

FYI – For Your Information

State Income Tax Deduction Addback

Individuals who itemize deductions on their federal returns, and estates and trusts must add back on the Colorado return any state income tax included in their federal deductions. Enter this modification on line 2 on the Colorado Individual Income Tax Return (Form 104).

If you do not itemize deductions on your federal income tax return, you will not be required to 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), 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 claimed 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.

DETERMINING YOUR ADBACK AMOUNT

When to Use the State Income Tax Deduction from the Federal Schedule A

Mr. and Mrs. Green had gross income of \$50,000 during the tax year. They file married filing jointly. Their itemized

deductions on the federal Schedule A totaled \$12,000. Of that amount, \$4,000 represented their state income tax deduction. For the purpose of this example, the federal standard deduction for married filing jointly is \$7,200.

ON THE FEDERAL FORM

Gross Income	\$50,000	
Total Itemized Deductions	-\$12,000 ←	(including a \$4,000 state income tax deduction, line 5, Schedule A)
Federal Taxable Income	\$38,000	

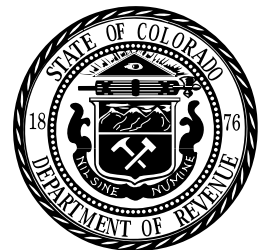
ON THE COLORADO FORM

Federal Taxable Income	\$38,000
Colorado Addback	+ \$ 4,000
Colorado Taxable Income	\$42,000

NOTE: If the Greens had not itemized, their **standard deduction** would have been \$7,200.

In the above situation, the difference between the Greens' total itemized deductions for federal purposes (\$12,000) and the standard deduction they would have taken (\$7,200) is \$4,800 — **more than** the \$4,000 they claimed as a state income tax deduction. Therefore, they will want to use the smaller amount, which in this case is \$4,000, as their Colorado addback.

When to Use the Difference Between the Total Allowable Federal Itemized Deductions and the Allowable Standard Deduction



Colorado Department of Revenue
 Taxpayer Service Division
 1375 Sherman St.
 Denver, Colorado 80261

Sales Tax: (303) 232-2416
 Withholding Tax: (303) 232-2416
 Income Tax: (303) 232-2446
 Severance Tax: (303) 232-2446
 Fuel Tax: (303) 205-5967

Mr. and Mrs. Brown had gross income of \$70,000 during the tax year. They file married filing jointly. Their total itemized deductions on the federal Schedule A were \$11,000. Of that amount, \$9,000 represented their state income tax deduction. For the purpose of this example, the federal standard deduction for married filing jointly is \$7,200.

ON THE FEDERAL FORM

Gross Income	\$70,000	← (including a
Total Itemized Deductions	<u>-\$11,000</u>	\$9,000 state
Federal Taxable Income	\$59,000	income tax
		deduction, line
		5, Schedule A)

NOTE: If the Browns had not itemized, their **standard deduction** would have been \$7,200.

If the Browns use their state income tax deduction from Schedule A as their addback, this is the result.

ON THE COLORADO FORM

Federal Taxable Income	\$59,000
Addback	<u>+\$ 9,000</u>
Colorado Taxable Income	\$68,000

In the above situation, the difference between the Browns' total itemized deductions for federal purposes (\$11,000) and the standard deduction they would have taken (\$7,200) is \$3,800 — **less than** the \$9,000 they claimed as a state income tax deduction. Therefore, they will want to use as an addback amount the smaller of their state income tax deduction on Schedule A or the difference between their total federal itemized deductions and the standard deduction. In this case, the smaller amount is \$3,800.

ON THE COLORADO FORM

Federal Taxable Income	\$59,000
Addback	<u>+\$3,800</u>
Colorado Taxable Income	\$62,800

This benefits the Browns' Colorado Taxable Income by \$5,200. (The \$9,000 state income tax deduction on the Schedule A **less** the difference between total itemized deductions and the federal standard deduction, which is \$3,800.)

NOTE: For most taxpayers who itemize deductions, the state income tax deduction addback will be the amount from line 5, Schedule A, Form 1040.

Married Couples Filing Separate Returns

In the case of a married couple filing separate returns and itemizing deductions for federal income tax purposes, the allowable standard deduction for Colorado income tax purposes is zero unless it is to the advantage of each spouse to claim a standard deduction for Colorado income tax purposes.

Worksheet for determining state income tax addbacks for a married couple filing separate returns. Do not use negative amounts.

	Taxpayer	Spouse
1. State income tax included in federal itemized deductions	\$ _____	\$ _____
2. Federal itemized deductions	\$ _____	\$ _____
3. Married filing separate standard deduction	\$ _____	\$ _____
4. Line 2 minus line 3	\$ _____	\$ _____
5. Smaller of line 1 or line 4	\$ _____	\$ _____
6. Line 2 minus line 5	\$ _____	\$ _____
7. Line 6 minus line 3	\$ _____	\$ _____

If there is an amount in either column on line 7, the addbacks are the amounts on line 1. If there are no amounts on line 7, the addbacks are the amounts on line 5.

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 3 “The Colorado Addback for High-Income Taxpayers”;
- FYI Income 12 “State Income Tax Refund Substraction.”

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