

HOUSE BILL NO. 359

INTRODUCED BY E. LIESER

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ABILL FOR ANACT ENTITLED: "ANACT ADJUSTING INFLATION FACTOR CALCULATION FOR INDIVIDUAL INCOME TAX; PROVIDING A TRANSITION SECTION FOR TAX YEAR 2016; AMENDING SECTIONS 15-30-2101, 15-30-2103, 15-30-2110, 15-30-2114, 15-30-2132, AND 15-30-2602, MCA; AND PROVIDING AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-30-2101, MCA, is amended to read:

"15-30-2101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

- (1) "Base year structure" means the following elements of the income tax structure:
 - (a) the tax brackets established in 15-30-2103, but unadjusted by 15-30-2103(2), in effect on June 30 of the taxable year;
 - (b) the exemptions contained in 15-30-2114, but unadjusted by 15-30-2114(6), in effect on June 30 of the taxable year;
 - (c) the maximum standard deduction provided in 15-30-2132, but unadjusted by 15-30-2132(2), in effect on June 30 of the taxable year.
- (2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.
- (3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:
 - (a) that is treated as an association for federal income tax purposes;
 - (b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not in effect; and
 - (c) that is not a disregarded entity.
- (4) "Department" means the department of revenue.
- (5) "Disregarded entity" means a business entity:



1 (a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in
2 United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as
3 those regulations may be labeled or amended; or

4 (b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided
5 in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

6 (6) "Dividend" means:

7 (a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or
8 members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

9 (b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

10 (7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person,
11 whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

12 (8) "Foreign C. corporation" means a corporation that is not engaged in or doing business in Montana,
13 as provided in 15-31-101.

14 (9) "Foreign government" means any jurisdiction other than the one embraced within the United States,
15 its territories, and its possessions.

16 (10) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in
17 section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding
18 unemployment compensation included in federal gross income under the provisions of section 85 of the Internal
19 Revenue Code (26 U.S.C. 85) as amended.

20 (11) "Inflation factor" means a number determined for each tax year by dividing the consumer price index
21 for June of the previous tax year by the consumer price index for June ~~2005~~ 2015.

22 (12) "Information agents" includes all individuals and entities acting in whatever capacity, including
23 lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all
24 officers and employees of the state or of any municipal corporation or political subdivision of the state, having the
25 control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities,
26 compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits,
27 and income with respect to which any person or fiduciary is taxable under this chapter.

28 (13) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be
29 labeled or further amended. References to specific provisions of the Internal Revenue Code mean those
30 provisions as they may be otherwise labeled or further amended.

1 (14) "Knowingly" is as defined in 45-2-101.

2 (15) "Limited liability company" means a limited liability company, domestic limited liability company, or
3 a foreign limited liability company as defined in 35-8-102.

4 (16) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

5 (17) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

6 (a) a resident taxpayer on a lottery ticket; or

7 (b) a nonresident taxpayer on a lottery ticket purchased in Montana.

8 (18) (a) "Montana source income" means:

9 (i) wages, salary, tips, and other compensation for services performed in the state or while a resident
10 of the state;

11 (ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise
12 transferred while a resident of the state, or used or held in connection with a trade, business, or occupation
13 carried on in the state;

14 (iii) gain attributable to the sale or other transfer of intangible property received or accrued while a
15 resident of the state;

16 (iv) interest received or accrued while a resident of the state or from an installment sale of real property
17 or tangible commercial or business personal property located in the state;

18 (v) dividends received or accrued while a resident of the state;

19 (vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state
20 or while a resident of the state;

21 (vii) net income or loss derived from farming activities carried on in the state or while a resident of the
22 state;

23 (viii) net rents from real property and tangible personal property located in the state or received or
24 accrued while a resident of the state;

25 (ix) net royalties from real property and from tangible real property to the extent the property is used in
26 the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state
27 is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical
28 location of the property in the state during the royalty period in the tax year and the denominator of which is the
29 number of days of physical location of the property everywhere during all royalty periods in the tax year. If the
30 physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in

1 which it was located at the time the person paying the royalty obtained possession.

2 (x) patent royalties to the extent the person paying them employs the patent in production, fabrication,
3 manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are
4 received or accrued while a resident of the state;

5 (xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties
6 are received or accrued while a resident of the state;

7 (xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

8 (A) derived from a trade, business, occupation, or profession carried on in the state;

9 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
10 property located in the state; or

11 (C) taken into account while a resident of the state;

12 (xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or
13 item of income, gain, loss, deduction, or credit:

14 (A) derived from a trade, business, occupation, or profession carried on in the state;

15 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
16 property located in the state; or

17 (C) taken into account while a resident of the state;

18 (xiv) social security benefits received or accrued while a resident of the state;

19 (xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits
20 received while a resident of the state;

21 (xvi) any other income attributable to the state, including but not limited to lottery winnings, state and
22 federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks; and

23 (xvii) in the case of a nonresident who sells the nonresident's interest in a publicly traded partnership
24 doing business in Montana, the gain described in section 751 of the Internal Revenue Code, 26 U.S.C. 751,
25 multiplied by the Montana apportionment factor. If the net gain or loss resulting from the use of the apportionment
26 factor as provided in this subsection (18)(a)(xvii) does not fairly and equitably represent the nonresident
27 taxpayer's business activity interest, then the nonresident taxpayer may petition for, or the department may
28 require with respect to any and all of the partnership interest, the employment of another method to effectuate
29 an equitable allocation or apportionment of the nonresident's income. This subsection (18)(a)(xvii) is intended
30 to preserve the rights and privileges of a nonresident taxpayer and align those rights with taxpayers who are

1 afforded the same rights under 15-1-601 and 15-31-312.

2 (b) The term does not include:

3 (i) compensation for military service of members of the armed services of the United States who are not
4 Montana residents and who are residing in Montana solely by reason of compliance with military orders and does
5 not include income derived from their personal property located in the state except with respect to personal
6 property used in or arising from a trade or business carried on in Montana; or

7 (ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their
8 domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located
9 in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there
10 is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

11 (19) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this
12 chapter.

13 (20) "Nonresident" means a natural person who is not a resident.

14 (21) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued
15 or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the
16 method of accounting upon the basis of which the taxable income is computed under this chapter.

17 (22) "Partner" means a member of a partnership or a manager or member of any other entity, if treated
18 as a partner for federal income tax purposes.

19 (23) "Partnership" means a general or limited partnership, limited liability partnership, limited liability
20 company, or other entity, if treated as a partnership for federal income tax purposes.

21 (24) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

22 (25) "Pension and annuity income" means:

23 (a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term
24 is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the
25 result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon
26 the cessation of employment;

27 (b) payments received as the result of past service and cessation of employment in the uniformed
28 services of the United States;

29 (c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are
30 included in federal adjusted gross income;

1 (d) distributions from individual retirement, deferred compensation, and self-employed retirement plans
2 recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the
3 extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

4 (e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular
5 employment.

6 (26) "Purposely" is as defined in 45-2-101.

7 (27) "Received", for the purpose of computation of taxable income under this chapter, means received
8 or accrued, and the term "received or accrued" must be construed according to the method of accounting upon
9 the basis of which the taxable income is computed under this chapter.

10 (28) "Resident" applies only to natural persons and includes, for the purpose of determining liability to
11 the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the
12 state of Montana and any other person who maintains a permanent place of abode within the state even though
13 temporarily absent from the state and who has not established a residence elsewhere.

14 (29) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the
15 Internal Revenue Code (26 U.S.C. 1362) is in effect.

16 (30) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in
17 proportion to their previous holdings.

18 (31) "Tax year" means the taxpayer's taxable year for federal income tax purposes.

19 (32) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and
20 exemptions provided for in this chapter.

21 (33) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other
22 obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation."

23

24 **Section 2.** Section 15-30-2103, MCA, is amended to read:

25 **"15-30-2103. Rate of tax.** (1) There must be levied, collected, and paid for each tax year upon the
26 taxable income of each taxpayer subject to this tax, after making allowance for exemptions and deductions as
27 provided in this chapter, a tax on the brackets of taxable income as follows:

28 (a) on the first ~~\$2,300~~ \$2,900 of taxable income or any part of that income, 1%;

29 (b) on the next ~~\$1,800~~ \$2,200 of taxable income or any part of that income, 2%;

30 (c) on the next ~~\$2,100~~ \$2,700 of taxable income or any part of that income, 3%;

- 1 (d) on the next ~~\$2,200~~ \$2,700 of taxable income or any part of that income, 4%;
- 2 (e) on the next ~~\$2,400~~ \$3,000 of taxable income or any part of that income, 5%;
- 3 (f) on the next ~~\$3,100~~ \$3,900 of taxable income or any part of that income, 6%;
- 4 (g) on any taxable income in excess of ~~\$13,900~~ \$17,400 or any part of that income, 6.9%.

5 (2) By November 1 of each year, the department shall multiply the bracket amount contained in
6 subsection (1) by the inflation factor for ~~that~~ the following tax year and round the cumulative brackets to the
7 nearest \$100. The resulting adjusted brackets are effective for that following tax year and must be used as the
8 basis for imposition of the tax in subsection (1) of this section."

9

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

11 **"15-30-2110. Adjusted gross income.** (1) Subject to subsection (13), adjusted gross income is the
12 taxpayer's federal adjusted gross income as defined in section 62 of the Internal Revenue Code, 26 U.S.C. 62,
13 and in addition includes the following:

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

17 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C.
18 852(b)(5), that are attributable to the interest referred to in subsection (1)(a)(i);

19 (b) refunds received of federal income tax, to the extent that the deduction of the tax resulted in a
20 reduction of Montana income tax liability;

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

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

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

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

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

1 gross income.

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

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

7 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C.
8 852(b)(5), that are attributable to the interest referred to in subsection (2)(a)(i);

9 (b) interest income earned by a taxpayer who is 65 years of age or older in a tax year up to and including
10 \$800 for a taxpayer filing a separate return and \$1,600 for each joint return;

11 (c) (i) except as provided in subsection (2)(c)(ii), the first ~~\$3,600~~ \$4,070 of all pension and annuity
12 income received as defined in 15-30-2101;

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

14 (A) each taxpayer filing singly, head of household, or married filing separately shall reduce the total
15 amount of the exclusion provided in subsection (2)(c)(i) by \$2 for every \$1 of federal adjusted gross income in
16 excess of ~~\$30,000~~ \$33,910 as shown on the taxpayer's return;

17 (B) in the case of married taxpayers filing jointly, if both taxpayers are receiving pension or annuity
18 income or if only one taxpayer is receiving pension or annuity income, the exclusion claimed as provided in
19 subsection (2)(c)(i) must be reduced by \$2 for every \$1 of federal adjusted gross income in excess of ~~\$30,000~~
20 \$33,910 as shown on their joint return;

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

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

23 (f) all tips or gratuities that are covered by section 3402(k) or service charges that are covered by section
24 3401 of the Internal Revenue Code of 1954, 26 U.S.C. 3402(k) or 3401, as amended and applicable on January
25 1, 1983, received by a person for services rendered to patrons of premises licensed to provide food, beverage,
26 or lodging;

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

28 (h) all health insurance premiums paid by an employer for an employee if attributed as income to the
29 employee under federal law, including premiums paid by the employer for an employee pursuant to 33-22-166;

30 (i) all money received because of a settlement agreement or judgment in a lawsuit brought against a

1 manufacturer or distributor of "agent orange" for damages resulting from exposure to "agent orange";

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

5 (k) principal and income in a first-time home buyer savings account established in accordance with
6 15-63-201 or withdrawn from an account for eligible costs, as provided in 15-63-202(7), for the first-time purchase
7 of a single-family residence;

8 (l) contributions or earnings withdrawn from a family education savings account or from a qualified tuition
9 program established and maintained by another state as provided by section 529(b)(1)(A)(ii) of the Internal
10 Revenue Code, 26 U.S.C. 529(b)(1)(A)(ii), for qualified higher education expenses, as defined in 15-62-103, of
11 a designated beneficiary;

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

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

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

20 (p) income of a dependent child that is included in the taxpayer's federal adjusted gross income pursuant
21 to the Internal Revenue Code. The child is required to file a Montana personal income tax return if the child and
22 taxpayer meet the filing requirements in 15-30-2602.

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

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

26 (s) the amount of the gain recognized from the sale or exchange of a mobile home park as provided in
27 15-31-163.

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

1 is effective.

2 (4) A taxpayer who, in determining federal adjusted gross income, has reduced the taxpayer's business
3 deductions by an amount for wages and salaries for which a federal tax credit was elected under sections 38 and
4 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
5 salaries paid regardless of the credit taken. The deduction must be made in the year that the wages and salaries
6 were used to compute the credit. In the case of a partnership or small business corporation, the deduction must
7 be made to determine the amount of income or loss of the partnership or small business corporation.

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

13 (6) Married taxpayers filing a joint federal return who are allowed a capital loss deduction under section
14 1211 of the Internal Revenue Code, 26 U.S.C. 1211, and who file separate Montana income tax returns may
15 claim the same amount of the capital loss deduction that is allowed on the federal return. If the allowable capital
16 loss is clearly attributable to one spouse, the loss must be shown on that spouse's return; otherwise, the loss
17 must be split equally on each return.

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

23 (8) Married taxpayers filing a joint federal return in which one or both of the taxpayers are allowed a
24 deduction for an individual retirement contribution under section 219 of the Internal Revenue Code, 26 U.S.C.
25 219, and who file separate Montana income tax returns may claim the same amount of the deduction that is
26 allowed on the federal return. The deduction must be attributed to the spouse who made the contribution.

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

1 gross income.

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

7 (10) A taxpayer receiving retirement disability benefits who has not attained 65 years of age by the end
8 of the tax year and who has retired as permanently and totally disabled may exclude from adjusted gross income
9 up to \$100 a week received as wages or payments in lieu of wages for a period during which the employee is
10 absent from work due to the disability. If the adjusted gross income before this exclusion exceeds \$15,000, the
11 excess reduces the exclusion by an equal amount. This limitation affects the amount of exclusion, but not the
12 taxpayer's eligibility for the exclusion. If eligible, married individuals shall apply the exclusion separately, but the
13 limitation for income exceeding \$15,000 is determined with respect to the spouses on their combined adjusted
14 gross income. For the purpose of this subsection, "permanently and totally disabled" means unable to engage
15 in any substantial gainful activity by reason of any medically determined physical or mental impairment lasting
16 or expected to last at least 12 months.

17 (11) (a) An individual who contributes to one or more accounts established under the Montana family
18 education savings program or to a qualified tuition program established and maintained by another state as
19 provided by section 529(b)(1)(A)(ii) of the Internal Revenue Code, 26 U.S.C. 529(b)(1)(A)(ii), may reduce adjusted
20 gross income by the lesser of \$3,000 or the amount of the contribution. In the case of married taxpayers, each
21 spouse is entitled to a reduction, not in excess of \$3,000, for the spouses' contributions to the accounts. Spouses
22 may jointly elect to treat half of the total contributions made by the spouses as being made by each spouse. The
23 reduction in adjusted gross income under this subsection applies only with respect to contributions to an account
24 of which the account owner is the taxpayer, the taxpayer's spouse, or the taxpayer's child or stepchild if the
25 taxpayer's child or stepchild is a Montana resident. The provisions of subsection (1)(e) do not apply with respect
26 to withdrawals of contributions that reduced adjusted gross income.

27 (b) Contributions made pursuant to this subsection (11) are subject to the recapture tax provided in
28 15-62-208.

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

1 (i) is a health care professional licensed in Montana as provided in Title 37;
 2 (ii) is serving a significant portion of a designated geographic area, special population, or facility
 3 population in a federally designated health professional shortage area, a medically underserved area or
 4 population, or a federal nursing shortage county as determined by the secretary of health and human services
 5 or by the governor;

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

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

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

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

16 (14) By November 1 of each year, the department shall multiply the amount of pension and annuity
 17 income contained in subsection (2)(c)(i) and the federal adjusted gross income amounts in subsection (2)(c)(ii)
 18 by the inflation factor for ~~that the following~~ tax year, ~~but using the year 2009 consumer price index, and rounding~~
 19 ~~the results rounded~~ to the nearest \$10. The resulting amounts are effective for that following tax year and must
 20 be used as the basis for the exemption determined under subsection (2)(c). (Subsection (2)(f) terminates on
 21 occurrence of contingency--sec. 3, Ch. 634, L. 1983; subsection (2)(o) terminates on occurrence of
 22 contingency--sec. 9, Ch. 262, L. 2001.)"

23

24 **Section 4.** Section 15-30-2114, MCA, is amended to read:

25 **"15-30-2114. Exemptions -- inflation adjustment.** (1) Subject to subsection (6), an individual is allowed
 26 as deductions in computing taxable income the exemptions provided by subsections (2) through (5).

27 (2) (a) An exemption of ~~\$1,900~~ \$2,380 is allowed for all taxpayers.

28 (b) An additional exemption of ~~\$1,900~~ \$2,380 is allowed for the spouse of the taxpayer if a separate
 29 return is made by the taxpayer and if the spouse, for the calendar year in which the tax year of the taxpayer
 30 begins, does not have gross income and is not the dependent of another taxpayer.

1 (3) (a) An additional exemption of ~~\$1,900~~ \$2,380 is allowed for the taxpayer if the taxpayer has attained
2 the age of 65 before the close of the taxpayer's tax year.

3 (b) An additional exemption of ~~\$1,900~~ \$2,380 is allowed for the spouse of the taxpayer if a separate
4 return is made by the taxpayer and if the spouse has attained the age of 65 before the close of the tax year and,
5 for the calendar year in which the tax year of the taxpayer begins, does not have gross income and is not the
6 dependent of another taxpayer.

7 (4) (a) An additional exemption of ~~\$1,900~~ \$2,380 is allowed for the taxpayer if the taxpayer is blind at
8 the close of the taxpayer's tax year.

9 (b) An additional exemption of ~~\$1,900~~ \$2,380 is allowed for the spouse of the taxpayer if a separate
10 return is made by the taxpayer and if the spouse is blind and, for the calendar year in which the tax year of the
11 taxpayer begins, does not have gross income and is not the dependent of another taxpayer. For the purposes
12 of this subsection (4)(b), the determination of whether the spouse is blind must be made as of the close of the
13 tax year of the taxpayer, except that if the spouse dies during the tax year, the determination must be made as
14 of the time of death.

15 (c) For purposes of this subsection (4), an individual is blind only if the person's central visual acuity does
16 not exceed 20/200 in the better eye with correcting lenses or if visual acuity is greater than 20/200 but is
17 accompanied by a limitation in the fields of vision to an extent that the widest diameter of the visual field subtends
18 an angle no greater than 20 degrees.

19 (5) (a) An exemption of ~~\$1,900~~ \$2,380 is allowed for each dependent:

20 (i) whose gross income for the calendar year in which the tax year of the taxpayer begins is less than
21 or equal to the exemption amount provided in subsection (2)(a); or

22 (ii) who is a qualifying child as defined in section 152 of the Internal Revenue Code, 26 U.S.C. 152,
23 including a student as defined in that section.

24 (b) An exemption is not allowed under this subsection for a dependent who has made a joint return with
25 the dependent's spouse for the tax year beginning in the calendar year in which the tax year of the taxpayer
26 begins.

27 (6) ~~The department, by~~ By November 1 of each year, the department shall multiply all the exemptions
28 provided in this section by the inflation factor for ~~that~~ the following tax year and round the product to the nearest
29 \$10. The resulting adjusted exemptions are effective for that following tax year and must be used in calculating
30 the tax imposed in 15-30-2103."

1

2 **Section 5.** Section 15-30-2132, MCA, is amended to read:

3 **"15-30-2132. Standard deduction.** (1) A standard deduction equal to 20% of adjusted gross income
4 is allowed if elected by the taxpayer on a return. The standard deduction is in lieu of all deductions allowed under
5 15-30-2131. The minimum standard deduction is ~~\$1,580~~ \$1,980, as adjusted under the provisions of subsection
6 (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~\$3,560~~ \$4,460,
7 as adjusted under the provisions of subsection (2). However, in the case of a single joint return of husband and
8 wife or in the case of a single individual who qualifies to file as a head of household on the federal income tax
9 return, the minimum standard deduction is twice the amount of the minimum standard deduction for a single
10 return, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater,
11 to a maximum standard deduction of twice the amount of the maximum standard deduction for a single return,
12 as adjusted under the provisions of subsection (2). The standard deduction may not be allowed to either the
13 husband or the wife if the tax of one of the spouses is determined without regard to the standard deduction. For
14 purposes of this section, the determination of whether an individual is married must be made as of the last day
15 of the tax year unless one of the spouses dies during the tax year, in which case the determination must be made
16 as of the date of death.

17 (2) By November 1 of each year, the department shall multiply both the minimum and the maximum
18 standard deduction for single returns by the inflation factor for ~~that~~ the following tax year and round the product
19 to the nearest \$10. The resulting adjusted deductions are effective for that following tax year and must be used
20 in calculating the tax imposed in 15-30-2103."

21

22 **Section 6.** Section 15-30-2602, MCA, is amended to read:

23 **"15-30-2602. Returns and payment of tax -- penalty and interest -- refunds -- credits -- inflation**
24 **adjustment.** (1) For both resident and nonresident taxpayers, each ~~single~~ individual ~~and or~~ each married
25 ~~individual couple~~ couple not filing a joint return ~~with a spouse~~ and having a gross income for the tax year of more than
26 ~~\$3,560~~ the maximum standard deduction for that filing status, as adjusted under the provisions of subsection (6),
27 ~~and married individuals not filing separate returns and having a combined gross income for the tax year of more~~
28 ~~than \$7,120, as adjusted under the provisions of subsection (6)~~ determined in 15-30-2132, are liable for a return
29 to be filed on forms and according to rules that the department may prescribe. The gross income amounts
30 referred to in this subsection (1) must be increased by ~~\$1,900, as adjusted under~~ the personal exemption

1 ~~allowance determined in provisions of 15-30-2114(6)~~ 15-30-2114, for each additional personal exemption
 2 allowance that the taxpayer is entitled to claim for the taxpayer and the taxpayer's spouse under 15-30-2114(3)
 3 and (4).

4 (2) In accordance with instructions set forth by the department, each taxpayer who is married and living
 5 with a husband or wife and is required to file a return may, at the taxpayer's option, file a joint return with the
 6 husband or wife even though one of the spouses has neither gross income nor deductions. If a joint return is
 7 made, the tax must be computed on the aggregate taxable income and, subject to 15-30-2646, the liability with
 8 respect to the tax is joint and several. If a joint return has been filed for a tax year, the spouses may not file
 9 separate returns after the time for filing the return of either has expired unless the department consents.

10 (3) If a taxpayer is unable to make the taxpayer's own return, the return must be made by an authorized
 11 agent or by a guardian or other person charged with the care of the person or property of the taxpayer.

12 (4) All taxpayers, including but not limited to those subject to the provisions of 15-30-2502 and
 13 15-30-2512, shall compute the amount of income tax payable and shall, on or before the date required by this
 14 chapter for filing a return, pay to the department any balance of income tax remaining unpaid after crediting the
 15 amount withheld, as provided by 15-30-2502, and any payment made by reason of an estimated tax return
 16 provided for in 15-30-2512. However, the tax computed must be greater by \$1 than the amount withheld and paid
 17 by estimated return as provided in this chapter. If the amount of tax withheld and the payment of estimated tax
 18 exceed by more than \$1 the amount of income tax as computed, the taxpayer is entitled to a refund of the excess.

19 (5) If the department determines that the amount of tax due is greater than the amount of tax computed
 20 by the taxpayer on the return, the department shall mail a notice to the taxpayer as provided in 15-30-2642 of the
 21 additional tax proposed to be assessed, including penalty and interest as provided in 15-1-216.

22 ~~(6) By November 1 of each year, the department shall multiply the minimum amount of gross income~~
 23 ~~necessitating the filing of a return by the inflation factor for the tax year. These adjusted amounts are effective~~
 24 ~~for that tax year, and persons who have gross incomes less than these adjusted amounts are not required to file~~
 25 ~~a return.~~

26 ~~(7)(6)~~ Individual income tax forms distributed by the department for each tax year must contain
 27 instructions and tables based on the adjusted base year structure for that tax year."
 28

29 **NEW SECTION. Section 7. Transition.** (1) The bracket amounts in 15-30-2103(1) as amended by
 30 [section 2 OR 8] are not subject to an inflation factor increase for the tax year ending December 31, 2016.

1 (2) The amount of pension and annuity income in 15-30-2110(2)(c)(i) as amended by [section 3] and the
 2 federal adjusted gross income amounts in 15-30-2110(2)(c)(ii) as amended by [section 3] are not subject to an
 3 inflation factor increase for the tax year ending December 31, 2016.

4 (3) The exemption amounts in 15-30-2114(2)(a), (2)(b), (3)(a), (3)(b), (4)(a), (4)(b), and (5)(a) as
 5 amended by [section 4] are not subject to an inflation factor increase for the tax year ending December 31, 2016.

6 (4) The minimum and maximum standard deduction amounts as amended in 15-30-2132(1) as amended
 7 by [section 5] are not subject to an inflation factor increase for the tax year ending December 31, 2016.

8
 9 COORDINATION SECTION. SECTION 8. COORDINATION INSTRUCTION. IF BOTH SENATE BILL NO. 200 AND
 10 [THIS ACT] ARE PASSED AND APPROVED AND IF BOTH CONTAIN A SECTION THAT AMENDS 15-30-2103, THEN THE SECTIONS
 11 AMENDING 15-30-2103 ARE VOID AND 15-30-2103 MUST BE AMENDED AS FOLLOWS:

12 **"15-30-2103. Rate of tax.** (1) There must be levied, collected, and paid for each tax year upon the
 13 taxable income of each taxpayer subject to this tax, after making allowance for exemptions and deductions as
 14 provided in this chapter, a tax on the brackets of taxable income as follows:

15 (a) on the first ~~\$2,300~~ \$3,000 of taxable income or any part of that income, ~~4%~~ 0.9%;

16 (b) on the next ~~\$1,800~~ \$3,000 of taxable income or any part of that income, ~~2%~~ 1.9%;

17 (c) on the next ~~\$2,100~~ \$3,000 of taxable income or any part of that income, ~~3%~~ 2.8%;

18 (d) on the next ~~\$2,200~~ \$2,500 of taxable income or any part of that income, ~~4%~~ 3.8%;

19 (e) on the next ~~\$2,400~~ \$3,000 of taxable income or any part of that income, ~~5%~~ 4.8%;

20 (f) on the next ~~\$3,100~~ \$3,500 of taxable income or any part of that income, ~~6%~~ 5.8%;

21 (g) on any taxable income in excess of ~~\$13,900~~ \$18,000 or any part of that income, ~~6.9%~~ 6.7%.

22 (2) By November 1 of each year, the department shall multiply the bracket amount contained in
 23 subsection (1) by the inflation factor for ~~that~~ the following tax year and round the cumulative brackets to the
 24 nearest \$100. The resulting adjusted brackets are effective for that following tax year and must be used as the
 25 basis for imposition of the tax in subsection (1) of this section."

26
 27 NEW SECTION. Section 9. Applicability. [This act] applies to tax years beginning after December 31,
 28 2015.

29 - END -