

## **Income Tax - Colorado Source Capital Gain Subtraction**

*When is an asset considered to be from Colorado sources in order to qualify for the Colorado source capital gain subtraction?*

The subtraction applies only to net capital gains earned from property located in Colorado. Thus, capital gain realized from the sale of real or personal property qualifies for this subtraction only if the property is located in Colorado at the time of the transaction that gave rise to the gain.

The gain from the sale of stock or ownership interest also qualifies if the stock or ownership interest is of a "Colorado company, limited liability company, or partnership." These are entities that have 50% or more of their property and 50% or more of their payroll assigned to Colorado under the Multistate Tax Compact (§24-60-1301, C.R.S.) for the required holding period (e.g., one or five years). Taxpayers must report the property and payroll percentages on form DR 1316 (any such information the department may have is confidential and cannot be disclosed) and must keep appropriate records that demonstrate that the company meets the requirements of this subtraction.