

FYI – For Your Information

The State Income Tax Deduction Addback for High-Income Taxpayers

Individuals who itemize deductions on their federal income tax returns, as well as estates and trusts, must add back on their Colorado return any state income tax deducted on their federal return. Enter this modification on line 2 of the Colorado Individual Income Tax Return (Form 104). Fiduciaries will put the addback on line 2 of the Form 105 Fiduciary Return.

If you do not itemize deductions on your federal income tax return, you do not add back your state income tax.

If the addback of the state tax deduction reduces your allowable itemized deductions to an amount that is less than your appropriate standard deduction (single, head-of-household, married filing jointly, married filing separately) would have been, you are allowed the benefit of the federal standard deduction. Your state tax deduction addback should be the smaller of 1) the state tax deduction allowed for federal income tax purposes, or 2) the amount by which the total allowable federal itemized deductions exceed what would otherwise be allowable as a standard deduction.

NOTE: See FYI Income 4 "The Colorado Income Tax Deduction Addback" for the state income tax deduction addback in the case of a married couple filing separate returns.

STATE INCOME TAX DEDUCTION ADDBACK WORKSHEET FOR HIGH- INCOME TAXPAYERS

Taxpayers whose 1999 federal adjusted gross income is more than \$126,600 (\$63,300 if married filing separately) and who itemize deductions generally are not allowed to claim all of their itemized deductions for federal income tax purposes.

NOTE: Use this worksheet to determine the amounts to enter on the "Line 2, State Income Tax Deduction Addback" on page 5 of the Colorado 104 - Income Tax booklet).

- 1) Enter the amount from line 9 of your federal itemized deduction worksheet* \$ _____
- 2) Enter the amount from line 3 of your federal itemized deduction worksheet \$ _____
- 3) Amount on line 1 (above) divided by amount on line 2 (above) _____%
- 4) Amount of all state income taxes entered on line 5 of the federal Schedule A \$ _____
- 5) Amount on line 4 multiplied by percentage on line 3 \$ _____
- 6) Amount on line 4 minus amount on line 5 \$ _____



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Income Tax: (303) 232-2446
Severance Tax: (303) 232-2446
Fuel Tax: (303) 205-5967

The amount on line 6 above is the amount to enter on line (a) of the "State Income Tax Deduction Addback" schedule included in the Colorado instructions for line 2 of the Form 104. The amount on line 10 of the federal itemized deductions worksheet is the amount to enter on line (b) of the schedule.

* The federal "Itemized Deductions Worksheet" can be found in the schedule A instructions of the 1999 Federal 1040 instruction booklet.

EXAMPLE

John Smith has \$67,238 in total federal itemized deductions. Of that, \$18,916 is not to be included in the computation (not subject to phase-out). After subtracting the amount not subject to phase-out from his total federal itemized deductions, \$48,322 is subject to phase-out. John's state tax deduction on line 5 of the federal Schedule A is \$35,000.

John's Federal Adjusted Gross Income	\$330,508
Threshold Amount	\$126,600
Excess	\$203,908

Amount of Itemized Deductions NOT Allowed

$\$203,908 \times 3\% = \$6,117$

Amount of Itemized Deductions Allowed

$\$67,238 - \$6,117 = \$61,121$

John's federal "Itemized Deduction Worksheet" would look like this:

Line 1	\$67,238 (total itemized deductions)
Line 2	\$18,916 (deductions not subject to phase-out)
Line 3	\$48,322 (deductions subject to phase-out)
Line 4	\$38,658 (80 percent of line 3)
Line 5	\$330,508 (federal adjusted gross income)

Line 6	\$126,600 (federal threshold)
Line 7	\$203,908 (excess income over threshold)
Line 8	\$6,117 (3 percent of amount on line 7)
Line 9	\$6,117 (smaller of line 4 or line 8)
Line 10	\$61,121 (allowable itemized deductions for federal income tax purposes)

John's "State Income Tax Deduction Addback Worksheet" (see worksheet on page 1 of this FYI) would look like this:

- 1) \$6,117 - Federal itemized deductions phased out (the amount from line 9 of your federal itemized deduction worksheet)
- 2) \$48,322 - Federal deductions subject to phase-out (the amount from line 3 of your federal itemized deduction worksheet)
- 3) 12.659%: \$6,117 divided by \$48,322 [Amount on line 1 (above) divided by amount on line 2 (above)]
- 4) \$35,000 - John's state income tax deduction, Line 5, Schedule A
- 5) \$4,431 - Amount of state income tax deduction disallowed for federal income tax purposes (amount on line 4 multiplied by percentage on line 3)
- 6) \$30,569 - Amount of state tax allowed for federal purposes and amount to be added back for Colorado purposes (amount on line 4 minus amount on line 5)

On the worksheet for line 2 of the 104 - income tax form, John would enter:

- (a) \$30,569 - (state tax deduction actually allowed for federal income tax purposes)
- (b) \$61,121 - (amount of itemized deductions the taxpayer is allowed to claim for federal purposes)

(c) \$4,300 - (standard deduction for single taxpayer)

(d) \$56,821 - (line b minus line c)

You must enter the smaller of line (a) or line (d) on line 2 of the 104 Form. In John's case, line (a) is the smaller amount. John's Addback, which he will put on line 2 of the 104 Form, is \$30,569.

FURTHER INFORMATION

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

- FYI General 1 "Department of Revenue Publications";
- FYI General 5 "General Information About Colorado State Taxes";
- FYI General 8 "The FYI Program - Index and General Information";
- FYI Income 4 "State Income Tax Deduction Addback";
- FYI Income 12 "State Income Tax Refund Subtraction."

Single FYIs are free from the Taxpayer Service Division. They may be obtained at any statewide Taxpayer Service Center; or by writing to the Colorado Department of Revenue, 1375 Sherman St., Denver, CO 80261; or by calling the DOR Forms Hotline at (303) 232-2414. Please use the FYI number (General 1, Sales 9, etc.) when ordering FYI publications. FYIs and commonly used forms are available on the Web at www.revenue.state.co.us

For a complete set of FYIs (approximately 130, on sales, income, excise and withholding taxes), you may purchase ***The Complete Book of FYIs*** at low cost from the State Forms Center, Division of Correctional Industries, 4200 Garfield St., Denver, CO 80216. An order form is contained in FYI General 1, or call the State Forms Center, (303) 321-4164, for ordering information.