Bucks, Director, Montana Department of Revenue

Best Tax Advice

File Your Tax Return Early

If you are expecting a refund, you will receive that refund faster if you file early in the tax season. The earlier you file, the better service the Montana Department of Revenue can provide in getting your tax return processed and your refund issued to you.

If you have taxes due, you also are encouraged to file early. By filing early, you can still wait to pay any balance due until closer to the tax deadline by using direct debit. To do this, you simply authorize the department to withdraw the amount of tax due from a checking or savings account on a date that you choose (but not later than April 15).

File Your Tax Return Electronically

Electronic filing is a simple, secure and convenient way to file your state income tax return. Last tax season, more than half of Montana taxpayers filed electronically.

This year, you can electronically file three popular Montana income tax forms on the Montana Department of Revenue's website at mt.gov/revenue for free—**yes free!** Those forms are 2EZ – the short form; 2M – the intermediate form; and 2EC – the elderly homeowner/renter credit form.

If you don't qualify to file one of these three state tax returns, you can file the long Form 2 electronically, along with your federal tax return using one of the following three options:

- Utilize an authorized E-file tax professional. This involves a cost.
- Use an off-the-shelf software program installed on a personal computer with Internet access. This involves a cost.
- Use online software on a personal computer with Internet access. This can be done by downloading the software to a personal computer or by filing the tax return on a software vendor's website. Both options may involve a cost.

Some taxpayers may qualify to prepare and submit their state and federal taxes online for free, through services such as MontanaFreeFile.org, a "one-stop" website that provides information on free tax preparation and electronic filing to eligible taxpayers.

Electronic filing results in fewer errors and a faster refund. The typical wait time for a refund is 5 - 10 days for an e-filed return or 6 -10 weeks for a paper return.

If you are expecting a refund, combining electronic filing with direct deposit will provide the quickest possible refund. You can reduce the wait for your refund by checking the box on your tax return to indicate that you want a direct electronic deposit into your bank account. Last tax season, more than half of Montana taxpayers who filed electronically also used direct deposit.

If you have a tax obligation, you can even make an electronic payment through our online service called Income Tax Express.

Note: Taxpayers who do not have Internet access at home, but want to file electronically, may want to visit their local library for free Internet use. An Internet e-mail account may be required for acknowledgement of receipt of the tax return.

Tax Assistance

Toll Free Number – New This Year!

This year, the Montana Department of Revenue is offering a toll free number. You may call us for assistance at 1-866-859-2254 between 8 a.m. – 5 p.m., Monday - Friday. If you are calling from the Helena area, please dial 444-6900

Call Center

8 a.m. - 5 p.m., Monday - Friday

1-866-859-2254 (toll free)

(406) 444-6900 (Helena area)

Note: The lowest volume of calls is typically received in the midmorning (9 - 11 a.m.), so this is a good time for taxpayers to call with minimal wait. The highest volume of calls is typically received in the early afternoon (1:30 - 3:30 p.m.) and the wait for taxpayers may be several minutes during this period.

Website – mt.gov/revenue

The Montana Department of Revenue's website, mt.gov/revenue, offers information about tax season updates, electronic filing options, frequently asked questions and other tax related information. The website also includes an e-mail function that allows taxpayers to send a message to the department. To access the e-mail function, click on Contact Us.

Website – MontanaFreeFile.org

A "one-stop" website called MontanaFreeFile.org offers taxpayers information on free electronic filing options, as well as volunteer tax preparation sites, for both federal and state income taxes. The website is sponsored by a partnership of government and non-profit entities—including the Montana Department of Revenue, Montana's Credit Unions, Montana HRDC Association, Montana Legal Services Association, and Consumer Credit Counseling Service of Montana/Rural Dynamics. AARP Tax-Aide Montana and the Montana Attorney General's Office also are lending support to the project.

Walk-in Assistance – Expanded for 2008!

Helena

Taxpayer assistance is available year-round at the Montana Department of Revenue's office at the Mitchell Building in Helena. A special taxpayer assistance room (Room 160) is open on the first floor of the Mitchell Building (east wing) from March 1 - April 15.

Sam W. Mitchell Building
125 North Roberts Street
Third Floor Helena

Statewide – New Options!

During income tax season the department offers special taxpayer assistance at selected offices statewide.

Beginning the end of this week (Feb. 8), you can drop by selected Department of Revenue offices statewide to electronically file your state income tax return (Form 2EZ, 2M or 2EC)... for free. Simply prepare your state income tax return in advance, and bring it to one of the eleven participating DOR offices. There, you can electronically file your state income tax return at no cost to you. Participating DOR offices include:

State Capitol Campus - Helena

- Mitchell Building (This site also offers tax preparation assistance, in addition to free electronic filing.)

Property Assessment Local Offices

- Missoula, Kalispell, Libby, Butte, Glasgow, Red Lodge, Miles City, Plentywood, Dillon, Forsyth

In addition, there are more than 70 volunteer tax preparation sites around the state through Volunteer Income Tax Assistance (VITA) and the AARP Tax-Aide Montana program. A comprehensive listing of these volunteer tax preparation sites and who qualifies for their services can be found at MontanaFreeFile.org.

Other Telephone Numbers

Where's My Refund - (406) 444-9840

Montana Law Changes for Tax Year 2007

\$140 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 earlier years, in some cases). Filing for the \$400 property tax refund was available to taxpayers August 27 – December 31, 2007.

In order to claim this 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.

Please note the following:

- 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 have an ownership interest in the entity.
- Only one claim can be made with respect to any property.
- Married taxpayers who jointly own the property and are filing separately on the same form may allocate this credit.

If you are not required to file a Montana tax return because your income for 2007 is below the filing threshold, but you are eligible for this refundable tax credit, complete Form PTC "Montana Income Tax Credit for Property Taxes" and mail it to:

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

If you are required to file a Montana tax return, please enter the credit on one of the following lines:

- If you file Form 2EZ, enter the \$140 on line 18.

- If you file Form 2M, enter the \$140 on Schedule II, line 10.
- If you file Form 2, enter the \$140 on Schedule V, line 29.

Do not complete Form PTC and attach to your return. Instead, when you sign your tax return, you are declaring that you can answer yes to the three qualifying questions.

Taxability of \$400 Homeowner Property Tax Refund

The following guidelines will help you to determine if you should claim the property tax refund as 2007 taxable income.

State Income Tax

- Include this refund in your 2007 taxable income if you itemized your deductions and included a deduction for your real estate property taxes on your 2006 state income tax return.
- Do not include this refund in your 2007 taxable income if you claimed the standard deduction on your 2006 state income tax return.

Federal Income Tax

- Include this refund in your 2007 taxable income if you itemized your deductions and included a deduction for your real estate property taxes on your 2006 federal income tax return.
- Do not include this refund in your 2007 taxable income if you claimed the standard deduction on your 2006 federal income tax return.

Married Filing Separately

Beginning with tax year 2007, married taxpayers who filed a joint federal return but file separately for Montana purposes are no longer required to adjust some income, losses and deductions on their state return.

Senate Bill 281, 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 would be allowed under the federal rules for joint filers for the following items:

- Passive and rental activity losses
- Capital losses
- IRA contributions
- Student loan interest deduction
- Tuition and fees deduction

There is no retroactive applicability. Taxpayers cannot "catch-up" for previously disallowed tuition and fees deduction, student loan interest or IRA contributions. The Montana taxable Social Security amount is not impacted by the new law.

Combined amounts cannot exceed the allowable amount under joint rules. For example, capital losses are limited to \$3,000 total. Spouse A has a \$5,000 current year capital gain and spouse B has a \$9,000 capital loss carried over from prior years for state purposes but which had been absorbed on their federal return in a prior year. If the spouses file in Montana as "married filing separately", spouse A should report the \$5,000 capital gain on the appropriate line of the "Federal Income" portion of the return and report \$5,000 as a "Capital Loss Adjustment" on Schedule II, Montana Subtractions from Federal Adjusted Gross Income. Spouse B should report \$3,000 on the same line on Schedule II since the capital loss is attributable to them. Spouse B will then have a remaining capital loss carryover of \$1,000 (\$9,000 current capital loss less \$8,000 used).

Capital Gains Tax Credit

Effective for tax years beginning on or 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.

National Guard Life Insurance Reimbursement

The excludable premium reimbursement amount was increased from \$16.25 to \$17.50 a month. In addition, individuals eligible for life insurance expanded to include members of the "armed forces".

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 the state income tax credit. This credit is equal to \$1,000 in the tax year the adoption is final. An eligible child is a child under age 18, or any disabled person physically or mentally unable to take care of himself or herself. In accordance with federal rules, the legal adoption of a stepchild does not qualify for the credit. Please attach a copy of federal Form 8839.

Penalty for Late Payment of Taxes

Effective for tax periods 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%).

Protection for Taxpayer Information

The confidentiality of Montanans' tax return information is now protected from private tax preparers selling or using information for non-tax purposes, thanks to a law passed by the 2007 Montana Legislature.

Senate Bill 121 prohibits tax return preparers from selling, or otherwise profiting from, disclosure of a taxpayer's financial information. Disclosure to companies related to the tax preparer (such as financial institutions or insurance companies), as well as to third parties, is prohibited. Also, tax return information cannot be sent to a tax preparer located out-of-the-state unless the taxpayer requests that it be sent.

Tax preparers risk serious consequences for violating the law. Taxpayers may recover the greater of \$10,000 or three times the amount of their actual damages.

Changes to Existing Tax Credits

Rural Physician's Credit

The credit for a physician practicing in a rural area will be phased out, but the educational loan repayment program for physicians serving these areas will be expanded. Because of this change, 2007 is the last year a licensed physician can commence practice in a rural area to qualify for the credit.

Qualified Endowment Credit

The termination date was extended from December 31, 2007 to December 31, 2013. In addition, the definition of "permanent, irrevocable trust" was clarified to exclude funds where contributions are expended for buildings or equipment.

Film Production Credit

The Big Sky on the Big Screen Act was amended by removing the \$1 million limitation on the amounts of tax credits allowed, standardized the application fee for tax credits at \$500, increased the percentage used to determine the amount of allowable tax credits for Montana labor from 12% to 14%, and for qualified expenditures from 8% to 9%.

Biodiesel Credits

The "biodiesel" credits, which include the Oilseed Crushing and Biodiesel, Biolubricant Production Facility Credit, and the Biodiesel Blending and Storage Credit, were amended. The credit was extended from 2010 to 2015 and provides for a seven year carryforward. "Biolubricant" was also further defined.

Federal Law Changes for Tax Year 2007

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.

Tax Season Update

As you are probably aware, the IRS has announced official changes to the upcoming filing season caused by the Alternative Minimum Patch, which was signed into law on December 26.

Here's some of the information we will be using as we head into the TY 2007 Montana income tax season. While you may have seen this information from other sources, we think it's worth passing along.

- The IRS will normally process all returns beginning January 14 -- except those that contain any of five forms that are related to AMT calculations. This means about 125 million federal taxpayers will be eligible to file on the usual schedule.
- The IRS will not accept returns from the 13 million federal taxpayers who use any of the affected five forms until February 11 or later. February 11 is termed a "potential starting date." In an ordinary filing season, only 3 to 4 million of these taxpayers would have filed before February 11.
- The IRS says it initially had concerns over twelve AMT-related forms but it was able to immediately handle the minor updates required by seven of them. Only five required substantial format changes to the underlying systems. The five affected forms are as follows.

Form 8863, Education Credits
Form 5695, Residential Energy Credits
Schedule 2 (Form 1040A), Child and Dependent Care Expenses for Form 1040A Filers
Form 8396, Mortgage Interest Credit
Form 8859, District of Columbia First-Time Homebuyer Credit

Please note, "Form 6251, Alternative Minimum Tax -- Individuals" is not one of the five forms affected:

- The e-file system will open for all taxpayers not filing any of those five forms as scheduled on January 11. The deadline for all taxpayers remains April 15. An automatic six-month extension remains available.
- Here is what the IRS will tell taxpayers affected by the delay:
 - Go ahead and start working on your return now;
 - Look to see if you're using one of the five forms and, if so, don't mail or efile your return until early February;
 - If you e-file a return before February 11 you will get a response message asking you to resubmit your tax return when IRS systems are ready;
 - And if you e-file electronically or print off forms from computer software, be sure to update your tax software so you have the latest AMT updates.
- State e-filing (whether "Fed-State" or "State Only") will operate business as usual. If a return contains one or more of the five forms that the IRS is unable to process or is rejected for having one of these forms, an ERO may e-file the state return as a "State Only" return.
- The IRS will provide a unique Error Reject Code (ERC) identifying that a return was rejected because it contained one or more of the five forms that we're unable to process. The new ERC will be included in the revised e-file spec updates.
- The industry will be able to continue PATS testing (IRS and states) while the IRS programs for the AMT patch. Software developers may continue to test their software without the five forms and pass PATS testing. Software developers may test the five forms at a later date when the changes to these forms have been implemented.