Colorado Department of Revenue

Taxpayer Service Division

Public Information & Education

Tax Professionals Update 2007

Agenda

- Handouts/Materials
- Resources
- What's New?
- Credits/Rebates
- Checkoffs
- Subtractions
- Common Errors
- Online Services
- Questions?

Handouts/Materials

- **PowerPoint/Outline**
- **Forms** (Included in handout)
- **FYI's** (Included in handout)
- **Class Evaluation**
- **Tax Professional Survey**
- **CPE Credit**
- **Miscellaneous Forms and Information**

Resources

- **Tax Practitioner Hotline**
  - 303-232-2419
- **Colorado Taxes Web Site**
  - www.TaxColorado.com
- **Email**
  - publiceducation@spike.dor.state.co.us
- **Online Customer Support**
- **Tax Information Index**
- **"CDOR Tax InfoEmail" Subscription Service**
- **Forms Department Fax Number**
  - (303) 866-4407

What’s New?

Waste Tire Recycling Fee

- Effective July 1, 2007, the Waste Tire Recycling Development Fee rate will increase to $1.25 per tire and effective November 1, 2007 will increase to $1.50. Retailers of new tires are required to collect the fee on every motor vehicle tire turned over to the retailer by a tire owner.
- The retailer's invoice must show a separate line item for the waste tire fee. The separate line item of the fee on the invoice is not subject to sales tax.
- Motorcycle tires will be subject to the waste tire fee.
- Any retailers of motor vehicle and/or motorcycle tires must file the "Waste Tire Exchange Fee Return" (DR 1772) on the same date the retailer's "Colorado Retail Sales Tax Return" (DR 0100) is due.
- FYI General 13, "Waste Tire Recycling Development Fee"

Oil & Gas Severance Tax Withholding Payments

- HB 07-1309
- Effective July 1, 2007, these payments will be due monthly instead of quarterly, and payments must be submitted via Electronic Funds Transfer (EFT). You will no longer file a paper voucher for these tax payments; the EFT transaction is the filing.
- The aggregate (total) amount withheld each month must be paid by the first day of the third month following the month the tax is withheld.
- For example, the April withholding will be due on or before July 1, 2007. The May withholding will be due on or before August 1, 2007.
- Note: When submitting the EFT payment, use the last day of the month as the EFT "Filing Period" in year, month, date format (e.g. 070430 for April 2007). The "Tax Type" code will be 01180.
- FYI Withholding 4 "Colorado Oil and Gas Severance Withholding Requirements"

Corporation – Oil & Gas Estimated Severance Tax Payments

- **HB 07-1309**
- **The estimated tax payment for each month must be paid by the 15th day of that month.**
- **For example, the July payment will be due July 15, 2007.**
- **Again, when submitting the EFT payment, use the last day of the tax year as the EFT "Filing Period" in year, month, date format (e.g. 071231 for all monthly payments for 2007).**
- **The "Tax Type" code will be 08402.**
- **Delays in EFT Authorization**
  - If you experience a delay in receiving your authorization to submit EFT payments, you may continue to file on paper (DR0461-available online) until such authorization is received.
  - Paper returns must still be filed on a monthly basis. Continuing to file paper returns after EFT authorization is received, or not applying for EFT authorization, may result in penalty and/or interest charges on your payments.

Sales & Use Tax Cleanroom Machinery Exemption

- HB 07-1277
- Effective July 1, 2007, provides a sales/use tax exemption on all sales, storage and use of machinery that comprise a cleanroom, in excess of $500, that is used to produce tangible personal property.
- "Cleanroom" means an environment with a level of environmental pollutants such as dust, airborne microbes, aerosol particles, and chemical vapors equal to or less than the maximum number of particles per cubic meter as specified by ISO 14644-1, Class 6, or such other succeeding definition adopted by the International Organization for Standardization.
- It does not include a building or permanent non-removable component of a building that houses a cleanroom.
- FYI available soon.

County Tax for Public Safety Improvements

- HB 07-1344
- Effective 08/03/2007, authorizes counties to impose local sales/use tax at a rate of not more than 2%.
- Such tax may be imposed upon the approval of eligible electors in the county at an election held according to Colorado Constitution.
- Stipulates procedures for the board to propose and seek voter approval for the tax.
- Defines "public safety improvements" to include capital expenditures and operational costs associated with specified public safety organizations.
- Collection, administration, and enforcement of the tax is performed by the Department of Revenue.
- The tax is exempt from the 6.9% sales tax cap.

Health Care Services

- HB 07-1219
- Effective July 1, 2007, authorizes health service districts and health assurance districts to levy and collect sales & use tax.
- Such tax may be imposed upon the approval of eligible electors in the district at an election held according to Colorado Constitution for the entire geographical area of the district upon all transactions subject to the state sales and use tax.
- Collection, administration, and enforcement of the tax is performed by the Department of Revenue.
- Counties are also authorized to levy county sales tax for the purpose of providing health care services to county residents.
- The tax is exempt from the 6.9% sales tax cap.

Forest Improvement Districts

- **HB 07-1168**
- **Allows for the creation of a forest improvement district within a city or county upon approval of the voters in that jurisdiction.**
- **The district may seek voter approval to impose a sales tax, but not a use tax.**
- **The statute does not place a cap on the tax rate that can be submitted for approval – the 6.9% cap stipulated in C.R.S. 29-2-108.**
- **The monies raised from this sales tax would be used for; fire mitigation, and fire protection planning and education projects; incentives for local wood products companies; and to match state and federal grants for bioheating and biomass collection and delivery.**

Managed Audit Program Sales/Use Tax

- The program allows certain businesses to conduct a type of self-audit with instructions and guidance from one of our auditors.
- If you qualify and the DOR approves your participation, you will enter into a Managed Audit Program (MAP) Participation Agreement and conduct many of the audit tasks that would ordinarily be performed by our auditor.
- If you complete a managed audit and owe additional tax, interest will be calculated on the additional tax due. However, penalty and penalty interest will be waived.
- In a conventional audit, our auditor typically reviews your records at your place of business, during working hours. In a managed audit, you can review your records whenever and wherever you like, as long as you finish your work within the time specified.

Managed Audit cont.

- **You may gain a more thorough understanding of how tax applies to your business transactions, what kind of records you should keep, and how to improve your business procedures that relate to sales and use tax. This may not only help you in your ongoing business operations but can help ensure that any future audits go more smoothly.**
- **Your decision to participate in a managed audit does not affect your right to protest the audit results.**
- **www.TaxColorado.com**
  - Businesses
  - What's New
  - Managed Audit Program

Credits/Rebates

Conservation Easement Credit Reporting Requirements

- **HB 07-1361**
- **Effective August 3, 2007, increases the reporting requirements for organizations that accept donations of conservation easements in gross for which an income tax credit is claimed along with taxpayers seeking the credit.**
- **Taxpayers must provide:**
  1. A statement indicating whether a deduction was claimed on the taxpayer's federal income tax return for a conservation easement in gross,
  2. A statement reflecting information included in the non-cash charitable contributions form used to claim a deduction for the conservation easement on the federal income tax return,
  3. A statement to be made available to the public by the Department of Revenue that includes a summary of the conservation purposes that are protected by the easement, a summary of a qualified appraisal and accompanied by a sworn affidavit from the appraiser, and a sworn affidavit from the holder of the conservation easement.
- **FYI Income 39 "Gross Conservation Easement Credit" –** Revised FYI coming soon (will include information regarding required documents necessary to obtain credit.)

Employee Leasing Company vs. Work-site Employer

- HB 07-1312
- Clarifies that an employee leasing company does not engage in the essential business operations of a work-site employer that are subject to the regulation of work-site employers pursuant to local, state, and federal law.
- Clarifies that for tax credit and economic incentive purposes, work-site employees are solely employees of the work-site employer and that the work-site employer is entitled to any credit or incentive that arises as a result of the employment regardless of a relationship with an employee leasing company.
- Clarifies that an arrangement between an employee leasing company and a work-site employer does not alter the identity of the work-site employer as a business entity.

Employee Leasing Company cont.

- Clarifies that taxes, fees, and other assessments shall be assessed against a work-site employer based upon the number of work-site employees under the contract with the employee leasing company and against the employee leasing company based upon the number of employees who are not work-site employees.

Enterprise Zone "New Business Facility Employee Credits"

- HB 07-1312
- On or after August 3, 2007, the employee leasing company does not qualify for the enterprise zone new business facility employee credit for employees leased to a work-site employer.
- The leased employees will qualify for the enterprise zone new business facility employee credits of the work-site employer if the work-site employer withholds social security, Medicare, and income taxes under the work-site employer's own federal and state taxpayer identification numbers.
- The work-site employer may not claim a credit for leased employees for which the credit could have been previously claimed by a leasing company. These employees must be added to the work-site employers base number of employees when computing future credits. C.R.S. 8-70-114.
- FYI Income 10 "Enterprise Zone New Business Facility Employee Credits" (Included)

Aircraft Manufacturer "New Employee Credit"

- HB 07-1312
- For tax years beginning on or after January 1, 2006, but prior to January 1, 2017, an income tax credit of $1,200 per employee is available for hiring qualified new aviation zone employees to aircraft manufacturers located in a Colorado aviation development zone. C.R.S. 39-35-104.
- "Aviation zone employee" is a person who is employed by the taxpayer and whose primary place of work is in the operation of an aircraft manufacturer's facility located in an aviation development zone.
- Leased employees
  1. Prior to August 3, 2007, leased employees or employees from a temporary service do not qualify as aviation zone employees.
  2. On or after August 3, 2007, leased employees will qualify as aviation zone employees if the work-site employer withholds Social Security, Medicare, and income taxes under the work-site employer's own federal and state taxpayer identification numbers.
- FYI Income 62 "Aircraft Manufacturer New Employee Credit" (Included)

Alternative Fuel Vehicle Credit

- Colorado income tax credits are available for the purchase of an alternative fuel vehicle, for a motor vehicle that is converted to use alternative fuel, or for the replacement of the power source with a power source that uses alternative fuel.
- To qualify, the vehicle must be titled and registered in Colorado (39-22-516, C.R.S.)
- The credit is only available in the year during which the vehicle was purchased or converted. If the credit allowed exceeds the net tax liability for that year, any excess credit may be carried forward and claimed on future year returns for up to five years until the credit is fully utilized.
- FYI Income 9 "Alternative Fuel Income Tax Credits"

Vehicle Credit cont.

- Alternative fuel means compressed natural gas, propane, methanol and ethanol, or any mixture thereof containing 85% or more of methanol or ethanol by volume with gasoline or other fuels, electricity, or any other fuels.
- If the motor vehicle that qualifies for the alternative fuel vehicle credit is owned by the State of Colorado, a political subdivision of the state, or a tax exempt organization, and is used in connection with the official activities of the entity, the entity will be eligible for a rebate.
- Each qualified entity is limited to $350,000 per state fiscal year in total rebates paid.

Checkoffs

Checkoffs - General Information

- Colorado taxpayers can contribute to certain programs through tax "checkoffs" by donating a portion of their income tax refund or increasing the amount owed on their tax return.
- State law limits the maximum number of checkoffs that may appear on the state income tax form to 15 programs.
- Also, checkoff programs that appear on the tax form for the first time on or after the 2002 tax year have three years to meet a $75,000 contribution threshold.
- If the threshold is not met by September 30th of the third year and thereafter, the program will not appear on the state income tax form in the subsequent tax year.

Checkoffs - Information cont.

- 15 income tax checkoffs appeared on the 2006 individual income tax return.
- Three of the 15 income tax checkoffs sunset in 2006;
- Two of the three that sunset in 2006 were extended by the General Assembly and the third was not extended, which left room for one new income tax checkoff on the 2007 form.
- More information can be obtained at the following link: http://www.checkoffcolorado.org/

Breast Cancer Checkoff

- HB 07-1354
- This bill creates a new income tax checkoff program that uses donations to fund the Colorado Breast and Women's Reproductive Cancers Fund.
- Donations are to be transferred to the Colorado Cancer Coalition, which will administer fund money to further the work of the Colorado Breast Cancer Task Force and its partners.

Pet Overpopulation Checkoff

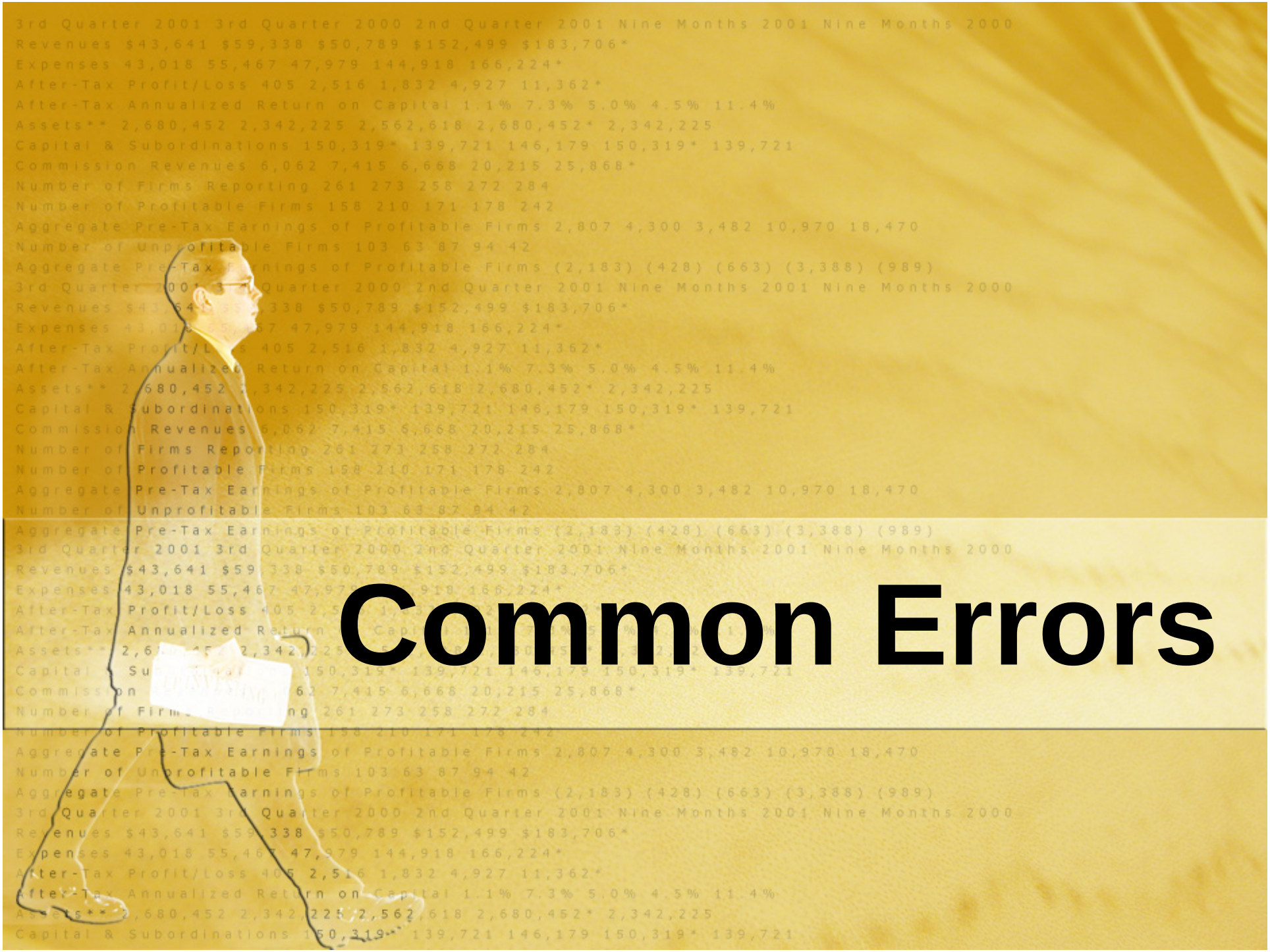
- **HB 07-1201**
- **This bill *extends* the income tax checkoff program that uses donations to fund the Pet Overpopulation Program Fund.**
- **The fund provides community grants to subsidize spay/neuter surgeries for pets of qualified owners and supports spay/neuter education programs.**

Subtractions

State Tuition Program Contribution Subtraction

- You can deduct on your Colorado income tax return the payments or contributions you make to certain "qualified state tuition programs."
- You cannot take this deduction if the payments or contributions were not included in your federal taxable income.
- To date, CollegeInvest is the only qualified tuition program in Colorado. Contact CollegeInvest at *www.collegeinvest.org* or call 303-295-1981.
- FYI Income 44 "State Tuition Program Contribution Subtractions"

Common Errors



Income Tax Returns

Income tax returns:

1. **Sending supporting documentation with original return when it may not be necessary. For example, when filing original return, DO NOT send supporting documentation (i.e. other state's tax return when claiming a credit for tax paid to another state), as these documents may get separated from original return during processing and you'll get asked to send it again. Exception - DR 1305 for conservation easement credit.**

2. **Not completing the DR 1305 when claiming a carryforward on a conservation easement credit.**

3. **Allowing computer software to compute a credit for tax paid to another state for part-year residents even though the 104PN properly credited the taxpayer (i.e. the income was earned in the other state prior to moving to Colorado so there was no double taxation to warrant the 104CR credit).**

Income Tax Returns cont.

Income tax returns cont.

4. **Not deducting the $500 floor on the qualifying contribution subtraction. For example, if you have $2000 in qualifying contributions, you can only deduct $1500.**

5. **Attaching W-2 and 1099 forms that did not include Colorado withholding - adds confusion and potential error.**

6. **Trying to subtract as “other subtractions” things like NOL (e.g. income from the sale of a conservation easement credit, military income, and other state's income.)**

7. **Not including losses from other states in the computation for the credit for tax paid to another state.**

Income Tax Returns cont.

Income tax returns cont.

8. **When computing the credit for tax paid to another state - including the other state's income amounts that are not included in Colorado taxable income (for example, bonus depreciation). The other state's income used in this computation can include only that income that is included in Colorado AGI (Adjusted Gross Income.)**

9. **The first payment of balance due needs to be sent in with original return.**

10. **The primary social security number must always be listed first on returns and in the same order on any estimated tax returns every year.**

Sales Tax Returns

Sales tax returns:

1. **Adding tax collected to taxable sales.** For example, on line 1, you'll enter the total amount of money received from all sales and services, including taxable and nontaxable sales and collections of bad debts previously deducted. Do not include the amount of sales tax collected.

2. **Multi-location filers not listing branches correctly.** For example, form DR 0100-1 "Supplementary Schedule for Colorado Retail Sales Tax" should be used for multiple locations.

3. **Claiming credit for overpayment from a prior return.** Example: On line 3C, if an overpayment of tax was made on a previous return, enter the amount of gross sales on which that tax was based. Overpayment taken must not result in a negative amount. Tax credit can only be used against the same type of tax.

Sales Tax Returns cont.

4. **Not paying the correct amount, due to calculation errors.**

5. **Taking the vendor fee (deduction) when filing late.** This deduction is only allowed if the complete return is filed on department-approved forms and the tax is paid on or before the due date.

6. **Incorrect calculation of vendor fee.** For example, on line 8B: Enter deduction for service (vendor's) fee allowed to the seller for each applicable tax. Multiply line 7 by the applicable service fee rate shown in each column.

7. **Failure to use the pre-printed form provided.** Once a coupon booklet is received, the forms located in the booklet should be used instead of using a separate DR 0100 “Sales tax form/coupon”.

Online Services

Online Services

www.TaxColorado.com; Online Services

1. Electronic Filing Options
2. Electronic Payment – Electronic Funds Transfer (EFT)
3. Delinquent Taxpayer List
4. IFTA / IRP
5. My Income Tax Account
6. NetFile
7. Online Customer Support
8. Sales Tax Information

E-pay – Additional Electronic Payments (coming soon)

1. Those filing via FSEF, or using other electronic software, will be able to make payments with e-checks or credit cards for: 2007/2008 individual estimated payments, wage withholding, billing notices, and 2007 Individual and Corporation tax filings.
2. Look for information from us via news media, email alerts, our online customer support link, and the call center; or check the State Website, at www.Colorado.gov.
3. The service should be available in January 2008.

Estimated Income Tax Payments with Electronic Payment (EFT)

- **EFT is convenient.** When you pay estimated income tax by EFT there is no need to mail the forms to the department. And, no worries about misplaced checks.
- **EFT is secure.** You control which bank account the payment comes from. You'll know when the payment will be made and when the department receives it. Additionally, the Web version of EFT allows you to see pending (planned) payments and your payment history.
- **EFT is flexible.** If for any reason you need to make changes to a planned payment, you may change the date until the day before it is scheduled to pay.
- **EFT saves you from having to remember when to make these payments.** Payments and payment dates can be set up in advance for each quarter up to 365 days in advance.
- **To sign up for EFT, use the DR 5785, available at www.TaxColorado.com.** Be sure to print the form before you close or exit. Then mail it in to us. It will take a few days after we receive the application before you can start using EFT.
- **If you have questions while you're using EFT, call our Colorado Department of Revenue EFT Hotline at (303) 205-8333 for help.**

Special Event Filing

- ***www.TaxColorado.com***
- **Access the forms necessary to file your Colorado special event sales tax license applications and returns. The forms are custom-made for each special event. Online forms are not available for every special event but are added to the list often.**
- **These forms combine the special event license application and sales tax return into a single form that automatically calculates sales tax, penalties, interest, vendor fees, and license fees.**
- **The form will add the appropriate license fee (if any) to your total.**
- **If you think you have a special event number, please call (303) 866-5643 and we will try to find it for you.**
- **Important: The special event forms use the date on your computer to calculate penalties, interest, and vendor's fees. So, make sure the system date on your computer is accurate.**

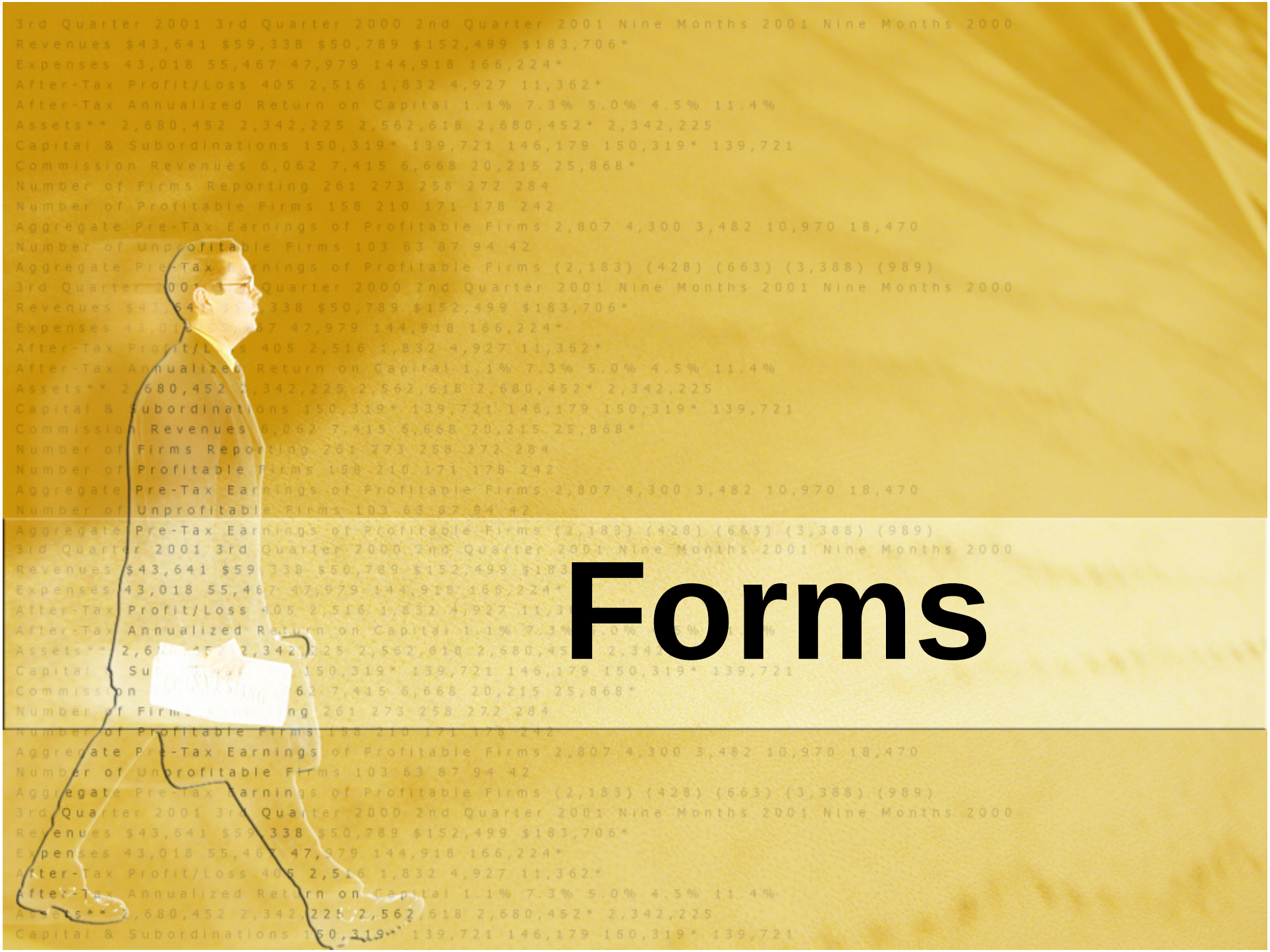
CPE Credit Online

- **If you are interested in obtaining CPE credit online for tax classes, please go to the following:**

- **www.TaxColorado.com**
  1. Tax Classes
  2. Link to ALL available classes
  3. Click on class title - e.g. “Tax Professionals Update 2007 (3 CPE credits)”

- **Online classes with CPE credit are not available for every tax class offered by the CDOR; so if you are looking for a class that is not currently offered, be sure to check the website often, as the list of these classes will grow.**

Forms



DOR Form Comments

- **The draft forms are available through the DOR main Web page, www.TaxColorado.com**
  1. Tax Professionals link
  2. Draft 2007 Colorado Income Tax Forms
- **Comments & suggestions for any form may be submitted to:** *TaxFormComments@spike.dor.state.co.us*
- **Comments and suggestions will be accepted until early October 2007.**
- **Note: Tax-specific questions cannot be answered through this e-mail address**

Draft 2007- Income Tax Forms

The draft forms listed below are available pdf format. As more forms become available, they will be added to our website. All preliminary drafts will be available by September 30th. You may want to keep checking our website until late November for changes to the drafts.

- **Corporation Coupon/Voucher, 2008 – 8/7/07 (Draft) 112EPC**
- **Corporation Income Tax Booklet – 8/20/07 (Draft) 112 Booklet**
- **Estimated Tax -- Corporate Underpayment – 8/8/07 (Draft) 205**
- **Fiduciary Income Tax Booklet – 8/7/07 (Draft) 105 Booklet**
- **Individual Amended Return, 2007 – 8/6/07 (Draft) 104X**
- **Partnership/S-Corporation Booklet – 8/6/07 (Draft) 106 Booklet**
- **Property Tax/Rent/Heat Rebate Booklet – 8/20/07 (Draft) 104PTC Booklet**
- **Real Property Interest - Payment of Withholding – 8/7/07 (Draft) DR 1079**
- **Schedule – Alternative Minimum Tax – 8/6/07 (Draft) 104 AMT**

Thanks for attending

and

Have a great tax season!