TAXPAYER SERVICE DIVISION

FYI – For Your Information

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 on which they previously paid Colorado income tax. If you receive pension benefits, you might be able to use this modification if:

- You made employee contributions to the Public Employees Retirement Association (PERA) any time between July 1, 1984 and Dec. 31, 1986 **and** you are receiving PERA benefits during the current tax year.
- **Or**, you made employee contributions to the Denver Public Schools Employees Pension and Benefit Association any time between Jan. 1, 1986 and Dec. 31, 1986 **and** you are receiving benefits from this Association during the current tax year.

These contributions were subject to state income tax in the years that you made them. However, they were tax-deferred for federal income tax purposes. This means you must pay federal income tax when you receive benefit payments upon retirement or termination. The modification on your Colorado return enables you to subtract from taxable income the amount of pension benefits on which you already paid state income tax.

NOTE: If your total federally taxable pension income from all sources is less than $20,000, and you are 55 years of age or older, **STOP!** You will not need to use this modification because all of your pension income is fully excludable for Colorado income tax purposes under the regular $20,000 pension exclusion.

The modification does **not** apply to you if:

- You began receiving PERA benefits before July 1, 1984 or Denver Public Schools benefits before Jan. 1, 1986;
- **Or,** you excluded the total amount of your previously taxed contributions on Colorado income tax returns in prior years.

Use the worksheet on page 4 to determine the amount, if any, you can enter as a subtraction on your Colorado income tax return.

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 the DPS pension plans were subject to both state and federal income tax. From July 1, 1984 through Dec. 31, 1986, employee contributions to PERA were tax-deferred for federal income tax purposes but not for Colorado income tax purposes. From Jan. 1, 1986 through Dec. 31, 1986, employee contribu-

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tions to the DPS pension plan were treated in the same manner. Employee contributions to both plans after Dec. 31, 1986, are tax-deferred for both state and federal income tax purposes.

	Employee Contributions To PERA		**Employee Contributions To DPS Pension Plan**	
	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 I am eligible for both the PERA/DPS modification and the pension exclusion, which one should I claim?

In most cases, you should claim the first $20,000 of your pension exclusion first, then claim the remainder of the pension (if any) as a PERA or DPS modification. You are allowed to carry the remaining PERA or DPS modification amount forward to the next tax year.

EXAMPLES

1) Mr. State Employee retired on July 1, 1997. He is entitled to a PERA modification of $8,400 for contributions he made to his PERA retirement plan during 1984, 1985 and 1986. For 1997, his PERA retirement benefits which are included in his federal taxable income are $16,000. For 1998, his PERA retirement benefits included in his federal taxable income will be $32,000. It would be advantageous for Mr. State Employee to claim a $16,000 pension exclusion for 1997. For 1998, he should claim the $20,000 pension exclusion and his $8,400 PERA exclusion.

2) Ms. Denver Teacher retired on Jan. 1, 1997. She is entitled to a DPS modification of $2,800 for contributions she made to her Denver Public Schools retirement plan during 1986. Her 1997 federal taxable income is $21,000 (after exemptions and deductions). Her 1998 and 1999 federal taxable incomes (all from her DPS pension) will be $21,000 each year. For 1997, it would be advantageous for her to claim her $20,000 pension exclusion and $1,000 of her Denver Public Schools retirement contributions made during 1986 as a PERA/DPS modification. For 1998, she would claim the $20,000 pension exclusion and her $1,000 DPS retirement modifications (left over from 1997) on her 1998 Colorado Form 104. For 1999, she would claim the $20,000 pension exclusion and the remaining $800 of her DPS retirement modification.

I left state service but I am not retiring. I withdrew my PERA contributions after I left my employment. How do I determine my PERA modification?

If you terminated your state or Denver Public Schools employment and you collected your retirement contributions when you terminated, you must determine how much of your contributions were previously taxed by Colorado.

EXAMPLE

Mr. Colorado Worker terminates employment with the state on June 1, 1998. 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 1998 federal taxable income includes total PERA contributions of $5,000.

The entire $5,000 amount was federally tax-deferred while $2,000 was state tax-deferred.

	Contributions federally tax-deferred	$5,000	
MINUS (-)	Contributions state tax-deferred	$2,000	
EQUALS (=)	Contributions previously taxed by Colorado	$3,000	(total contributions taxed on 1984, 1985 and 1986 Colorado returns)

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 modification of $3,000 for these contributions. He may enter the subtraction on his 1998 Colorado Form 104.

My 1099-R statement contains information about "Contributions: tax paid and tax deferred." Will the figures listed under these headings on my 1099-R tell me how much I can exclude on my Colorado Form 104?

No. The information on your 1099-R reflects the amount of contributions on which you previously paid **federal** income tax and the amount that is tax-deferred for **federal** income tax purposes. The amounts **do not** reflect the correct amounts on which to base your exclusion amount on your Colorado return. If you have any questions about the information on your 1099-R statement, contact your benefits plan office.

FURTHER INFORMATION

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

- FYI General 1 "Department of Revenue Publications";
- FYI General 8 "The FYI Program - Index and General Information";
- FYI Income 25 "Colorado Pension Exclusion";
- FYI Income 18 "Colorado Pension Exclusion For Married Couples When Both Spouses Receive Social Security."

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.

WORKSHEET FOR RECIPIENTS OF PERA/DPS PENSION BENEFITS

1. Enter the amount of your contribution to the PERA or Denver Public Schools retirement system that was previously taxed for Colorado income tax purposes but not for federal income tax purposes. For PERA members, this would be 8 percent of the state, local government, or public school salary or wages you earned for the period July 1, 1984 through December 31, 1986. For Denver Public Schools Retirement System members, this would be the amount you contributed to the DPS Retirement Fund during 1986.

   $ ________________

2. Enter the amount you claimed on prior year's Colorado income tax returns as a PERA/DPS retirement income exclusion. $ ________________

If line 2 is equal to line 1, you have used all of your PERA/DPS retirement income subtraction. DO NOT PROCEED WITH THIS WORKSHEET.

3. Subtract line 2 from line 1. $ ________________

4. Amount in box 2a of 1099-R (federally taxable amount). $ ________________

5. Your potential current year subtraction is the smaller of the amount on line 3 or line 4. Enter the amount on this line and on line 13, Form 104. (See note below) $ ________________

Note: The total of your pension exclusion and this PERA/DPS subtraction cannot exceed your total taxable pension income included in your federal taxable income. Therefore, it is to your advantage to claim the pension exclusion first, then only claim this PERA/DPS subtraction (to the extent allowed on line 5 above) to offset any remaining pension income. The remaining PERA/DPS subtraction can then be claimed in future years allowing you 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 amount of modification you may claim in future years. Keep a copy of this worksheet with your tax records.