

ENERGY CONNECTIONS

APRIL 2014

It's Tax Season

Everyone approaches tax season with a different goal. At NorthWestern Energy, taxes are a part of doing business. In honor of Tax Day, we thought you might be curious about taxes at NorthWestern and how they affect your rates.

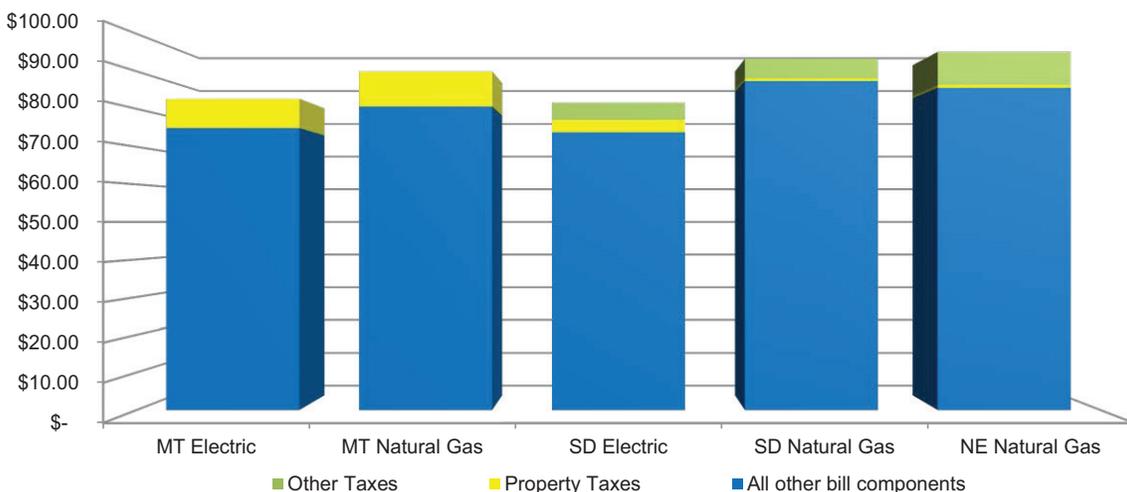
This insert provides just a snippet of one bill component. If you would like more information about the overall make-up of your entire bill, we encourage you to visit the "How to Read Your Bill" section of our website for a more in-depth explanation of how we control costs and where exactly your money goes.



Cost of Doing Business

All businesses generate revenue to pay taxes and other expenses. The payment of taxes is one of the costs of doing business. And while every business incorporates these costs into its prices for goods or services, it's not always obvious to the consumer.

At NorthWestern, we are continually investing in our electric and natural gas supply, transmission, distribution, customer care and other systems that provide you safe and reliable service. Because we are investing more in new equipment at a faster rate than the old equipment is being depreciated each year, the value of our infrastructure continues to increase.



Each state has its own taxation system. Some states charge sales taxes while others rely on income taxes and property taxes. Montana is one of a few states with no sales tax, but it relies more heavily on property taxes to pay for state and local government services such as schools, roads and bridges, as well as fire and police protection.

The chart shows how much of your bill goes to pay local taxes.

DID YOU KNOW?

Two of NorthWestern's service states – South Dakota and Nebraska made the top five in CNBC's ranking of America's Top States for Business 2013. South Dakota not only offers one of the lowest tax burdens in the country – no individual or corporate income taxes and low sales and property taxes – but also has among the nation's lowest utility rates, wages and commercial rent costs.

How Property Taxes Are Assessed

Centrally assessed property taxes are assessed on unitary properties such as railroads, airlines or utility companies. These are properties that cross county and even state lines. We serve 678,200 customers across approximately 27,750 square miles of electric service and 9,405 miles of natural gas service in Montana, Nebraska and South Dakota.

Centrally assessed generally means that the property held by a business is not valued individually by local county assessors for property taxes, but rather a state assessor will value the entire business as a whole and then allocate a portion of that overall value to each of the local taxing jurisdictions. The tax rates are set by law and depend upon what class our property falls into. In Montana, NorthWestern currently falls into four different property classes under central assessment, Class 5 (3%) pollution control, Class 9 (12%) transmission and distribution, Class 13 (6%) generation, and Class 14 (3%) wind generation.

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DID YOU KNOW?

Montana is one of only five states nation wide that does not have a sales tax. The others are Alaska, Delaware, New Hampshire and Oregon.

Property Tax Payments

In Montana, NorthWestern is the largest centrally assessed property taxpayer. Although the amount changes from year-to-year, the combined total is usually near \$90 million. NorthWestern accounts for nearly 30 percent of all the centrally assessed property taxes in Montana.

The amount of property tax owed is not determined solely by a property's value. The property's value is multiplied by a tax rate, set by the state Legislature, to determine its taxable value. The taxable value is then multiplied by the mill levy established by various taxing jurisdictions -- city and county governments, school districts and others.

Taxes have a significant impact on rates. We work to manage tax impacts for customers, without disrupting local government's budgeting process. Our team of tax experts work diligently with the Department of Revenue to ensure costs are appropriate, fair, and reasonable.

To find out how much NorthWestern pays in property tax in your county, visit our website for a complete county-by-county breakdown.

Property Tax Payments are "Tracked" by the PSC

Annual property tax assessments are not entirely predictable and can fluctuate significantly from year to year and even within the year. That's why the company is allowed to file a "property tax tracker" with the Montana Public Service Commission (MPSC).

As with gas and electric supply costs, every year NorthWestern files a "tracker". The Commission reviews the tracker in a formal case or "docket" and adjusts what is collected from customers to be sure that the proper amount of taxes are collected. Once the case goes through its process, NorthWestern is allowed to recover 60% of the net increase or decrease in taxes. The rates are adjusted once taxes are certain and approved by the MPSC.

Tax Preparation Tips for You

As you tackle income tax season, we encourage you to keep the following tips in mind...

Tax Credits

Tax credits change from year to year. That being said, federal tax credits existed as of the end of 2013 for measures such as the addition of energy efficient windows, doors, roofs, and insulation. These tax credits are available for your personal residence as well as on commercial or rental properties.

To find out if any of your recent efficiency improvements qualify, visit the Department of Energy website (energy.gov) or energystar.gov has an informative list of ENERGY STAR qualified products with details on the tax credit and steps for how to apply.

Top Tips Every Taxpayer Should Know About Identity Theft

Tax scams peak during tax season. Don't fall victim – remember – if it sounds too good to be true, it probably is.

Tax fraud through identity theft is listed by the IRS as the top scam for 2014. Identity theft often starts outside of the tax administration system when someone's personal information is stolen or lost. Identity thieves may then use a taxpayer's identity to fraudulently file a tax return and claim a refund. In other cases, the identity thief uses the taxpayer's personal information in order to get a job. The legitimate taxpayer may be unaware that anything has happened until they file their tax return later in the filing season and it is discovered that two returns have been filed using the same Social Security number.

These are few of the IRS's top tips to help you avoid becoming the victim of an identity thief:

1. The IRS does not initiate contact with taxpayers by email or social media tools to request personal or financial information. The IRS does not send emails stating you are being electronically audited or that you are getting a refund.
2. Identity thieves access your personal information by many different means, including:
 - a. Stealing your wallet or purse
 - b. Posing as someone who needs information about you through a phone call or email
 - c. Looking through your trash for personal information
 - d. Accessing information you provide to an unsecured Internet site
3. While preparing your tax return for electronic filing, make sure to use a strong password to protect the data file. Once your tax return has been e-filed, burn the file to a CD or flash drive and remove the personal information from your hard drive. Store the CD or flash drive in a safe place, such as a lock box or safe. If working with an accountant, you should ask them what measures they take to protect your information.

For more information about identity theft – including information about how to report identity theft, phishing and related fraudulent activity – visit IRS.gov home page.

Source: www.irs.gov

Contact us...

MONTANA

Customer Contact Center (888) 467-2669
7 a.m. - 6 p.m. M-F
Emergency 24/7 Service
Call Before You Dig 811
Energy Efficiency (800) 823-5995

NEBRASKA

Customer Contact Center (800) 245-6977
7 a.m. - 6 p.m. M-F
Emergency 24/7 Service
Call Before You Dig 811

SOUTH DAKOTA

Customer Contact Center (800) 245-6977
7 a.m. - 6 p.m. M-F
Emergency 24/7 Service
Call Before You Dig 811

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Automated Phone
Payment Option: (800) 218-4959
(via checking, savings, or money market account)
SpeedPay Automated
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