



***MeF Individual Income Tax Technical
Requirements for Software Developers***

Tax Year 2024

Schema Version 1.0

May 1st, 2024

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Introduction

The material in this publication will provide software developers the necessary information for capturing and formatting Montana individual income tax data required to submit a complete Montana Individual Income Tax return.

This publication does NOT replace the requirements, procedures, etc., issued by the IRS. All IRS requirements must be adhered to in the development of the Montana return.

What Has Changed for Tax Year 2024

Form 2 has changed because of Montana SB 399. The form will no longer consist of every schedule that a taxpayer may use to file the Form 2. Schedules have been separated from the Form 2 and are available on separate pages. However, for ease of reviewing the form, we have combined the form and all accompanying schedules on one PDF.

Pages 1 and 2

Most taxpayers will only need to complete pages 1 and 2 to file their Montana tax return. Page 1 reports Montana taxable income, tax credits, payments, and the tax liability. Page 2 is used to determine the Montana income tax liability.

To determine Montana taxable income, taxpayers will report federal adjusted gross income, the federal standard or itemized deductions, and Montana additions and subtractions, including an additional subtraction of \$5,500 for taxpayers 65 and older (\$11,000 for joint filers with both spouses aged 65 and over). Taxpayers who itemize federal deductions will need to remove the state income tax deduction from their deduction. Worksheet A will be used to determine the amount that is reported on this line.

Worksheet A - State Income Tax Deduction Adjustment Worksheet		
Enter your total federal itemized deductions from Form 1040, line 12	1	
Enter the amount of state income tax deduction included on Form 1040, Schedule A	2	
Subtract line 2 from line 1	3	
Enter the standard deduction for your federal filing status	4	
Enter the greater of line 3 or line 4 here and on page 1, line 2.	5	

The reporting of payments, and payments and refunds from filing an amended return, are now included on page 1. Previously, payments, other than wage withholding and withholding reported on a Form 1099, were reported on the Other Payments and Refundable Credits Schedule. Additionally, refunds or a carryforward of an overpayment reported on an amended return are now reported on page 1.

The Montana tax liability is calculated on page 2. Previously, taxpayers calculated their Montana tax liability on the Tax Liability Schedule. This worksheet calculates Montana Ordinary Income Tax and Montana Net Long-Term Capital Gains Tax. Nonresidents, part-year residents, and Montana residents filing jointly with nonresident or part-year resident spouses will calculate their resident tax on page 2, then transfer that amount to Schedule II to determine their Montana tax liability.

Schedule I

Schedule I reports Montana additions and subtractions to federal taxable income. The items reported on this schedule were previously reported on the Additions, Subtractions, and Montana Medical Savings Account (MSA) Schedules.

Part I reports Montana additions and subtractions to federal taxable income. Lines 1 through 8 report additions. Most Montana additions did not change under simplification. However, the following additions were repealed:

- dividends not included in federal adjusted gross income.
- allocation of compensation to spouse in a sole proprietorship.
- federal net operating loss deduction.
- taxable Social Security Benefits addition.

Reporting was condensed and combined for taxable distributions from a Montana MSA or a Montana first-time homebuyer account. This combined reporting also includes those additions that are infrequently taken, including a taxable distribution from a farm and ranch risk management account, federal taxes paid by an S corporation, and title plant amortization and depreciation. Specific reporting codes are listed below. Lines 7 and 8 are to report transition items. Line 7 reports the one-time catch-up amount that aligns federal and state reporting of capital losses, passive losses, and differing state and federal bases. Line 8 is to report the recovery of federal income tax deducted in 2023. The amounts on lines 7 and 8 are calculated on Transition Schedule.

Lines 10 through 27 report subtractions to federal taxable income. Several subtractions were repealed as of January 1, 2024, including:

- unemployment compensation
- tips income for certain service industry workers
- partial interest income deduction for taxpayers 65 and older
- partial pension, annuity, and IRA exemption
- health insurance premiums paid by an employer for an employee

- contributions to a Montana first-time homebuyer savings account
- deposits in a Montana farm and ranch risk management account
- dependent child's income included in the taxpayer's federal adjusted gross income
- student loan repayments for certain healthcare professionals and qualified educators
- partial retirement disability deduction for taxpayers under age 65
- workers' compensation benefits.

There is a new subtraction for working military retirees and beneficiaries receiving military survivor benefits that meet certain residency requirements. Line 24 reports seldom-taken subtractions, which include sales of land to beginning farmers, sale of a mobile home park exclusion, capital gains and dividends from a Montana small business investment company, certain gains recognized by liquidating corporation, payment received by an individual landowner for providing public access to public land, Montana End of Watch Trust payment, inorganic and organic fertilizer deduction, and death benefits for a National Guard/Reservist member. Specific reporting codes are below.

Taxpayers with Montana Medical Savings Accounts will calculate the addition or subtraction on Part II of the Schedule I. This section remains the same as the Montana Medical Savings Account (MSA) Schedule from the 2023 Form 2, except for a checkbox on line 3 for account holders to mark if their ending balance is less than their beginning balance because their MSA was in an investment account and experienced a loss during the year.

Schedule I Codes		
Provision	Code	Location on the form
Farm and ranch risk management account distributions	AF	Schedule I, line 6
Taxes paid by an S corporation	AC	Schedule I, line 6
Title plant amortization and depreciation	AG	Schedule I, line 6
Other	AZ	Schedule I, line 6
Sales of land to beginning farmers	SE	Schedule I, line 24
Mobile home park sale exclusion	SJ	Schedule I, line 24
Capital gains and dividends from Montana small business investment company	SO	Schedule I, line 24
Certain gains recognized by liquidating corporation	SG	Schedule I, line 24
Payment received by an individual landowner for providing public access to public land	SN	Schedule I, line 24
Montana End of Watch Trust payment	SP	Schedule I, line 24
Organic fertilizer deduction	SQ	Schedule I, line 24
Death benefits for a National Guard/Reservist	SR	Schedule I, line 24

Schedule II

Previously, nonresidents and part-year residents reported their Montana source income and determined the nonresident/part-year resident ratio on the Nonresident/Part-Year Resident Ratio Schedule. This information, along with the determination of Montana tax, is now reported on Schedule II. Additionally, Montana residents filing jointly with nonresident, or part-year resident spouses use Schedule II to determine their Montana tax.

Additional lines were added to report those business expenses incurred by business owners and farmers that can be sourced to Montana. Furthermore, beginning with tax year 2024, sole proprietors and SMLLCs owned by nonresidents and part-year residents will file Form DE and attach it to their Form 2. This form reports the Montana activity and Montana source activity of businesses owned by nonresidents. The form will resemble Schedule DE, which is an existing schedule on Form PTE, with a few variations including the alternative method tax for nonresidents.

Nonresidents, part-year residents, and Montana residents filing jointly with a nonresident, or part-year residents' spouse will determine their net long-term capital gains tax using a separate ratio devoted solely to net long-term capital gains on lines 21 through 25.

Schedule III

Previously, nonrefundable tax credits were reported on the Nonrefundable Credits Schedule and refundable tax credits were reported on the Other Payments and Refundable Credits Schedule. Schedule III reports both nonrefundable and refundable tax credits. The capital gains tax credit was repealed as of January 1, 2024, but all other tax credits remain. Previously, there were three lines to report tax credit confirmation codes for the Innovative Educational Program Credit and Student Scholarship Organization Credit, and three lines to report codes for carryforwards for an expired or repealed credit. These lines have been reduced to report only two credit confirmation codes and one carryforward code.

The credit for income taxes paid to another state or country, which was previously reported on the Credit for Income Tax Paid to Another State or Country Schedule, is now calculated in Part II. One page is devoted specifically to the credit for income taxes paid to another state. Therefore, taxpayers claiming that credit for multiple states can complete Part II multiple times separately from Part I of Schedule III.

The calculation of the credit has been expanded to account for the lower tax rate for net long-term capital gains. Lines 1 through 10 are used to determine the credit for income that is not considered a net long-term capital gain (Montana ordinary income) and lines 11 through 20 are devoted to

determining the credit for Montana’s net long-term capital gains tax. The total of the two amounts are reported on Part II, line 21. Taxpayers with multiple credits will report the total of all credits on Part I, line 1.

Schedule IV

Schedule IV is used to report check-off contributions, penalties, interest, and other taxes. These items, excluding interest and other taxes, were previously reported on the Contributions, Penalties, and Interest Schedule. Interest was not reported on previous years’ returns and was calculated by the department for taxpayers. These lines are provided to help with the predictability of what you may owe. Penalty and interest are calculated using actual dates and amounts and may differ from what is reported. The Other Penalties line was expanded to include checkboxes for the types of penalties that are reportable on this line. Lump-sum and recapture taxes were previously reported on the Tax Liability Schedule. Taxpayers will use the following codes to report the type of tax.

Other Taxes Codes		
Biodiesel Credit Recapture	BD	Schedule IV, line 7
Endowment Credit Recapture	EC	Schedule IV, line 7
Family Education Savings Account Recapture	FE	Schedule IV, line 7
Montana ABLE Recapture	AB	Schedule IV, line 7
Trades Education and Training Credit Recapture	TE	Schedule IV, line 7
Lump Sum Taxes	LS	Schedule IV, line 7

Schedule V

Taxpayers amending a 2024 Form 2 will report information about the amendment on this schedule. This information was previously reported on page 2 of the Form 2. Schedule V, along with the pertinent amended schedules, will be attached to the amended Form 2.

Schedule 2EC

The Form 2EC is now a schedule on the Form 2.

Transition Schedule

The Transition Schedule is only available for tax year 2024. It is to report the one-time catchup items as well as the recovery of federal income tax deducted on the 2023 Form 2. Taxpayers that have capital losses, passive activity losses, and basis differences from their federal amounts may make an election to use this schedule to reconcile the difference. This election must be made by the due date (including extensions) of the 2024 Form 2. If the transition election is not made, the taxpayer will lose the ability to reconcile the difference of the loss carryover or basis and beginning January 1, 2025, these items will default to the federal amount. When the election is made, all items must be reported.

For example, Jim makes the transition election. His capital loss differs from the federal amount. He also took a deduction for federal taxes paid in 2023 and received a refund. Jim must report both the capital loss carryover transition adjustment and the refund recovery. More detail about these adjustments will be available when the final Form 2 instructions are released.

Calculation of Interest on Underpayment of Estimated Taxes Worksheet

The calculation of interest on the underpayment of estimated taxes did not change. This worksheet was previously on page 11 of the Form 2. It will be found in the Form 2 instructions.

Discontinued Forms, Schedules, and Worksheets

The following forms, schedules, and worksheets have been discontinued because their underlying provisions have been repealed.

- Filing Status 2a Payment Schedule
- Refund Schedule
- Schedule 1
- Partial Pension, Annuity, and IRA Income Exemption Worksheet
- Taxable Social Security Benefits Worksheet
- Standard Deduction Worksheet
- Itemized Deductions Schedule
- Form 2441-M, Child and Dependent Care Expense Deduction
- Form FRM, Farm and Ranch Risk Management Account
- Form FTB, First-Time Homebuyer Savings Account
- Form VT, Veterans' Program Contribution and Deduction

What Can Be Filed Electronically

Montana will allow returns to be filed electronically if they meet the criteria set by the IRS and the State of Montana. The following is a list of forms and schedules available for electronic filing.

- Form 2
 - Schedule I
 - Schedule II
 - Schedule III
 - Schedule IV
 - Schedule V
 - Schedule 2 EC
- Supplemental forms
 - MT Form QEC
 - MT Form RCYL
 - MT Form TETC
 - MT Form ESTI
 - MT Form JGI
- Return types.
 - Linked
 - Unlinked
 - Amended returns only.
 - Refund returns
 - Tolerance returns.
 - Full pay returns.
 - Partial pay returns.
- Residency Status
 - Full year resident
 - Part-year resident
 - Non-resident
 - Montana does **NOT** accept the NRALiteral for Non-resident Alien spouses.
- Electronic Banking Options
 - Direct deposit of refunds.
 - Direct debit of tax due.

Reject Codes for Montana Returns

A complete list of reject codes can be found on SES. All reject codes will cause the return to be rejected, there are no alerts included in the list. Once a return is rejected it will need to be corrected and resubmitted. The list of reject codes available on SES is the most current list.

Items on that list are subject to change at any time including the addition or deletion of reject codes. If there are any changes to the reject code list, notification will be sent to the NACTP list serve and an updated list added to SES. Please have notifications in SES enabled to insure you are notified of any changes to the reject code list.

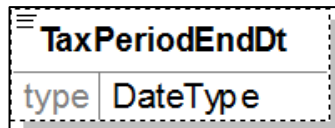
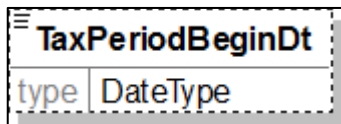
Submission Manifest

The following values should be used in the state submission manifest.

- Element
 - GovernmentCode = MTST
 - StateSubmissionType = Form2
 - SubmissionCategory = IND

Schema Requirements & Examples

The following items from the "ElementName" are required for Montana submissions.



1099 And W2 Types

Please refer to the list below for what "Forms/FormTypes/Information" are available to be filed with the submission. We are expecting to see these forms in the "ElementName" of the submission.

- IRS 1099R
- IRS W2
- IRS W2G
- State 1099B
- State 1099G
- State 1099Int
- State 1099K
- State 1099Misc
- State 1099DIV
- State 1099Nec

Credit For Taxes Paid to Another State or Country

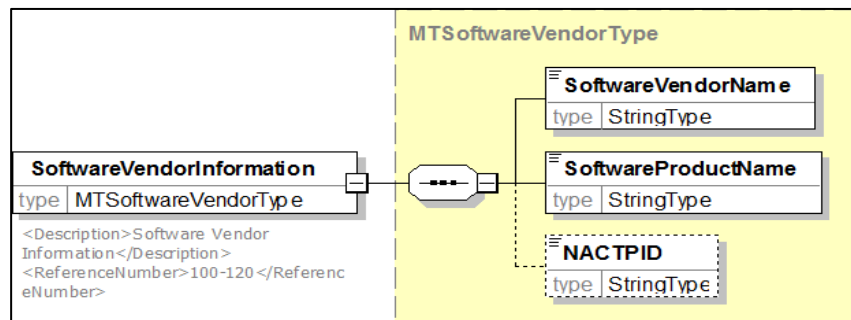
We request that any return filed with a Schedule III – Part II: Credit for Income Taxes Paid to Another State or Country, have a copy of that other state’s return attached as a binary attachment. This is only a request, not a requirement, of the software vendors. We understand that it might not always be possible to attach the other states return as a binary attachment. Please allow returns without this binary attachment to be E-Filed.

This request for the other states return was made in response from concerns raised by tax professionals. If the other states’ returns are attached, then our staff does not have to request that information from the tax professional. This saves both the tax professional and department time and creates efficiencies in processing returns and refunds.

Software Vendor Information

Montana has added the element called SoftwareVendorInformation (shown below) to our schema. We have added this element to make it easier for department staff to identify which software vendor and/or product was used to create the submission. This new element is the first element in the state return. This information is only in the MeF information and is not on the paper form itself. This is a required element where two of the three child elements are also required.

For the required element SoftwareVendorName we would expect to see the name of the software firm. The SoftwareProductName element is required and should be populated with the name of the product being used to complete the return. The NACTPID element is optional, however it is strongly suggested this element be populated with the ID number assigned by the NACTP. The input for these elements should match the information submitted to the state on your Letter of Intent.



Freefile Alliance Indicator

For organizations supporting Montana taxpayers by offering a Free File Alliance offer we have added an indicator to the schema. This indicator is in the ReturnHeaderState and utilizes the Special Program element. An enumeration was added to this element. The enumeration, which is FreeFile, must be included for all returns that are submitted to the Montana Department of Revenue created as part of a Free File offer.

Prior Year and Amended Return Filing

Montana does allow for and accept both prior year returns as well as amended returns. For prior year returns, the software used to submit the return has to have been tested and approved by our department. Amended returns are also accepted during the filing season. The AmendedReturnIndicator in the ReturnHeaderState must be checked for the return to process correctly. If you would like to test this functionality during ATS please contact our department at DORMeF@mt.gov to coordinate this testing.

Montana Individual Income Tax Table

Single, Married Filing Separately, Estates, Trusts, and Composite Tax			
Montana Ordinary Tax Rates			
If your taxable income without long-term capital gains is	But less than	Then your tax rate is	Less
\$0	\$20,500	4.7%	\$0
\$20,500 or greater		5.9%	\$246
Long-Term Capital Gains Rates			
For net long-term capital gains above	But less than	The following tax rate applies	
\$0	\$20,500 minus ordinary income	3.0%	
\$20,500 minus ordinary income		4.1%	
If Montana ordinary income exceeds \$20,500		4.1%	
*Pass-through entities are not eligible for the long-term capital gain tax rate			
Married Filing Jointly and Qualifying Surviving Spouse			
Montana Ordinary Tax Rates			
If your taxable income without long-term capital gains is	But less than	Then your tax rate is	Less
\$0	\$41,000	4.7%	\$0
\$41,000 or greater		5.9%	\$492
Long-Term Capital Gains Rates			
For net long-term capital gains above	But less than	The following tax rate applies	
\$0	\$41,000 minus ordinary income	3.0%	
\$41,000 minus ordinary income		4.1%	
If Montana ordinary income exceeds \$41,000		4.1%	
Head of Household			
Montana Ordinary Tax Rates			
If your taxable income without long-term capital gains is	But less than	Then your tax rate is	Less
\$0	\$30,750	4.7%	\$0
\$30,750 or greater		5.9%	\$369
Long-Term Capital Gains Rates			
For net long-term capital gains above	But less than	The following tax rate applies	
\$0	\$30,750 minus ordinary income	3.0%	
\$30,750 minus ordinary income		4.1%	
If Montana ordinary income exceeds \$30,750		4.1%	