

# FYI – For Your Information

## State Income Tax Deduction Addback

Individuals who itemize deductions on their federal returns, must add back on the Colorado return any state income tax included in their federal deductions. Enter this modification on line 2 on the Colorado Individual Income Tax Return (Form 104). Estates and trusts must also add back this deduction on Form 105. [§39-22-104(3)(d), C.R.S.]

*If you do not itemize deductions on your federal income tax return, you will not be required to add back your state income tax on your Colorado return. Additionally, you are not required to add back any real estate taxes or net disaster loss included in your total standard deduction.*

*If you do itemize deductions on your federal income tax return but deduct general sales taxes on line 5, Schedule A, Form 1040, you do not add back your taxes on your Colorado return.*

### Standard Deduction Benefit Rule

#### Basic rule

If your federal itemized deductions exceed the standard deduction you could have claimed by less than the state tax deduction, you should add back only the difference between the itemized and standard deduction amounts. (See example 2).

#### Exception for Tax Years 2000-2002

For tax years beginning on or after January 1, 2000, but prior to January 1, 2003, for the purpose of computing this addback the appropriate standard deduction for a married couple filing a joint return is double the basic standard deduction for a single taxpayer. Taxpayers who are 65 or older and/or blind should add any additional standard

deduction to the doubled basic standard deduction to compute the addback. This exception does not apply to tax years after 2002 because the federal standard deduction for joint filers was increased to twice the amount of the standard deduction for single filers.

#### For tax years 2008-2009

For tax years beginning on or after January 1, 2008, but prior to January 1, 2010, in determining the standard deduction to which you would have been entitled include any real estate taxes or net disaster loss you would have been allowed to deduct as part of your standard deduction.

### DETERMINING YOUR ADDBACK AMOUNT

#### When to Use the State Income Tax Deduction from the Federal Schedule A

**Example 1:** Mr. Green had gross income of \$50,000 during the tax year. He files head of household. His itemized deductions on the federal Schedule A totaled \$12,000. Of that amount, \$4,000 represented the state income tax deduction. For the purpose of this example, the federal standard deduction for head of household is \$7,850.



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INCOME 4 (01/09)

**ON THE FEDERAL FORM**

Gross Income	\$50,000	
Total Itemized Deductions	<u>-\$12,000</u> ←	(including a
Federal Taxable Income	\$38,000	\$4,000 state income tax deduction, line 5, Schedule A)

**ON THE COLORADO FORM**

Federal Taxable Income	\$38,000
Colorado Addback	<u>+\$ 4,000</u>
Colorado Taxable Income	\$42,000

**NOTE:** If Mr. Green had not itemized, his **standard deduction** would have been \$7,850.

In the above situation, the difference between Mr. Green's total itemized deductions for federal purposes (\$12,000) and the standard deduction he would have taken (\$7,850) is \$4,150 — **more than** the \$4,000 he claimed as a state income tax deduction. Therefore, he will want to use the smaller amount, which in this case is \$4,000, as the Colorado addback.

***When to Use the Difference Between the Total Allowable Federal Itemized Deductions and the Allowable Standard Deduction***

**Example 2:** Ms. Brown had gross income of \$70,000 during the tax year. She files single. Her total itemized deductions on the federal Schedule A were \$11,000. Of

that amount, \$9,000 represented the state income tax deduction. For the purpose of this example, the federal standard deduction for a single filer is \$5,350.

**ON THE FEDERAL FORM**

Gross Income	\$70,000	
Total Itemized Deductions	<u>-\$11,000</u> ←	(including a
Federal Taxable Income	\$59,000	\$9,000 state income tax deduction, line 5, Schedule A)

**NOTE:** If Ms. Brown had not itemized, her **standard deduction** would have been \$5,350.

If Ms. Brown uses her state income tax deduction from Schedule A as the addback, the result is a \$9,000 addback.

In this situation, the difference between Ms. Brown's total itemized deductions for federal purposes (\$11,000) and the standard deduction taken (\$5,350) is \$5,650 — **less than** the \$9,000 she claimed as a state income tax deduction. Therefore, she will want to use, as an addback amount, the smaller of her state income tax deduction on Schedule A or the difference between her total federal itemized deductions and the standard deduction. In this case, the smaller amount is \$5,650.

**Married Couples Filing Separate Returns**

In the case of a married couple filing separate returns and itemizing deductions for federal income tax purposes, the allowable standard deduction for Colorado income tax purposes is zero unless it is to the advantage of each spouse to claim a standard deduction for Colorado income tax purposes.

Worksheet for determining state income tax addbacks for a married couple filing separate returns. Do not use negative amounts.

	Taxpayer	Spouse
1. State income tax included in federal itemized deductions	\$ _____	\$ _____
2. Federal itemized deductions	\$ _____	\$ _____
3. Married filing separate (\$5,450 for tax standard deduction year 2008)	\$ _____	\$ _____
4. Line 2 minus line 3	\$ _____	\$ _____
5. Smaller of line 1 or line 4	\$ _____	\$ _____
6. Line 2 minus line 5	\$ _____	\$ _____
7. Line 6 minus line 3	\$ _____	\$ _____

If there is an amount in either column on line 7, each spouse must addback his or her amount on line 1. If there are no amounts on line 7, the addbacks are the respective amounts on line 5.

## ON THE COLORADO FORM

Federal Taxable Income	\$59,000
Addback	+ \$5,650
Colorado Taxable Income	\$64,650

This provides a benefit to Ms. Brown's Colorado Taxable Income of \$3,350. (The \$9,000 state income tax deduction on the Schedule A **less** the \$5,650 difference between total itemized deductions and the federal standard deduction.)

**NOTE:** For most taxpayers who itemize deductions, the state income tax deduction addback will be the amount from line 5, Schedule A, Form 1040.

### **COMMON QUESTIONS:**

*Should the state income tax deduction addback on line 2 of the Colorado Form 104 include the local tax portion of the state and local taxes deducted on line 5 of the federal Schedule A?*

There are no local income taxes in Colorado. The amounts often reported on Colorado W-2 forms as local income taxes for cities such as Denver, Aurora and Greenwood Village are actually occupational taxes charged at a flat rate by those cities for the privilege of working in that city. These amounts should not be reported on line 5 of the federal Schedule A because they are considered miscellaneous deductions when computing the amount to enter on line 20 of the federal Schedule A. Therefore, the Colorado local taxes would not be included on line 2 of the Colorado return in the state income tax deduction addback.

Local income taxes are collected in a few other states. These taxes would not be included in the state income tax deduction addback because only "state taxes" must be included in the addback.

## **FURTHER INFORMATION**

FYIs, commonly used forms and additional tax information are available on the Web at [www.taxcolorado.com](http://www.taxcolorado.com)

For additional income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes, and general questions and answers. The "Tax Information Index" is located at [www.taxcolorado.com](http://www.taxcolorado.com)

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