FYI Income 16
Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits

The Colorado Individual Income Tax Return, Form 104, enables recipients of certain pension benefits to exclude from their Colorado taxable income portions of their benefits for which they previously paid Colorado income tax. [§39-22-104(4)(c), C.R.S.] There is no age limitation for this subtraction. If a taxpayer received pension benefits, they might be able to use this subtraction if:

- employee contributions were made to the Public Employees Retirement Association (PERA) any time between July 1, 1984 and December 31, 1986 and PERA benefits are received during the current tax year, or
- employee contributions were made to the Denver Public Schools Retirement System (DPSRS) any time between Jan. 1, 1986 and Dec. 31, 1986 and DPSRS benefits are received during the current tax year.

These contributions were subject to state income tax in the years they were made, but were tax-deferred for federal income tax purposes. This means federal income tax must be paid when receiving benefit payments upon retirement or termination. The subtraction on the Colorado return enables a taxpayer to subtract from taxable income the amount of pension benefits on which state income tax was already paid.

NOTE: If a taxpayer's total federally taxable pension income from all sources is less than $20,000 and the taxpayer is 55-64 years of age, or if the federally taxable pension from all sources is less than $24,000 and the taxpayer is 65 years of age or older, STOP! A taxpayer will not need to use this subtraction because all of their pension income is fully excludable for Colorado income tax purposes under the regular $20,000/$24,000 pension subtraction.

The subtraction does not apply to a taxpayer if:

- they began receiving PERA benefits **before July 1, 1984** or DPSRS benefits **before January 1, 1986,** or
- they excluded the total amount of previously taxed contributions on Colorado income tax returns in prior years.

Use the worksheet to determine the amount, if any, that can be entered as a subtraction on the Colorado income tax return.

Common Questions:

Why is the amount of pension benefits on which federal income tax is owed different from the amount on which state income tax is owed?

Before July 1, 1984, employee contributions to PERA and DPSRS were subject to both state and federal income tax. From July 1, 1984 through December 31, 1986, employee contributions to PERA were tax-deferred for federal income tax purposes, but not for Colorado income tax purposes. From January 1, 1986 through December 31, 1986, employee contributions to DPSRS were treated in the same manner. Employee contributions to both plans after December 31, 1986, are tax-deferred for both state and federal income tax purposes. For Contribution Statement, please visit www.copera.org. or contact a PERA representative at 303-832-9550 or 1-800-759-7372

	Employee Contributions To PERA		**Employee Contributions To DPSRS**	
	Federal Income Tax Purposes	*Colorado Income Tax Purposes*	*Federal Income Tax Purposes*	*Colorado Income Tax Purposes*
Prior to July 1, 1984	taxable	taxable	taxable	taxable
July 1, 1984 or after but before Jan. 1, 1986	tax-deferred	taxable	taxable	taxable
Jan. 1, 1986 or after but before Dec. 31, 1986	tax-deferred	taxable	tax-deferred	taxable
After Dec. 31, 1986	tax-deferred	tax-deferred	tax-deferred	tax-deferred

If a taxpayer is eligible for both the PERA/DPSRS subtraction and the pension subtraction, which one should be claimed?
In most cases, claim the first $20,000/$24,000 of the pension subtraction first and then claim the remainder of the pension (if any) as a PERA or DPSRS subtraction. A taxpayer is allowed to carry the remaining PERA or DPSRS subtraction amount forward to the next tax year.

Example 1: Mr. State Employee retired mid-year at age 57. He is entitled to a PERA subtraction of $8,400 for contributions he made to his PERA retirement plan during 1984, 1985 and 1986. During his first (partial) year of retirement his PERA pension is $16,000. The next year, his PERA pension will be $32,000. The full pension amount was included in his federal taxable income for each year. It would be advantageous for Mr. State Employee to claim a $16,000 pension subtraction in year one, and he should claim the $20,000 pension subtraction *and* his one-time $8,400 PERA exclusion in year two.

Example 2: Ms. Denver Teacher contributed $2,800 to her Denver Public Schools retirement plan during 1986. She retired on January 1st of this year at age 55. Each year, her federal taxable income is $21,000 (after exemptions and deductions). During her first year of retirement, it would be advantageous for her to claim a $20,000 pension subtraction and $1,000 of her Denver Public Schools retirement contributions made during 1986 as a DPSRS subtraction. Year two, she would again claim the $20,000 pension subtraction and $1,000 DPSRS retirement subtraction. In year three she would claim a $20,000 pension subtraction and the remaining $800 of her DPSRS retirement subtraction.

A taxpayer has left state service but is not retiring. The taxpayer withdrew PERA contributions after they left employment. How is the PERA subtraction determined?
If a taxpayer terminated state or Denver Public Schools employment and collected retirement contributions when terminated, they must determine how much of the contributions were previously taxed by Colorado.

Example: Mr. Colorado Worker terminates employment with the state, but he is not retiring. He will take a job with a private company. However, he decides to collect his PERA contributions at the time he leaves state service. His federal taxable income includes total PERA contributions of $15,000.

The entire $15,000 amount was federally tax-deferred while $12,000 was state tax-deferred.

	Contributions federally tax-deferred	$15,000
minus (-)	Contributions state tax-deferred	$12,000
equals (=)	Contributions previously taxed by Colorado	$3,000 (taxed in 1984, 1985 and 1986)

Mr. Colorado Worker has already paid Colorado income tax on $3,000 of his PERA contributions. These contributions were made in 1984, 1985 and 1986. Mr. Worker paid tax on these contributions during those years because they were not tax-deferred for Colorado income tax purposes.

Mr. Worker is entitled to a PERA subtraction of $3,000 for these contributions. He may enter the subtraction on his Colorado Form 104.

A taxpayer's 1099-R statement contains information about "Contributions: tax paid and tax deferred." Will the figures listed under these headings on my 1099-R determine how much can be excluded on the Colorado Form 104?
No. The information a 1099-R reflects the amount of contributions on which federal income tax was previously paid and the amount that is tax-deferred for federal income tax purposes. The amounts do not reflect the correct amounts on which to base a subtraction amount on the Colorado return. If there are questions about the information on a 1099-R statement, contact the benefits plan office.

WORKSHEET FOR RECIPIENTS OF PERA/DPS PENSION BENEFITS

1. Enter the amount of contribution to PERA or DPSRS that was previously taxed for Colorado income tax purposes but not for federal income tax purposes. For PERA members, this would be 8% of the state, local government, or public school salary or wages earned for the period July 1, 1984 through December 31, 1986. For DPSRS members, this would be the amount contributed to DPSRS during 1986.	1. $ ________________
2. Enter the amount claimed on prior year's Colorado income tax returns as a PERA/DPSRS retirement income subtraction.	2. $ __________________
3. Subtract line 2 from line 1.	3. $ __________________
4. Amount in box 2a of 1099-R (federally taxable amount).	4. $ _________________
5. The potential current year subtraction is the smaller of the amount on line 3 or line 4. Enter the amount on this line and on the other subtractions line of Form 104. (See note below.)	5. $ _________________

NOTE: The total of the pension subtraction and this PERA/DPSRS subtraction cannot exceed the total taxable pension income included in the federal taxable income. Therefore, it is an advantage to claim the pension subtraction first, then claim this PERA/DPSRS subtraction (to the extent allowed on line 5 above) to offset any remaining pension income. Claim the remaining PERA/DPSRS subtraction in future years to take advantage of the full benefit of the subtraction.

If the amount on line 3 is larger than the amount on line 4, the difference is the subtraction that can be claimed in future years. Keep a copy of this worksheet with tax records.