

1 HOUSE BILL NO. 111

2 INTRODUCED BY J. FULLER

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING MILITARY PENSIONS OR RETIREMENT INCOME
5 AND SURVIVOR BENEFITS FROM STATE INCOME TAXATION; PROVIDING THE EXEMPTION TO
6 RETIRED MEMBERS OF THE ARMED FORCES, A RESERVE COMPONENT, OR THE NATIONAL GUARD;
7 EXPANDING RULEMAKING AUTHORITY; AMENDING SECTION 15-30-2110, MCA; AND PROVIDING AN
8 IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

9
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

11
12 **Section 1.** Section 15-30-2110, MCA, is amended to read:

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

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

19 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C.
20 852(b)(5), that are attributable to the interest referred to in subsection (1)(a)(i);

21 (b) refunds received of federal income tax, to the extent that the deduction of the tax resulted in a
22 reduction of Montana income tax liability as determined under subsection (16);

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

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

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

28 (f) if the state taxable distribution of an estate or trust is greater than the federal taxable distribution of

1 the same estate or trust, the difference between the state taxable distribution and the federal taxable
2 distribution of the same estate or trust for the same tax period; and

3 (g) except for exempt-interest dividends described in subsection (2)(a)(ii), the amount of any dividend
4 to the extent that the dividend is not included in federal adjusted gross income.

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

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

10 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, 26 U.S.C.
11 852(b)(5), that are attributable to the interest referred to in subsection (2)(a)(i);

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

14 (c) (i) except as provided in ~~subsection~~ subsections (2)(c)(ii) and (2)(c)(iii) and subject to subsection
15 (17), the first \$4,070 of all pension and annuity income received as defined in 15-30-2101;

16 (ii) subject to subsection (17), for pension and annuity income described under subsection (2)(c)(i), as
17 follows:

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

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

25 (iii) (A) SUBJECT TO SUBSECTION (18), UP TO 50% of all military pensions or military retirement income
26 received by a retired member of:

27 (I) the armed forces of the United States, as defined in 10 U.S.C. 101;

28 (II) the Montana army national guard or the army national guard of other states;

- 1 (III) the Montana air national guard or the air national guard of other states; or
2 (IV) a reserve component, as defined in 38 U.S.C. 101, of the United States armed forces; and
3 (B) SUBJECT TO SUBSECTION (18), UP TO 50% of all income received as survivor benefits for military
4 service provided for in subsection (2)(c)(iii)(A);
- 5 (d) all Montana income tax refunds or tax refund credits;
6 (e) gain required to be recognized by a liquidating corporation under 15-31-113(1)(a)(ii);
7 (f) all tips or gratuities that are covered by section 3402(k) or service charges that are covered by
8 section 3401 of the Internal Revenue Code of 1954, 26 U.S.C. 3402(k) or 3401, as amended and applicable on
9 January 1, 1983, received by a person for services rendered to patrons of premises licensed to provide food,
10 beverage, or lodging;
- 11 (g) all benefits received under the workers' compensation laws;
12 (h) all health insurance premiums paid by an employer for an employee if attributed as income to the
13 employee under federal law;
- 14 (i) all money received because of a settlement agreement or judgment in a lawsuit brought against a
15 manufacturer or distributor of "agent orange" for damages resulting from exposure to "agent orange";
- 16 (j) principal and income in a medical care savings account established in accordance with 15-61-201
17 or withdrawn from an account for eligible medical expenses, as defined in 15-61-102, including a medical care
18 savings account inherited by an immediate family member as provided in 15-61-202(6);
- 19 (k) principal and income in a first-time home buyer savings account established in accordance with
20 15-63-201 or withdrawn from an account for eligible costs, as provided in 15-63-202(7), for the first-time
21 purchase of a single-family residence;
- 22 (l) contributions or earnings withdrawn from a family education savings account or from a qualified
23 tuition program established and maintained by another state as provided by section 529(b)(1)(A)(ii) of the
24 Internal Revenue Code, 26 U.S.C. 529(b)(1)(A)(ii), for qualified higher education expenses, as defined in 15-62-
25 103, of a designated beneficiary;
- 26 (m) the recovery during the tax year of any amount deducted in any prior tax year to the extent that
27 the recovered amount did not reduce the taxpayer's Montana income tax in the year deducted;
- 28 (n) if the federal taxable distribution of an estate or trust is greater than the state taxable distribution of

1 the same estate or trust, the difference between the federal taxable distribution and the state taxable
2 distribution of the same estate or trust for the same tax period;

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

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

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

11 (r) the amount of the gain recognized from the sale or exchange of a mobile home park as provided in
12 15-31-163;

13 (s) the amount of a scholarship to an eligible student by a student scholarship organization pursuant
14 to 15-30-3104; and

15 (t) a payment received by a private landowner for providing public access to public land pursuant to
16 Title 76, chapter 17, part 1.

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

21 (4) (a) A taxpayer who, in determining federal adjusted gross income, has reduced the taxpayer's
22 business deductions:

23 (i) by an amount for wages and salaries for which a federal tax credit was elected under sections 38
24 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
25 and salaries paid regardless of the credit taken; or

26 (ii) for which a federal tax credit was elected under the Internal Revenue Code is allowed to deduct the
27 amount of the business expense paid when there is no corresponding state income tax credit or deduction,
28 regardless of the credit taken.

1 (b) The deductions in subsection (4)(a) must be made in the year that the wages, salaries, or
2 business expenses were used to compute the credit. In the case of a partnership or small business corporation,
3 the deductions in subsection (4)(a) must be made to determine the amount of income or loss of the partnership
4 or small business corporation.

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

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

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

20 (8) Married taxpayers filing a joint federal return in which one or both of the taxpayers are allowed a
21 deduction for an individual retirement contribution under section 219 of the Internal Revenue Code, 26 U.S.C.
22 219, and who file separate Montana income tax returns may claim the same amount of the deduction that is
23 allowed on the federal return. The deduction must be attributed to the spouse who made the contribution.

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

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

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

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

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

28 (12) (a) An individual who contributes to one or more accounts established under the Montana

1 achieving a better life experience program or to a qualified program established and maintained by another
2 state may reduce adjusted gross income by the lesser of \$3,000 or the amount of the contribution. In the case
3 of married taxpayers, each spouse is entitled to a reduction, not to exceed \$3,000, for the spouses'
4 contributions to the accounts. Spouses may jointly elect to treat one-half of the total contributions made by the
5 spouses as being made by each spouse. The reduction in adjusted gross income under this subsection (12)(a)
6 applies only with respect to contributions to an account for which the account owner is the taxpayer, the
7 taxpayer's spouse, or the taxpayer's child or stepchild if the taxpayer's child or stepchild is a Montana resident.
8 The provisions of subsection (1)(e) do not apply with respect to withdrawals of contributions that reduced
9 adjusted gross income.

10 (b) Contributions made pursuant to this subsection (12) are subject to the recapture tax provided in
11 53-25-118.

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

14 (i) is a health care professional licensed in Montana as provided in Title 37;

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

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

20 (iv) has received a loan payment during the tax year made on the taxpayer's behalf by a loan
21 repayment program described in subsection (13)(b) as an incentive to practice in Montana.

22 (b) For the purposes of subsection (13)(a), a loan repayment program includes a federal, state, or
23 qualified private program. A qualified private loan repayment program includes a licensed health care facility, as
24 defined in 50-5-101, that makes student loan payments on behalf of the person who is employed by the facility
25 as a licensed health care professional.

26 (14) A taxpayer may exclude the amount of loan repayment assistance received during the tax year
27 pursuant to Title 20, chapter 4, part 5, not to exceed \$5,000, from the taxpayer's adjusted gross income.

28 (15) Notwithstanding the provisions of subsection (1), adjusted gross income does not include 40% of

1 capital gains on the sale or exchange of capital assets before December 31, 1986, as capital gains are
 2 determined under subchapter P. of Chapter 1 of the Internal Revenue Code as it read on December 31, 1986.

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

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

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

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

11 (17) By November 1 of each year, the department shall multiply the amount of pension and annuity
 12 income contained in subsection (2)(c)(i) and the federal adjusted gross income amounts in subsection (2)(c)(ii)
 13 by the inflation factor for the following tax year, rounded to the nearest \$10. The resulting amounts are effective
 14 for that following tax year and must be used as the basis for the exemption determined under subsection (2)(c).

15 (18) THE EXEMPTION PROVIDED FOR IN SUBSECTION (2)(C)(III) FOR MILITARY PENSION INCOME, MILITARY
 16 RETIREMENT INCOME, AND SURVIVOR BENEFITS MUST BE PHASED IN AS FOLLOWS:

17 (A) 10% IS EXEMPT IN TAX YEAR 2021;

18 (B) 20% IS EXEMPT IN TAX YEAR 2022;

19 (C) 30% IS EXEMPT IN TAX YEAR 2023;

20 (D) 40% IS EXEMPT IN TAX YEAR 2024; AND

21 (E) 50% IS EXEMPT IN TAX YEAR 2025 AND THEREAFTER. (Subsection (2)(f) terminates on occurrence of
 22 contingency--sec. 3, Ch. 634, L. 1983; subsection (2)(o) terminates on occurrence of contingency--sec. 9, Ch.
 23 262, L. 2001; subsection (2)(s) terminates December 31, 2023--sec. 33, Ch. 457, L. 2015; subsection (2)(t)
 24 terminates June 30, 2027--sec. 10, Ch. 374, L. 2017.)"

25

26 NEW SECTION. Section 2. Effective date. [This act] is effective on passage and approval.

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28 NEW SECTION. Section 3. Retroactive applicability. [This act] applies retroactively, within the

1 meaning of 1-2-109, to military retirement or pension income or survivor benefits received after December 31,
2 2020.

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- END -