

# 2019 Montana Form FID-3

Income Tax Instructions for Estates and Trusts

MONTANA DEPARTMENT OF REVENUE



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Department of  
**REVENUE**

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Dear Montana Taxpayer,

Thank you for filing your Montana tax return

To make filing of your tax return as easy as possible, we have made some changes. Please see the What's New section for the changes to our 2019 tax forms.

It is important for Montanans to know where your tax dollars go. In the graphs below, you can see where tax revenues come from and how they are used to support important services and infrastructure.

We are committed to assisting you with any questions you may have about your filing requirements. If you need more information or would like help, please visit [MTRevenue.gov](http://MTRevenue.gov) visit or call our help line at (406) 444-6900.

Also, we encourage you to file electronically. Last year more than 84 percent of business taxpayers filed electronically. Taxpayers find that e-filing is easy, convenient, and helps ensure accurate processing. It can also help you get any refund you are owed more quickly.

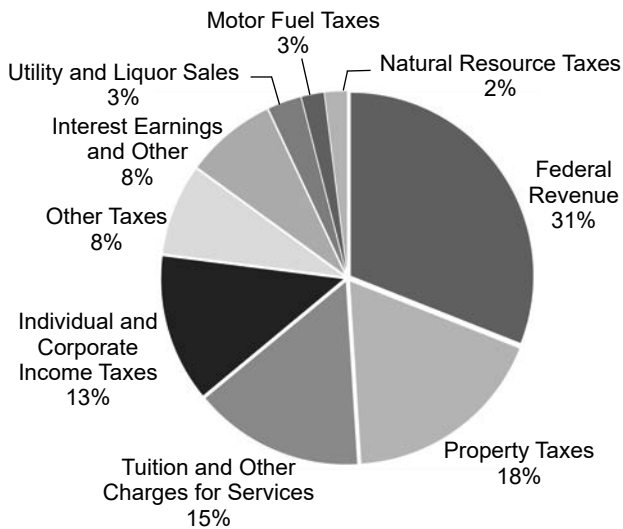
Best regards,

Your Montana Department of Revenue

## Your Tax Dollars at Work

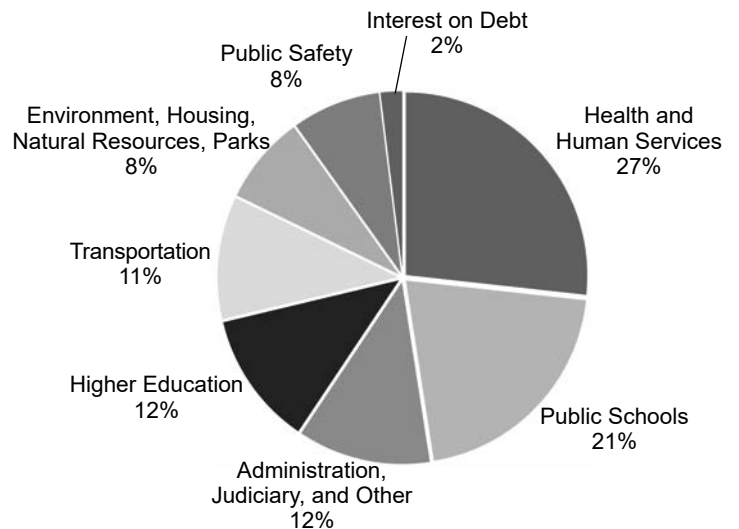
### What are Montana's Public Revenues?

Total Montana State and Local Revenue, Fiscal Year Ending 2016



### Where Do Your Public Dollars Go?

Total State and Local Spending in Montana, Fiscal year Ending 2016



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*This booklet is designed to address the laws for the majority of tax filing situations. If you have a unique situation that is not addressed in the booklet, please refer to Title 15 of Montana law found at [leg.mt.gov](http://leg.mt.gov) or call us with your questions.*

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## What's New for 2019?

### Form Changes

Form FID-3 was changed to clarify the determination of income and tax retained by the estate or trust. Changes include:

- The federal income tax deduction has been removed from schedule B. It is now included on page 1, line 22, for federal taxes paid or accrued on undistributed income.
- Schedule F was changed to apply only to the income that is retained in the estate or trust.
- The calculation of capital gains credit matches the calculation for individuals.
- Schedule G was simplified to match the calculation flow of the non-S share of income on Form FID-3.

### Interest Rate for 2020

Effective January 1, 2020, the annual interest rate assessed on outstanding balances is 5 percent. This rate also applies to underpayment of estimated taxes. Interest is calculated daily.

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## Form FID-3 Instructions

### Entity Information

#### Tax Year

You must use the same tax year used for federal income tax purposes (as indicated on the federal tax return) for Montana income tax purposes. If the estate or trust has a fiscal year, enter the beginning and ending dates of the fiscal year. Use a 2018 Form FID-3 if the estate's or trust's tax year began in the 2018 calendar year.

#### Name and Address

Enter the legal name of the estate or trust on the first line. Enter the name and title, if any, of the fiduciary on the second line and include the fiduciary's mailing address on the third and fourth lines.

#### Federal Employer Identification Number (FEIN)

Enter the FEIN from page 1 of federal Form 1041.

#### Date Entity Created

Enter the date the estate or trust was created from page 1 of federal Form 1041.

#### Schedule K-1 and Beneficiary Information

Enter the number of Montana Schedules K-1 included and the number of each type of beneficiary: resident, nonresident, or other. An example of another type of beneficiary would be a corporation or pass-through entity.

##### **Checkbox Items:**

Mark the **"Initial return"** box if this is the first return filed in Montana for this estate or trust.

Mark the **"Final return"** box if this is the last return to be filed in Montana for this estate or trust.

Mark the **"Amended return"** box if this return is being filed to correct a previously filed Form FID-3. See FAQ **B** page 22 for more information.

Mark the **"Refund return"** box if this return is being filed to receive a refund.

Mark the **"Estate or filing trust made a 645 election"** box if the estate and filing trust has a valid Internal Revenue Code § 645 election to treat the trust as part of the estate for federal purposes.

## Entity Type

Mark the applicable box for the same entity type checked on page 1 of federal Form 1041 unless the trust is a qualified funeral trust. If a fiduciary files a federal Form 1041-QFT for a trust, the fiduciary needs to file a Montana Form FID-3 and mark the "Qualified funeral trust" box.

If the entity type is not identified, processing of the return will be delayed. Often, the fiduciary must then provide additional information to complete the filing.

## Residency Status

Mark the applicable box to indicate the residency status of the estate or trust, see FAQ ② on page 19 for more information.

If the residency status is not identified, processing of the return will be delayed. Often, the fiduciary must then provide additional information to complete the filing.

## Specific Line Instructions

Lines that need additional instructions are listed below.

### Income

#### **Lines 1 through 8**

Enter the amount of income reported on federal Form 1041, lines 1 through 8.

**Line 2 – Ordinary Dividends.** Enter the total amount reported on line 2a of federal Form 1041. Montana taxes dividends as ordinary income and does not apply the federal tax rate on qualified dividends.

**Line 9 – Total Federal Income.** Add lines 1 through 8. This total federal income must match the total federal income reported on federal Form 1041. If the trust is an electing small business trust (ESBT), see FAQ ⑦ on page 23 for more information.

### Deductions and Exemption

#### **Allocation of Deductions for Tax-Exempt Income**

Deductions entered on lines 10 through 15 include the total deductions related to taxable income reported on federal Form 1041. See federal Form 1041 instructions, "Allocation of Deductions for Tax-Exempt Income," for information on how to determine the allocable amount to enter on lines 10 through 15.

The tax-exempt income included on lines 10 through 15 must be reduced by any deductions attributed to the tax-exempt income.

#### **Lines 10 through 15**

Enter the amounts from federal Form 1041, lines 10 through 15, on the corresponding lines.

**Line 11 – Taxes.** Enter the taxes deducted on federal Form 1041, line 11. These may include state and local income taxes, real or personal property taxes, foreign or U.S. possession income taxes, state and local general sales taxes, and generation-skipping taxes. Adjustments to this line are made on Schedules A and B.

**Line 15 – Other Deductions.** Examples of deductions include casualty and theft losses or federal net operating loss deduction.

**Line 17 – Federal Adjusted Total Income or (Loss).** Subtract line 16 from line 9.

**Line 20 – Add lines 17 and 18, then subtract line 19.** This is Montana adjusted total income or (loss). If line 20 is a loss, you may have an NOL. See FAQ ⑧ on page 25 for more information.

**Line 21 – Montana Income Distribution Deduction.** Enter the Montana income distribution deduction from Schedule C, line 13. If an amount greater than zero is entered on this line, you must include Schedule C with the return even if the Montana income distribution deduction is equal to the federal deduction. Do not enter an amount less than zero.

**Line 22 – Federal Taxes Paid or Accrued on Undistributed Income.** If the estate or trust paid federal taxes, including federal income taxes, estate tax, or certain generation-skipping taxes on undistributed income, report these taxes on this line. Estates and trusts must choose whether they deduct federal taxes paid or accrued, but they cannot deduct both. Once a method has been used for one return, the same method must be used for the following returns.

**Line 23 – Exemption.** Each estate or trust is allowed one exemption of \$2,510.

## Taxes and Credits

**Line 26 – Tax from Tax Table.** For bankruptcy estates, leave lines 26 through 28a blank and enter the tax computed on Form 2 on line 30 of this form (FID-3). For all other estates and trusts, compute the tax using the following tax table:

If the Taxable Income is More Than	But Not More Than	Multiply the Taxable Income By	And Subtract	This is Your Tax
\$0	\$3,100	1% (0.010)	\$0	
\$3,100	\$5,400	2% (0.020)	\$31	
\$5,400	\$8,200	3% (0.030)	\$85	
\$8,200	\$11,100	4% (0.040)	\$167	
\$11,100	\$14,300	5% (0.050)	\$278	
\$14,300	\$18,400	6% (0.060)	\$421	
More Than \$18,400		6.9% (0.069)	\$587	
For example: Taxable income \$6,800 x 3% (0.03) = \$204 \$204 minus \$85 = \$119 tax				

### Line 28 – Resident Tax After Capital Gains Tax

**Credit.** If the estate or trust is a resident, subtract line 27 from line 26. This is resident tax after capital gains tax credit. Skip line 28a and go to line 29.

If the estate or trust is a nonresident or part-year resident, complete this line and go to line 28a.

### Line 28a – Nonresident, Part-Year Resident

**Tax after Capital Gains Tax Credit.** Enter the nonresident, part-year resident tax after capital gains tax credit from Schedule F, line 18. See the instructions for Schedule F on page 15.

**Line 29 – Tax on Lump-Sum Distributions.** If the estate or trust qualifies on its federal tax return for special averaging of a lump-sum distribution and the distribution is not included as ordinary pension income in federal adjusted gross income, the estate or trust will need to pay Montana income tax on this distribution. The Montana tax liability on the lump-sum distribution is 10 percent of the federal tax calculated on federal Form 4972.

**Line 30 – Total Tax.** If the estate or trust is a resident, add lines 28 and 29. If it is a nonresident or part-year resident, add lines 28a and 29.

### Line 31 – Credit for Taxes Paid to Other States or Countries (residents and part-year residents only).

Enter the amount from Worksheet I, line 10, if the estate or trust is a resident or the amount from Worksheet II, line 10, if the trust is a part-year resident. Resident estates and trusts are allowed a credit for income taxes paid to another state or country on net income that is also taxable to Montana. Part-year resident estates and trusts are allowed a credit for income taxes paid to another state or country on net income that is also taxable to Montana and if the income is included on Schedule F, line 14, column B. A credit is allowed against Montana income tax only if the tax paid to a state or foreign country was based on net income of the same taxable year and the income taxed by the state or foreign country was derived from sources outside of Montana. Unless you file the Montana tax return electronically, you must include a copy of the other state's or country's income tax return with Form FID-3. If you file the tax return electronically and you cannot include a copy of the other state or country's income tax return, retain the copy so that you can provide it to the department upon request. If the estate or trust had income from a state that has no state income tax, make no entry on line 31 and go to line 32.

*Note:* Nonresident estates and trusts may not claim this tax credit against their Montana tax liability.

## Worksheets I and II

Resident and part-year resident estates and trusts are allowed a credit for income taxes paid to another state or country. The credit is a nonrefundable single-year credit and is limited to an income tax liability paid on net income that is also taxed by Montana. It cannot reduce the Montana tax liability below zero. No unused credit amount can be carried forward.

If the estate or trust is filing as a full-year resident and paid income tax to another state or country, use Worksheet I to determine the amount of nonrefundable credit that you may be able to claim on your Montana tax return. If the estate or trust is filing as a part-year resident, use Worksheet II.

If the estate or trust is required to file an income tax return in more than one state or country and it is entitled to the credit, complete a separate Worksheet I for residents or Worksheet II for part-year residents for each state or country in which an income tax return was filed and tax was paid on the income that is also taxed to Montana. Additionally, credits may exist for both the S portion of an ESBT and the S portion of a non-ESBT reported on the same return. The fiduciary will need to complete a separate worksheet for each state or country to which the estate trust has paid an income tax liability. Complete a separate worksheet for each state or country to which the S portion of an ESBT has paid an income tax liability.

The fiduciary cannot combine payments on one worksheet. If more than one worksheet is used, enter the total of all worksheets for estates and non-ESBTs on Form FID-3, line 31. Enter the total of all worksheets for ESBTs on Schedule G, line 11.

**Important**

You are not entitled to this credit if the other state or country in which you filed an income tax return has allowed you a credit against the taxes that they have imposed on your net income because you are also subject to tax on the same income by Montana.

**Shareholders of an S corporation or Partners in a Partnership.** If the estate or trust is a shareholder of an S corporation or a partner in a partnership, and the S corporation or partnership pays an income tax, excise tax, or franchise tax that was measured by and imposed on net income to another state (including composite tax paid on your behalf) or country, you can claim a credit for your share of these income taxes paid by the entity.

**Other taxes paid by the S corporation or partnership.** Other taxes paid – such as, but not limited to, franchise or license taxes, fees that are not imposed on or measured by net income,

gross receipt taxes, or gross sales taxes – are not allowed.

When the estate or trust claims this credit for the taxes paid by a pass-through entity, it will have to add back to Montana income its share of the S corporation or partnership's federal tax deduction that is included in total income. This is required whether or not the S corporation or partnership separately or nonseparately stated the income tax deduction on the federal Schedule K-1.

**“Sourced and Taxable.”** In the instructions that follow, “sourced and taxable” means any income included in your Montana taxable income that must be reported to another state or foreign country in accordance with the other state's or country's rules, and that is not subject to an exemption. If the income is partially exempt, only the part that is non-exempt can be used for the calculation of this credit. On a practical level, income that is sourced and taxable to another state is found on the line after state specific additions and subtractions to federal adjusted gross income. In general, this line is labeled for the state-specific adjusted gross income.

**Taxes Paid to Another Country.** The estate or trust is not entitled to a Montana tax credit for taxes paid to a foreign country unless it has an unused federal foreign tax credit that is not eligible to be carried back or carried forward to another tax year. You cannot claim this credit and deduct the foreign tax from your Montana adjusted gross income.

### Specific Line Instructions

If the trust is a part-year resident, the fiduciary needs to allocate income using Form FID-3, Schedule F, before completing this worksheet.

**Line 1.** This amount may differ from what you calculated as your total taxable income on the other state's form. For example, a trust had rental income in both Utah and Montana during the year. The trust's total rental income was \$50,000, with \$10,000 earned in Utah. Enter only the Utah sourced rental income of \$10,000 on line 1. Do not include income on this line that is not taxable in Montana.

**Line 2.** Enter the total income sourced and taxable to the other state or country. See “sourced and taxable” above to find the appropriate amount of income on another state's return.

**Line 4.** Tax Paid to Another State or Country – Enter the actual tax liability paid by you or on your behalf to the other state or country. This amount comes from either a fiduciary tax return you filed or a composite tax return filed on your behalf by a partnership or S corporation.



Important

Do not include any penalties and interest paid to the other state or country.

**Line 7.** If the estate or trust claimed a credit for taxes paid to another country for federal tax purposes, the estate or trust cannot claim a state credit for taxes paid to another country.

**Worksheet I – Credit for an Income Tax Liability Paid to Another State or Country  
Full-year Resident Only**

<b>1</b> Enter the income sourced and taxable to another state or country (see instructions) that is included in Montana income on Form FID-3, line 25, or, if the S portion of an ESBT trust, on Schedule G, line 4.	<b>1</b>	
<b>2</b> Enter the total of all income sourced and taxable to the other state or country. Indicate state's abbreviation <input type="text"/> <input type="text"/>	<b>2</b>	
<b>3</b> Enter the total Montana income from Form FID-3, line 25, or, for the S portion of an ESBT, from Schedule G, line 4	<b>3</b>	
<b>4</b> Enter your total income tax liability paid to the other state or country	<b>4</b>	
<b>5</b> Enter the Montana tax liability from Form FID-3, line 28, or, for the S portion of an ESBT, subtract Schedule G, line 12, from line 7	<b>5</b>	
<b>6</b> Divide line 1 by line 2. Enter the percentage, but not more than 100%	<b>6</b>	
<b>7</b> Multiply line 4 by line 6 and enter the result. (When calculating credit for taxes paid to another country, see instructions.)	<b>7</b>	
<b>8</b> Divide line 1 by line 3. Enter the percentage, but not more than 100%	<b>8</b>	
<b>9</b> Multiply line 5 by line 8 and enter the result	<b>9</b>	
<b>10</b> If an estate or trust with no ESBT S portion, enter here and on Form FID-3, line 31, the smaller of the amounts reported on line 4, 7, or 9 above. For the S portion of an ESBT, enter here and on Schedule G, line 11, the smaller of the amounts reported on line 4, 7, or 9 above. <b>This is the estate's or trust's credit for an income tax paid to another state or country.</b>	<b>10</b>	

**Worksheet II - Credit for an Income Tax Liability Paid to Another State or Country  
Part-year Resident Only**

<b>1</b> Enter the income sourced and taxable to another state or country (see instructions) that is included in Montana income on Schedule F, line 14, or, if the S portion of an ESBT, on Schedule G, line 8.	<b>1</b>	
<b>2</b> Enter all income sourced and taxable to the other state or country. Indicate state's abbreviation <input type="text"/> <input type="text"/>	<b>2</b>	
<b>3</b> Enter the total Montana income retained from Schedule F, line 14, or for the S portion of an ESBT, from Schedule G, line 8	<b>3</b>	
<b>4</b> Enter your total income tax liability paid to the other state or country	<b>4</b>	
<b>5</b> Enter the Montana tax liability from Form FID-3, line 28a, or, for the S portion of an ESBT, subtract line 12 from line 10	<b>5</b>	
<b>6</b> Divide line 1 by line 2. Enter the percentage, but not more than 100%	<b>6</b>	
<b>7</b> Multiply line 4 by line 6 and enter the result. (When calculating credit for taxes paid to another country, see instructions.)	<b>7</b>	
<b>8</b> Divide line 1 by line 3. Enter the percentage, but not more than 100%.	<b>8</b>	
<b>9</b> Multiply line 5 by line 8 and enter the result	<b>9</b>	
<b>10</b> If a trust with no ESBT S portion, enter here and on Form FID-3, line 31, the smaller of the amounts reported on line 4, 7, or 9 above. For the S portion of an ESBT, enter here and on Schedule G, line 11, the smaller of the amounts reported on line 4, 7, or 9 above. <b>This is the trust's credit for an income tax paid to another state or country.</b>	<b>10</b>	



**Line 32 – Other Nonrefundable Credits.** If the estate or trust is claiming one or more of the nonrefundable credits listed below, identify each credit it is claiming and include the amounts of the nonrefundable credits in the total for line 32. If more than one credit is claimed, include a list of credits and credit amounts claimed and enter the total. Include all applicable credit forms.

**Important**

In order to claim any credit, you must include the appropriate forms with the estate's or trust's tax return unless you file the return electronically. If you file the return electronically and you cannot attach a copy of a credit form, retain the copy so you can provide it upon request. The forms do not specifically address estates and trusts, but estates and trusts are allowed to claim the credits listed below. The forms and instructions are available at *MTRRevenue.gov*.

### **Nonrefundable/Noncarryover Credits:**

- Alternative fuel credit (Form AFRC)
- College contribution credit (Form CC)
- Energy conservation installation credit (Form ENRG-C)
- Health insurance for uninsured Montanans credit (Form HI)
- Qualified endowment credit (Form QEC)
- Recycle credit (Form RCYL)
- Innovative educational program credit
- Student scholarship organization credit
- Apprenticeship tax credit

### **Nonrefundable/Carryover Credits:**

- Alternative energy system credit (Form ENRG-B)
- Alternative energy production credit (Form AEPC)
- Biodiesel blending and storage credit (Form BBSC)
- Contractor's gross receipts tax credit
- Empowerment zone credit
- Geothermal system credit (Form ENRG-A)
- Historic property preservation credit (federal Form 3468)
- Infrastructure user fee credit (Form IUFC)
- Mineral and coal exploration incentive credit (Forms MINE-CERT and MINE-CRED)

**Line 35 – Endowment Credit Recapture Tax.** If the estate or trust previously claimed an endowment credit and has also taken a charitable deduction for a gift that it contributed to a qualified endowment and the estate or trust has now received the gift back, the estate or trust is required to recapture the previous credit to the extent the credit reduced an income tax liability in a previous year.

Enter the amount of the endowment credit recapture tax. If, in addition to the recapture tax, part of the amount that is recaptured was claimed as a charitable contribution in a prior year, the estate or trust will have to include in income on Form FID-3, Schedule A, line 4, any recoveries of this prior-year deduction that reduced the tax liability in the year of that deduction.

### **Payments and Refundable Credits**

#### **Line 37a – Total Montana Income Tax Withheld.**

Enter the amount of Montana income tax withheld. This amount is usually reported in Box 17 of the federal Form W-2, or in Box 12 of federal Form 1099-R. When the estate or trust claims Montana income tax withheld, it must include a copy of the withholding statements, such as federal Forms W-2 or 1099-R.

**Important**

Do not report on this line Montana mineral royalty tax withheld or income tax withheld as a result of an ownership interest in a pass-through entity.

#### **Line 37b – Montana Income Tax Withheld**

**Allocable to Beneficiaries.** Enter the amount of Montana income tax withheld reported on line 37a and allocable to beneficiaries.

#### **Line 37 – Montana Income Tax Withheld Allocable to the Estate or Trust.**

Subtract line 37b from 37a. This is the amount of Montana income tax withheld that is allocable to the estate or trust.

#### **Line 38a – Total Montana Pass-Through Entity Withholding from Montana Schedules K-1 (PTE), Part 5, line 3.**

If the estate or trust has an ownership interest in a pass-through entity that had Montana source income, and the pass-through entity paid Montana pass-through withholding on behalf of the estate or trust, enter the amount here. This amount is reported to the estate or trust on a Montana Schedule K-1, and should not be confused with any Montana mineral royalty tax withheld that passed through to the estate or trust from a pass-through entity. Attach copies of the Montana Schedules K-1 you received that report amounts withheld on your behalf.

**Line 38b – Montana Pass-Through Entity**

**Withholding Allocated to Beneficiaries.** Enter the amount of Montana pass-through entity withholding reported on line 38a and allocable to beneficiaries. Pass-through withholding must be distributed to the beneficiaries if the associated income is distributed to the beneficiaries

**Line 38 – Montana Pass-Through Entity**

**Withholding Allocable to the Estate or Trust.**

Subtract line 38b from 38a. This is the amount of Montana pass-through entity withholding that is allocable to the estate or trust.

**Line 39a – Total Montana Mineral Royalty Tax withheld from federal Forms 1099 or Montana Schedule K-1 (PTE), Part 5, line 4.**

If the estate or trust paid Montana mineral royalty tax withholding, enter the withholding on this line. If the estate or trust receives a distributive share of Montana mineral royalty tax withholding from a pass-through entity, enter the withholding on this line. This is generally reported on federal Form 1099. Royalty payments made to owners of Montana mineral rights are subject to state tax withholding if certain thresholds are met. This amount should not be confused with the production taxes that are also subtracted from royalty payments.

If the mineral rights are held by a pass-through entity in which the estate or trust has an ownership interest in, or from which the estate or trust receives a distribution, enter the amount reported to the estate or trust as its share of the withholding. Include a schedule detailing the calculation of the estate's or trust's portion of the withholding and any supporting documents, such as a Montana Schedule K-1, issued to the estate or trust, or a copy of Form 1099 issued to the pass-through entity. For more information, visit "Mineral Royalty Withholding" at *MTRRevenue.gov*.

**Line 39b – Montana Mineral Royalty Tax Withheld**

**Allocated to Beneficiaries.** Enter the amount of Montana mineral royalty tax withheld reported on line 39a and allocable to beneficiaries. Mineral royalty withholding must be distributed to the beneficiaries if the associated royalty income is distributed to the beneficiaries.

**Line 39 – Montana Mineral Royalty Tax Withheld Allocable to the Estate or Trust.** Subtract line 39b from 39a. This is the amount of Montana mineral royalty tax withheld that is allocable to the estate or trust.

**Line 40 – Estimated Tax Payments.** If a fiduciary has made estimated income tax payments for Tax Year 2019, enter the amount of these estimated tax payments. Include in this amount the 2018 refund that was requested to be applied to the 2019 estimated income tax payments. Do not include in this total any income taxes paid for a previous year because these are not estimated taxes paid for Tax Year 2019.

If a fiduciary makes estimated income tax payments to be allocated to a beneficiary, do not include these payments on this line. Instead, apply these payments to the beneficiary's account. When estimated income tax payments allocable to beneficiaries are sent to the department, include the beneficiary's name and Social Security Number or Federal Employer Identification Number, as well as an explanation that the payment is to be applied to the beneficiary's account.

**Line 41 – Extension Payments.** If a fiduciary made an extension payment on or before April 15, 2020, enter that amount on this line.

Beginning with Tax Year 2017, an extension payment is not required to receive an extension of time to file this return.

If a fiduciary would like to make an extension payment, calculate the difference between the amount of tax you think the estate or trust will owe and payments already made, including amounts withheld on behalf of the estate or trust. You may pay by e-check or credit card through our TransAction Portal at <https://tap.dor.mt.gov> or send the payment with the extension box checked and remember to include a Montana Estate or Trust Tax Payment Voucher (available at *MTRRevenue.gov* or call us at (406) 444-6900 to request one).

**Line 42 – Refundable Credits.** If a fiduciary is claiming a refund of one or more of the refundable credits listed below, identify each credit being claimed and the amounts of the refundable credits in the total for line 42. If more space is needed, make a list showing each credit and its amount and include the list with the tax return. Also include all applicable credit forms:

- Emergency lodging credit (Form ELC)
- Unlocking public lands credit

## Penalties and Interest

### Line 46 – Interest on Underpayment of Estimated

**Taxes.** A fiduciary is required to pay an estate's or trust's income tax liability throughout the year if the estate or trust expects to owe an income tax liability of at least \$500 after subtracting tax credits and withholding payments. Payments can be made through withholding, installment payments of estimated taxes, or a combination of both.

If a fiduciary did not pay in advance at least 90 percent of the 2019 income tax liability (after applying credits) or 100 percent of the 2018 income tax liability (after applying credits), the fiduciary may have to pay interest on the underpayment of estimated tax.

To calculate the interest, complete Form EST-I (2019 Underpayment of Estimated Tax by Individuals and Fiduciaries), available at [MTRevenue.gov](http://MTRevenue.gov) or call us at (406) 444-6900.

### Line 47 – Late File, Late Payment Penalties and Interest.

**Late File Penalty.** If a fiduciary files the estate and trust tax return after October 15, 2020, the fiduciary must pay a late file penalty if there is tax due on line 44. The penalty is equal to the greater of \$50 or 5 percent per month on the unpaid amount. The penalty is calculated from the extended due date until the return is filed or the tax is paid and cannot exceed 25 percent of the fiduciary's tax liability on line 44.

**Late Payment Penalty.** The late payment penalty is equal to 0.5 percent per month, calculated daily, on the unpaid amount from April 15, 2020, until it is paid. The daily rate is 0.0164 percent. Your late payment penalty will never exceed 12 percent (24 months x 0.5%) of the unpaid tax. Late pay penalty is automatically waived if you pay all the tax and interest with your return, or within 30 days of the first notice from the department.

**Interest.** Compute interest on any tax liability (line 44) that the estate or trust has not paid by the due date of the tax return and enter the total on this line.

Effective January 1, 2020, the interest rate is 5 percent. To calculate the interest, multiply line 44 by 0.0137 percent (0.000137), and then multiply that result by the number of days between April 15, 2020, and the day the estate's or trust's income tax is paid.



A valid extension of time to file the estate's or trust's tax return does not extend the due date to pay the estate's or trust's income tax liability after April 15, 2020.

If the estate or trust owes more than one of the items listed above, enter each amount on the following worksheet.

Type	Amount
Late file penalty	
Late payment penalty	
Interest	
Total	

Enter the total on line 47. (The fiduciary may wish to keep this worksheet as part of the estate's or trust's tax records for future reference.)

**Line 48 – Other Penalties.** Include on this line the following penalty if it applies to the estate or trust:

- **Farm and Ranch Risk Management Account - 10 Percent Penalty.**

If the estate or trust has not distributed deposits and income from its farm and ranch risk management account within three years, the deposits and income are now considered distributed. The fiduciary must pay a 10 percent penalty on the amount of tax due on the amount that is considered distributed. On this line, enter the farm and ranch risk management account 10 percent penalty. For more information, refer to Form FRM, available at [MTRevenue.gov](http://MTRevenue.gov) or call us at (406) 444-6900.

## Amount the Entity Owes or Its Refund

**Line 50 – Amount the Estate or Trust Owes.** If the estate or trust has a tax due (amount on line 44), add lines 44 and 49; **or**, if the estate or trust has a tax overpayment (amount on line 45) and it is less than line 49, subtract line 45 from line 49. This is the amount the estate or trust owes.

A fiduciary can pay the amount an estate or trust owes by:

- Electronic funds withdrawal when e-filing return. You can schedule your withdrawal for a later date.
- E-check or credit/debit card. Visit TransAction Portal (TAP) <https://tap.dor.mt.gov> and select “Make a Payment.” There is a small fee when paying with a credit or debit card.
- Personal check, money order, or cashier’s check. Be sure to include the payment voucher available at [MTRRevenue.gov](http://MTRRevenue.gov) or call us at (406) 444-6900 to request a voucher. Make your check payable to the Montana Department of Revenue, sign your check, and write your FEIN and “Tax Year 2019” on the memo line.

*Note:* We may need to adjust your payment if it is not in U.S. funds.

For more information about e-pay options, visit [MTRRevenue.gov](http://MTRRevenue.gov). Interest and penalties will be assessed on any amount not paid when due.

If a fiduciary cannot pay the entire amount that an estate or trust owes with the tax return, we encourage the fiduciary to file the estate and trust tax return on time and pay as much as possible. By filing and paying as much as possible by April 15, 2020, you can reduce the amount of late payment penalty and interest. If a fiduciary needs to establish a payment plan, visit our TransActional Portal at <https://tap.dor.mt.gov> or, call us at (406) 444-6964, option 1, as soon as possible to make payment arrangements.

**Line 51 – Overpayment.** If an estate or trust has a tax overpayment (amount on line 45) and it is greater than line 49, subtract line 49 from line 45 and enter the result. This is the estate’s or trust’s overpayment.

**Line 53 – Refund.** Subtract line 52 from line 51. This is the amount of the estate’s or trust’s refund. Only refunds more than \$1 will be issued.

If a fiduciary would like to use direct deposit, enter the estate’s or trust’s financial institution’s routing number (RTN#) and the estate’s or trust’s account number (ACCT#) in the space provided. The routing number will be nine digits, and the account number can be up to 17 characters, including numbers and letters. Mark whether the account is a checking or savings account and if the estate’s or trust’s refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa, U.S. Virgin Islands, Federated States of Micronesia, and Guam).

If the estate’s or trust’s financial institution does not accept direct deposit, we will mail a refund check.

A sample of a personal check is provided for reference:

The image shows a sample personal check form with several annotations. At the top left, it lists the payor's name as "John Taxpayer" and "Jane Taxpayer" at "23 Main Street, Anyplace, MT 59000". The "Pay to the Order of" field is blank. The amount field shows "\$ 1234" with "Dollars" written below it. The bank information is "Anyplace Bank, Anyplace, MT 59000". The routing number is "123456789" and the account number is "9876543210". A callout box points to the account number field with the text "Do not include the check number in the account number." Another callout box points to the routing number field with the text "Routing Number". A third callout box points to the account number field with the text "Account Number". A large "Sample" watermark is overlaid diagonally across the center of the form.

## Sign the Return

If a fiduciary is filing an estate and trust tax return electronically, a signature is not required. The act of filing electronically signifies the fiduciary’s declaration, under the penalty of false swearing, that:

- The fiduciary is authorized to file the return, and
- The information in the return is true, correct and complete.

The act of filing electronically is the fiduciary’s signature.

If a fiduciary is filing the estate and trust tax return on paper, the tax return is not considered valid unless the fiduciary or an officer representing the fiduciary signs the tax return. Unsigned returns cannot be processed and require us to contact the fiduciary for a signature.

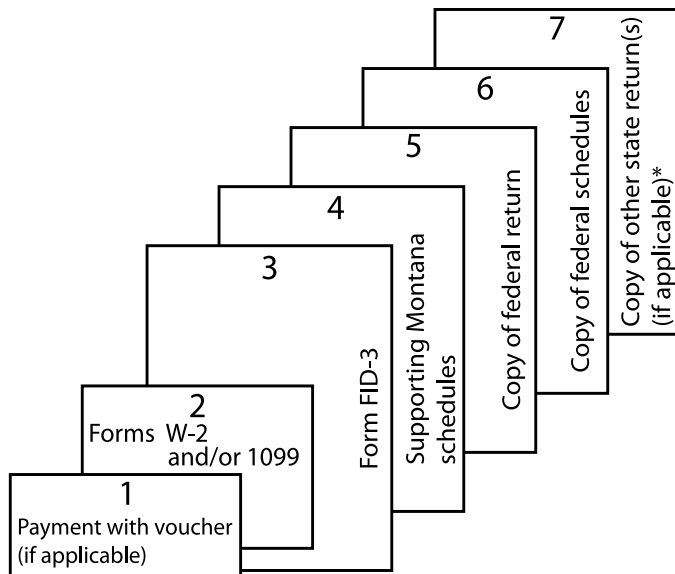
## Paid Preparer

A paid preparer must sign the tax return and include his or her address and Preparer Tax Identification Number (PTIN) in the space provided. If applicable, include the firm’s name, address, FEIN and telephone number.

## Assemble the Return

If a fiduciary is filing an estate and trust tax return on paper, the fiduciary must include any applicable federal forms and schedules we requested.

Assemble the return, without using staples, in the following order. Include all Forms W-2 and 1099.



Please Do Not Use Staples

\* Only include a copy of the returns from another state if the estate or trust is a resident of Montana and claims the credit for taxes paid to another state.

## File the Return

We encourage a fiduciary to efile the tax return for estates and trusts. See FAQ ① on page 22 for more information. If a fiduciary files the return on paper, mail the return to the following address:



Montana Department of Revenue  
PO Box 8021  
Helena, MT 59604-6577

## Schedule A – Schedule of Additions

**Line 1 – Interest and Mutual Fund Dividends from State, County, or Municipal Bonds from Other States.** Enter the interest and mutual fund dividend income that the estate or trust received from bonds and obligations of another state, territory, or political subdivision of another state (county, municipality, district, etc.).

**Line 2 – Dividends Not Included in Federal Total Income.** Enter the amount of any dividends that the estate or trust received that are not already included in total federal income. Do not include qualified dividends since these dividends are already in the total ordinary dividends reported on Form FID-3, line 2.

**Line 3 – Taxable Federal Refund.** If the estate or trust claimed a federal tax deduction, either by withholding or by paying an estimated tax in a prior year, any refund of that tax is income in the year it is received. Enter the taxable refund.

**Line 4 – Other Recoveries.** If the estate or trust claimed a deduction in a prior year that reduced Montana taxable income and the deduction was subsequently reimbursed, enter that reimbursement.

**Line 5 – All state and local taxes included on page 1, line 11.** Enter all state and local taxes you deducted on line 11. The allowable state and local deduction is re-calculated on Schedule B to exclude state income tax.

**Line 6 – Expenses Allocated to U.S. Obligations.** If an estate or trust has tax-exempt interest income, report the adjustment for deductions related to the tax-exempt interest income. Enter only the amount deducted for federal purposes that is not allowed as a deduction for Montana purposes.

Deductions allocable to tax-exempt interest income must be used only against tax-exempt interest income. Although subject to federal tax, interest in federal bonds, notes and other U.S. obligations is exempt from Montana income tax. Therefore, if interest in federal bonds, notes and other U.S. obligations is excluded on the Montana estate and trust tax return, expenses related to such tax-exempt interest income must be included in taxable income for Montana purposes.

To compute the expenses allocable to tax-exempt interest income, divide tax-exempt interest income by total gross income (including tax-exempt interest income). Multiply the resulting percentage by total expenses not directly allocable to any item of income. Report the portion of expenses allocated to tax-exempt interest income on the appropriate line.

<b>Example:</b>	
<b>1</b> Gross income from U.S. obligations	\$6,190 (reported on Form FID-3, Schedule B, line 1)
<b>2</b> Total gross income	\$73,496 (total federal income on Form FID-3, line 9, plus any capital losses plus the gross tax-exempt income from federal Form 1041, Schedule B, line 1)
<b>3</b> Line 1 divided by line 2	0.084222
<b>4</b> Total indirect expenses	\$21,987
<b>5</b> Indirect expenses allocated to U.S. obligations income (line 3 x line 4)	\$1,852 (reported on Form FID-3, Schedule A, line 6)

**Line 7 – Federal Net Operating Loss, Carryover.**

The federal net operating loss carryover that you reported on your Form FID-3, line 15b, may be different from the amount of your Montana net operating loss carryover. On this line, you should enter the amount of your federal net operating loss carryover from line 15b, and then compute your Montana net operating loss carryover using Montana Form NOL. The Montana net operating loss carryover is reported on Schedule B, line 7.

**Line 8 – Other Income.** Include a detailed schedule listing types and amounts. If the trust or estate took the Qualified Business Income deduction on line 15a, add this amount back on this line.

**Schedule B – Schedule of Deductions/Subtractions**

**Line 1 – Exempt Interest and Mutual Fund**

**Dividends from Federal Bonds, Notes, and Other Obligations.** Enter the interest on United States government obligations and mutual fund dividends attributable to that interest that an estate or trust received if these amounts are included in total federal income on Form FID-3, line 9. In addition, enter the interest on obligations from U.S. territory or government agency obligations that are specifically exempt under federal law or any mutual fund dividends attributable to this interest that an estate or trust received if these amounts are included in total federal income on Form FID-3, line 9.

Interest on obligations that are only guaranteed by the United States government is not tax-exempt. If an estate or trust 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, a fiduciary cannot subtract these interest amounts 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
- Refer to Form 1099-DIV to determine what percentage of the dividends received qualify for this exemption.

**Line 2 – State Tax Refunds.** If a state tax refund is included as other income on Form FID-3, line 8, subtract it on this line.

**Line 3 – Other Recoveries.** If a recovery was shown as income on Form FID-3, line 8, but the original deduction did not reduce Montana taxable income, deduct it on this line.

**Line 4 – Partial Pension and Annuity Income**

**Exemption.** If an estate or trust reported taxable retirement income on FID-3, line 8, the estate or trust may be entitled to a partial exemption of this income. Qualifying pension and annuity income is reported on federal Form 1099-R with distribution code 7.

Premature distributions and early withdrawals of retirement income do not qualify for the retirement income exemption. Early distributions, which required payment of the federal 5 percent or 10 percent additional tax, do not qualify for this exemption.

Tier I and Tier II Railroad Retirement benefits received from the Railroad Retirement Board are exempt from Montana tax. Enter the full amount of Tier I and Tier II annuity or pension benefits reported on Form FID-3, line 8, as a reduction to income on Schedule B, line 5.



When total federal income is \$35,800 or less, the retirement exemption is limited to the taxable retirement income that an estate or trust received or \$4,300, whichever is less. When total federal income exceeds \$35,800, the retirement exemption is reduced \$2 for every \$1 that total federal income is over \$35,800. For example, if total federal income is \$36,800, the retirement exemption is \$2,300 ( $\$4,300 - (\$1,000 \times \$2) = \$2,300$ ). The estate or trust is not entitled to this retirement income exemption if total federal income is greater than \$37,950 ( $\$4,300 - (\$2,150 \times \$2) = \$0$ ).

To calculate the pension and annuity income exemption, use this worksheet:

<b>Partial Pension and Annuity Income Exemption Worksheet</b>	
<b>1</b> Enter total federal income from Form FID-3, line 9. Do not include disability income if you are also eligible to claim the Disability Income Exclusion calculated below.	
<b>2</b> Phase-out limitation	\$35,800
If line 1 is smaller than line 2, enter the smaller of the pension and annuity income or \$4,300 on Schedule B, line 4. Stop here; do not complete the remainder of this worksheet.	
<b>3</b> If line 1 is larger than line 2, subtract line 2 from line 1 and enter the result	
<b>4</b> Enter the smaller of the pension and annuity income or \$4,300	
<b>5</b> Double the amount on line 3 and enter the result	
<b>6</b> Pension and annuity exclusion. Subtract line 5 from line 4. If the result is zero or negative, there is no exclusion. If the number is positive, enter the result and exclude this amount on Schedule B, line 4. This is the partial pension and annuity exemption.	

If an estate or trust received a disability pension, which is identified as Distribution Code 3 on federal Form 1099-R, the estate or trust should use the worksheet that follows to determine the disability income exemption:

<b>Disability Income Exemption Worksheet</b>	
<b>1</b> Retirement disability benefits received	
<b>2</b> Multiply \$100 by the number of weeks you received benefits	
<b>3</b> Enter the smaller of line 1 or line 2	
<b>4</b> Enter the total of Schedule B, line 10 without this exemption	
<b>5</b> Deduct line 4 from Form FID-3, line 17	
<b>6</b> Add Form FID-3, line 18, to line 5	
<b>7</b> Your income limitation	\$15,000
<b>8</b> Subtract line 7 from line 6 and enter the result, but not less than zero	
<b>9</b> Subtract line 8 from line 3 and enter the result, but not less than zero. This is your partial retirement disability income exclusion.	

Add line 6 from the Partial Pension and Annuity Income Exclusion worksheet and line 9 from the Disability Income Exemption worksheet and enter the sum on Schedule B, line 4.

**Line 5 – Subtractions for Federal Taxable U.S. Railroad Retirement Board Benefits.**

Tier I and Tier II Railroad Retirement benefits received from the Railroad Retirement Board are exempt from Montana tax. Enter the full amount of Tier I or Tier II annuity or pension benefits reported on Form FID-3, line 8.

**Line 6 – Expenses Allocated to Other States’ Interest and Mutual Fund Dividends.**

If an estate or trust has tax-exempt income, report the adjustment for additional expenses allocated to the tax-exempt income. Enter only the additional deductible expenses for Montana on this line.

Although exempt from federal tax, interest on non-Montana state and municipal securities is taxable to Montana. Therefore, if interest in non-Montana municipal securities is included on the Montana estate and trust tax return, expenses related to such tax-exempt income must be subtracted from taxable income for Montana purposes.



To compute the expenses allocable to tax-exempt income, divide tax-exempt income by total gross income (including tax-exempt income). Multiply the resulting percentage by total expenses not directly allocable to any item of income. Report the portion of expenses allocated to tax-exempt income on the appropriate line.

<b>Example:</b>	
<b>1</b> Gross taxable municipal interest	\$4,575 (reported on Form FID-3, Schedule A, line 1)
<b>2</b> Total gross income	\$73,496 (total federal income on Form FID-3, line 9, plus any capital losses, plus the gross tax-exempt income from federal Form 1041, page 2, Other Information, line 1)
<b>3</b> Line 1 divided by line 2	0.062248
<b>4</b> Total indirect expenses	\$21,987
<b>5</b> Indirect expenses allocated to out-of-state municipal income (line 3 x line 4)	\$1,369 (reported on Form FID-3, Schedule B, line 6)

**Line 7 – Montana Net Operating Loss Carryover.**

The Montana net operating loss (NOL) carryover may be different from the amount of your federal net operating loss carryover. On this line, you should enter the amount of the Montana net operating loss carryover from Montana Form NOL. For further instructions, and to calculate the net operating loss, see Montana Form NOL. If you included deferred foreign income on Form FID-3, line 8, and you elected to not use your deferred foreign income in the determination of an NOL for 2019, you must subtract it on this line.

**Line 8 – State and Local Taxes Limited to \$10,000.**

Add all state and local taxes, except state income tax, paid or accrued in 2019. Enter the result on this line but not more than \$10,000.

**Line 9 – Other Subtractions.** Please specify. Include additional information if necessary.

**Schedule C – Montana Distributable Net Income (MDNI) and Montana Income Distribution Deduction (MIDD)**

Lines 1 through 5 compute Montana distributable net income (MDNI). MDNI serves the same purpose as the federal DNI. MDNI, adjusted for items not included in the gross income of an estate or trust in accordance with 26 U.S.C. §§ 651 and 661, limits the deduction an estate or trust may claim for distributions to beneficiaries. MDNI may also limit the amount of Montana income a beneficiary or trust owner must report on his or her Montana tax return.

**Line 1 – Montana Adjusted Total Income (Loss).**

Enter the amount from Form FID-3, line 20. If line 20 is a loss and line 4 is a loss, enter the smaller loss.

**Line 2a.** Enter the gross amount of tax-exempt interest income from federal Form 1041, Other Information, line 1. Do not use the amount reported on federal Form 1041, Schedule B, line 1, which normally has been adjusted for allocation of expenses.

**Line 2c.** Enter the gross exempt interest and mutual fund dividends from federal bonds, notes, and other U.S. government obligations reported on Form FID-3, Schedule B, line 1.

**Line 2d.** Enter the expenses allocated to U.S. government tax-exempt income reported on Form FID-3, Schedule A, line 6.

**Line 2e.** Enter the expenses allocated to out-of-state municipal tax-exempt income. These expenses are reported on Form FID-3, Schedule B, line 6.

**Line 2f.** Enter the gross taxable out-of-state municipal tax-exempt income. This income is reported on Form FID-3, Schedule A, line 1.

**Line 2 – Montana Tax-Exempt Interest Income.**

Enter the sum of lines 2a through 2f. This is Montana adjusted tax-exempt interest income.

**Line 3a.** Enter the amount from federal Form 1041, Schedule B, line 3. This is total net gain from federal Form 1041, Schedule D, line 15, column (1) Beneficiaries.

**Line 3b.** Enter the amount from federal Form 1041, Schedule B, line 4. This is the amount from federal Form 1041, Schedule A, line 4, (capital gains allocated to corpus and paid or permanently set aside for charitable purposes).

**Line 3c.** Enter the amount from federal Form 1041, Schedule B, line 5. This is the amount from federal Form 1041, Schedule A, line 1 (amount paid or permanently set aside for charitable purposes from gross income).

**Line 3 – Total Net Capital Gains.** Enter the sum of lines 3a through 3c. This is the sum of total net capital gains reported on federal Form 1041, Schedule B, lines 3 through 5.

**Line 4.** If the amount on Form FID-3, line 4 is a net gain, enter the gain as a negative. If the amount on Form FID-3, line 4, is a net loss, enter the loss as a positive number.

**Line 5 – Montana Distributable Net Income.** Enter the sum of lines 1 through 4.

The computations on lines 6 through 13 of Schedule C adjust MDNI and compute certain limits for Montana income distribution deduction (MIDD). The MIDD is generally computed in accordance with 26 USC §§ 651 and 661.

**Line 6.** This line applies to complex trusts only. Enter the accounting income of the trust for the tax year determined under the terms of the governing instrument and Montana income tax law.

**Line 7.** Enter the amount of income required to be distributed currently, whether distributed or not. This amount is also reported on federal Form 1041, Schedule B, line 9.

**Line 8.** This line only applies to a decedent's estate or complex trust. These distributions consist of any other amounts paid, credited or required to be distributed and are referred to as second-tier distributions.

**Line 9 – Actual Total Distributions for the Year.** Enter the sum of lines 7 and 8. This is actual total distributions to beneficiaries for the tax year.

**Line 11.** Subtract line 10 from line 9. This is the tentative income distribution deduction based on total actual distributions.

**Line 12.** Subtract line 2 from line 5. Enter zero if equal to zero or less. This is the tentative income distribution deduction based on MDNI less Montana adjusted tax-exempt interest income.

## **Schedule D – Beneficiaries and Montana Income Distributions**

Complete Schedule D for all beneficiaries who received an income distribution if an estate or trust was required to distribute income currently or if it paid, credited, or was required to distribute any other amounts to beneficiaries during the tax year.

List the name, SSN or FEIN (enter nine digits and no dashes), and residency status of the beneficiary.

For each beneficiary:

- Line a, enter the beneficiary's share of federal distribution. In general, this is the amount of distribution that is includable in gross income for federal tax purpose, boxes 1 through 11 of the federal Schedule K-1 (Form 1041).
- Line b, enter the beneficiary's share of Montana distribution. This is the beneficiary's share included in the Montana income distribution.
- Line c, subtract line b from line a and enter the difference. If the result is a negative number enter a negative number. This difference represents the effect of Montana adjustments to the beneficiary's distribution includable in gross income. Follow the Montana Schedule K-1 (FID) instructions to report this difference on the Montana Schedule K-1 (FID).
- Use the dollar amount and not the percentage.

If there are more than eight beneficiaries, complete additional copies of Schedule D. You can make copies of the included Schedule D or download additional copies from [MTRvenue.gov](http://MTRvenue.gov). If Schedule D is incomplete, the processing of the return will be delayed until we receive this information.

## Schedule E – Resident Capital Gains Tax Credit Calculation

An estate or trust can claim a capital gains tax credit against the Montana income tax liability of up to 2 percent of net capital gains. The net capital gains eligible for the capital gains tax credit is the amount reported on Form FID-3, line 4, less the amount of net capital gains distributed to a beneficiary.

*Example:* A capital gain of \$46,675 is reported on Form FID-3, line 4. The income distribution deduction to the beneficiary included \$12,482 of the capital gain. The 2 percent capital gains tax credit is computed on the undistributed capital gain of \$34,193.

This credit is nonrefundable. It is applied directly against the income tax liability and it cannot reduce the liability below zero. This credit is applied before any other credits and cannot be carried back or carried forward.

If an estate or trust is a nonresident or a part-year resident, apply this credit to the Montana income tax computed on Form FID-3, line 26, as if it were a resident.

## Schedule F – Nonresident/Part-Year Resident Estate and Trust Tax

Schedule F applies only to nonresident and part-year resident estates and trusts that have Montana source income. A fiduciary will use this schedule to compute the ratio of Montana source income to total income. This ratio is then multiplied by the resident tax from Form FID-3, page 2, line 28, to determine the nonresident or part-year resident tax to be reported on Form FID-3, page 2, line 28a.

### Column A – Total Undistributed Income

Enter in column A the total income from Form FID-3, lines 1 through 8, and Schedule A. Income retained by the estate or trust is the income on which the estate or trust can be taxed after taking the Montana Income Distribution Deduction. Do not include any net operating losses reported on Schedule A, nor any federal taxes deducted on Form FID-3, page 1, line 22.

### Column B – Montana Source Income included in column A

Enter the Montana source income included in undistributed income for each line of this column. If the estate or trust received a Montana Schedule K-1 from a pass-through entity, include Montana source adjustment on line 13.

For a nonresident trust, Montana source income means all income attributable to a non-contingent resident beneficiary in future distributions and all income that would be sourced to Montana if the income was distributed to beneficiaries who were nonresidents during the year or are contingent beneficiaries.

**Line 1 – Interest Income.** Enter the interest income retained from an installment sale of real property in Montana. Include any interest retained from a business or commercial property located in Montana. Also include taxable Montana source interest income that the estate or trust received from a pass-through entity.

**Line 2 – Ordinary Dividends.** Enter the amount of dividends retained while a resident. Generally, dividends that nonresident estates or trusts receive are not considered Montana source income.

**Line 3 – Business Income or (Loss).** Enter the net income or loss received from any trade, business, profession, or occupation carried on in Montana and retained by the estate or trust. If an estate or trust has more than one business, complete a separate federal Schedule C for each business activity.

**Line 4 – Capital Gain or (Loss).** Enter the gains or losses retained on the sale or transfer of tangible property used or held in connection with the trade, business, or occupation located in Montana.

**Line 5 – Rental Real Estate, Royalties, Partnerships, S Corporations, Other Estates or Trusts, etc.** Enter the following income or losses that are retained by the estate or trust:

- Net rental income or loss from real property and tangible personal property located in Montana
- Net royalties to the extent that the income retained is for production, fabrication, manufacturing, or other processing in Montana, or the patented product is produced in Montana
- Net copyright royalties to the extent that the printing and other publication originated in Montana
- Partnership income derived from a trade, business, occupation, or profession carried on in Montana
- S corporation income derived from a trade, business, occupation, or profession carried on in Montana
- Estate and trust income derived from a trade, business, occupation, or profession carried on in Montana

**Line 6 – Farm Income or (Loss).** Enter the farm income or (loss) retained from the farming activity carried on in Montana. Include a separate federal Schedule F if necessary, showing only the Montana farm activity.

**Line 7 – Ordinary Gain or (Loss).** Report any ordinary gain or (loss) retained from the sale or exchange of business property located in Montana and reported on federal Form 4797.

**Line 8 – Other Income.** Enter any other income attributed to Montana that is not identified on lines 1 through 7. This includes, but is not limited to:

- Montana lottery winnings
- Nonemployee compensation

**Line 9 – Interest and Mutual Fund Dividends from Other States’ State, County, or Municipal Bonds.**

Enter the interest and dividend income from bonds and obligations of other states, territories, or political subdivision of another state (county, municipality, district, etc.).

**Line 10 – Dividends Not Included in Total Federal Income.** Enter the amount of the dividends that the estate or trust retained that is not already included in total federal income.

**Line 11 – Taxable Federal Refund.** If the estate or trust claimed a federal tax deduction in a prior year, any refund of that tax is income in the year it is received.

**Line 12 – Other Recoveries.** If a deduction in a prior year was claimed and reduced Montana taxable income, and the estate or trust was subsequently reimbursed, enter that reimbursement here.

**Line 13 – Other Additions to income and adjustments.** Enter any other source of Montana income that has not been included or identified in the lines above. Do not include net operating losses reported on Schedule A, line 7.

## Schedule G – S Portion Tax Calculation of an ESBT

Complete Schedule G if a trust or a portion of a trust is an electing small business trust (ESBT). Only report on Schedule G the activity of the ESBT. Report activity of the non-ESBT portion of the trust on Form FID-3 and other applicable schedules.

**Line 1 – Total Federal Adjusted ESBT Income.**

Enter total federal adjusted ESBT income as determined on the separate schedule prepared for the federal estate and trust income tax return. Include the federal schedule with the Montana tax return.

**Line 2 – Montana Additions to ESBT Income.** Enter total Montana additions to ESBT income. Montana additions to ESBT income include dividends not included in total federal income, taxable federal refund, Montana income taxes paid or accrued, and expenses allocated to U.S. obligations. Include a statement that separately lists the additions. If the ESBT received Montana Schedules K-1, include on this line the amounts from Part 3, column I, line 1.

**Line 3 – Montana Deductions to ESBT Income.**

Enter total Montana deductions to ESBT income. Montana deductions to ESBT income include federal income tax deductions, exempt interest and mutual fund dividends from federal obligations, state tax refunds if included in total federal income, and expenses allocated to other states’ interest and mutual fund dividends. If the ESBT received Montana Schedules K-1, include on this line the amounts from Part 3, column I, line 2. Include a statement that separately lists the deductions.

**Line 7 – Tax from Tax Table.** If line 6 is zero or less, enter 0.

Compute the tax using the following tax table:

If the Taxable Income is More Than	But Not More Than	Multiply the Taxable Income By	And Subtract	This is Your Tax
\$0	\$3,100	1% (0.010)	\$0	
\$3,100	\$5,400	2% (0.020)	\$31	
\$5,400	\$8,200	3% (0.030)	\$85	
\$8,200	\$11,100	4% (0.040)	\$167	
\$11,100	\$14,300	5% (0.050)	\$278	
\$14,300	\$18,400	6% (0.060)	\$421	
More Than \$18,400		6.9% (0.069)	\$587	
For example: Taxable income \$6,800 x 3% (0.03) = \$204 \$204 minus \$85 = \$119 tax				

**Line 8 – Montana Source Income.** Complete this line if the ESBT is a nonresident or part-year resident. If the ESBT is a resident, skip this line. If the ESBT is a nonresident, enter the Montana source income included in Montana adjusted ESBT income reported on line 3. Include with the return all Montana Schedules K-1 that the trust received. If you are a part-year resident, all your income received while a resident is Montana source income. You must source the everywhere income to Montana based on the number of days the ESBT was a resident of Montana during the tax year. Reduce any Montana source income by a corresponding ratio and add the result to the Montana source income received as a resident.

**Line 11 – Credit for Income Taxes Paid to Another State or Country.** Complete this line if the ESBT is a resident or part-year resident. If the ESBT is a nonresident, skip this line. If the ESBT is a resident, complete Worksheet I on page 5 and enter the amount from line 10. If the ESBT is a part-year resident, complete Worksheet II on page 5 and enter the amount from line 10. Instructions for Worksheets I and II are page 4.

**Line 12 - Capital Gains Credit.** Calculate 2 percent of the capital gains received by the ESBT and enter the result on this line. If the ESBT is a nonresident, calculate 2 percent of the Montana source capital gain reported on Montana Schedules K-1, Part 4, received by the ESBT. If the ESBT is a part-year resident this must be apportioned to the number of days the ESBT was a resident during the tax year.

**Line 13 – Other Nonrefundable Credits.** Enter the total of all refundable credits claimed. In order to claim any credit, you must include the appropriate forms with the tax return. Visit [MTRRevenue.gov](http://MTRRevenue.gov) to obtain forms and instructions. See page 6 for a list of nonrefundable credits.

## **Schedule H – Special Transactions, NOL Election, and Amended Return Information**

### **Part I. Reporting of Special Transactions**

Complete this part only if the estate or trust filed any of the federal income tax forms described below.

Mark the appropriate boxes indicating which forms you filed with the Internal Revenue Service. If you answered any statements “Yes,” the fiduciary must include a copy of the applicable form.

### **Part II. Net Operating Loss (NOL) Carryback – Election for Farming Loss**

If you chose to forgo a carryback of the farming NOL you calculated on Schedule A of the Form NOL, you must make this election by the due date, including the extension for filing Form FID-3. Once you elect to forgo the carryback period, you cannot revoke it.

### **Part III. Amended Return. Check the appropriate boxes.**

When amending a return, check the appropriate boxes reflecting the reasons why you are amending your return. In the table, provide information about the lines you corrected that result in a change to your taxable income or to the credits you are claiming.

## Montana Schedule K-1 Instructions

A fiduciary must provide information on a Montana Schedule K-1 (Form FID-3), Beneficiary's Share of Income (Loss), Deductions, Credits, etc., which a beneficiary will need in completing its Montana income tax return. The fiduciary must prepare a Montana Schedule K-1 for each beneficiary that must report a share of the estate's or trust's income, credits, deductions, etc., for income tax purposes during the estate's or trust's taxable year. Include a copy of each beneficiary's Montana Schedule K-1 with the Form FID-3. The fiduciary should keep a copy for the estate's or trust's records and give a separate copy to each beneficiary (with a copy of the Beneficiary's Instructions).

### Character of Income

The character of all income is determined at the estate or trust level and does not change when it is allocated to a beneficiary of an estate or trust.

### Part 1 – Information About the Estate or Trust

Mark applicable boxes:

- Final Schedule K-1 – mark this box if this is the last Montana Schedule K-1 that the fiduciary will issue to the beneficiary.
- Amended Schedule K-1 – mark this box if the fiduciary is amending the beneficiary's Montana Schedule K-1.

Enter the name of the estate or trust (as it appears on the federal tax return), its Federal Employer Identification Number (FEIN) as reported for federal income tax purposes, and the fiduciary's name (as it appears on the federal tax return) and mailing address.

### Part 2 – Information About the Beneficiary

Enter the beneficiary's name, mailing address and tax identification number (SSN or FEIN) as reported for federal income tax purposes.

If the beneficiary is an individual, estate or trust, mark the appropriate box for residency status.

### Part 3 – Montana Adjustments

For each beneficiary, report the difference from Schedule D, line c, on Schedule K-1 (FID), Part 3. If this difference is a negative number, report the amount as an addition on line A as a positive number. If this difference is a positive number, report this amount as a subtraction on line B.

### Part 4 – Beneficiary's Share of Montana Source Income (Loss)

Complete Part 4 for all beneficiaries. If a beneficiary is a Montana resident, all income allocated to the beneficiary is Montana source income.

#### Lines 1 – 9

Beneficiaries will need this information to calculate their Montana tax liability when they file their Montana income tax returns.

On each line, enter the Montana source income that was allocated to the beneficiary.

### Part 5 – Supplemental Information

Enter any other pertinent information concerning the beneficiary's share of income, deductions or withholding.

Enter each beneficiary's share of items that could be adjustments to the beneficiary's Montana income tax return.

**Line 1.** If the estate or trust received federal Form 1099 because it had Montana mineral royalty tax withheld from its mineral royalty income in Montana, report the amount of any mineral royalty tax withheld that was distributed to the beneficiary. These amounts are the same as the amount reported on Form FID-3, line 39b.

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# FAQs – Frequently Asked Questions

The answers to these questions are identified by number on pages 19-26.

## Filing Requirements

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- ❷ Is the estate or trust a resident of Montana?
- ❸ Which tax year and accounting method should a fiduciary use to file the tax return?
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## Tax Records

- ⓫ How long does the estate or trust need to maintain tax records after the fiduciary files the state tax return?

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## ❶ Who has to file a Montana income tax return for estates and trusts?

The fiduciary of a resident estate or trust must file a Form FID-3 (Montana Income Tax Return for Estates and Trusts). The fiduciary of a nonresident estate or trust must file a Form FID-3 (Montana Income Tax Return for Estates and Trusts) if the estate or trust receives Montana source income or if at least one of the beneficiaries is a resident of Montana during the tax year. A return is not required if the total income of the estate or trust is less than \$2,510. A fiduciary includes a guardian, trustee, executor, administrator, receiver, conservator or any person acting in a position of trust or fiduciary capacity for any other person or group of persons.

## ❷ Is the estate or trust a resident of Montana?

### Resident Estate

An estate is a resident estate if the decedent was a Montana resident on the date of his or her death. If the estate is a bankruptcy estate, it is treated as a resident estate if the person for whom the estate was created is a Montana resident.

### Resident Trust

A trust is a resident trust if it establishes a sufficient connection to Montana.

Several factors are considered to determine whether a trust has a sufficient connection to Montana and include, but are not limited to, the testator’s, grantor’s, settlor’s, or creator’s domicile; the location where the trust was created; the location of trust property; the beneficiaries’ domicile; the trustees’ domicile; and the location of the trust’s administration.



Examples of resident trusts include, but are not limited to:

- any trust that designates Montana as its principal place of administration;
- any trust that is primarily administered by a trustee or representative who is a Montana resident or whose principal place of business is located in Montana;
- any irrevocable trust created by, or consisting of property of, a Montana resident on the date the trust or portion of the trust became irrevocable and has at least one income beneficiary who, for all or some portion of the trust's current taxable year, was a Montana resident;
- any trust created by the will of a decedent who was a Montana resident at the time of the decedent's death; or
- any trust created by, or caused to be created by, a court as a result of the death of an individual when:
  - property was transferred to an irrevocable inter vivos trust as a result of a decedent's death;
  - the decedent was a Montana resident at the time of the decedent's death; and
  - the trust has at least one income beneficiary who, for all or some of the trust's current taxable year, was a Montana resident.

Generally speaking, the "principal place of administration" of a trust is the usual place where its day-to-day activities are carried on by the trustee or person who is primarily responsible for the administration of the trust. If the principal place of administration of the trust cannot be identified under that standard, and assuming that the trust agreement does not identify a different location, then it is determined as follows:

- if the trust has a single trustee, the principal place of administration of the trust is the trustee's residence or usual place of business; or
- if the trust has more than one trustee, the principal place of administration of the trust is the residence or usual place of business of any of the cotrustees as agreed upon by them. If not agreed upon by the cotrustees, the principal place of administration of the trust is the residence.

## **Nonresident Estate or Trust**

If the estate or trust is not a resident, it is treated as a nonresident estate or trust.

For nonresident estates or trusts, Montana tax liability is computed as if the entity was a resident estate or trust. The computed tax liability is then multiplied by the ratio of the estate's or trust's Montana source income to the undistributed total income.


Refer to the instructions for Schedule F (Nonresident Estate and Trust Tax) on page 15.

### **3 Which tax year and accounting method should a fiduciary use to file the tax return?**

The 2019 Form FID-3 has to be filed for the calendar year 2019 or the fiscal year beginning in 2019. If the tax return is for a fiscal year, or a short tax year (less than 12 months), enter the taxable year in the space at the top of Form FID-3.

The taxable year and accounting method for Montana must be the same as the taxable year and accounting method used for federal income tax purposes. If the estate or trust changes its federal taxable year or accounting method, it is required to change its Montana taxable year and accounting method accordingly. A copy of the approval letter from the Internal Revenue Service (IRS) to change accounting period or method must accompany the first tax return that reflects the change.

Mark the "Final return" box on Form FID-3 if the estate or trust ceased to exist during Tax Year 2019.

 Fiscal year filers need to use the 2018 Form FID-3 if the estate's or trust's taxable year began in the 2018 calendar year.

### **4 What forms and schedules have to be included with the tax return?**

Unless the tax return is filed electronically, a fiduciary must include a complete copy of federal Form 1041 and all related forms and schedules. If a fiduciary is claiming a credit for taxes paid to another state, the fiduciary is required to include a copy of the returns from the other state. If the fiduciary files the return electronically and cannot attach the federal forms and schedules or the other state or country's income tax return, retain copies so they can be provided to the department upon request.

## 5 Who has to sign the tax return?

Form FID-3 has to be signed and dated by the fiduciary or an officer representing the fiduciary. Form FID-3 is not considered to be complete unless it is signed. Unsigned tax forms will delay processing of the return. If a fiduciary has an accounting firm or an individual prepare Form FID-3, the name, address and telephone number of the tax preparer has to be included on the tax return.

If a fiduciary is filing the tax return electronically, the fiduciary or an officer representing the fiduciary is not required to sign the tax return. The act of electronically filing signifies that the fiduciary is authorized to file the return and declares that the information is true, correct and complete. In addition, the act of completing and filing the tax return electronically is considered an authorized signature.

## 6 When is the estate and trust tax return due?

The estate's or trust's Montana filing period is the same as its federal filing period. Form FID-3 is due following the close of the tax year for:

- calendar year estate or trust – on or before April 15
- fiscal year estate or trust – on or before the 15th day of the 4th month following the end of the tax year

If the due date falls on a weekend or a holiday, the tax return is due on the next business day.

## 7 Can a fiduciary get an extension of time to file the tax return?

Yes. A fiduciary is granted an automatic extension of time to file of up to six months for filing a Montana income tax return.

A fiduciary does not need to apply for a federal extension in order to receive a Montana extension.

**Important** An extension of time to file is not an extension to pay the taxes due. If the estate's or trust's entire 2019 tax liability is not paid by the original due date, interest and late pay penalties will be assessed on the outstanding balance.

Beginning with Tax Year 2017, an extension payment is not required to receive an extension of time to file this return.

If a fiduciary would like to make an extension payment, calculate the difference between the amount of tax you think the estate or trust will owe and payments already made, including amounts withheld on behalf of the estate or trust.

If a fiduciary would like to make an extension payment, the fiduciary can pay by the following methods:

- electronic payment from a checking or savings account or a credit/debit card payment using TransAction Portal (TAP) at [MTRRevenue.gov](http://MTRRevenue.gov)
- schedule an ACH credit through your bank if the bank supports this process
- use the Montana Estate or Trust Tax Payment Voucher, available at [MTRRevenue.gov](http://MTRRevenue.gov) or call us at (406) 444-6900.

## 8 What does the box that asks “May the DOR discuss this tax return with the tax preparer?” mean?

If a fiduciary marks the box, we can discuss any concerns that we might have with the 2019 estate and trust tax return—a missing schedule, for example—with the tax preparer. If the fiduciary does not mark the box, we cannot discuss the tax return with anyone but the fiduciary unless a power of attorney allows us to discuss the return with someone else.

If yes is marked, the fiduciary is authorizing us to call the tax preparer to answer any questions that arise while we are processing the 2019 tax return.

By marking the box the fiduciary is also authorizing us to:

- request that the tax preparer give us any information that is missing from the return;
- respond to the tax preparer's call to us for information about the processing of the return or the status of refunds or payments;
- discuss certain notices from us about math errors, offsets and return preparation.

**Note:** The department will only send notices directly to the fiduciary, not to the tax preparer.

The fiduciary is not authorizing the tax preparer to receive any refund check, bind the estate or trust to anything (including any additional tax liability), receive any information about any other tax year or tax matter, or otherwise represent the estate or trust before the department.

Please be aware that this authorization cannot be revoked. The authorization will, however, automatically end no later than the due date, without regard to extensions, for filing next year's (2020) tax return. This is April 16, 2021, for most estates and trusts.

If the fiduciary wants to expand or change the tax preparer's authorization (for example, to verify any estimated payments it will be making in the future), the fiduciary can use Form POA

(Power of Attorney, Authorization to Disclose Tax Information). Form POA is available at [MTRevenue.gov](http://MTRevenue.gov).

**9 What options does a fiduciary have to file the estate and trust tax return electronically?**

File the Montana and federal tax returns separately or at the same time through a tax professional who is an authorized IRS e-file provider, or use department approved software. For more information regarding electronic filing, visit [MTRevenue.gov](http://MTRevenue.gov) or [irs.gov](http://irs.gov).

Fiduciaries are no longer able to file a Montana Income Tax Return for Estates and Trusts (Form FID-3) through TransAction Portal (TAP). However, fiduciaries can still make payments, view returns and payments, update account information and grant access to others (such as tax preparers) in TAP.

**10 What options does a fiduciary have to pay the estate's or trust's Montana taxes electronically?**

Electronic payment options are available at [MTRevenue.gov](http://MTRevenue.gov). Fiduciaries can pay the estate's or trust's Montana taxes electronically by:

- Electronic funds withdrawal when e-filing the state tax return. You can schedule the withdrawal date for any date you select. There is no fee for an electronic funds withdrawal.
- E-check – there is no fee for an e-check payment. You can schedule an e-check payment to be withdrawn on any date you select by visiting our website.
- Credit/debit card – a small fee is applied for a credit card payment.
- Schedule an ACH credit through your bank if the bank supports this process.

Interest and late payment penalties will be assessed on any amount not paid when due. For more information regarding electronic payment options, visit [MTRevenue.gov](http://MTRevenue.gov).

**11 If a fiduciary files the tax return electronically, what information must be sent in and what documents must it retain?**

If a fiduciary files electronically, the fiduciary does not have to mail in a paper copy of the tax return, or any accompanying federal Forms W-2 or 1099, or any other Montana supplemental forms. When the fiduciary files electronically, the fiduciary represents that he/she has kept all the documents required as part of the estate's or trust's tax

record and that it will provide copies if we ask for them. The act of completing and filing the tax return electronically is considered the fiduciary's authorized signature.

**12 If a fiduciary files the tax return by mail, what address does the fiduciary use?**

Mail the Income Tax Return for Estates and Trusts to:



Montana Department of Revenue  
PO Box 8021  
Helena MT 59604-8021

**13 How does a fiduciary amend the tax return?**

If a fiduciary needs to correct an error on a previously filed Form FID-3, the fiduciary must file an amended return. There is no special form for this purpose. See "What are some helpful hints for preparing an amended return?" in FAQ **14**.

The fiduciary has three years from the due date of the original tax return to file an amended return and correct any error.

If the IRS changes or makes corrections to the federal Form 1041 or if the fiduciary amends the estate's or trust's federal tax return, the fiduciary will need to amend the Form FID-3 within 90 days of receiving the Internal Revenue Service's notification of the corrections made to the federal Form 1041 or within 90 days of filing the amended federal tax return.



If the fiduciary files an amended tax return that reflects an increased tax liability, the late payment penalty may be waived. Simply mark the "Amended return" box on the tax form and pay the tax and applicable interest in full. By marking this box and paying all the tax and interest in full, the fiduciary is requesting a waiver of the late payment penalty.

**14 What are some helpful hints for preparing an amended tax return?**

Use the correct Form FID-3 for the year being amended. The forms are available at [MTRevenue.gov](http://MTRevenue.gov).

Enter the name of the estate or trust, and the fiduciary's name, current address, FEIN and other requested information in the top portion of Form FID-3.

Mark the "Amended return" box at the top of Form FID-3.

Complete the entire Form FID-3 and its applicable schedules using the corrected amounts. Do not forget to complete Schedule H, Part III, to provide

reasons for amending your return. Include a copy of the original Form FID-3.

Include the applicable forms and statements explaining all of the adjustments in detail. If the reason for filing the amended return is because of changes the fiduciary or the IRS made to the federal Form 1041, include a copy of the amended federal return or IRS notice.

Complete and provide a corrected Montana Schedule K-1 along with a copy of the amended Form FID-3 to the beneficiaries. If the original Form FID-3 was electronically filed through the joint federal/state program, then an amended Form FID-3 can be e-filed as long as the software supports amended filing.

**15 Is a fiduciary required to make estimated tax payments?**

A fiduciary for an estate or trust is required to make estimated tax payments in 2020 if one of the following conditions applies:

- The net income tax liability on the estate's or trust's taxable income for the 2019 Tax Year (as shown on the 2019 Form FID-3, line 36) was \$500 or more.
- The fiduciary expects to owe (after subtracting any Montana income tax withheld, mineral royalty tax withheld and tax credits) \$500 or more for the 2020 Tax Year.

Complete the worksheets in the Estimated Tax publication to determine if there is a requirement to pay estimated tax for 2020. This publication is available at [MTRevenue.gov](http://MTRevenue.gov) or call us at (406) 444-6900. The fiduciary can also pay electronically. For payment options visit [MTRevenue.gov](http://MTRevenue.gov).

**16 What is the interest rate on unpaid taxes?**

The current interest rate is 5 percent%. Under Montana law, the interest rate for all unpaid income taxes depends on the rate set by the Internal Revenue Service and may fluctuate each year.

**17 Are there special filing instructions for a specific entity type?**

**Decedent's Estate**

Do not use a decedent's social security number for an estate. If the Federal Employer Identification Number (FEIN) is not available at the time of filing, enter "applied for" and the application date in the box provided.

**§ 645 Election**

A § 645 election allows a qualified revocable trust to be treated and taxed as part of the related estate during the election period. If the election is made for federal income tax purposes, it also applies for Montana. Enclose a copy of the federal Form 8855 or the letter making the election.

**Electing Small Business Trust (ESBT)**

If a fiduciary makes the election under IRC § 1361 for the trust to be an ESBT for federal purposes, the trust will be treated as an ESBT for Montana income tax purposes. No separate election for Montana purposes is required.

Special rules apply when computing the ESBT's tax liability. The activity from an ESBT, which is treated as a separate trust, is reported on Schedule G (Electing Small Business Trust Tax Calculation). The tax liability of an ESBT is determined on Schedule G and combined with the tax liability of the remainder (non-ESBT portion) of the trust on Form FID-3, line 36. The ESBT's Montana tax liability is calculated in the usual manner, using the regular tax table.

If the trust is only an ESBT, complete the heading portion of Form FID-3, Schedule G and Form FID-3, lines 36 through 53.

**Bankruptcy Estates**

A bankruptcy estate of an individual must file Form FID-3, but complete only the heading portion and report the amount of tax computed on the attached copy of the Montana tax return.

Married couples who file a joint bankruptcy petition may file a joint tax return. A joint bankruptcy estate is limited to one personal exemption in computing the amount of tax due. A married couple cannot use the filing status of married filing separately on the same return to determine their separate Montana income tax liabilities for a bankruptcy estate. If a married couple does not file a joint return, but both spouses are filing for bankruptcy individually, then each spouse will complete a separate Form FID-3 and a separate individual Montana income tax return. Credits and payments that are applicable to the bankruptcy estate are reported on Form FID-3.

**Grantor Type Trusts**

The fiduciaries of grantor trusts are required to file informational tax returns and send copies to the grantors/owners that are required to report the income, deductions and credits on their Montana income tax return.

If the entire trust is a grantor trust, complete only the heading portion of Form FID-3 and mark the “Grantor Type Trust” box. Do not show any dollar amounts, including any withholding amounts and estimated payments, on the form itself; show dollar amounts only on a supporting statement. Include the supporting statement with the return, along with a complete copy of federal Form 1041.

*Example:* The John Doe Trust is a grantor type trust. During the year, the trust sold 100 shares of ABC stock for \$1,010 (it had a basis of \$10) and 200 shares of XYZ stock for \$10 (it had a \$1,020 basis). The trust does not report these transactions on federal Form 1041 or Form FID-3. Instead, a schedule is included with Form 1041 and Form FID-3 showing each stock transaction separately and in the same detail as John Doe (grantor and owner) needs to report on his Schedule D (Form 1040). The trust may not net the capital gains and losses, nor may it issue John Doe a Schedule K-1 showing a \$10 long-term capital loss.

If only part of the trust is treated as a grantor type trust, report on Form FID-3 only the part of the income, deductions, etc. that is not attributable to the grantor type trust.

### **Qualified Funeral Trusts**

The purchasers of pre-need funeral services are the grantors and the owners of pre-need funeral trusts as established under state laws. However, fiduciaries of pre-need funeral trusts can elect to file the return and pay the tax for qualified funeral trusts (QFTs). The IRS allows a fiduciary to file federal Form 1041-QFT (U.S. Income Tax Return for Qualified Funeral Trusts), which is a single, composite tax return for some or all QFTs for which he or she is a fiduciary.

A fiduciary of more than one qualified funeral trust may file the Form FID-3 reporting all the QFTs included on the composite federal return, rather than a separate return for each trust. However, the applicable tax due is computed on the combined taxable income of all the included QFTs, less one exemption of \$2,510. A fiduciary of more than one QFT that does not wish to file a composite Montana FID-3, can still file a single return if it files electronically and include the detail of the calculation of the tax for each GFT with its return. The fiduciary will have to mark the box “Qualified Funeral Trust”, leave lines 1 through 35 blank, and report the tax on line 36.

### **Qualified Subchapter S Trust (QSST)**

A QSST (as defined in IRC § 1361(d)(3)) follows the reporting rules for grantor type trusts. Income allocated to S corporation stock held by the trust is treated as owned by the income beneficiary of the portion of the trust that owns the stock.

### **Pooled Income Funds**

A fiduciary files federal Form 5227 (Split-Interest Trust Information Return) along with a statement to support the following:

- the calculation of the yearly rate of return,
- the computation of the deduction for distributions to the beneficiaries, and
- the computation of any charitable deduction.

If filing for a pooled income fund, complete only the heading portion of Form FID-3 and check the “Pooled Income Fund” box. Do not show any dollar amounts on the form itself; show dollar amounts only on the supporting statement. Include the supporting statements and a complete copy of federal Form 5227 with Form FID-3.

### **Other**

Certain types of trusts file federal forms for which Montana does not have an equivalent form. The following are examples of these entities and the Montana income tax returns that they need to complete.

#### **Split-Interest Trusts**

Split-interest trusts described in IRC § 4947(a)(2), including charitable lead trusts and charitable remainder trusts described in IRC § 664 that meet the definition of a split-interest trust, file federal Form 5227.

If filing for a split-interest trust, complete only the heading portion of Form FID-3 and mark the “Other” box. Do not show any dollar amounts on the form itself; show dollar amounts only on the supporting statement. Include the supporting statements for the form, along with a complete copy of the federal Form 5227.

#### **Qualified Settlement Fund or Designated Settlement Fund**

Except as otherwise provided in Regulations § 1.468B-5(b), for purposes of Subtitle F of the Internal Revenue Code, a qualified settlement fund is treated as a corporation, and any tax imposed under Regulations § 1.468B-2(a) is treated as a tax imposed by § 11. See Regulations § 1.468B-2(k) for more information. A designated settlement fund is taxed in the same manner as a qualified settlement fund.

These funds file federal Form 1120-SF (U.S. Income Tax Return for Settlement Funds) to report transfers received, income earned, deductions claimed, distributions made, and to figure the income tax liability of a qualified or designated settlement fund. For Montana purposes, these funds would file Montana Form CIT (Montana Corporate Income Tax Return).

### Common Trust Funds

A common trust fund maintained by a bank files federal Form 1065, U.S. Return of Partnership Income. See IRC § 584 and Regulations § 1.6032-1 for more information. For Montana purposes, the fund would file Montana Form PR-1 (Montana Partnership Information and Composite Tax Return).

### Exempt Trusts

Exempt trusts filing federal Form 990-T (Exempt Organization Business Income Tax Return) to report unrelated business income must file a Montana Form CIT (Montana Corporate Income Tax Return) and pay any applicable tax to Montana.

### 18 Net operating loss (NOL)

If line 20 on Montana Form FID-3 is a loss, the estate or trust may have an NOL. Don't include the deductions claimed on line 13 when figuring the amount of the NOL. You usually have an NOL for Montana income tax purposes if you have an NOL for federal income tax purposes.

Complete Montana Form NOL to figure the amount of the Montana NOL that is available for carryback or carryover. If you determine that you have an NOL and will carryback the NOL, file an amended return to apply for a refund. Beginning with Tax Year 2019, only net operating losses from farming may be carried back.

Before you can deduct the Montana NOL, any deduction for a Federal NOL must be added back to gross income on Montana Form FID-3, Schedule A. The Montana NOL is deducted from gross income on Montana Form FID-3, Schedule B.

### 19 How should a fiduciary report excess distributions or an unused net operating loss carryover upon the termination of an estate or trust?

A deduction is allowed to the beneficiaries succeeding to the property of the estate or trust if, upon termination, the estate or trust has one of the following:

- a capital loss carryover

- for its final year, deductions (other than the charitable deductions) in excess of gross income
- a net operating loss

To the extent these deductions are Montana sourced, report the Montana sourced portion of the deduction to the beneficiary on Montana Schedule K-1, part 5, line 2.

### 20 How does a fiduciary determine if income is sourced to Montana?

If the estate or trust is a resident, all of its income is Montana source income. Montana source income includes the separately and nonseparately stated income, gain, loss, deduction or credit, or items of income, gain, loss, deduction or credit that was derived from a trade, business, occupation or profession carried on in Montana or that was derived from the sale or other transfer, or the rental, lease, or other commercial exploitation of property located in Montana.

If the trust is a part-year resident, all of the income it received while a resident is Montana source income. In addition, a part-year resident may have Montana source income during the part of the year it was a nonresident.

If the estate or trust is a nonresident, items of income are sourced to Montana as follows:

- Income held for future distribution to a non-contingent beneficiary who is a resident of Montana during the tax year.
- Interest and dividend income received by a nonresident trust or estate is generally not Montana source income.  
**Exception:** Interest income from the sale, exchange or other disposition of property located in Montana at the time of the sale is Montana source income.
- Rents and royalties from real property are Montana source income if the property is located in Montana.
- Rents and royalties from tangible personal property are sourced to Montana to the extent the property is used in Montana. The extent of use of tangible personal property in Montana is determined by multiplying the rents and royalties derived from the property by a fraction, in which the numerator is the number of days of physical location of the property in Montana during the rental and royalty period in the tax year and the denominator is the number of days of physical location of the property everywhere during all rental or royalty periods in the tax year.



- Patent and copyright royalties are sourced to Montana to the extent the patent or copyright is used in Montana. A patent is used in Montana to the extent that it is employed in production, fabrication, manufacturing or other processing in Montana, or to the extent that a patented product is produced in Montana. A copyright is used in Montana to the extent that printing or other publication originates in Montana.
- Gains and losses from the sale, exchange or other disposition of real or tangible personal property are Montana source income if the property is located in Montana at the time of the sale, exchange or other disposition. Gains or losses from the sale, exchange or other disposition of intangible personal property are not sourced to Montana.
- Income from S corporations, partnerships and other fiduciaries paid to the estate or trust may be sourced to Montana. See the information provided by the S corporation, partnership or other fiduciary to determine what income is sourced to Montana.
- Other income that is not listed above and is derived from Montana sources is sourced to Montana. This includes compensation for services performed in Montana (for example, wages received by an estate for services performed in Montana by the decedent).

**21 Where can a fiduciary find definitions applicable to estates and trusts?**

For information, including definitions, about any of the following estates or trusts, read the instructions for federal Form 1041 (U.S. Income Tax Return for Estates and Trusts):

- Bankruptcy estates
- Beneficiaries
- Complex trusts
- Decedent's estate
- Distributable net income (DNI)
- Fiduciaries
- Grantor type trusts
- Income required to be distributed currently
- Income, deductions and credits in respect of a decedent

- Pooled income funds
- Qualified disability trusts
- Simple trusts

**22 When does the estate or trust need a new Federal Employer Identification Number (FEIN)?**

**Estates**

A fiduciary must obtain a new FEIN if either of the following statements is true:

- A trust is created with funds from the estate (not simply a continuation of the estate).
- The estate operates a business after the owner's death.

The fiduciary is not required to obtain a new FEIN if the administrator, personal representative or executor changes his or her name or address.

**Trusts**

A fiduciary is required to obtain a new FEIN if any of the following statements are true:

- One person is the grantor/maker of many trusts.
- A trust changes to an estate.
- A living or inter vivos trust changes to a testamentary trust.
- A living trust terminates by distributing its property to a residual trust.

The fiduciary is not required to obtain a new FEIN if either of the following statements is true:

- The fiduciary changes.
- The grantor or beneficiary changes his/her name or address.

**23 How long does the estate or trust need to maintain tax records after the fiduciary has filed the state tax return?**

Estates and trusts should keep all tax records for at least as long as the statute of limitations in effect for the tax period. In most cases, the statute of limitations is three years from the date the return is filed for tax periods beginning on or after January 1, 2015, and five for periods beginning before then. Omitting a significant amount of income may extend the statute an additional two years. Estates and trusts should keep property records and carryover information even longer.