

# Montana State Legislature

2011 Session

## **Exhibit**

**This exhibit is a booklet which can not be scanned, therefore only the front cover/table of content and 10 pages have been scanned to aid in your research.**

**The original exhibits are on file at the Montana Historical Society and may be viewed there.**

**Montana Historical  
Society Archives  
225 N. Roberts  
Helena MT 59620-1201  
2011 Legislative Scanner Susie Hamilton**

# 2010 Montana Form 2M

Individual Income Tax Forms and Instructions (Includes Form 2EC)

**Tax Filing Deadline is April 15, 2011**

EXHIBIT \_\_\_\_\_

DATE 1/18/11

BY Revenue

***File Electronically for a  
Faster Refund...***



***Up to 10 Times Faster!***  
***revenue.mt.gov/efile***

***Thank you for filing your tax return. Use this booklet to file electronically or on paper.  
Before you file your return, check our website for filing updates that may affect your Montana return.***

**Montana Department of Revenue**

**(866) 859-2254 (toll free) • (406) 444-6900 (Helena area) • (406) 444-2830 TDD**

**Dear Montana Taxpayers:**

Thank you for filing your individual income tax returns—you do a great job! By working together, you help make Montana a great place to live, work and raise a family.

Your Montana Department of Revenue is committed to providing the best possible tax services to the citizens of our great state. That means providing you with convenient ways to file and pay your individual income taxes.

You can electronically file Form 2M—at no cost to you—through our Montana electronic filing service at <https://tap.dor.mt.gov>. You also can file traditionally with the paper form, use software that you purchase, use approved e-file vendors (found on our website at [revenue.mt.gov](http://revenue.mt.gov)), or visit a tax professional who is an *Authorized IRS E-file Provider*. In addition, you'll find no-cost options for tax filing and tax assistance at [MontanaFreeFile.org](http://MontanaFreeFile.org).

We strongly encourage you to use electronic options to file your return and to pay your tax due or receive your refund. Electronic options are simple, secure and convenient.

As always, we promise to do the best that we can to provide you with the most accurate and timely assistance to help you file your tax returns. We work hard to ensure that all citizens and businesses pay their fair share of Montana taxes—no more and no less. Together, we're making our tax system work for all Montanans!

Best regards,

Dan Bucks, Director  
Montana Department of Revenue

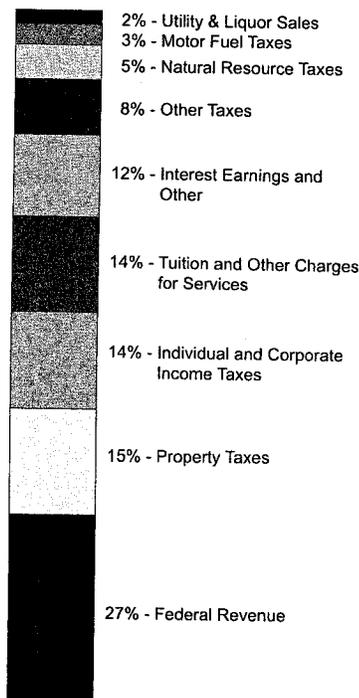
## Your Tax Dollars at Work

The table to the right shows where your individual and corporate income tax dollars (about 14% of total state and local revenues) were spent in 2009. For the charts below, the left chart shows the sources of revenue for both state and local governments in Montana for 2008, the most recent year for which totals are compiled. The right chart shows state and local spending.

Education	50%
Health and Human Services	20%
Public Safety and Corrections	13%
Transfers to Local Governments	5%
General Government Operations	8%
Other	4%
<b>Total Spending</b>	<b>100%</b>

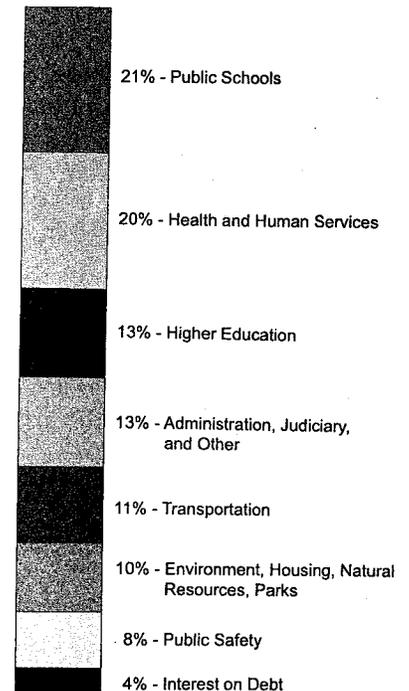
**What are Montana's Public Revenues?**

**Total Montana State and Local Revenue, Fiscal Year Ending 2008**



**Where Do Your Public Dollars Go?**

**Total State and Local Spending in Montana, Fiscal Year Ending 2008**





# Go paperless. Go green.

There are more paperless options than ever before for you to file and pay your Montana taxes. And some of them are free. Whether you want to file on your own or through your favorite preparer, several options are available to fit your needs.

## File Electronically

- **Montana Electronic Filing:** Fill out and directly file Montana individual income tax forms 2EC, 2, 2M and 2EZ for free. To file Form 2, you will need to register on Taxpayer Access Point (TAP). Watch our website for business returns we plan to add. Visit [revenue.mt.gov](http://revenue.mt.gov).
- **Taxpayer Access Point (TAP):** This is a free electronic service for accessing your Montana tax account information, filing your return, paying your tax and much more. You'll need to register to access your account, and have to have previously filed in Montana. Visit <https://tap.dor.mt.gov>.
- **E-file with Tax Preparer or Online/Retail Software:** This is a cooperative program through the IRS and state revenue agencies. Authorized tax preparers can prepare and electronically file your federal and state tax returns at the same time. Depending on the services, there may be a fee. You can also use retail or online software to prepare and file your returns on your own. Visit [revenue.mt.gov](http://revenue.mt.gov) for a list of Montana approved software vendors. Or visit [irs.gov](http://irs.gov) for filing options.
- **Montana Free File:** This organization helps individual filers with free filing options. Visit [montanafreefile.org](http://montanafreefile.org) for details.

## Did you know?

- Direct deposit is available when you e-file, and most filers get their refunds within 5-7 business days.
- More than 70% of Montana individual income taxpayers file their taxes electronically.

## Pay Electronically

- **Taxpayer Access Point (TAP):** See above for details.
- **Income Tax Express:** Pay current and past state individual income taxes and estimated taxes. Visit <https://app.mt.gov/ite>.
- **Business Tax Express:** This service allows you to electronically pay Montana state taxes for your business. Registration is required using state ePass. Visit <https://app.mt.gov/bustax>.

Electronic Filing and Payment Options at a Glance	Taxpayer Access Point <sup>(1)</sup>	E-file with tax preparer <sup>(4)</sup>	E-file with online/retail software <sup>(4)</sup>	Direct deposit refunds	Pay electronically <sup>(5)</sup>
<b>Filing status - Individual Income Tax</b>					
First-time filer	No <sup>(2)</sup>	Yes	Yes	Yes	Yes
Full-year resident	Yes	Yes	Yes	Yes	Yes
Part-year resident	Yes <sup>(3)</sup>	Yes	Yes	Yes	Yes
Nonresident	Yes <sup>(3)</sup>	Yes	Yes	Yes	Yes
<b>Form type</b>					
2EC - Elderly homeowner/ renter credit	Yes	Yes	Yes	Yes	NA
2 - Individual long form	Yes	Yes	Yes	Yes	Yes
2M - Individual intermediate form	Yes	Yes	Yes	Yes	Yes
2EZ - Individual short form	Yes	Yes	Yes	Yes	Yes
CLT-4 - Corporation	*	Yes	No	Yes	Yes
CLT-4S - S corporation	*	Yes	No	Yes	Yes
FID-3 - Estates and trusts	*	No <sup>(6)</sup>	No	Yes	Yes
PR-1 - Partnership	*	Yes	No	Yes	Yes

(1) Free service for state returns only. Visit <https://tap.dor.mt.gov>.

(2) First-time filer can file forms 2M, 2EZ, and 2EC without registering on TAP. Visit [revenue.mt.gov](http://revenue.mt.gov).

(3) Taxpayer Access Point only available if you have filed previously in Montana.

(4) Talk to your preparer, or visit [revenue.mt.gov](http://revenue.mt.gov) for a list of approved software vendors. This service is through the IRS Federal/State Electronic Filing program.

(5) Payment Service for state returns - Taxpayer Access Point: <https://tap.dor.mt.gov>; Business Tax Express: <https://app.mt.gov/bustax>; Income Tax Express: <https://app.mt.gov/ite>. Credit card charges may apply.

(6) Yes for IRS federal form. No for Montana form.

(\*) Service planned, may not be currently available. Please check <https://tap.dor.mt.gov>.

## Steps to Completing Your Return

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For your convenience, there are two copies of the following forms at the back of this booklet.

- 2010 Montana Form 2M
- 2010 Montana Form 2M Schedules
- 2010 Montana Form 2EC

### Where's My Refund?



revenue.mt.gov

Click on the Where's My Refund icon.

**What's New for 2010?****• Easier to read Form 2M.**

You will notice that the Form 2M has been updated so that it can be read better by both people and our equipment. We are using new equipment that reads paper tax returns in order to save costs for all Montanans. You can help us maximize savings on processing costs by:

- Using black or blue ink, and
- Not stapling or taping anything to the tax return, correspondence, documents, voucher or check.

Also, we ask that you organize your return information in the following order (although some items may not apply for you):

1. Check and voucher
2. Correspondence
3. Tax return
4. Schedules
5. Additional documents

**• Automatic six-month extension to file**

You can now receive an automatic six-month extension to file your Montana tax return—without applying for a federal extension. You are still required to pay extension tax payments, withholding tax, or a combination of both, equaling 90% of the current year's tax liability or 100% of the previous year's tax liability. For additional information, please see FAQ ② on page 22.

**• Revised definition of a dependent child**

Beginning with the 2010 tax year, Montana law more closely follows the federal law for determining when a child can be claimed as a dependent. Please see the instructions for line 5c on page 2 for more information.

**• New maximum gross income amount for a dependent**

Beginning with the 2010 tax year, an individual who is not a qualifying child can have gross income up to the exemption amount and still be considered a dependent. Please see the instructions for line 5c on page 2 for a full explanation of the conditions that need to be met to claim an individual as a dependent.

**• Change to refund interest for late returns**

Beginning with tax year 2010, there will be a change to the amount of refund interest we may owe to you if you file your original tax return after the extended due date. If we do not issue your refund to you within 45 days, the interest will be calculated from the date we received your tax return, not the original due date.

**• Increased pension and annuity income exemption**

The 2009 Montana Legislature enacted a law impacting the pension and annuity income exemption. An inflation factor has been applied to both the pension and annuity income exemption and to the federal adjusted gross income threshold, increasing the amount of the exemption and slowing its phase-out. The exemption amount is \$3,640 and the federal adjusted gross income threshold is \$30,320 for this tax year. Please see the instructions for line 29 on page 5.

**• Similarity of federal and state energy credits**

The federal changes first effective in 2009 did not directly impact Montana's energy conservation installation credit. However, we know that the similarities and differences between the federal and state credits can be confusing. Therefore, we encourage you to visit [recovery.mt.gov/revenue](http://recovery.mt.gov/revenue) for additional information regarding the federal and state energy credits.

**• Changes to the energy conservation installation credit**

Our administrative rules were updated in 2010 to provide you with more information about the credit. One revision, effective July 1, 2010, adopted the federal energy credit standards for windows, water heaters, and some other items. Please see Form ENRG-C and the instructions for Schedule II, line 2 on page 15 for more information.

**Getting Started**

These simple steps will help you complete and file your Montana tax return.

- Complete your federal tax return.
- Determine if Montana Form 2M is right for you. See FAQ ② on page 20.
- Decide if you will file electronically or use a paper tax return. This booklet is designed to help you file by whichever method you choose.
- If you file a paper return, remember to sign it.
- File your Montana tax return (include your payment, if taxes are due) by April 15, 2011. See FAQ ② on page 22 for updated information about receiving an extension.
- When finished, please accept our thanks for a job well done!

**Step 1. Personal Information****► Are you ready?**

- Have any updated personal information.
- Determine which filing status is best for you.

**► Did you...?**

- Use blue or black ink if you are filing on paper.
- Ensure that the social security number you enter matches the number on your W-2(s).
- Mark the correct residency status.
- List your mailing address.
- Mark a filing status box.

**Heading**

Print your name, mailing address and social security number in the spaces provided. If you are married, enter your spouse's name and social security number.

If either the primary taxpayer or the spouse passed away during the tax year, enter the date of death in the field next to his or her name. Please include a copy of federal Form 1310.

**Filing Status - (Check only one box)****Box 1 – Single**

You can claim this filing status if on December 31, 2010, you:

- were single,
- were legally separated according to your state law under a decree of divorce or separate maintenance, or
- were widowed before January 1, 2010 and you did not remarry in 2010.

If you are married, you cannot file separate Form 2M returns. You will have to file a joint tax return with your spouse on Form 2M or 2EZ or file separately using Form 2.

**Box 2 – Married Filing Jointly**

You can claim this filing status if:

- you were married as of December 31, 2010, even if you did not live with your spouse at the end of 2010, or
- your spouse died in 2010 and you did not remarry in 2010, or
- you were married as of December 31, 2010 and your spouse died in 2011 before filing a 2010 tax return.

You and your spouse can file a joint tax return even though one of you has no income or deductions, but please note that both spouses have to sign the tax return.

**Box 3 – Head of Household**

You can qualify to file as head of household on your Montana tax return if you qualify for filing head of household for federal income tax purposes. When you use this filing status, include your federal Form 1040 or 1040A, pages 1 and 2, with your Montana tax return.

**Box 4 – Full Year Resident**

You can file this form if you (and your spouse, if you are married) were a resident of Montana for the entire year. To determine your residency status, refer to FAQ 6 on page 20.

**Electronic Filers:** Please be sure to save the tax information that you have entered.

**Step 2. Exemptions (Lines 5a-5d)****► Are you ready?**

- Have your dependents' social security numbers.

**Line 5a – Yourself**

Since you are allowed one exemption for yourself, we have placed an "X" in the first box on line 5a for you. Even if you are claimed as a dependent on another person's tax return, you are still entitled to your one personal exemption. You are also entitled to an additional exemption if you are age 65 or older at the end of the tax year, and an additional exemption if you are blind.

**Line 5b – Spouse**

If you are married and are filing jointly with your spouse, your spouse is entitled to one exemption. Your spouse is also entitled to an additional exemption if he or she is age 65 or older at the end of the tax year, and an additional exemption if he or she is blind.

**Line 5c – Dependents**

You can claim a dependent exemption for each person who qualifies as your dependent. Please complete the table on line 5c, listing each dependent's first name, last name, social security number and his or her relationship to you. If you have more than four dependents, you will need to include a separate list of these additional dependents and then include these additional dependents in the total on line 5c.

Beginning with the 2010 tax year, Montana closely follows the federal rules which define when a child can be considered a "qualifying child" and can be claimed as a dependent. Under the new law, a child who is under age 19 at the end of the year (or age 24 and a full-time student) and lived with you for more than half the year can be considered a dependent even if they have more

income than is otherwise allowed. A "qualifying child" must still receive more than half their support from you and they cannot file a joint return with their spouse. Please refer to federal Publication 501 for more information.

A person who meets the following requirements is considered your dependent for Montana income tax purposes. Since some of Montana's dependency requirements are different from the federal dependency requirements, you will need to meet all the following requirements in order to claim a dependent on your Montana tax return.

Your dependent is a person:

- for whom you have provided more than half his or her support during the tax year, and
- who does not have gross income of more than \$2,130,
  - unless the dependent is a "qualifying child" according to the federal rules, and
- who is not filing a joint tax return with his or her spouse during the same tax year.

In addition to the requirements above, your dependent should be:

- a relative to you (or your spouse if you are filing a joint return) in one of the following ways:

Child	Mother	Aunt
Stepchild	Grandparent	Son-in-law
Grandchild	Stepfather	Daughter-in-law
Brother	Stepmother	Father-in-law
Sister	Nephew	Mother-in-law
Stepbrother	Niece	Brother-in-law
Stepsister	Uncle	Sister-in-law
Father		

or,

- an individual who for the tax year has shared your home as his or her principal home, and has been considered a member of your household, or
- an individual who:
  - is a descendant of your uncle or aunt, and
  - is receiving institutional care as a result of a physical or mental disability, and was a member of your household before receiving the institutional care.

**Disabled Dependent Child Exemption**

In addition to the dependent exemption above, you are entitled to an additional exemption for a child who is disabled. If your child is disabled and you qualify for this additional exemption, place an "X" in the "disabled" column in the row that you list your disabled child, and add an additional exemption to your total on line 5c.

- You are allowed this disabled child exemption if you meet all of the following requirements:
  - You provide more than half the disabled child's support.
  - Your home is the disabled child's principal home.
  - The disabled child has a permanent disability constituting a disability to 50% or more of the body as a whole. Deafness and blindness do not meet this requirement.
  - A licensed physician has certified the child's disability.

If this is the first year that you are claiming the additional exemption for this child, you will need to include a physician's certification of this qualifying disability with your tax return.

This physician's certification filed with us during the first year of eligibility remains in effect in subsequent years and we do not require you to file it annually unless the circumstances of your disabled child change.

**Line 5d**

Add lines 5a through 5c and enter the total here.

**Electronic Filers:** Please be sure to save the tax information that you have entered. 

**Step 3. Federal Adjusted Gross Income (Lines 6-21)**

▶ **Are you ready?**

- Have your 2010 federal tax return available.

▶ **Did you...?**

- Complete lines 10a, 11a, and 13a if they apply to you.

**Lines 6 through 21**

Your income on your Montana tax return begins with your federal adjusted gross income. On lines 6 through 21, enter the amount corresponding to your federal tax return Form 1040, 1040A, or 1040EZ.

**Line 14 – Taxable Refunds, Credits or Offsets of State and Local Income Taxes**

Enter here the same amount that you reported on your federal tax return. Your state refund is not taxable on your Montana tax return but you will need to include that state tax refund here and then report it as a subtraction from income on line 35 to calculate your Montana adjusted gross income.

Form 2M

**Line 16**

As of the printing of this tax booklet, the status of several expired federal provisions which affect this line and line 19 was not finalized. Montana law automatically follows the federal law for these provisions so, if federal legislation was passed extending the provisions, they also apply to your Montana return. Report on the Montana return the same amount reported on federal Form 1040, line 23 or Form 1040A, line 16.

**Line 19**

As of the printing of this tax booklet, the status of several expired federal provisions which affect this line and line 16 was not finalized. Montana law automatically follows the federal law for these provisions so, if federal legislation was passed extending the provisions, they also apply to your Montana return. Report on the Montana return the same amount reported on federal Form 1040, line 34 or Form 1040A, line 19.

**Line 21 – Federal Adjusted Gross Income**

Subtract line 20 from line 15 and enter the result here. This amount should correspond to the amount of the federal adjusted gross income that you reported on your federal tax return Form 1040, 1040A, or 1040EZ.

### Step 4: Montana Adjusted Gross Income (Lines 22-37)

**► Are you ready?**

- Have Worksheet II filled out if you had a federal tax refund in 2010 and you itemized deductions on your Montana return in 2009.
- Have Worksheet IV filled out if you have taxable income from a pension or annuity on line 10b or 11b.
- Have information about your Montana medical savings account if you used the account this year.
- Have information about any federal interest or dividends from bonds, notes or obligations.
- Have the amount of any income from tips.

**► Did you...?**

- Fill out Worksheet VIII if you have taxable income from social security or Tier I Railroad Retirement.

**Additions – Lines 22 through 25**

You may need to add additional items of income to your federal adjusted gross income in order to arrive at your Montana adjusted gross income. Enter the following items of income on the appropriate line.

**Line 22 – Interest and Mutual Fund Dividends from State, County or Municipal Bonds from Other States**

Enter the interest and mutual fund dividend income that you received from bonds and obligations of another state, territory, or political subdivision of another state (county, municipality, district, etc.).

**Line 23 – Taxable Federal Refund**

If you received a 2009 federal income tax refund in 2010 and you claimed federal income taxes paid as an itemized deduction on your 2009 Montana income tax return, you may need to report a portion or all of your federal refund as income on your 2010 Montana tax return.

To the extent that the federal tax deduction that you claimed on your 2009 Montana income tax return reduced the amount of your 2009 Montana income tax liability, any subsequent refunds from this deduction are considered income in the year that you received them.

You will need to complete Worksheet II, Tax Benefit Rule for Federal Income Tax Refund, found on page 25 of this booklet to determine whether your federal income tax refund is taxable in 2010, unless one of the following scenarios applies to you:

- If you claimed the Montana standard deduction when you filed your 2009 Montana return (instead of itemized deductions) in 2010, none of your federal income tax refund is taxable and you do not need to complete Worksheet II.
- Your deduction for federal taxes paid in 2009 may have been limited on your Montana tax return to \$5,000 (\$10,000 if filing a joint return). Because of this limitation, your refund may or may not be taxable. A simple way to check this is to subtract the refund that you received in 2010 from the total federal income taxes paid in 2009 (Form 2, Schedule III, lines 7a through 7d or Form 2M, Schedule I, lines 7a through 7d). If the result is more than \$5,000 (\$10,000 if you filed a joint return), none of the refund is taxable and you do not need to complete Worksheet II. If the result is less than \$5,000 (\$10,000 if you filed a joint return), please complete Worksheet II to determine whether your federal income tax refund is taxable.

**Line 24 – Addition to Federal Taxable Social Security**

Your social security benefits taxable to Montana may be different from the amount of taxable benefits that you reported on Form 2M, line 13b. You should determine your Montana taxable social security benefits by completing Worksheet VIII, Taxable Social Security Benefits, found on page 28 of this booklet. Before you can complete your social security worksheet, you will need to complete your partial pension and annuity income exemption worksheet, Worksheet IV, found on page 26 of this booklet.

If, after you have completed your social security worksheet, you find that your social security benefits taxable to Montana are greater than those that you reported on Form 2M, line 13b, enter that difference on this line. If your social security benefits taxable to Montana are less than those that you reported on line 13b, you should report that difference as a subtraction from federal adjusted gross income on line 33.

### Line 25 – Medical Care Savings Account Nonqualified Withdrawals

Your nonqualified withdrawal from a Montana medical care savings account is a withdrawal that you made during the tax year for any purpose other than to pay for eligible medical expenses or long-term care. You can refer to Montana Form MSA for detailed instructions. You should report any nonqualified withdrawals from your Montana medical care savings account as an addition to federal adjusted gross income on this line.

Please note that you may also be charged a penalty for making any nonqualified withdrawal. See the instructions for Form 2M, line 59, page 9 and on Montana Form MSA for the Montana medical care savings account 10% penalty.

### Subtractions – Lines 27 through 35

#### Line 27 – Exempt Interest and Dividends from Federal Bonds, Notes and Obligations

If you have received interest on United States government obligations and mutual fund dividends attributable to that interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2M. In addition, if you received interest on obligations from U.S. territory or government agency obligations that are specifically exempt by federal law or any mutual fund dividends attributable to this interest, you can subtract these amounts from your federal adjusted gross income as long as they are included in your federal adjusted gross income on Form 2M.

Interest on obligations that are only guaranteed by the United States government is not tax exempt. If you have received interest or mutual fund dividends attributable to Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds or Federal Home Loan Mortgage Corporation (FHLMAC) securities, you cannot subtract this interest or mutual fund dividends.

United States obligations that are exempt include:

- Series E, EE, F, G and H savings bonds
- U.S. treasury bills
- U.S. government notes
- U.S. government certificates

Please refer to your federal Form 1099-DIV to determine what percentage of your dividends qualifies for this exemption.

### Line 28 – Exempt Unemployment Compensation

If you have received unemployment benefits from Montana or from another state, these benefits are not taxable to Montana. If you reported taxable unemployment benefits on Form 2M, line 12, enter the same amount of these benefits on this line.

### Line 29 – Partial Pension and Annuity Income Exemption

If you have reported taxable retirement income on your Form 2M, lines 10b and/or 11b, you may be entitled to a partial exemption of this income. Before you determine if any of this retirement income is excluded, you should first determine if any of this income is from Tier II Railroad Retirement benefits. If so, your Tier II benefits are 100% exempt from Montana taxation. You should exclude your entire taxable Tier II Railroad Retirement benefits on this line. Any remaining amount of pension and annuity income is then used to determine the partial pension and annuity income exemption.

Premature distributions and early withdrawals of your retirement income do not qualify for the retirement income exemption. Early distributions which required payment of the federal 5% or 10% additional tax do not qualify for this exemption. Also, if you have received a disability pension, which is identified as a distribution code 3 on your federal Form 1099-R, you should use Montana Form DS-1, 2010 Disability Income Exemption, to determine your deduction instead of the retirement income exemption.

If you have received retirement income other than Tier II Railroad Retirement benefits or premature distributions and early withdrawals, you should complete Worksheet IV on page 26 to determine the amount of your exemption. Your retirement exemption is limited to the lesser of your taxable retirement income that you have received or \$3,640, as long as your federal adjusted gross income is \$30,320 or less and you are filing as a single taxpayer, filing jointly with your spouse and only one of you has taxable retirement income, or filing as head of household. If you are filing jointly with your spouse, both of you have retirement income, and your federal adjusted gross income is \$30,320 or less, you both can exempt the lesser of your taxable retirement income that you receive personally, or \$3,640 each for a maximum of \$7,280.

When your federal adjusted gross income exceeds \$30,320, your retirement exemption is reduced \$2 for every \$1 that your federal adjusted gross income is over \$30,320. For example, if your federal adjusted gross income is \$31,320, your retirement exemption is \$1,640 ( $\$3,640 - (\$1,000 \times \$2) = \$1,640$ ). You are not entitled to this retirement income exemption if your federal adjusted gross income is greater than \$32,140 ( $\$3,640 - (\$1,820 \times \$2) = \$0$ ) if you are filing single, married filing separately or head of household. If you are married and filing jointly and both spouses have retirement income, then your retirement exemption is phased out when your federal adjusted gross income is greater than \$33,960, because your maximum