

Colorado Income Tax Handbook for Tax-Aide

Tax Year 2018

November 17, 2018

Purpose and format of this document

This handbook is a source of information for Tax-Aide volunteers who are preparing Colorado income tax returns. It provides most of the information a volunteer needs to prepare commonly-encountered Colorado returns. It does not contain all the details about Colorado tax laws or step-by-step TaxSlayer procedures. Tax-Aide volunteers are encouraged to access the reference materials listed below for more information.

This handbook contains information on Colorado tax returns in this format:

- A summary of relevant tax law information
- References for additional detailed information
- An overview of TaxSlayer implementation procedures

References cited in this document

- 104 Book, also titled “Colorado Individual Income Tax Filing Guide”, available at the Colorado Department of Revenue website, <https://www.colorado.gov/pacific/sites/default/files/104Book.pdf>
- FYI Publications containing detailed information about various tax topics, available at <https://www.colorado.gov/pacific/tax/fyi-publication-categories>
- The Colorado Tax-Aide Resources (CORE) web page, available at <https://cotaxaide.org/ta/home/>

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1. Colorado filing requirements and filing status

A. Who must file

Summary

Taxpayers must file a Colorado return if they were:

- A full-year resident of Colorado, or
- A part-year Colorado resident who received taxable income while residing here, or
- Not a resident of Colorado, but received income from sources within Colorado

and

- Are required to file a federal income tax return with the IRS for this year, or
- Will have a Colorado income tax liability for this year

References

- 104 Book, page 3

TaxSlayer

- TaxSlayer does not automatically open a Colorado return if a counselor prepares a federal return. See section 3 below for how to start a Colorado return.

B. Filing status

Summary

- Taxpayers must file using the same filing status on both their federal and Colorado income tax returns.
- For Married Filing Joint filing status, taxpayer names and Social Security numbers (SSN) must be listed in the same order on both the federal and Colorado returns.
- For Married Filing Separate filing status, the spouse's name and SSN are not listed on the Colorado return.

References

- 104 Book, page 3

TaxSlayer

- TaxSlayer automatically carries forward the taxpayers' names, SSNs, and filing status from the federal return to the Colorado return.

2. Colorado income tax forms

Summary

Form	Purpose
DR 104	Colorado Individual Income Tax Return, comparable to form 1040 for the federal return.
DR 104AD	To report subtractions from the Federal taxable income that reduce Colorado taxable income.
DR 104CR	To report Colorado income tax credits.
DR 104US	To report consumer use tax for purchases for which sales tax has not been paid, and for use tax assessed by Special Districts.
DR 104CH	To report voluntary contributions to selected Colorado charities.
DR 104PN	To prepare a return for a taxpayer and/or spouse who were a resident of another state for all or part of the tax year. This form apportions gross income so that Colorado tax is calculated for only Colorado income.
DR 0900	To accompany the taxpayer's payment if the return is filed electronically and the taxpayer chooses to pay the amount due by check. This form is not used if the taxpayer is due a refund.
DR 0347	To claim a child care expense credit.
DR 1366	To claim an Enterprise Zone credit.
DR 104X	To amend a previously-filed Colorado return.

References

- 104 Book, several pages

TaxSlayer

- TaxSlayer automatically generates the required forms.
- Some data flows automatically from the federal return to these forms, and some data must be input by counselors specifically for the Colorado return. Descriptions of tax topics in this handbook identify whether data flows automatically or must be entered in the Colorado return.

3. Starting a Colorado return in TaxSlayer

Summary

1. Click on State Section in the left menu of TaxSlayer after the federal return is complete.
2. Click on Add State Return.
3. Follow steps listed to add the Colorado return.
4. Select the taxpayers' residency status.
5. The next page that appears is the **Colorado Return Menu Page** that will be referenced later in this handbook.
6. Click on Basic Information.
7. For Support Documentation Method, click on Mail with DR-1778.
8. Follow TaxSlayer procedures for income additions, subtractions, and credits as described in this handbook.

4. Colorado taxable income additions

The Colorado return is always started after the federal return is completed. The starting point on form DR104 of the Colorado return is the federal taxable income from the federal form 1040. There are two common additions to the federal taxable income that increase the Colorado taxable income.

A. State income tax

Summary

- Taxpayers who itemize deductions on their federal tax return must add back on their Colorado return any state income tax deducted on Schedule A of their federal return.
- Taxpayers who take the standard deduction, or who itemize and deduct general sales taxes on Schedule A, are not required to include this addback.
- Only state income taxes are included in the state addback, not local taxes.
- The amount of the addback is the lesser of:
 - The Colorado state tax withholding from Schedule A
 - The difference between the total federal itemized deductions and the standard deduction amount the taxpayer could have taken

References

- FYI Income Publication 4

TaxSlayer

- The itemized state income tax deduction flows automatically from the federal return.
- The addition amount can be adjusted in Additions to Income on the Colorado Return Menu Page, but this is rare.

B. Out-of-state bond interest

Summary

- State and local municipal bond interest is exempt from federal tax and therefore is not included in federal taxable income. However, this income is taxable in Colorado if it comes from sources outside of Colorado or from Colorado municipal bonds issued before May 1, 1980.
- This taxable interest must be added to taxable income on the Colorado return in the “Additions to Federal Taxable Income” section of Form DR104.
- Broker statements and bond fund websites often provide information on which states are sources of interest from municipal bonds and bond funds.
- If there is no documented information about which states are the sources of municipal bond interest, counselors must assume that all interest is from outside Colorado and must be added to the Colorado taxable income.

References

- FYI Income Publication 52

TaxSlayer

- After the counselor reviews the taxpayer's documents and identifies which states are the sources of bond interest, the out-of-state bond interest is entered in the Federal Section > Income > Interest and Dividends and automatically flows to the Colorado return.

5. Colorado taxable income subtractions

The Colorado return is always started after the federal return is completed. The starting point on form DR104 of the Colorado return is the federal taxable income from the federal form 1040. There are several subtractions to the federal taxable income that reduce the Colorado taxable income. These subtractions are reported on form DR 104AD and flow automatically to form DR 104.

A. State income tax refund

Summary

- Refunds of income taxes from Colorado or other states are not subject to tax by Colorado. If a state tax refund is included in federal taxable income, the refund is subtracted from federal taxable income in determining Colorado taxable income.

References

- FYI Income Publication 12

TaxSlayer

- A state income tax refund that is taxable on the federal return flows automatically to form DR 104AD.

B. U.S. Government interest

Summary

- Interest income earned from United States government obligations is taxable by the federal government, and is generally exempt from Colorado income tax.
- The most common U.S. government sources of Colorado exempt interest are U.S. Treasury bonds, notes, bills, certificates, and savings bonds.
- A mutual fund may hold multiple sources that generate interest. Some interest may be exempt from Colorado income tax and some interest may be taxable in Colorado. The Colorado return may subtract only the mutual fund interest from the exempt sources.

References

- FYI Income Publication 20

TaxSlayer

- Exempt interest from U.S. obligations is input in Federal > Income > Interest and Dividends and flows automatically to form DR 104AD.

C. Pension and annuity

Summary

- Taxpayers who meet certain qualifications can subtract some or all of their pension and annuity income on their Colorado form DR 104.
- Taxpayers must be at least 55 years of age to claim the subtraction, unless they receive pension/annuity income as a death benefit.
- Taxpayers can claim the subtraction only for pension/annuity income that is included in their federal taxable income in the year they claim the subtraction.
- Income types that qualify for the subtraction include pensions, annuities, IRA distributions that were not subject to early distribution penalty, taxable social security benefits, and disability benefits reported as wages.
- In most cases, the maximum subtraction is \$24,000 for taxpayers age 65 and over, \$20,000 for taxpayers age 55-64, and \$20,000 for taxpayers under age 55 receiving death benefits. Railroad retirement Tier I and Tier II benefits are eligible for a separate subtraction, not subject to the \$24,000 or \$20,000 limit.
- Taxpayers who file a joint Colorado return and both taxpayer and spouse receive qualifying pension or annuity income, may both claim the pension/annuity subtraction. The amount of the subtraction is computed separately for each spouse.
- Social Security retirement benefits included in federal taxable income qualify for the pension/annuity subtraction. The amount of the subtraction is computed separately for each spouse in a joint return.

References

- FYI Income Publication 25
- CORE link to form DR 104AD

TaxSlayer

- Pension and annuity data is input in Federal > Income > IRA/Pension Distributions and flows automatically to form DR 104AD.
- See the CORE reference for the software correction that may be necessary for railroad retirement income.

D. Tuition savings program contributions

Summary

- Taxpayers can deduct on their Colorado return the payments or contributions made to certain qualified state tuition programs.
- A qualified state tuition program is a "529 College Savings Plan" administered by CollegeInvest and includes the Direct Portfolio College Savings Plan, Scholars Choice College Savings Program, Smart Choice College Savings Plan, and Stable Value Plus College Savings Plan.
- The definition of what is covered by 529 plans was changed by the Tax Cut and Jobs Act of 2017. 529 plans are no longer just for college but also can be used for public, private, and religious elementary and secondary schools.

References

- FYI Income Publication 44

TaxSlayer

- Tuition savings contributions are input on the Colorado Return Menu Page > Subtractions from Income > Tuition Program Contribution.

E. Charitable contributions

Summary

- Taxpayers who claim the standard deduction on their federal income tax return, and are therefore unable to claim a federal itemized deduction for charitable contributions to qualified organizations, can take a subtraction on their Colorado return for the total contribution amount that exceeds \$500.

References

- FYI Income Publication 48

TaxSlayer

- Charitable contribution data flows automatically from the federal Schedule A even if the federal return is not itemized. The contribution **MUST** be entered on Schedule A to claim it on the state return.

6. Tax Credits

The following tax credits are the most common credits encountered by Tax-Aide volunteers. All are reported on form DR 104CR, except for the enterprise zone credit, which is reported directly on form DR 104.

A. Child care expenses tax credit

Summary

- Colorado residents who claim a credit for child care expenses on their federal income tax return can also claim a child care expenses tax credit on their Colorado return (only for a child under age 13, not an older disabled person).
- The Colorado credit is refundable. If the allowed credit exceeds the taxpayer's Colorado tax liability, the excess credit is refunded to the taxpayer.
- Taxpayers who meet all of the following criteria can claim this tax credit on their Colorado return.
 - The taxpayer is either a full-year resident or part-year resident for the tax year.
 - The taxpayer claims a credit for child care expenses on federal tax form 2441.
 - The taxpayer's federal adjusted gross income (AGI) is \$60,000 or less.
- The Colorado child care expenses tax credit is between 10% and 50% of the federal child care credit, depending on the taxpayer's federal AGI.
- The Child Care Expenses Tax Credit Schedule (DR 0347) must be filed with the return.
- Taxpayers may still be eligible for the Low Income Child Care Expenses credit if they did not file a federal income tax return. See the DR 0347 Instructions for more information.

References

- FYI Income Publication 33

TaxSlayer

- The credit amount is calculated automatically and flows to the DR 104CR.
- Form DR 0347 is generated automatically.

B. Earned income tax credit

Summary

- The Colorado earned income tax credit is equal to 10% of the federal earned income tax credit, is refundable, and is allowed to full-year residents and part-year residents of Colorado.

References

- FYI Income Publication 27

TaxSlayer

- The credit amount is calculated automatically and flows to the DR 104CR.

C. Credit for income tax paid to another state

Summary

- In certain situations a taxpayer can earn income while residing in Colorado, but the income is taxable in another state. Residency and income tax rules could require the income be included on the Colorado income tax return. To prevent double taxation of the income, Colorado residents can claim a credit for the taxes paid to the other state.
- A copy of the tax return filed in the other state must accompany the Colorado forms. Tax-Aide counselors must advise taxpayers that we cannot prepare other state returns.

References

- FYI Income Publication 17

TaxSlayer

- The amount of tax paid to another state is entered on [Colorado Return Menu Page > Credits > Credit for Taxes Paid to Another State](#).

D. Long term care insurance credit

Summary

- A long-term care insurance credit is available to Colorado residents who purchase or make payments for a long-term care insurance policy (for the taxpayer and/or spouse) and whose federal taxable income does not exceed:
 - \$50,000 for single filing status
 - \$50,000 for joint filing status with one policy covering one individual
 - \$100,000 for joint filing status joint with one policy covering both individuals separately or with two policies
- The amount of the credit is generally equal to 25% of the amount paid for the policy during the tax year. The credit cannot exceed \$150 per policy, and cannot exceed the total Colorado income tax liability for the tax year.
- Taxpayers claiming the credit must submit a year-end statement showing payments made for each long-term care insurance policy during the tax year.

References

- FYI Income Publication 37

TaxSlayer

- The amount of long term care insurance payments is entered on Colorado Return Menu Page > Credits > Long Term Care Insurance Credit.

E. Total enterprise zone credit

Summary

- A taxpayer may claim a credit for monetary or in-kind contributions they make to an enterprise zone administrator or to a program, project, or organization certified by the enterprise zone administrator for the purpose of implementing the economic development plan of the enterprise zone.
- A list of enterprise zone administrators can be found at choosecolorado.com/doing-business/incentives-financing/ez/administrators/
- A list of certified programs, projects, and organizations can be found at choosecolorado.com/doing-business/incentives-financing/ez/enterprise-zone-contribution-projects/
- A taxpayer cannot claim a credit for any contribution from which they directly benefit.
- Form 1366, Enterprise Zone Credit and Carryforward Schedule, must be submitted with the return to claim this credit.
- Most enterprise zone credits are for business and are out of scope for Tax-Aide counselors.

References

- FYI Income Publication 23

TaxSlayer

- The amount of enterprise zone contributions is entered on Colorado Return Menu Page > Credits > Enterprise Zone Contribution and Carryforward Schedule.

7. Use tax on Form DR 104US

Summary

- DR 104US is used to report consumer use tax. Consumer use tax is a complement to state sales tax, payable to the state on tangible personal property for which sales tax has not been paid, most often from out-of-state online vendors.
- Special Districts also assess a use tax. More than half of Colorado residents live in one or more of these districts. The special districts that assess a use tax on purchases and the applicable tax rates are listed in the “Special District Rates and Boundaries Table” in the 104 Book reference on page 12.

References

- 104 Book, page 12

TaxSlayer

- The amount of purchases subject to use tax is entered on Colorado Return Menu Page > Tax > Use Tax.

8. Withholding and estimated taxes

Summary

- Taxpayers may have Colorado income tax withheld as reported on various income forms: W-2, W-2G, and 1099. Withholding is not reported on the Colorado return for other taxes that may be withheld on taxpayer forms: federal income tax, income tax for another state, or income tax for local governments.
- Taxpayers may choose to pay estimated taxes if withholding is not sufficient to cover the Colorado tax liability. In general, Colorado estimated tax payments are not required if
 - A taxpayer's total Colorado tax liability, less withholding and credits, is less than \$1,000, or
 - A taxpayer was a full-year resident and filed a Colorado return for the preceding 12-month tax year, and had no net Colorado tax liability.

References

- FYI Income Publication 51

TaxSlayer

- Withholding amounts automatically flow from taxpayer income forms that are input for the federal return.
- Estimated taxes are entered in Federal Section > Payments and Estimates > State Estimated Payments.

9. Delinquent payment penalty and interest

Summary

- Tax-Aide does not calculate penalties or interest due for delinquent payments or failure to pay estimated taxes. Tax-Aide counselors advise taxpayers who may owe a penalty or interest that the Colorado Department of Revenue may contact them by mail about any amount due and methods for payment.

References

- Book 104, page 7

TaxSlayer

- Not applicable.

10. Voluntary contributions on Form 104CH

Summary

- Form 104CH is used to report voluntary contributions taxpayers wish to make to selected Colorado charities. The 104 Book has a list and information about charitable organizations that qualify. This form must be submitted with the DR 0104 to ensure that the selected organizations receive the designated donations.

References

- Book 104, pages 21, 39, 40

TaxSlayer

- Contribution amounts and recipients are entered on Colorado Return Menu Page > Payments > Colorado Donations.
- Form 104CH is automatically generated.

11. Part-year residents using Form 104PN

Summary

- A part-year resident is an individual who was a Colorado resident for only part of the tax year because he moved into or out of Colorado during the tax year.
- Tax is prorated so that it is calculated only on income received in Colorado or from sources within Colorado.
- Counselors calculate the prorated tax by completing form DR 0104PN and submitting it with the Colorado return.

References

- FYI Income Publication 6
- CORE, link to CO 104PN

TaxSlayer

- The CORE reference provides detailed information and worksheets to help counselors fill out Form 104PN.

12. Finishing the Colorado return

Summary

- After all federal and Colorado-specific information has been entered, counselors should review both returns for accuracy and completeness.
- Taxpayers have several options for the Colorado return:
 - File electronically or by paper.
 - Receive refund by mailed check, or by direct deposit to a bank or a CollegeInvest account.
 - Pay the amount due by direct debit, mailing a check, or having the Department of Revenue send a bill and set up a payment plan as instructed on the bill.
- Taxpayers who **file electronically and transfer funds by direct deposit or direct debit** through Tax-Aide do not have to send anything to the Department of Revenue,

except for long term care receipts, if applicable. TaxSlayer attaches copies to the e-filed tax return of all W-2s and 1099s that show Colorado income tax withholding.

- Taxpayers who **file electronically and pay by mail** must make out a check or money order payable to the Colorado Department of Revenue. They must write their Social Security number and “2018 DR 0104” on the memo line. They must submit form DR 0900 which is generated by TaxSlayer. They do not submit a paper copy of the DR 104.
- Taxpayers who **file a paper return** must attach all W-2s and 1099s that show Colorado income tax withholding to the front of the form DR 104 where indicated, and sign and date the DR 104 form.

References

- Book 104, page 7

13. Amending the Colorado return

Summary

- Colorado returns are amended using form DR 104X, Amended Colorado Income Tax Return, to correct a previously filed return.
- In general, if a federal return is amended, the Colorado return must be amended. The federal return is amended first on form 1040X, and then the Colorado return is amended.
- Both amended returns must be paper-filed. The following forms must be sent by the taxpayer to the Colorado Department of Revenue along with the DR 104X:
 - The federal amendment form 1040X
 - All federal forms that were changed or added with the federal amendment
 - All Colorado forms that were part of the original return, even if they were not changed

References

- 104 Book, page 8
- CORE, link to Amended Returns

TaxSlayer

- The CORE reference provides detailed step-by-step procedures for amending federal and Colorado returns in TaxSlayer.

14. Property Tax/Rent/Heat (PTC) rebate

The PTC rebate is not part of the Colorado tax return, but Tax-Aide counselors can assist clients in preparing the application form that clients mail in to receive assistance with property tax, rent, and heating bill payments.

Summary

- The Property Tax/Rent/Heat Credit (PTC) rebate is available to qualifying Colorado residents who have very low income and who have paid property tax or rent or had heating expenses during the year. Heating expenses can still qualify for the rebate even if they are included in rent.

- The maximum PTC rebate amount for 2017 was \$792, which is the sum of \$600 for property tax or rent and \$192 for heat. The actual PTC rebate amount depends on the amount of income received.
- To apply for the PTC rebate, applicants complete the application form 104PTC.
- Eligibility requirements for applicants:
 - Resided in Colorado the entire year.
 - Lawfully present in the United States.
 - Total income levels from all sources for single and married persons change each year. For 2018:
 - Single income less than \$14,074
 - Married combined income less than \$18,972
 - Either husband or wife is 65 or older by Dec. 31, or is a surviving spouse at least 58 years old by Dec. 31; or applicant was disabled for the entire year, regardless of age.
 - Not claimed as a dependent on any other person's federal income tax return.

References

- 104 PTC Book (www.colorado.gov/pacific/sites/default/files/104PTC.pdf)
- FYI General Publication 7

TaxSlayer

- A counselor creates a federal return and state return (***which may or may not actually be filed***) and enters client data in Federal Section > Basic Information.
- TaxSlayer creates the PTC rebate application form and an affidavit form at: Colorado Return Menu Page > Credits > Property/Tax/Rent/Heat Rebate.
- Counselors enter all required PTC data and print two copies for the client.
- The client must sign and mail both the application form and the affidavit form. The application cannot be filed electronically.