**Montana Annual Update Call - Form 2 & FID Returns November 16th, 2018**

**Annual Update Call questions for the Montana Form 2 & FID returns**

1. **If both taxpayers filing status 2a have a refund do both refunds go into the same bank account?**

Yes, they do. We only have the capability of depositing into one account; but you will see the transactions post separately in that account. If spouses filing separately wish to receive their respective refunds in separate bank accounts they must file separately on separate forms, status 2b.

If the taxpayers do not include account banking information, they will receive two checks.

1. **What is the ordering rule on the netting lines?**

For the netting of amount owed when taxpayers file status 2a (filing separately on the same form), and one spouse has an overpayment (line 22) and the other spouse has an amount owed (line 25), the overpayment is applied first to the amount owed. Only then, if there is a remainder of overpayment, the spouse with this remainder of overpayment can choose to allocate this remainder towards the refund line or the carryover line.

1. **Should the software be expected to populate the correct amount due when netting on a voucher?**

Yes. When choosing the status filing separately on the same form, taxpayers elect to have the overpayment of one of the spouses netted with the amount owed by the other spouse. If taxpayers do not want this to happen, they must file on separate forms.

Software should present the netting calculation using the worksheet in a statement attached to the return. It must be clear to taxpayers that this netting is the result of choosing status 2a, and the amount the software populate on the voucher must reflect that election.

1. **If a resident return, do we need to complete the tax liability schedule?**

It depends. If the resident does not have any recapture tax to pay (Tax Liability Schedule, line 1) nor tax on lump sum distributions (Tax Liability Schedule, line 4) then the Tax Liability Schedule does not need to be completed.

Note that in some rather rare cases, the Tax Liability Schedule, line 4 may be used for the payment of tax on deferred foreign income under IRC 965, as well. When this is the case, the Tax Liability Schedule must be completed.

1. **Underpayment grid: do they use two separate worksheets to compute when filing separate on the same form?**

No. Underpayment of estimated taxes must be calculated on a combined basis when filing separately on the same form. This is because, we also allow one of the spouses to pay for all the estimated taxes owed by the couple, and then allocate these payments according to their needs once they have chosen their filing status.

1. **How do we calculate the federal refund when using the recovery of federal income tax deduction?**

When spouses filed a federal tax return jointly and are now filing their Montana tax return separately, each need to complete a separate Recovery of Federal Income Tax Deducted in 2017 Worksheet. They must prorate their federal income tax refund between spouses by applying the ratio of their 2017 federal income tax deduction to the total federal tax deducted.

1. **Do we have to complete separate schedules if a taxpayer is taking a credit for taxes paid to more than one state?**

Yes. It was the case in prior years. Taxpayers must submit a schedule showing the calculation of the credits claim for each state. If more than one schedule is submitted, the additional page(s) 8 will show a blank Nonrefundable Credit Schedule, and only the Credit for Income Tax Paid to Another State Schedule will be populated.

1. **Do we still have a separate form for the MSA?**

No. The separate Form MSA has been discontinued and replaced by a schedule on Page 4. Note that the report of the MSA beginning and ending balance is now a requirement each year.

1. **Are we going to update the “Reserved Lines” if the feds determine that they are going to use them?**

We are planning to. However, our decision will depend on the circumstances.

Please see the Form 2 netting examples on the following two pages.

If you have additional questions regarding the requirements for developing Montana returns, please email [dore-services@mt.gov](mailto:dore-services@mt.gov).

Thank you,

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