

## Colorado Income Tax Year 2012: Best Practices

*From the Colorado Department of Revenue*

Here are 20 best practices tips to help ensure a smooth income tax filing season for tax year 2012. Links to FYI publications and other reference tools are provided if applicable to the topic.

- 1) **W-2s:** When filing a **paper** return, all W-2s must be attached (stapled) to the form. When the W-2s do not add up to the withholding claimed on the Individual return (Line 25 of Form 104), return processing will stop. We will ask the taxpayer to send copies of the W-2s. When filing an **electronic** return, we recommend attaching scanned copies to the e-filed tax return. While there is no requirement to electronically attach scanned W-2s to an e-filed return, the copies will allow the department to process the returns when questions arise during return review, or when the employers have not yet sent in their W-2 statements to the department. Documents may also be submitted through [Revenue Online](#). Click on **Submit an e-File Attachment**. See the entry [W-2 Form](#) in the department's Tax Index.
- 2) **1099s:** The Department of Revenue receives 1099 income withholding statements from entities that have withheld Colorado income tax on behalf of a taxpayer. Preparers are urged to ask their clients whether they have any 1099 statements that show Colorado withholding. When filing a **paper** return, the 1099s that show Colorado withholding should be attached (stapled) to the form in the same area where the W-2s are attached. When filing an **electronic** return, we recommend attaching scanned copies to the e-filed tax return. While there is no requirement to attach 1099s to an e-filed return, the copies will allow the department to process the returns when questions arise during return review, or when the entities that issued the 1099s have not yet submitted the statements to the department. The taxpayer's 1099s may also be submitted through [Revenue Online](#). See publication [FYI Income 2](#).
- 3) **Employer or Entity FEINs on W-2s/1099s:** Review, compare and verify Federal Employer Identification Numbers (FEINs) when entering them into e-file software. Make sure the numbers entered in the software match what is on the paper W-2 or 1099. If the FEIN entered into the tax software does not match the FEIN on the W-2 or 1099 submitted by the employer/entity, the taxpayer will be asked to submit paper copies of the W-2s/1099s.
- 4) **104CR:** When calculations from the 104CR credit schedule are transferred to the 104 return, the 104CR MUST be included with the Form 104 regardless of whether it is electronically or paper filed. Please take care to enter the correct amounts on the correct lines in the tax software. You may be required to enter the credit amount or the amount that creates the credit. The department needs to verify that these amounts came from the 104CR.
  - Refundable credits from Line 9 104CR go on Line 27 of the Form 104.
  - Nonrefundable credits from Line 49 104CR go on Line 23 of the Form 104.
- 5) **Amended Returns:** Amended returns **replace** the original tax return. Therefore, it is imperative to attach/include all schedules and supporting documents with the 104X even when you are not changing the amount in a particular schedule. If the original return included a 104CR schedule, the 104CR must be included with the amended return **EVEN WHEN THE 104CR INFORMATION OR DATA DID NOT CHANGE** on the amended return. All documentation must be included with the amended return, otherwise processing will be delayed or credit, subtraction or refund claims may be denied. See the Web page [Correcting a Return](#) (<http://www.colorado.gov/cs/Satellite/Revenue/REVS/1190709086827>).

The 104X and schedules must be completed and submitted together, whether this is done in [Revenue Online](#) or on paper. If a paper 104X is filed, do not re-submit the original 104 form. This will only complicate and delay return processing.

Make sure you use the appropriate 104X version for the year you are amending because the 104X is year-specific (for example, use a 2010 Form 104X for an amended 2010 return).

Individual income tax returns from 2009 and forward may be amended electronically through [Revenue Online](#) ([www.Colorado.gov/RevenueOnline](http://www.Colorado.gov/RevenueOnline)). Filing and amending returns in Revenue Online is a free service. You may amend online even if the original return was filed on paper. Revenue Online has all the information from the original return – there is no need to re-enter everything. If you do not have access to the Internet and cannot amend online, you may file a paper Form 104X.

When changing the Colorado return because the IRS made changes to the federal return, you must file Form 104X within 30 days of being notified by the IRS. When the IRS makes changes to federal taxable income, the Colorado return **MUST** be amended, even if there is no net change to the Colorado tax liability.

For more tips on how to amend an individual income tax return and information about how to avoid other common filing income tax filing errors, see the Web page [“How to Reduce Filing Errors on Income Tax Returns.”](#) (<http://www.colorado.gov/cs/Satellite/Revenue/RE VX/1237405396770>)

- 6) Various Credits and Subtractions:** Many credits and subtractions require additional supporting documentation be submitted with the return. Be sure to review the income tax booklet and FYI publications for specific details. See the Web page [Individual Income Tax Booklet FYIs](#) (<http://www.colorado.gov/cs/Satellite/Revenue/RE VX/1219229527183>).
- 7) Credit for Income Tax Paid to Another State (104CR Part IV):** A copy of the tax return filed for each state **MUST** be included with the 104CR credit schedule and the Form 104. We understand that some of these returns can be several pages in length. Include the portion of the return that shows tax paid to the other state (enough information for us to see the net tax liability after credits). The tax returns for the other states must be included as electronic attachments with an e-filed return or may be submitted through [Revenue Online](#). For paper returns, a copy of each state income tax return must be submitted with the paper Form 104. See publication [FYI Income 17](#).
- 8) Capital Gain Subtraction:** For 2012 returns, the department will make every effort to verify required documentation was included in the filing of the return before contacting the taxpayer for more information. That is why it is important the following supporting documents be submitted with the return.
  - A DR 1316 form, “Colorado Source Capital Gain Affidavit” must be completed and included with the return (electronic or paper). With e-filed returns, attaching the form to the electronic return or submitting it as an E-Filer Attachment in Revenue Online is not sufficient. For electronic returns, the information must be data entered on the DR 1316 portion of the return.

- A copy of the closing statements for both the purchase and sale of the property, or official documentation from the county detailing purchase date and price and sale date and price
- Copies of the first two pages of the corresponding federal return, Schedule D and any Schedule D attachments
- If the capital gain was received via a pass-through entity, documentation that the interest in the underlying business satisfies the required five-year holding period

If form DR 1316 is included, and the capital gain subtraction claimed is \$100,000 or less, the department will continue its practice of reviewing the capital gain subtraction claim two to three years after the return is originally filed, when the IRS provides federal return information to Colorado's Discovery Section.

For more information, see publication [FYI Income 15](#).

- 9) Child Care Contribution Credit:** When a taxpayer claims the Child Care Contribution Tax Credit, the DR 1317, "Child Care Contribution Tax Credit Certification" must be completed by the organization/entity that receives the donation from the taxpayer. Then the organization gives the completed form to the taxpayer. A copy of this form **MUST** be submitted with the return that claims this tax credit. The taxpayer may complete the Social Security/Colorado Account Number portion of the certification form after the organization completes the form. For information about this credit, see publication [FYI Income 35](#).

Taxpayers may obtain their Colorado Account Number (CAN) by accessing their tax account in [Revenue Online](#) ([www.Colorado.gov/RevenueOnline](http://www.Colorado.gov/RevenueOnline)).

Please note that credits from 2011 and 2012 are carried forward to 2013. Credits from 2010 and prior years are still allowable on the 2011 and 2012 tax returns.

- 10) Enterprise Zone Credits: NEW FOR 2012 INCOME TAX RETURNS.** Any return claiming an Enterprise Zone (EZ) credit **MUST** be filed electronically and must report the carryforward amounts by year on Form DR 1366, "2012 Enterprise Zone Carryforward Schedule." The Colorado Legislature has requested that the department report this information annually. Note that each tax year, the taxpayer must file an updated version of this form. Both the DR 1366 and the applicable certification form for each EZ credit claimed must accompany the return. Income tax e-file software and [Revenue Online](#) will include the DR 1366 form for online submission. However, if filing electronically is a hardship, taxpayers may call the department at 303-238-7378 or tax Professionals may call the Tax Practitioners' Helpline (see the information at the end of these tips) to request a paper Form DR 1366 by mail. The form is not available for download from the Colorado Taxation Web site.

- 11) Claiming credits from a Pass-through Entity:** Individuals claiming tax credits that are issued by a partnership should obtain from the partnership a federal K-1 schedule for each credit. The federal K-1 is created and issued by the partnership. If a K-1 is unavailable, attach a statement to the individual return with the name of any pass-through entity. The department verifies the claim by reviewing the partnership's return. The K-1s or statements may be submitted through the [Revenue Online](#) "Submit an e-Filer Attachment service," through tax software or may be attached to a paper return.

**12) Innovative Motor Vehicle Credit:** The department checks a county motor vehicle database to verify ownership of these vehicles. If the registration is not in the taxpayer's name in this database, we will ask for copy of the purchase invoice and proof of Colorado registration. For information about this credit, see publication [FYI Income 67](#).

**13) Colorado Minimum Tax Credit:** Put the federal alternative minimum tax credit amount in the box within Line 31. When the box is not completed, it causes the Colorado AMT to be denied even when the line item has the Colorado Minimum Tax Credit in it. See publication [FYI Income 14](#).

**14) Third Party Designee: NEW for 2012 INCOME TAX RETURNS.** When a taxpayer chooses to designate a Third Party to discuss the 2012 Colorado individual income tax return with department staff, the designation has been expanded. The form now states, "Do you want to allow another person to discuss this return **and any other information related to this return** with the Colorado Department of Revenue?" The added language accommodates situations where other tax years have an impact on the 2012 return and allows the department to discuss the information with the designee.

We encourage e-filed returns because the Third Party designation is included in the electronic return and our staff can see the name and phone number of the Third Party Designee on the e-filed returns. On paper returns, we do not data enter any of the Third Party Designee information as we do the return lines. Designee information from a paper return is not available to us until the paper return is imaged and attached to the taxpayer account, which could take a minimum of two weeks, depending on the time of the year. During that time, it is possible the taxpayer may receive correspondence from the department. If the Third Party Designee contacts the department about the letter, we may not have access yet to the paper return image. In the case of a paper return, customer service representatives may ask for a fax copy of the return with the designee information before providing information to the tax professional.

Beginning Jan. 1, 2014, all paper returns will be immediately imaged when they come into the department. The images will be available to department staff the next business day.

**15) When in doubt, include attachments:** Provide as much supporting documentation as you can. Follow the instructions for supporting documentation.

Most MeF software (the abbreviation for what the IRS calls "Modernized e-File") will allow for document attachments. If your e-file tax software does not support attachments, we strongly recommend using the **Submit an e-Filer Attachment** service in [Revenue Online](#) immediately after submitting the return. The documents will be directed to your client's account. This will allow the department to view these documents concurrently with the return.

When a return is filed in Revenue Online, you may submit the attachments during the return completion process.

For paper return submission, simply attach the required documentation to the return before mailing.

We recommend against using Form DR 1778 to submit documentation. Using Form 1778 to submit supporting documentation can now delay processing a minimum of 6 weeks. We

created the DR 1778 in the early days of e-file software availability when most software did not provide the document attachment option. We are transitioning away from the DR 1778.

To repeat, MeF (tax software) attachments are preferred, followed by Revenue Online e-Filer Attachments and finally, attaching paper documents to the paper return. If you need to send paper documents in separately, you must use the DR 1778 to help us get the documents into the taxpayer's account.

**16) What to expect based on when a return is filed:** Filing state tax returns electronically or earlier in the year can result in receiving refunds faster!

How soon can taxpayers receive their refund? It depends on how and when they file their return.

**Electronic filers** can expect their refunds in about seven to 14 business days because the data is transmitted directly into the department's tax accounting system, which makes processing go much faster than with paper returns.

**Paper filers** have a longer wait depending on when they file.

| Paper Returns Received in | Taxpayer Receives Refund Within |
|---------------------------|---------------------------------|
| January                   | 21 days                         |
| February                  | 28 days                         |
| March                     | 35 days                         |
| April                     | 75 days                         |

**17) Accepted Tax Software:** The department has a list of Accepted Software for individual income tax. The list shows supported tax credits and limitations by software name. A partial list of Colorado-accepted tax software will be available by the end of December. As software is approved, through the third week of January, the list will be updated. See the [Software Developers, Individual Income](http://www.colorado.gov/cs/Satellite/Revenue/REVS/1221734632978) Web page (<http://www.colorado.gov/cs/Satellite/Revenue/REVS/1221734632978>) Look for the section entitled "Income Tax Year 2012 Software Developer Income Tax Forms and Information." Click on the link "Accepted Software."

**18) Refund Status:** You can monitor refund status through our [Revenue Online](http://www.Colorado.gov/RevenueOnline) service ([www.Colorado.gov/RevenueOnline](http://www.Colorado.gov/RevenueOnline)). Once you sign up through Revenue Online, you can file a return, view filing history and conduct other common transactions with the department.

**19) Changes to Individual Income Tax Return Processing for Tax Year 2012:** The department has improved its letters to taxpayers to make the communication more clear, concise and directive. As we have stated in the previous tips, it is important to include all schedules and documentation with the original filing and again with amended returns. But if for some reason the documentation is lost or is not included with the filing, the department has added an "Inquiry" stage to the process. We will stop return processing and ask the taxpayer for missing documentation. The "Your Return Cannot Be Processed" letter specifically states what information or documentation is required. This letter will not include a bill. Taxpayers will have 21 days to respond. When all the documentation is available to the department, we will review the return. If we do not receive the additional documentation or the documentation does not prove the claims on the return, the taxpayer will receive a letter

entitled “Your Return Has Been Adjusted” that will provide line-by-line reasons for the adjustments. The “Notice of Deficiency/Rejection of Refund Claim” will come in the same mailing with the adjustment letter. If applicable, a Statement of Account and payment voucher will be included in the mailing. The department will also provide “resolution” letters to keep taxpayers informed about any protest they may file. These changes represent a pilot program for individual income tax only. We anticipate similar changes will be implemented in the future for corporate, fiduciary and partnership income tax, and for sales tax.

**20) File a Protest:** Beginning in January 2013, protests may be filed in Revenue Online without logging into a specific account. Look for **File a Protest** on the main [Revenue Online](http://www.Colorado.gov/RevenueOnline) site, [www.Colorado.gov/RevenueOnline](http://www.Colorado.gov/RevenueOnline)

### **Assistance for Tax Professionals**

The Colorado Department of Revenue has a Tax Practitioners’ Helpline, which is reserved for tax professionals. This line receives priority attention. Department staff answer calls Monday through Friday, 8 a.m. to 4:30 p.m., except state holidays. After hours, tax professionals may leave a message. Calls are returned the next business day.

**The telephone number is 303-232-2419. We ask that you do not provide this telephone number to your clients. This line is a service for tax professionals only.**

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