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As of: May 23, 2012 (3:20PM)

LC9000

**** Bill No. ****

Introduced By *****

By Request of the *****

Field Code Changed

A Bill for an Act entitled: "An Act revising certain provisions related to the administration of taxes; revising the uniform penalty assessments on delinquent taxes; amending the waiver of interest; providing that interest assessments on delinquent income taxes are based only on the federal underpayment rate assessed against individual income taxpayers; clarifying the taxation of federal individual income tax refunds; providing that underpayment interest on estimated individual income taxes is not required under certain conditions; providing that the penalties for substantial understatement of a tax or for filing a fraudulent or frivolous return or report are similar to federal penalties; amending sections 15-1-206, 15-1-216, 15-30-2110, 15-30-2341, and 15-30-2512, MCA; and providing an applicability date."

Be it enacted by the Legislature of the State of Montana:

Section 1. Section 15-1-206 , MCA, is amended to read:

"15-1-206. Waiver of penalties -- interest. (1) The department may, in its discretion, waive, for reasonable cause, any penalty assessed by the department.

(2) Whenever the department waives a penalty provided for in this title, it also may, in its discretion, waive interest not to

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exceed ~~\$100 due upon the tax~~ \$500 due per tax period. When the department enters into a payment plan with a taxpayer that allows the taxpayer to make installment payments of delinquent taxes, interest, and penalties, the department may, ~~at the conclusion of the payment plan term,~~ agree to waive an additional \$100 of interest per tax period if the taxpayer ~~makes each payment required by the plan on or before the due date of the payment and complies in a timely manner with all other terms of the payment plan has complied with all of the provisions of the plan.~~ "

Comment [c1]: Language clean-up. Doesn't change the intent of the bill.

{ Internal References to 15-1-206: x
15-30-3302 15-35-105 15-36-311 15-36-313
15-37-108 15-37-205 15-38-107 15-39-105
15-39-105 15-50-309 15-51-111 15-59-106
15-65-115 15-65-115 15-72-112 15-72-112
53-19-316 53-19-316 }

Section 2. Section 15-1-216 , MCA, is amended to read:

"15-1-216. Uniform penalty and interest assessments for violation of tax provisions -- applicability -- exceptions -- uniform provision for interest on overpayments. (1) A (a) Subject to subsection (1)(b), a person who fails to file a required tax return or other report with the department by the due date, including any extension of time, of the return or report must be assessed a late filing penalty of ~~\$50 or the amount of the tax due, whichever is less~~ 5% of the tax due for each month or fraction of a month during which there is a failure to file the return or report in an amount up to 25% of the tax due, whichever is less. The late filing penalty ~~is~~ is calculated for the period up to the date the department actually

Comment [c2]: Language cleanup

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receives the late return or report. The penalty is computed only on the net amount of tax due, ~~if any,~~ as of the original due date, ~~if any, on for~~ the return or report after credit has been given for amounts paid through withholding, estimated tax payments, and other credits claimed on the return.

Comment [c3]: Language cleanup. "if any" applies to the net tax due not the due date of return.

(b) A penalty imposed under subsection (1)(a) must be reduced by the amount of the penalty imposed under subsection (2)(a) or (2)(b).

Comment [c4]: Requested by the MSCPA. Rationale: This amendment prevents stacking of late filing and late payment penalties. Patterned after 6651(c)(1).

(2) (a) (i) Except as provided in 15-30-2604(23)(c) and subsection subsections (2)(a)(i), (2)(b), and (2)(d) of this section, a person who fails to pay a tax when due must be assessed a late payment penalty of ~~1.2%~~ 0.5% a month ~~or fraction of a month~~ on the unpaid tax. The penalty may not exceed 12% of the tax due.

Comment [c5]: This correction has been sent to the Code Commissioner.

(ii) A penalty under ~~this~~ subsection (2)(a) may not be imposed on a taxpayer subject to taxation ~~under 15-30-2103 if:~~

Comment [c6]: SB199 change - part of the daily calculation language

(A) the taxpayer pays the tax and interest due with the tax return or report;

Comment [c7]: Language Cleanup

(B) ~~or~~ within 30 days following the first notice from the department to the taxpayer of the amount due; or

Comment [c8]: The current department policy is to waive the penalty for all tax types if the taxpayer pays within 30 days. As drafted the bill would only allow the department to waive the penalty for individual income taxpayers who pay all of the tax and interest in 30 days.

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(C) subject to the conditions of 15-30-2512(1)(a)(i), the taxpayer pays ~~tax when due of~~ at least 90% of the tax, ~~when due,~~ for the current year.

(b) A Except as provided in subsection (2)(d), a person who fails to pay a tax when due under Title 15, chapter 30, ~~Title 15,~~ part 25, Title 15, chapter 53, Title 15, chapter 65, ~~or~~ Title 15, chapter 68, ~~or Title 53, chapter 19, part 3~~ must be assessed a late payment

Comment [c9]: Language cleanup

Comment [c10]: The department has the administrative responsibility for the collection of the TDD fee. 53-19-316 specifically references 15-1-216 for calculation of penalty and interest therefore Title 53 should be added.

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penalty of 1.5% a month ~~or fraction of a month~~ on the unpaid tax. The penalty may not exceed 15% of the tax due.

(c) Except as provided in 15-30-2604(2)(c), the penalty imposed under subsection (2)(a) or (2)(b) of this section accrues daily on the unpaid tax from the original due date of the return regardless of whether the taxpayer has received an extension of time for filing a return.

~~(d) A penalty may not be imposed under subsection (2)(a) or (2)(b) on the amount of unpaid tax if the taxpayer demonstrates there is reasonable cause for the unpaid amount failing to pay the tax and the taxpayer acted in good faith with respect to the unpaid amount.~~

(3) (a) Subject to subsection (3)(b), a person who makes a substantial understatement of tax imposed under Title 15, ~~Title 16, chapter 11, and Title 53, chapter 19, part 3~~ must be assessed a substantial understatement penalty in an amount equal to 20% of the understatement. As used in this subsection (3), "understatement" means the amount of the tax required to be shown on the return for the tax year ~~minus less~~ the amount of tax ~~imposed the taxpayer that is shown reported~~ on the return. For purposes of this subsection (3):

(i) there is a substantial understatement of tax penalty imposed under Title 15, chapter 30, ~~except for Title 15, chapter 30, part 33~~, if the understatement is the greater of 10% of the amount of tax required to be shown on the return or \$3,000; and

(ii) there is a substantial understatement of tax penalty imposed for all other chapters under Title 15 ~~including Title 15, chapter 30, part 33, Title 16, chapter 11 and Title 53, chapter 19,~~

Comment [c11]: See comment c6

Comment [c12]: Requested by MSCPAS. Rationale: This amendment prevents the imposition of a late payment if the taxpayer shows reasonable cause for the unpaid portion of the tax and acted in good faith. Patterned after 6664(c)(1).

Comment [c13]: The way this provision is written a penalty cannot be imposed if the taxpayer demonstrates there is reasonable cause. Taxpayers do not present a reasonable cause argument to the department until they have received a statement that imposed the penalty. Therefore the department will not be able to meet the technical reading of the statute. This is a cart before the horse situation.

Comment [c14]: The department strongly recommends striking the good faith provision. This term is not defined anywhere and is going to be very difficult to define, which will need to be done by rule.

Comment [c15]: Adds title 16 and title 53 because 15-1-216 is referenced.

Comment [c16]: Language cleanup

Comment [c17]: Pass-through entities should be included in (3)(a)(ii). This will treat pass-through entities like corporations and other business entities.

Comment [c18]: See comment c12.

part 3, if the understatement exceeds the lesser of:

(A) 10% of the amount of tax required to be shown on the return if the understatement is greater than \$10,000; or

(B) \$500,000.

(b) The amount of substantial understatement of tax penalty must be reduced by the amount of the understatement that is attributable to:

(i) the tax treatment of any item by the taxpayer if there is or was substantial authority for the treatment; or

(ii) any item if the relevant facts affecting the tax treatment of the item are adequately disclosed in the return or in a statement attached to the return and there is a reasonable basis for the tax treatment of the item by the taxpayer.

~~(3)~~(4) A person who purposely or knowingly, as those terms are defined in 45-2-101, fails to file a return or report as required under Title 15 -when due or fails to file a return or report within 60 days after receiving written notice from the department that a return or report must be filed is liable for an additional penalty of ~~not less than \$1,000 or more than \$10,000~~ 15% of the tax due a month or fraction of a month during which a person purposely or knowingly fails to file a return or report, up to but not to exceed 75% of the tax due as determined by the department. The department may bring an action in the name of the state to recover the penalty and any delinquent taxes.

(5) (a) A person who files a fraudulent return or report under Title 15 is liable for an additional penalty of 75% of the tax due on the underpayment of tax attributable to the fraudulent amount

Comment [c19]: Requested by MSCPAS. Rationale: This amendment reduces a substantial understatement by the amount of those tax items for which there is or was substantial authority or for which there was disclosure and a reasonable basis for the tax treatment. Patterned after 6662(d)(2)(B).

Comment [c20]: (ii) will require to develop rules to define and process to implement such terms as "relevant facts" and "reasonable basis". Also, for e-filed returns there typically isn't any way to attach statements to a return.

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reported on the return or report. The department may bring an action in the name of the state to recover the penalty, interest, and any delinquent taxes.

(b) A person who has no tax liability for the tax year and who files a fraudulent claim for a credit under Title 15 is liable for an additional penalty of 75% of the amount ~~paid~~ attributable to the fraudulent amount of the credit claimed. The department may bring an action in the name of the state to recover the penalty, interest, and amount paid.

Comment [c21]: Language cleanup.

(6) A person who files a frivolous return or report under Title 15 is liable, in addition to any other penalty imposed, for a penalty of \$2,500. A frivolous return or report is one that is filed by a person that omits information necessary to determine the taxpayer's tax liability, shows a substantially incorrect tax, is based upon a frivolous position, or is based upon the taxpayer's action to impede collection of taxes. The department may bring an action in the name of the state to recover the penalty, interest, and any delinquent taxes.

~~(4)(7)~~ (a) Except as provided in 15-30-2604(2)(e), interest on taxes not paid when due must be assessed by the department. The department shall determine the interest ~~rates~~ rate established under subsection ~~(4)(a)(i)~~ (7)(a)(i) for each calendar year by rule subject to the conditions of this subsection ~~(4)(a)~~ (7)(a). Interest rates on taxes not paid when due for a calendar year are as follows:

Comment [c22]: See comment c4.

(i) For individual income taxes not paid when due, including delinquent taxes and deficiency assessments, the interest rate is

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equal to the underpayment rate for individual taxpayers established by the secretary of the United States department of the treasury pursuant to section 6621 of the Internal Revenue Code, 26 U.S.C. 6621, for the fourth quarter of the preceding year ~~or 8%, whichever is greater.~~

(ii) For all taxes other than individual income taxes not paid when due, including delinquent taxes and deficiency assessments, the interest rate is 12% a year.

(b) Interest on delinquent taxes and on deficiency assessments is computed from the original due date of the return until the tax is paid. Except as provided in 15-30-2604(2)(c), interest accrues daily on the unpaid tax from the original due date of the return regardless of whether the taxpayer has received an extension of time for filing the return.

~~(5)(8)~~ (a) Except as provided in subsection ~~(5)(b)~~ (8)(b), this section applies to taxes, fees, remittance, and other assessments imposed under Titles 15, and Title 16, and Title 53, chapter 19, part 3 ~~[and the former 85-2-276]~~.

Comment [c23]: Remittance needs to be included to account for withholding payments.

Comment [c24]: Language cleanup.

(b) This section does not apply to:
(i) property taxes; or
(ii) gasoline and vehicle fuel taxes collected by the department of transportation pursuant to Title 15, chapter 70.

~~(6)(9)~~ Any changes to interest rates apply to any current outstanding tax balance, regardless of the rate in effect at the time the tax accrued.

~~(7)(10)~~ Except as provided in 15-30-2604, penalty and interest

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must be calculated and assessed commencing with the due date of the return.

~~(8)~~(11) Deficiency assessments are due and payable 30 days from the date of the deficiency assessment.

~~(9)~~(12) Interest allowed for the overpayment of taxes or fees is the same rate as is charged for unpaid or delinquent taxes. For the purposes of this subsection, interest charged for unpaid or delinquent taxes is the interest rate determined in subsection

~~(4)(a)(i)~~ (7)(a)(i). (Bracketed language in subsection ~~(5)(a)~~ (8)(a) terminates June 30, 2020--sec. 18, Ch. 288, L. 2005.)"

Comment [25]: <eff>

Comment [26]: </eff>

{Internal References to 15-1-216:x

15-1-217	15-23-214	15-24-921	15-30-2509
15-30-2509	15-30-2512	15-30-2546	15-30-2546
15-30-2602	15-30-2604	15-30-2604	15-30-2604
15-30-2609	15-30-2642	15-31-503	15-31-510
15-31-510	15-31-531	15-31-543	15-35-105
15-35-112	15-35-113	15-36-311	15-36-313
15-36-314	15-36-315	15-37-105	15-37-106
15-37-108	15-37-109	15-37-114	15-37-115
15-37-205	15-37-210	15-37-211	15-38-107
15-38-107	15-38-107	15-38-110	15-38-111
15-39-105	15-39-105	15-39-105	15-39-107
15-39-107	15-39-109	15-50-308	15-50-309
15-50-309	15-51-103	15-51-109	15-51-110
15-51-111	15-51-111	15-53-145	15-53-146
15-53-147	15-53-147	15-59-106	15-59-106
15-59-112	15-59-113	15-60-204	15-60-206
15-60-208	15-65-115	15-65-115	15-65-115
15-65-116	15-66-204	15-66-206	15-66-208
15-67-204	15-67-208	15-68-513	15-68-514
15-68-517	15-68-525	15-72-112	15-72-112
15-72-112	15-72-114	15-72-116	16-1-403
16-1-409	16-1-411	16-1-424	16-11-111
16-11-143	53-19-316	53-19-316	53-19-316
53-19-316	53-19-317	75-2-220	75-5-516
80-2-230	87-2-903	87-2-903	}

Section 3. Section 15-30-2110 , MCA, is amended to read:

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"15-30-2110. Adjusted gross income. (1) Subject to subsection (13), adjusted gross income is the taxpayer's federal adjusted gross income as defined in section 62 of the Internal Revenue Code, 26 U.S.C. 62, and in addition includes the following:

(a) (i) interest received on obligations of another state or territory or county, municipality, district, or other political subdivision of another state, except to the extent that the interest is exempt from taxation by Montana under federal law;

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C. 852(b)(5), that are attributable to the interest referred to in subsection (1)(a)(i);

(b) refunds received of federal income tax, to the extent that the deduction of the tax resulted in a reduction of Montana income tax liability as determined under subsection (15);

(c) that portion of a shareholder's income under subchapter S. of Chapter 1 of the Internal Revenue Code that has been reduced by any federal taxes paid by the subchapter S. corporation on the income;

(d) depreciation or amortization taken on a title plant as defined in 33-25-105;

(e) the recovery during the tax year of an amount deducted in any prior tax year to the extent that the amount recovered reduced the taxpayer's Montana income tax in the year deducted;

(f) if the state taxable distribution of an estate or trust is greater than the federal taxable distribution of the same estate or trust, the difference between the state taxable distribution and the federal taxable distribution of the same estate or trust for the same

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tax period; and

(g) except for exempt-interest dividends described in subsection (2)(a)(ii), ~~for tax years commencing after December 31, 2002,~~ the amount of any dividend to the extent that the dividend is not included in federal adjusted gross income.

(2) Notwithstanding the provisions of the Internal Revenue Code, adjusted gross income does not include the following, which are exempt from taxation under this chapter:

(a) (i) all interest income from obligations of the United States government, the state of Montana, or a county, municipality, district, or other political subdivision of the state and any other interest income that is exempt from taxation by Montana under federal law;

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C. 852(b)(5), that are attributable to the interest referred to in subsection (2)(a)(i);

(b) interest income earned by a taxpayer who is 65 years of age or older in a tax year up to and including \$800 for a taxpayer filing a separate return and \$1,600 for each joint return;

(c) (i) except as provided in subsection (2)(c)(ii) and subject to subsection (14), the first \$3,600 of all pension and annuity income received as defined in 15-30-2101;

(ii) subject to subsection (14), for pension and annuity income described under subsection (2)(c)(i), as follows:

(A) each taxpayer filing singly, head of household, or married filing separately shall reduce the total amount of the exclusion

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provided in subsection (2)(c)(i) by \$2 for every \$1 of federal adjusted gross income in excess of \$30,000 as shown on the taxpayer's return;

(B) in the case of married taxpayers filing jointly, if both taxpayers are receiving pension or annuity income or if only one taxpayer is receiving pension or annuity income, the exclusion claimed as provided in subsection (2)(c)(i) must be reduced by \$2 for every \$1 of federal adjusted gross income in excess of \$30,000 as shown on their joint return;

(d) all Montana income tax refunds or tax refund credits;

(e) gain required to be recognized by a liquidating corporation under 15-31-113(1)(a)(ii);

(f) all tips or gratuities that are covered by section 3402(k) or service charges that are covered by section 3401 of the Internal Revenue Code of 1954, 26 U.S.C. 3402(k) or 3401, as amended and applicable on January 1, 1983, received by a person for services rendered to patrons of premises licensed to provide food, beverage, or lodging;

(g) all benefits received under the workers' compensation laws;

(h) all health insurance premiums paid by an employer for an employee if attributed as income to the employee under federal law;

(i) all money received because of a settlement agreement or judgment in a lawsuit brought against a manufacturer or distributor of "agent orange" for damages resulting from exposure to "agent orange";

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(j) principal and income in a medical care savings account established in accordance with 15-61-201 or withdrawn from an account for eligible medical expenses, as defined in 15-61-102, of the taxpayer or a dependent of the taxpayer or for the long-term care of the taxpayer or a dependent of the taxpayer;

(k) principal and income in a first-time home buyer savings account established in accordance with 15-63-201 or withdrawn from an account for eligible costs, as provided in 15-63-202(7), for the first-time purchase of a single-family residence;

(l) contributions withdrawn from a family education savings account or earnings withdrawn from a family education savings account for qualified higher education expenses, as defined in 15-62-103, of a designated beneficiary;

(m) the recovery during the tax year of any amount deducted in any prior tax year to the extent that the recovered amount did not reduce the taxpayer's Montana income tax in the year deducted;

(n) if the federal taxable distribution of an estate or trust is greater than the state taxable distribution of the same estate or trust, the difference between the federal taxable distribution and the state taxable distribution of the same estate or trust for the same tax period;

(o) deposits, not exceeding the amount set forth in 15-30-3003, deposited in a Montana farm and ranch risk management account, as provided in 15-30-3001 through 15-30-3005, in any tax year for which a deduction is not provided for federal income tax purposes;

(p) income of a dependent child that is included in the

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taxpayer's federal adjusted gross income pursuant to the Internal Revenue Code. The child is required to file a Montana personal income tax return if the child and taxpayer meet the filing requirements in 15-30-2602.

(q) principal and income deposited in a health care expense trust account, as defined in 2-18-1303, or withdrawn from the account for payment of qualified health care expenses as defined in 2-18-1303;

(r) that part of the refundable credit provided in 33-22-2006 that reduces Montana tax below zero; and

(s) the amount of the gain recognized from the sale or exchange of a mobile home park as provided in 15-31-163.

(3) A shareholder of a DISC that is exempt from the corporation license tax under 15-31-102(1)(1) shall include in the shareholder's adjusted gross income the earnings and profits of the DISC in the same manner as provided by section 995 of the Internal Revenue Code, 26 U.S.C. 995, for all periods for which the DISC election is effective.

(4) A taxpayer who, in determining federal adjusted gross income, has reduced the taxpayer's business deductions by an amount for wages and salaries for which a federal tax credit was elected under sections 38 and 51(a) of the Internal Revenue Code, 26 U.S.C. 38 and 51(a), is allowed to deduct the amount of the wages and salaries paid regardless of the credit taken. The deduction must be made in the year that the wages and salaries were used to compute the credit. In the case of a partnership or small business corporation, the deduction must be made to determine the amount of income or loss of the partnership or small business corporation.

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(5) Married taxpayers filing a joint federal return who are required to include part of their social security benefits or part of their tier 1 railroad retirement benefits in federal adjusted gross income may split the federal base used in calculation of federal taxable social security benefits or federal taxable tier 1 railroad retirement benefits when they file separate Montana income tax returns. The federal base must be split equally on the Montana return.

(6) Married taxpayers filing a joint federal return who are allowed a capital loss deduction under section 1211 of the Internal Revenue Code, 26 U.S.C. 1211, and who file separate Montana income tax returns may claim the same amount of the capital loss deduction that is allowed on the federal return. If the allowable capital loss is clearly attributable to one spouse, the loss must be shown on that spouse's return; otherwise, the loss must be split equally on each return.

(7) In the case of passive and rental income losses, married taxpayers filing a joint federal return and who file separate Montana income tax returns are not required to recompute allowable passive losses according to the federal passive activity rules for married taxpayers filing separately under section 469 of the Internal Revenue Code, 26 U.S.C. 469. If the allowable passive loss is clearly attributable to one spouse, the loss must be shown on that spouse's return; otherwise, the loss must be split equally on each return.

(8) Married taxpayers filing a joint federal return in which one or both of the taxpayers are allowed a deduction for an individual retirement contribution under section 219 of the Internal Revenue

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Code, 26 U.S.C. 219, and who file separate Montana income tax returns may claim the same amount of the deduction that is allowed on the federal return. The deduction must be attributed to the spouse who made the contribution.

(9) (a) Married taxpayers filing a joint federal return who are allowed a deduction for interest paid for a qualified education loan under section 221 of the Internal Revenue Code, 26 U.S.C. 221, and who file separate Montana income tax returns may claim the same amount of the deduction that is allowed on the federal return. The deduction may be split equally on each return or in proportion to each taxpayer's share of federal adjusted gross income.

(b) Married taxpayers filing a joint federal return who are allowed a deduction for qualified tuition and related expenses under section 222 of the Internal Revenue Code, 26 U.S.C. 222, and who file separate Montana income tax returns may claim the same amount of the deduction that is allowed on the federal return. The deduction may be split equally on each return or in proportion to each taxpayer's share of federal adjusted gross income.

(10) A taxpayer receiving retirement disability benefits who has not attained 65 years of age by the end of the tax year and who has retired as permanently and totally disabled may exclude from adjusted gross income up to \$100 a week received as wages or payments in lieu of wages for a period during which the employee is absent from work due to the disability. If the adjusted gross income before this exclusion exceeds \$15,000, the excess reduces the exclusion by an equal amount. This limitation affects the amount of exclusion, but

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not the taxpayer's eligibility for the exclusion. If eligible, married individuals shall apply the exclusion separately, but the limitation for income exceeding \$15,000 is determined with respect to the spouses on their combined adjusted gross income. For the purpose of this subsection, "permanently and totally disabled" means unable to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment lasting or expected to last at least 12 months.

(11) An individual who contributes to one or more accounts established under the Montana family education savings program may reduce adjusted gross income by the lesser of \$3,000 or the amount of the contribution. In the case of married taxpayers, each spouse is entitled to a reduction, not in excess of \$3,000, for the spouses' contributions to the accounts. Spouses may jointly elect to treat half of the total contributions made by the spouses as being made by each spouse. The reduction in adjusted gross income under this subsection applies only with respect to contributions to an account of which the account owner, as defined in 15-62-103, is the taxpayer, the taxpayer's spouse, or the taxpayer's child or stepchild if the taxpayer's child or stepchild is a Montana resident. The provisions of subsection (1)(e) do not apply with respect to withdrawals of contributions that reduced adjusted gross income.

(12) (a) A taxpayer may exclude the amount of the loan payment received pursuant to subsection (12)(a)(iv), not to exceed \$5,000, from the taxpayer's adjusted gross income if the taxpayer:

(i) is a health care professional licensed in Montana as

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provided in Title 37;

(ii) is serving a significant portion of a designated geographic area, special population, or facility population in a federally designated health professional shortage area, a medically underserved area or population, or a federal nursing shortage county as determined by the secretary of health and human services or by the governor;

(iii) has had a student loan incurred as a result of health-related education; and

(iv) has received a loan payment during the tax year made on the taxpayer's behalf by a loan repayment program described in subsection (12)(b) as an incentive to practice in Montana.

(b) For the purposes of subsection (12)(a), a loan repayment program includes a federal, state, or qualified private program. A qualified private loan repayment program includes a licensed health care facility, as defined in 50-5-101, that makes student loan payments on behalf of the person who is employed by the facility as a licensed health care professional.

(13) Notwithstanding the provisions of subsection (1), adjusted gross income does not include 40% of capital gains on the sale or exchange of capital assets before December 31, 1986, as capital gains are determined under subchapter P. of Chapter 1 of the Internal Revenue Code as it read on December 31, 1986.

(14) By November 1 of each year, the department shall multiply the amount of pension and annuity income contained in subsection (2)(c)(i) and the federal adjusted gross income amounts in subsection

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(2)(c)(ii) by the inflation factor for that tax year, but using the year 2009 consumer price index, and rounding the results to the nearest \$10. The resulting amounts are effective for that tax year and must be used as the basis for the exemption determined under subsection (2)(c).|

Comment [27]: <eff>

(15) A refund received of federal income tax referred to in subsection (1)(b) must be allocated in the following order as applicable:

(a) to federal income tax in a prior tax year that was not deducted on the state tax return in that prior tax year;

(b) to federal income tax in a prior tax year that was deducted on the state tax return in that prior tax year but did not result in a reduction in state income tax liability in that prior tax year; and

(c) to federal income tax in a prior tax year that was deducted on the state tax return in that prior tax year and that reduced the taxpayer's state income tax liability in that prior tax year.

(Subsection (2)(f) terminates on occurrence of contingency--sec. 3, Ch. 634, L. 1983; subsection (2)(o) terminates on occurrence of contingency--sec. 9, Ch. 262, L. 2001.)|"

Comment [28]: </eff>

{*Internal References to 15-30-2110: x*
2-18-1312 7-14-1133 7-14-1636 7-34-2416
15-30-2111 15-30-2501 15-30-2501 15-30-3003
15-61-202 15-61-202 15-61-202 15-62-207
15-62-208 15-63-202 15-63-202 15-63-202
19-2-1004 19-17-407 19-18-612 19-19-504
19-20-706 19-21-212 37-4-104 67-11-303 }

Section 4. Section 15-30-2341 , MCA, is amended to read:

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"15-30-2341. Residential property tax credit for elderly -- limitations -- denial of claim. (1) Only one claimant per household in a claim period under the provisions of 15-30-2337 through 15-30-2341 is entitled to relief.

(2) Except as provided in subsection (3), a claim for relief may not be allowed for any portion of property taxes billed or rent-equivalent taxes paid that is derived from a public rent or tax subsidy program.

(3) Except for dwellings rented from a county or municipal housing authority, a claim for relief may not be allowed on rented lands or rented dwellings that are not subject to Montana property taxes during the claim period.

(4) A person filing a false or fraudulent claim under the provisions of 15-30-2337 through 15-30-2341 must be charged with the offense of unsworn falsification to authorities pursuant to 45-7-203. If a false or fraudulent claim has been paid, the amount paid, penalty, and interest may be recovered as ~~any other debt owed to the state.~~ ~~An additional 10% may be added to the amount due as a penalty. The unpaid debt must bear interest from the date of the original payment of claim until paid, at the rate of 1% per month provided in 15-1-216.~~ "

{*Internal References to 15-30-2341: x*
15-7-102 15-7-102 15-16-101 15-30-2337
15-30-2338 15-30-2338 15-30-2339 15-30-2339
15-30-2340 15-30-2340 15-30-2341 15-30-2341 }

Section 5. Section 15-30-2512 , MCA, is amended to read:

"15-30-2512. Estimated tax -- payment -- exceptions --

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interest. (1) (a) Each individual subject to tax under this chapter, except farmers or ranchers as defined in subsection (6), shall pay for the tax year, through employer withholding, as provided in 15-30-2502, through payment of estimated tax in four installments, as provided in subsection (2) of this section, or through a combination of employer withholding and estimated tax payments, at least:

(i) 90% of the tax for the current tax year, less tax credits and withholding allowed the taxpayer; or

(ii) an amount equal to 100% of the individual's tax liability for the preceding tax year, if the preceding tax year was a period of 12 months and if the individual filed a return for the tax year.

(b) Payment of estimated taxes under this section is not required if:

(i) the combined tax liability of employer withholding and estimated tax for the current year is less than \$500 after reductions for credits and withholding;

(ii) the individual did not have any tax liability for the preceding tax year, which was a tax year of 12 months, and if the individual was a citizen or resident of the United States throughout that tax year;

(iii) the underpayment was caused by reason of casualty, disaster, or other unusual circumstances that the department determines to constitute good cause; or

(iv) the individual retired in the tax year after having attained the age of 62 or if the individual became disabled in the

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tax year. In addition, payment of estimated taxes under this section is not required in the tax year following the tax year in which the individual retired or became disabled.

(2) Estimated taxes must be paid in four installments according to one of the following schedules:

(a) Subject to the due date provision in 15-30-2604(1)(b), for each taxpayer whose tax year begins on January 1, estimated tax payments are due on the following dates:

Installment	Date
First	April 15
Second	June 15
Third	September 15
Fourth	January 15 of the following tax year

(b) Subject to the due date provision in 15-30-2604(1)(b), for each taxpayer whose tax year begins on a date other than January 1, estimated tax payments are due on the following dates:

Installment	Date
First	15th day of the 4th month following the beginning of the tax year
Second	15th day of the 6th month following the beginning of the tax year
Third	15th day of the 9th month following the beginning of the tax year
Fourth	15th day of the month following the close of the tax year

(3) (a) Except as provided in subsection (4), each installment must be 25% of the required annual payment determined pursuant to

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subsection (1). If the taxpayer's tax situation changes, each succeeding installment must be proportionally changed so that the balance of the required annual payment is paid in equal installments over the remaining period of time.

(b) If the taxpayer's tax situation changes after the date for the first installment or any subsequent installment, as specified in subsection (2)(a) or (2)(b), so that the taxpayer is required to pay estimated taxes, the taxpayer shall pay 25% for each succeeding installment except for the first one in which a payment is required. For estimated taxes required to be paid beginning with the second installment provided for in subsection (2)(a) or (2)(b), the taxpayer shall pay 50% for that installment and 25% for the third and fourth installments, respectively. For estimated taxes required to be paid beginning with the third installment provided for in subsection (2)(a) or (2)(b), the taxpayer shall pay 75% for that installment and 25% for the fourth installment.

(4) (a) If for any required installment the taxpayer determines that the installment payment is less than the amount determined under subsection (3)(a), the lower amount may be paid as an annualized income installment.

(b) For any required installment, the annualized income installment is the applicable percentage described in subsection (4)(c) applied to the tax computed on the basis of annualized taxable income in the tax year for the months ending before the due date for the installment less the total amount of any prior required installments for the tax year.

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(c) For the purposes of this subsection (4), the applicable percentage is determined according to the following schedule:

Required Installment Applicable Percentage

First 22.5%

Second 45%

Third 67.5%

Fourth 90%

(d) A reduction in a required installment resulting from the application of an annualized income installment must be recaptured by increasing the amount of the next required installment, determined under subsection (3)(a), by the amount of the reduction. Any subsequent installment must be increased by the amount of the reduction until the amount has been recaptured.

(5) (a) ~~If~~ Subject to subsection (5)(f), if an estimated tax, an employer withholding tax, or a combination of estimated tax and employer withholding tax is underpaid, there must be added to the amount due under this chapter interest on the amount of the underpayment as provided in 15-1-216. The interest is computed on the amount of the underpayment, as determined in subsection (5)(b), for the period from the time the payment was due to the date payment was made or to the 15th day of the 4th month of the year following the tax year in which the payment was to be made, whichever is earlier.

(b) For the purpose of determining the amount of interest due in subsection (5)(a), the amount of the underpayment is the required installment amount less the installment amount paid, if any, on or before the due date for the installment.

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(c) For the purpose of determining the amount of interest due in subsection (5)(a), an estimated payment must be credited against unpaid required installments in the order in which those installments are required to be paid.

(d) For a married taxpayer filing separately on the same form, the interest provided for in subsection (5)(a) must be computed on the combined tax liability after reductions for credits and withholding, as shown on the taxpayer's return.

(e) Interest may not be charged with respect to any underpayment of the fourth installment of estimated taxes if:

(i) the taxpayer pays in full the amount computed on the return as payable; and

(ii) the taxpayer files a return on or before the last day of the month following the close of the tax year referred to in subsection (2)(a) or (2)(b).

(f) Interest on the underpayment of estimated tax may not be assessed against a taxpayer if the tax paid by the taxpayer from employer withholding and estimated tax payments satisfies the requirements of subsection (1)(a)(i) or (1)(a)(ii) and the taxpayer has paid approximately equal quarterly installments of estimated taxes.

Comment [c29]: The department will need to define this by rule.

(6) For the purposes of this section, "farmer or rancher" means a taxpayer who derives at least 66 2/3% of the taxpayer's gross income, as defined in 15-30-2101, from farming or ranching operations, or both.

(7) The department shall promulgate rules governing reasonable

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extensions of time for paying the estimated tax. An extension may not be for more than 6 months."

{Internal References to 15-30-2512: x
15-30-2512 * 15-30-2602 15-30-2602
15-30-3312 }

NEW SECTION. **Section 6. {standard} Applicability.** [This act]

applies to tax periods beginning after December 31, 2013.

- END -

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