



FYI Income 3

The State Income Tax Deduction Addback for High-Income Taxpayers

GENERAL INFORMATION

This document pertains to Colorado Income Tax Returns for tax years 2009 and prior. If you are filing a Colorado Income Tax Return for tax year 2010 or later, please refer to FYI Income 4.

For tax years beginning prior to January 1, 2010, taxpayers who itemize deductions and whose federal adjusted gross income exceeds specified limits generally cannot claim all of their itemized deductions for federal income tax purposes. Taxpayers who are subject to this high income limitation of itemized deductions on their federal income tax return are required to compute their Colorado Income Tax Deduction Addback using the calculation detailed below. Beginning January 1, 2010, there is no separate calculation of federal itemized deductions or the Colorado Income Tax Deduction Addback for high income taxpayers.

Individuals who itemize deductions on their federal income tax returns, as well as estates and trusts, must add back on their Colorado return any state income tax deducted on their federal return. Enter this modification on line 2 of the Colorado Form 104. Fiduciaries will put the addback on line 2 of the Form 105. [§39-22-104(3)(d), C.R.S.]

If a taxpayer does not itemize deductions on a federal income tax return, they do not add back their state income tax on their Colorado return. Additionally, they are not required to add back any real estate taxes or net disaster loss included in their total standard deduction.

If a taxpayer does itemize deductions on their federal income tax return but deducts general sales taxes on line 5 of Schedule A, Form 1040, they do not add back their taxes on the Colorado return.

If the addback of the state tax deduction reduces the allowable itemized deductions to an amount that is less than what a taxpayer's appropriate standard deduction (single, head-of-household, married filing jointly, married filing separately) would have been, they are allowed the benefit of the federal standard deduction. In determining the standard deduction to which would have been entitled, include any real estate taxes or net disaster loss that would have been allowed to deduct as part of the standard deduction. The state tax deduction addback should be the smaller of 1) the state tax deduction allowed for federal income tax purposes, or 2) the amount by which the total allowable federal itemized deductions exceed what would otherwise be allowable as a standard deduction. **NOTE:** See FYI Income 4, State Income Tax Deduction Addback for the state income tax deduction addback in the case of a married couple filing separate returns.

STATE INCOME TAX DEDUCTION ADDBACK WORKSHEET FOR HIGH-INCOME TAXPAYERS

Taxpayers who itemize deductions and whose 2008 federal adjusted gross income is more than \$159,950 (\$79,975 if married filing separately) generally cannot claim all of their itemized deductions for federal income tax purposes.

NOTE: Use this worksheet to determine the amounts to enter in the line 2, State Income Tax Deduction Addback Schedule (on page 6 of the Colorado 104 Booklet).

1. Enter the amount from line 11 of the federal itemized deduction worksheet* \$ _____
2. Enter the amount from line 3 of the federal itemized deduction worksheet \$ _____
3. Amount on line 1 (above) divided by amount on line 2 (above) _____%
4. Amount of all state income taxes entered on line 5 of the federal Schedule A \$ _____
5. Amount on line 4 multiplied by percentage on line 3 \$ _____
6. Amount on line 4 minus amount on line 5 \$ _____

The amount on line 6 above is the amount to enter on line (a) of the "State Income Tax Deduction Addback" schedule included in the Colorado instructions for line 2 of Form 104. The amount on line 12 of the federal itemized deductions worksheet is the amount to enter on line (b) of the schedule.

*The federal "Itemized Deductions Worksheet" can be found in the Schedule A instructions of the federal 1040 instruction booklet.

Example:

John Smith has \$67,238 in total federal itemized deductions. Of that, \$18,916 is not to be included in the computation (not subject to phase-out). After subtracting the amount not subject to phase-out from his total federal itemized deductions, \$48,322 is subject to phase-out. John's state tax deduction on line 5 of the federal Schedule A is \$35,000.

John's Federal Adjusted Gross Income - \$338,058
Threshold Amount - \$159,950
Excess - \$178,108

Amount of Itemized Deductions NOT Allowed
 $\$178,108 \times 3\% \times 2/3 = \$3,562$

Amount of Itemized Deductions Allowed
 $\$67,238 - \$3,562 = \$63,676$

John's federal "Itemized Deduction Worksheet" would look like this:

Line 1 - \$67,238 (total itemized deductions)
Line 2 - \$18,916 (deductions not subject to phase-out)
Line 3 - \$48,322 (deductions subject to phase-out)
Line 4 - \$38,658 (80 percent of line 3)
Line 5 - \$338,058 (federal adjusted gross income)
Line 6 - \$159,950 (federal threshold)
Line 7 - \$178,108 (excess income over threshold)
Line 8 - \$5,343 (3 percent of amount on line 7)
Line 9 - \$5,343 (smaller of line 4 or line 8)
Line 10 - \$1,781 (Line 9 divided by 3)
Line 11 - \$3,562 (Line 9 minus line 10)
Line 12 - \$63,676 (allowable itemized deductions for federal income tax purposes)

John's "State Income Tax Deduction Addback Worksheet" (see worksheet on page 1 of this FYI) would look like this:

1. \$3,562 - Federal itemized deductions phased out (the amount from line 11 of federal itemized deduction worksheet)
2. \$48,322 - Federal deductions subject to phase-out (the amount from line 3 of federal itemized deduction worksheet)
3. 7.371%: \$3,562 divided by \$48,322 [Amount on line 1 (above) divided by amount on line 2 (above)]
4. \$35,000 - John's state income tax deduction, line 5, Schedule A
5. \$2,580 - Amount of state income tax deduction disallowed for federal income tax purposes (amount on line 4 multiplied by percentage on line 3)
6. \$32,420 - Amount of state tax allowed for federal purposes and amount to be added back for Colorado purposes (amount on line 4 minus amount on line 5).

On the worksheet for line 2 of the 104 - income tax form, John would enter:

- (a) \$32,420 - (state tax deduction actually allowed for federal income tax purposes)
- (b) \$63,676 - (amount of itemized deductions the taxpayer is allowed to claim for federal purposes)
- (c) \$5,450 - (standard deduction for single taxpayer)
- (d) \$58,226 - (line b minus line c)

The smaller of line (a) or line (d) must be entered on line 2 of the 104 Form. In John's case, line (a) is the smaller amount. John's addback, which he will enter on line 2 of the 104 Form, is \$32,420.

TAX YEARS 2000-2002

For tax years beginning on or after January 1, 2000 but prior to January 1, 2003, to compute this addback the appropriate standard deduction for a return filed married filing jointly is double the standard deduction for a single taxpayer. See FYIs Income 4 and Income 38 for more information.

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter, or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having the authority to bind the Department, has not formally reviewed and/or approved these FYIs.