

Withholding Tax - Bonus

How does a part-year resident of Colorado apportion a sign-on bonus?

A sign-on bonus is generally considered earned in the state in which the work associated with the bonus is performed. If the work is performed in Colorado, then the sign-on bonus is considered Colorado source income and is taxed in Colorado even if the employee is a resident of another state when the bonus is received.

If a sign-on bonus is received by a Colorado resident, the entire amount is taxable in Colorado even if the work associated with the bonus is performed out of state. If another state also taxes the bonus because it is earned in that state, the taxpayer may claim a credit for tax paid to another state.

If the work associated with a sign-on bonus is performed in more than one state, then the bonus must be apportioned among the states in which the work is performed based on the ratio of time worked in Colorado compared to time worked in the other state(s). If the contract specifies the time frame of work to which the sign-on bonus applies, then the bonus is prorated to the states based on where the employee works (or plans to work in the case of a long term contract) during the contract period. In the case of a long term contract, the employee may need to amend the tax return if the work location unexpectedly changes during the contract period. If the contract does not specify the time frame of work to which the sign-on bonus applies, then the bonus is prorated to the states based on where the employee works during the tax year in which the bonus is received.

Example 1: Terri is a resident of Texas and is offered a new job starting on May 1, which includes a \$50,000 sign-on bonus. She works at the new job in Texas for two months then moves to Colorado July 1 where she works for the rest of the year at the same job. She would report \$37,500 ($\$50,000 \times 6/8$) of her bonus as being earned in Colorado.

Example 2: Same facts as example 1 except Terri's contract requires her to work twelve months for the company or else pay back the bonus. She plans to continue working in Colorado through the end of this period, so she would report \$41,667 ($\$50,000 \times 10/12$) of her bonus as being earned in Colorado.