Colorado Department of Revenue

A Revenue Publication for Businesses, Tax Professionals, Local Governments and Individuals

September 2004

Tax Topics

Income Tax	Sales Tax	Other Tax Information	Tax Classes	Web Site Updates

NOTE: All links to DOR forms referenced in this document require you to have the free Adobe Acrobat Reader software

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Income Tax:

- Gross Conservation Easement Credit Update
- 2004 Income Tax Filing DRAFT Forms Online
- Extension of Time to File

Gross Conservation Easement Credits Reviewed

Taxpayers are encouraged to exercise care when claiming the gross conservation easement income tax credit. Recent review of credit claims have revealed several problems related to this tax credit including:

- Inflated appraisals affecting both the federal charitable deduction and the state tax credit. Both the Colorado Department of Revenue and the federal Internal Revenue Service are currently

looking into these erroneous appraisals.
- Missing documentation when the tax return is filed including form DR 1305, federal form 8283 and the appraisal summary. This missing documentation will delay the allowance of the credit and may result in the issuance of a balance due notice.
- Donated conservation easements that do not meet the strict federal requirements to qualify as a charitable deduction. If the federal deduction is disallowed, the Colorado tax credits will be disallowed as well.
- Credits are being purchased by pass through entities on behalf of their members, which is not allowed by law. The taxpayers must purchase the credit directly. This presents a particular problem when the credit is purchased on behalf of a nonresident of Colorado who is not eligible to purchase the credit.

Additional information on the gross conservation easement credit is available at this website in FYI Income 39, Regulation 39-22-522 and in the income tax index under gross conservation easement credit.

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2004 Income Tax Filing DRAFT Forms Online

Draft versions of the 2004 Colorado state income tax forms are now available for review on the Department of Revenue's tax Web site.

These draft forms are placed on the Web for tax professionals and other interested individuals to review for the coming income tax season.

Draft forms on the Web site include individual, corporate, and fiduciary tax forms such as:

- 104 Individual Income Tax Booklet
- 104 Alternative Minimum Tax (AMT)
- Estimated Tax Booklet for Individuals
- 104X Amended Individual Tax Return
- Corporation Income Tax Booklet (includes DR 158-C, 112, 112CR)
- Estimated Tax Booklet for Corporations
- Partnership and S Corporation Return of Income Booklet
- Estimated Tax Booklet For Composite Nonresidents Returns
- Fiduciary Income Tax Booklet
- Estimated Tax Booklet for Estates or Trusts -- and more.

Individuals who review these forms may submit their comments, suggestions or concerns regarding the

draft forms through the department's online e-mail system at: ***www.taxcolorado.com*** under the "Customer Support Site." **NOTE: All comments should be submitted in writing no later than Thursday, September 30, 2004.**

Check the Web site regularly to see what draft forms have been added and revised at: ***www.taxcolorado.com*** and click on the "Tax Professionals" link.

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Extension of Time to File

If a taxpayer was unable to file their income tax return by the April 15 deadline, they may take advantage of Colorado's six-month automatic extension of time to file.

The extension means that taxpayers do not need to file an actual return either electronically or by paper until October 15, 2004. This extension applies only to filing the actual form. It does not apply to any money owed to the state.

If an individual uses the extension, 90 percent of the tax owed must be paid on or before the filing deadline of April 15 in order to avoid penalty charges. The form DR 158-I "Extension of Time to File Voucher" (included in the 104 Booklet) must accompany the payment. Those who owe but pay less than the 90 percent due will be charged penalty and interest on the unpaid balance. If the payment is 90 percent or more of the amount owed, the department charges interest but no penalty as long as the return and balance owed are sent by the October 15 extension deadline. Payments must be postmarked by the filing deadline.

This year the interest rate is 7 percent of the tax owed. Penalty is 5 percent of the balance due for the first month past the April 15 deadline, then an additional 0.5 percent for each month thereafter, up to a maximum of 12 percent.

Taxpayers who do not owe tax or who are filing for a refund do not have to file until the October 15 deadline if they choose to use the automatic extension.

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Sales Tax:

- July 2004 Local Tax Changes
- Transportation Charges and Sand/Gravel Regulations Revised
- Sales Tax System Made Easy For Zero Filers

July 2004 Local Tax Changes

State Collected	Tax Rate	Exempt*	Use Tax	Service Fee
Aguilar (new tax)	3%	None	3%	1.5%
Ault (increase sales/use from 2% to 3%)	3%	None	3%	0.0%
Green Mountain Falls (increase sales/use from 2% to 3%)	3%	None	3%	2.0%
Norwood (increased sales from 2% to 3%)	3%	C	None	3 1/3%
Delta County (add exempt E-F)	2%	E-F	None	3 1/3%
Palisade (increase sales from 1% to 2%)	2%	A-B-C	None	3 1/3%

Self-Collected	Tax Rate	Service Fee	License Fee
Canon City (reduce service fee)	2.0%	2 1/3%	$10
Glendale (increase sales .25% and reduce service fee)	3.75%	0.00	W
Silverthorne (reduce service fee)	2.0%	2 1/3%	$75

*A = Food for home consumption
*B = Machinery and machine tools (as defined on form DR 1191)
*C = Gas, electricity, etc., for residential use
*D = Occasional sales by charitable organizations
*E = Farm equipment
*F = Pesticides
*G = Food sold through vending machines
*H = Low-emitting vehicles

*W = Contact the city directly
*Y = Motor vehicles
*Z = Building materials
6 = Cap at a certain amount

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Transportation Charges and Sand/Gravel Regulations Revised

In July the Colorado Department of Revenue held a public hearing regarding state sales tax special regulations on transportation charges and sand and gravel. As a result of the hearing the regulations were amended and adopted. Those interested in viewing the revised regulations may do so by visiting the Web at: ***www.taxcolorado.com*** and go to "Publications/Resources" then "Regulations," or obtain a copy of the revised publications FYI Sales 29 "Special Regulation: Transportation Charges" (formerly Freight, Delivery and Transportation) and Sales FYI 51 Special Regulation: "Sand and Gravel." These and many other FYIs may be found on the Web at ***www.taxcolorado.com*** on the "FYIs" link.

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Sales Tax System Made Easy for Zero Filers

The Colorado Department of Revenue now has both an online and telephone service aimed at sales tax filers who file a sales tax return when no tax is due.

The "Sales Tax Zero Filing System" is designed for zero sales tax filers to file safely and easily a Colorado Sales Tax Return (Form DR 0100) for state and state-collected local sales tax if they have zero net sales (Line 3) and no tax is due for that specific filing period. Sales tax filers should keep in mind that even if their business had no net sales and no sales tax is due they must still file a timely return indicating "zero" tax due on their state sales tax return. The zero filing system allows most businesses to file online or by telephone.

Filing Online

Who can use this service:

- Retailers who have only **one business location** *and*

- File monthly, quarterly, annually or seasonally *and*
- Have net sales of zero and no payment due

What information does a qualifying business need to use this service:

- Their Colorado sales tax account number
- Gross sales and service amount for the filing period (line 1 of form DR 0100)
- Sales to other licensed dealers amount (line 2a)
- Other deductions amount (line 2b)

Other information businesses should know about the Sales Tax Zero Filing System:

- Users must have Netscape 4.0 or higher or Internet Explorer 3.02 9 or higher to use this online application
- There are no fees or registration requirements to use this system, however, businesses must have a valid Colorado sales tax account number -- if an account is closed the system will not work for that specific business.
- If a business owes tax they must file by paper return.
- Account numbers must be 7 or 11 digits. If the business account is closed or the proper number of digits was not entered the user will receive an error message indicating "No account with that number was found."
- The system is available for qualified users 24-hours a day for filing any current filing period or prior period going back to the previous two years.
- If no tax is due, a business should not file a paper return in addition to filing online as long as the online submission is confirmed.
- If a business enters incorrect information, online prompts will stop the completion of the return and return the user to the screen where the information was entered.
- If a mistake on the return was made and submitted the business must then file a paper "amended" sales tax return. Businesses cannot go back into the system to correct a return that was successfully submitted and confirmed. Only original returns can be filed online, amended returns cannot. Businesses must file a paper "amended" return.
- The online system will not allow businesses to print a copy of the return. Attach a copy of the confirmation email to the return or coupon for the period filed and keep it as a record.
- If a business files zero sales tax using this system they will still continue to receive their paper returns or coupons.
- If a business successfully completed the online filing of a sales tax return they will receive an email confirmation stating the return was submitted. If no confirmation is received the return was not submitted successfully and a business must file online again for that return or file a paper return.
- Once the "confirm" button is clicked, the information becomes part of the electronic file that is transmitted the next business day to the Department of Revenue. The zero return should post to the account within five (5) business days.

To file a zero return on line visit the Web site address at: ***www.taxview.state.co.us/zero***

Filing by Telephone:

Zero sales tax filers may also file by telephone. Excluding the online information, the basic requirements listed above apply for telephone filing as well. The system will give a confirmation number for returns submitted successfully. To file a zero return by telephone call: **(303) 205-8290.**

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Other Tax Information:

- PTC Installment Plan
- New Short Check Procedures On the Way
- Best Process for Sending a Check with Your Return
- Correct Zip Code Makes Big Difference for Taxpayers and Department

PTC Installment Plan

The Colorado Property Tax/Rent/Heat rebates are now issued in equal installments to qualified applicants whose rebate applications were received by the Department of Revenue on or after March 15.

PTC rebates are to be issued in equal installments rather than a one lump sum payment. A PTC rebate claimed on an application that is received, processed, and approved by June 10 will be issued in three equal installments that applicants will receive by July 15, October 15, and January 15. A rebate that is claimed and received, processed and approved by September 10 will be issued in two equal installments by October 15 and January 15. A rebate application received, processed and approved by December 10 will be issued in one check no later than January 15.

Any 2003 rebate claims approved after December 10 will be issued in one check within 12 weeks after the application is filed.

PTC rebate installment payments are required by law. Exceptions to this law cannot be made.

Below is the installment plan for 2004 rebates:

Application received, processed and approved by:	Rebate Received by:	Number of Equal installments:

March 10, 2005	April 15, 2005	4
June 10, 2005	July 15, 2005	3
September 10, 2005	October 15, 2005	2
December 10, 2005	January 15, 2006	1
December 31, 2006	12 weeks after receipt	1

The next payment to qualified recipients should be received by October 15, 2004.

For more information regarding the PTC rebates see *FYI General 7 "Property Tax Rebates and Deferrals for the Elderly and Disabled*," located on the Web under FYI Publications at: *www.taxcolorado.com*

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New Short Check Procedures On the Way

Beginning February 2005 the Colorado Department of Revenue will change its bank processing procedures regarding insufficient fund payments sent by taxpayers.

Currently, when a taxpayer's check is returned to the Department of Revenue for insufficient funds, the bank automatically resubmits the check a second time for payment. If the same check is returned again for lack of funds the taxpayer's account is considered delinquent. The taxpayer will then receive a delinquency notice.

In 2005, the bank to which department deposits its checks will use the new process by using an electronic transaction to resubmit the check for payment. Once the check is returned for insufficient funds, the bank will convert the check into an Electronic Funds Transfer (EFT) transaction and resubmit the check for payment. The bank may do this twice. However, if the payment is still not paid, the taxpayer will be placed in the department's system as delinquent at which point a delinquency notice will be sent with penalty and interest on the amount due.

This process will only apply to consumer (individuals) checks less than $2,500.

Keep in mind that in any case of insufficient funds, taxpayers will owe an additional returned check charge of $41.

By January 2005, taxpayers will be notified of this new process on their forms stating "If your check is rejected due to insufficient or uncollected funds, the Department of Revenue may collect the payment

amount directly from your banking account electronically."

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Best Process for Sending a Check with Your Return

Taxpayers who send in a check with their Colorado income tax return are asked to refrain from stapling the check to the front or any other part of the return including attachments such as schedules. While W2 forms are still required to be stapled in the designated place on the return, the Department of Revenue requests filers sending in a check to place the payment on the first page of the return. The procedure is especially important with corporation and partnership documents since often these returns are filed with numerous pieces of documentation.

The department continues to experience problems with checks being stapled within documentation sent making the payment difficult to locate. This is a particular problem with the full-page voucher checks that resemble forms.

If an individual or corporation determines it is absolutely necessary to staple the check to the form it must be stapled to the first page of the return and nowhere else if other documents are attached.

Allowing the check to be easily spotted will reduce the chances of a payment being inadvertently overlooked and slowing down the processing of a return and payment possibly resulting in a bill being issued.

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Correct Zip Code Makes Big Difference For Taxpayers and Department

Each year the Colorado Department of Revenue receives more than 4 million pieces of mail. Because of the influx and ongoing increase of mail the department uses a specific Zip Plus (+) four zip code system for each of type of tax it processes.

The Department of Revenue's main zip code is 80261, however properly using the department's zip + four (9-digit) zip codes can reduce the amount of time it takes to process refunds, applications, returns and payments. It is also very important when using a Department of Revenue envelope that the proper form and/or payment be used. For example, *never* send a sales tax application, payment or return in an

envelope designated for income tax. This can cause serious delays in processing since each zip + four code is designated for delivery to a specific section within the department.

Below is a list of the 80261 Colorado Department of Revenue Zip Code with the plus four-digits. Taxpayers are encouraged to print and save this list for future mailings to the Department. Also included are the plus four-digits for Motor Vehicle correspondence and driver's license renewal by mail.

9 Digit Zip Code	Type of Mail
80261-0003	Fuel Distributors and Cigarette Tax
80261-0004	Delinquent Payments
80261-0005	Individual Income Tax, Property Tax Rent/Heat or Fuel Rebate Applications, Amended Income Tax, and Real Estate Conveyance Returns
80261-0006	Corporate, Partnership, Fiduciary Income Tax Returns
80261-0007	Severance Tax
80261-0008	Income Tax Coupons (includes: estimated, extension and electronic filer payments)
80261-0009	Wage Withholding, Annual Withholding Reconciliation, and various business tax coupons
80261-0013	Sales, Use, Local Marketing, County Lodging Taxes
80261-0016	Motor Vehicle
80261-0017	Driver's License Renew-by-Mail Applications

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Tax Classes:

- 2004 Income Tax Seminars Scheduled for Tax Professionals

2004 Income Tax Seminars Scheduled for Tax Professionals

The Colorado Department of Revenue's Public Information and Education Section will conduct a series of income tax classes aimed at tax professionals beginning September 2004. These classes are designed to update tax preparers as to what new income tax information they should be aware of for the 2004 income tax filing season. The class will also include basic income tax information with a general

question and answer session.

To find out more regarding when the income tax seminars will be offered and for registration information visit the Web site at *www.taxseminars.state.co.us* or visit the Web at *www.taxcolorado.com* and click on the "Tax Classes" link.

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Web Site Updates

- Annual Update of Publication FYI Complete
- One-Stop Severance Tax Information Available in Tax Index

Annual Update of Publication FYI Complete

Each year the Taxpayer Service Division updates its *FYI General 1 "Colorado Department of Revenue Publications."* The publication has been updated and is available on the Web.

This FYI contains information regarding free publications written and published by the department as well as Revenue publications that must be purchased through the Colorado State Forms Center.

Free and purchased publications include almost all divisions within the Department of Revenue such as:

- Taxpayer Service
- Office of Research and Analysis
- Racing Events
- Motor Vehicle
- Hearings
- Gaming
- Auto Industry
- Liquor Enforcement
- Motor Carrier Services and
- Port of Entry

Note: Lottery information is not included in this FYI. You may obtain Lottery information by visiting the Web at: *http://www.coloradolottery.com/home.cfm*

Many of the free publications are located on each of the divisions Web sites listed in the FYI. Also

included in the FYI is an order form for publications required to be purchased.

You may obtain a copy of the July 2004 FYI General 1 on the Web at *www.taxcolorado.com* and click under "FYIs."

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One-Stop Severance Tax Information Available in Tax Index

The Colorado Department of Revenue's online "Tax Information Index" has proven to be a useful one-stop tax information avenue since it was launched last January. During the year the index has expanded to include income tax, electronic filing, wage withholding, estate tax and now severance tax that includes more than 70 topics addressing specific severance tax issues.

This comprehensive site will continue to expand eventually including sales and use tax, excise, cigarette/ tobacco tax topics. The index is also updated regularly as specific topics are added and revised to keep taxpayers informed with the most current information.

In this index users will find direct links to publications, FYIs, answers to many questions, forms, and links to Colorado Revised Statutes and regulations that relate directly to the topic they want in one easy search.

Visit the "Tax Information Index" on the Department of Revenue's Web site at *www.taxcolorado.com*

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