

Colorado Income Tax Year 2014: Best Practices (Preliminary Edition 11/21/14)

The Colorado Department of Revenue (CDOR) provides this guide to best practices that will ensure a smooth income tax filing season for taxpayers and tax professionals. These tips are organized in the general order of the filing process. Links to FYI publications, Web pages on www.TaxColorado.com, and other services and reference tools are provided here, when applicable.

Collect, review and verify documents/prepayments

Estimated Tax Payments and Prepayments: Taxpayers who have made estimated tax payments should carefully review their payment records before completing this line on their return. We suggest that you review [Revenue Online](#) account information. Revenue Online will allow you to verify the payment(s) received by CDOR, which can reduce processing delays. Additionally, the 104 form requires a separate designation of each payment type. Please take care to properly enter amounts on the correct lines of the individual income tax return as follows:

- Prior-year Estimated Tax Carryforward; line 28
- Estimated Tax Payments; line 29
- Extension Payment; line 30
- Other Prepayments (104BEP, DR 0108 and DR 1079); line 31

Estimated tax credit lines of other income tax type returns (corporation, partnership) will vary. See the corresponding tax booklets for details.

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.

Pay stubs are not W-2s: Pay stubs do not usually have the employer's FEIN on them. The FEIN is required when taxpayers file their income tax – whether electronically or on paper. The Colorado Department of Revenue verifies the FEINs to ensure the employer has paid the taxpayer's withholding tax. **When there is no FEIN with the income tax filing or the FEIN is incorrect, the taxpayer will be required to communicate with CDOR to verify withholding, which will delay refund processing.**

Choose your filing method and start the filing process

Taxpayers and tax practitioners are strongly encouraged to file all tax returns either through your tax software or through CDOR's free and recently-redesigned [Revenue Online](#) service. If you need to file a paper return, you must list the last name and SSN of the primary taxpayer on the top of every page of the return where indicated.

Accepted Tax Software: CDOR 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 – Income Tax](#) Web page. Look for the section Tax Year 2014. Open the tax type you need and click on the link “**Accepted Software.**”

Full, Legal Name: The Department of Revenue matches the taxpayer name(s) used on the Colorado return with the names used on the federal return. When the names do not match, this causes process delays, which will affect the speed of receiving any refund.

Filing Status: During the 2014 legislative session, the Colorado General Assembly enacted changes to Colorado income tax filing status statutes. Taxpayers must file their Colorado income tax returns with the same filing status that they indicated on the federal return.

Possible issues for paper filers

W-2s: When filing a **paper** return, all W-2s must be attached (stapled) to the front of the form where indicated. When the W-2s do not add up to the withholding claimed on the Individual return (Line 27 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 CDOR to process the returns when questions arise during return review, or when the employers have not yet sent in their W-2 statements to CDOR. Documents may also be submitted through [Revenue Online](#). Click on **Submit an e-Filer Attachment**.

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 listing the Colorado gross income, as well as any Colorado withholding. Additionally, we recommend attaching scanned copies to the e-filed tax return. While there is no requirement to provide this information or to attach 1099s to an e-filed return, doing so will allow CDOR 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 CDOR. The taxpayer’s 1099s may also be submitted through [Revenue Online](#). See publication [FYI Income 2](#).

Credits and Subtractions

Many credits and subtractions require submission of additional supporting documentation with the return. Be sure to review the income tax booklet and FYI publications for specific details.

Also see

[Individual Income Tax Credits](#) (Under Instructions and Forms)

[Individual Income Tax Subtractions](#) (Under Instructions and Forms)

Capital Gain Subtraction: CDOR 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 the capital gain is claimed on a 2009 or prior year return and was due to the sale of stock or ownership interest, documentation verifying it was held for at least five years prior to the sale, that the company was a Colorado company, and that the stock was acquired after May 9, 1994.

If form DR 1316 is included, and the capital gain subtraction claimed is \$100,000 or less, CDOR 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](#).

Colorado Marijuana Business Deduction on 104 Form: This deduction is designed to allow businesses in Colorado engaged in retail or medical marijuana to claim a state tax deduction on expenses that would otherwise be allowed on the federal return, but are forbidden pursuant to IRC 280 (e). To claim the deduction, a taxpayer must file a pro-forma federal return showing its tax liabilities as though expenses were allowed and the taxpayer must submit the pro-forma return with the Colorado tax return to expedite processing.

104CR Credit Schedule

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. CDOR needs to verify that these amounts came from the 104CR.

- ❑ Refundable credits from Line 3 104CR go on Line 33 of the Form 104.
- ❑ Nonrefundable credits from Line 33 104CR go on Line 24 of the Form 104.

Child Care Expenses Credit (Form DR 0347 and 104CR Part I): Beginning with tax year 2014, this credit is expanded to assist more taxpayers (HB 2014-1072). In the past, anyone who did not have a federal tax liability did not get this Colorado income tax credit. For the 2014 tax year, even when the federal tax is zero, Colorado will give taxpayers -- with an Adjusted Gross Income of \$25,000 or less -- a Colorado income tax credit of 25 percent of their child care expenses up to \$500 for one child, or up to \$1,000 for two or more children. Use Form DR 0347 to calculate this credit and submit it along with the 104CR.

Credit for Income Tax Paid to Another State (104CR Part II): A copy of the tax return filed for each state MUST be included with Colorado income tax return, unless the other state does not require a return. 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. The total credit for taxes paid to other states may not exceed the Colorado tax attributable to the total non-Colorado source income. If taxes were paid to two or more states, or if income and/or losses are incurred in two or more other states, a separate credit must be computed for each state to which taxes are paid and a limitation computation must be done for all income and/or losses received from other states. The credit will be the lesser of:

- The total of credits computed for each state to which taxes are paid,
- The credit computed using the combined tax paid, income, and losses from all other states.

See publication [FYI Income 17](#).

Colorado Alternative Minimum Tax Credit (104CR Part III): Input the federal minimum tax credit amount in the box within Line 13 of the 104CR. When the box is not completed, it causes the Colorado credit to be denied even when the line item has the Colorado Minimum Tax Credit in it. See publication [FYI Income 14](#).

Child Care Contribution Credit (104CR Part III): New for 2014, the taxpayer will be able to utilize 75 percent of what the taxpayer has accrued up to this year and is still in statute (five-year carry-forward from return due date). (HB 2011-1014) This is up from 50 percent for the 2013 tax year.

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. If taxpayers are uncomfortable providing the organization with their Social Security Number(s), taxpayers may obtain their Colorado Account Number (CAN) by accessing their tax account in [Revenue Online](#). The CAN may be used on the certification form instead of the SSN.

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](#).

Enterprise Zone Credits: IMPORTANT: There is an electronic return filing requirement for all taxpayers who claim these credits. Paper returns may be filed ONLY if an electronic return would create a hardship **for the taxpayer**. If your software product does not support the DR 1366, “2014 Enterprise Zone Credit and Carryforward Schedule,” we suggest you file using [Revenue Online](#), which has a document attachment feature. The total credit amount is calculated using the DR 1366 schedule. Enter on line 25 of the 104 income tax return the sum of all enterprise zone credits used (see the corresponding tax booklets for further instructions regarding other types of returns). **Both the DR 1366 and the applicable certification form** (or email printout from the Office of Economic Development and

International Trade) **for each EZ credit claimed** must accompany the income tax return, whether the return is e-filed or submitted on paper.

Innovative Motor Vehicle and Innovative Truck Credits: Use the Form DR 0617, “Innovative Motor Vehicle Credit and Innovative Truck Credits” schedule. Complete this form and attach it to any income tax return claiming this credit. CDOR 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, CDOR tax examiners will ask for copy of the purchase invoice and proof of Colorado registration. For information about this credit, see publication [FYI Income 67](#).

Other Income Tax Types

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. CDOR 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.

Finishing the tax return

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 CDOR 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.

Third Party Designee: When a taxpayer chooses to designate a Third Party to discuss a Colorado individual income tax return with CDOR 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 return and allows CDOR 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 CDOR. If the Third Party Designee contacts CDOR 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.

Prevent delays with your tax returns and payments: Missing Social Security numbers (SSN) and Colorado Account numbers (CAN) on forms and/or payments made by check cause processing problems and could delay proper credit for a tax account. This could also result in billing notices sent to taxpayers because our accounting system doesn't know to which tax account the tax payment applies.

Make sure the SSN or CAN is listed on the Memo Line of the check and is on any documentation mailed to CDOR. This is especially important when a check is sent without a form. CDOR receives thousands of checks each month that do not have an SSN or CAN. We spend time researching to properly credit the taxpayer. This causes delays in return processing and any refund.

The best way to avoid these problems is to e-file and pay Colorado taxes through [Revenue Online](#).

After you file

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 [Amended Return Quick Answer](#).

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 2014 Form 104X for an amended 2014 return).

Individual income tax returns from 2009 and forward may be amended electronically through [Revenue Online](#). 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.

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 CDOR'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	14 days
February	21 days
March	28 days
April	45 days

Refund Status: You can monitor refund status through our [Revenue Online](#) service. Once you sign up through Revenue Online, you can file a return, view filing history and conduct other common transactions with CDOR.

File a Protest: Protests may be filed in Revenue Online without logging into a specific account. Look for **File a Protest** on the main [Revenue Online](#) site.

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