

Worksheet IX - Tax Benefit Rule for Recoveries of Itemized Deductions

A recovery is a refund of an amount you used as an itemized deduction in an earlier year. If you used the standard deduction that year, your refund is not taxable. Recoveries become taxable and must be added to your Montana income in the year you received them, up to the amount that the deductions reduced your Montana tax in the earlier year. This worksheet helps you determine the amount of this addition for each previous tax year that some recovered funds were itemized. Complete a separate worksheet for each year. Use the information from Form 2 or 2M, Itemized Deductions, for the year the expense was deducted.

If the only refund you received in 2017 was of a federal tax you deducted in 2016, use worksheet II.

Example: You claimed a casualty loss as an itemized deduction on your 2015 Montana income tax return. You also claimed personal property tax as an itemized deduction in 2016. In 2017, your insurance company reimbursed you for the casualty loss and you received a partial refund of property tax. In order to determine if any of this reimbursement is taxable in 2017, you will need to use this worksheet twice, once for your 2015 Montana income tax return and once for your 2016 Montana income tax return.

What will you need to use this worksheet?

You will need the original Form 2 or 2M, the itemized deduction schedule when applicable, and documentation recording the original deductions. You will also need any document or worksheets you use to record refunds related to expenses you itemized or any recoveries already reported on a previous return and any form or worksheet that was used to limit allowable deductions.

Standard Deduction Benefit Rules and Rates

When you receive refunds of previously deducted items, the reduced amount of itemized deduction that is now allowed may not be as beneficial as using the allowable standard deduction for that year. The worksheet makes you compare both situations and limits your recovery to the level when the standard deduction becomes more advantageous. This rule is applied on an individual basis regardless of your filing statute. It does not constitute a change to your election to use itemized deductions.

If, for a tax year, you received your refund in several installments or several refunds spread along several years and the standard deduction rule was already applied to limit your recoveries of previous refunds, do not use this worksheet. Do not add any further refund(s) from that year to your Montana income tax return(s), as they would be covered by the standard deduction benefit rule.

Multiply the amount on Worksheet IX, line 13 by 0.20 (20%). Enter this amount on Worksheet IX, line 14, but not more than the maximum amount, or less than the minimum amount reported below that corresponds with the tax year for which you are calculating your tax benefit rule recovery amount.

Tax Year	Filing Status	Minimum	Maximum
2016	Single or married filing separately	\$1,980	\$4,460
	Married filing a joint return or head of household	\$3,960	\$8,920
2015	Single or married filing separately	\$1,940	\$4,370
	Married filing a joint return or head of household	\$3,880	\$8,740
2014	Single or married filing separately	\$1,940	\$4,370
	Married filing a joint return or head of household	\$3,880	\$8,740
2013	Single or married filing separately	\$1,900	\$4,270
	Married filing a joint return or head of household	\$3,800	\$8,540
2012	Single or married filing separately	\$1,860	\$4,200
	Married filing a joint return or head of household	\$3,720	\$8,400
2011	Single or married filing separately	\$1,820	\$4,110
	Married filing a joint return or head of household	\$3,640	\$8,220

Taxable Recovery for Itemized Deductions from Tax Year _____

Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
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Federal Income Tax Refund	1. Enter the total of your federal income tax deducted on Form 2, Schedule III or Form 2M, Schedule I, lines 7a to 7d for the deduction year (indicated above) 1.			1.
	2. Enter the total refund(s) you received in 2017 and prior years from the federal income tax reported on line 1. This amount should not include any refundable credits that are not attributable to taxes you paid..... 2.			2.
	3. Deduct line 2 from line 1. This is your federal income tax not refunded..... 3.			3.
	4. Enter the federal income taxes you deducted on Form 2, Schedule III or Form 2M, Schedule I, line 7e in the deduction year 4.			4.
	5. Is line 3 larger than line 4? If <i>yes</i> , enter 0 here. If <i>no</i> , subtract line 3 from line 4 and enter the result here. This is the amount of taxes you deducted that were refunded to you..... 5.			5.
	6. Enter the total of all taxable recoveries of federal income tax reported in previous year returns..... 6.			6.
	7. Subtract line 6 from line 5. This is your federal income tax recovery for 2017 7.			7.
Other	8. Enter the total of all other itemized deductions recovered in 2017 and for the deduction year (see note at the bottom of page)..... 8.			8.
Total	9. Add lines 7 and 8..... 9.			9.
Standard Deduction Benefit Rule	10. Enter the total Montana allowable itemized deductions for the deduction year .. 10.			10.
	11. Enter any taxable recovery you reported on a return prior to the 2017 return. These recoveries must not be included in lines 7 or 8 11.			11.
	12. Subtract line 11 from line 10 12.			12.
	13. Montana adjusted gross income for the deduction year..... 13.			13.
	14. Enter the standard deduction for the deduction year. (The standard deduction amounts for 2011 through 2016 are shown in the table on page 1 of this worksheet.)..... 14.			14.
	15. Subtract line 14 from line 12. If the result is zero or less, stop here. The amount on line 9 is not taxable..... 15.			15.
	16. Enter the smaller of line 9 or line 15..... 16.			16.
	17. Enter your Montana taxable income for the deduction year 17.			17.
Taxable Recovery	18. If line 17 is zero or more, enter the amount from line 16. If line 17 is a negative amount, add lines 16 and 17 and enter the result, but not less than zero. This is your recovery amount. Include this amount in income for 2017 and follow the directions below. 18.			18.
Allocation	<ul style="list-style-type: none"> • If line 18 equals line 9, enter the amount from line 7 on Form 2, Schedule I, line 3, and enter the amount from line 8 on Form 2, Schedule I, line 4. • If line 18 is less than line 9, and either line 7 or line 8 is zero: <ul style="list-style-type: none"> ○ If there is an amount on line 7, enter the amount from line 18 on Form 2, Schedule I, line 3. ○ If there is an amount on line 8, enter the amount from line 18 on Form 2, Schedule I, line 4. • If line 18 is less than line 9 and there are amounts on both lines 7 and 8, complete lines A, B and C below. 			
	A. Divide the amount on line 7 by the amount on line 9. Enter the percentage here.. A.			A.
	B. Multiply the amount on line 18 by the percentage on line A. Enter the result here and on Form 2, Schedule I, line 3..... B.			B.
	C. Subtract the amount on line B from the amount on line 18. Enter the result here and on Form 2, Schedule I, line 4..... C.			C.

Note on line 8: When the original deduction was limited to a fraction of the expense, the amount of your recovery is the difference between the original deduction and the deduction that would have been allowed taking into account the refund(s). To refigure your deduction, you may have to use any form or worksheet you used to determine your original deduction. If this is not the first refund you received from the same expense you deducted that year, refigure your recovery using all the refund you received first, and deduct any amount you already reported as recovery on prior returns.