



## FYI Income 18

# Pension Subtraction for Married Couples When Both Spouses Receive Social Security

Colorado individuals who meet certain age requirements can exclude pension benefits that are taxable for federal income tax purposes. The subtraction is limited to a maximum amount, dependant upon the age of the pensioner (see FYI Publication Income 25). The subtraction is made on the Colorado Individual Income Tax Return, Form 104.

Social Security benefits qualify for the Colorado pension subtraction if they are taxable to the IRS. However, when a married couple both receives Social Security benefits and they file a joint income tax return, Colorado law requires that they prorate the benefits between them. Taxable benefits are prorated in the ratio of their separate benefits to their total benefits in order to determine their separate Colorado pension subtraction. [§39-22-104 (4) (f) (III), C.R.S.]

Use the following worksheet to prorate Social Security benefits as required:

1. Husband's total Social Security benefits for the year	\$ _____
2. Wife's total Social Security benefits for the year	\$ _____
3. Total of lines 1 and 2	\$ _____
4. Husband's percentage (line 1 divided by line 3)	_____ %
5. Wife's percentage (line 2 divided by line 3)	_____ %
6. Taxable Social Security benefits included on federal Form 1040 or federal Form 1040A	\$ _____
7. Husband's share (amount on line 6 multiplied by percentage on line 4)	\$ _____
8. Wife's share (amount on line 6 multiplied by percentage on line 5)	\$ _____

**Example:** John and Mary have a combined Social Security benefit of \$21,565. John's portion is \$8,065, and Mary's portion is \$13,500. The taxable benefit amount reported to the IRS is \$5,965. The proration is calculated as follows:

1. John's benefits	\$8,065
2. Mary's benefits	\$13,500
3. Total benefits	\$21,565
4. John's percentage	37.399%
5. Mary's percentage	62.601%
6. Taxable benefits	\$5,965
7. John's share of the taxable benefits	\$2,231
8. Mary's share of the taxable benefits	\$3,734

If John also had civil service pension income of \$18,500 included in the joint federal taxable income, his Colorado pension subtraction would be limited to the \$18,500 civil service pension plus \$1,500 of his Social Security benefits for a total of \$20,000. If Mary had no other pension income, she could claim a subtraction of \$3,734, her share of the benefits included in federal income.

For more information on related topics, consult the following publications:

- General 7, "Property Tax Rebates and Deferrals for the Elderly and Disabled"
- Income 16, "Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits"
- Income 25, "Pension/Annuity Subtraction"

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