Income Tax - Part-Year/Non Resident Severance Pay

How does a part-year resident or nonresident of Colorado treat income from severance pay or stock options when there has been a change in the state of residency between when the income was earned and received?

It is becoming more common for employees to receive a W2 reporting wages from a company a year or more after the employee left that company. If the employee worked in another state but is now a resident of Colorado when the income is received, the entire amount will be taxable in Colorado. A credit for taxes paid to another state may be claimed if the income is also taxed by the state in which the income was earned.

If the employee worked in Colorado but recognized the income after moving to another state, the income will be considered Colorado source income as it is compensation for services performed in Colorado. Colorado withholding should be taken out of the pay and reported on a W2 form issued by the employer. This income will be reported on Line A in the Colorado column of the 104PN schedule. Nonresidents who performed services for the employer both within and outside of Colorado must allocate to Colorado that portion of the income that was earned in Colorado. The most common method of allocation is based on time worked in Colorado versus time worked outside of Colorado.