TAXPAYER SERVICE DIVISION

FYI – For Your Information

Colorado Tax Credit for Income Tax Paid to Another State

GENERAL INFORMATION

Question: What happens if you have income that was earned *and* is taxable in another state, but was received while you were a resident of Colorado? Answer: This income is taxed in both states, which results in the income being taxed twice.

To eliminate the penalty of this double taxation, Colorado allows Colorado residents to claim a credit for taxes paid to another state. [39-22-108 CRS]

In order to claim the credit, you must file the Colorado Form 104 and 104CR. If you paid taxes to two or more other states, a separate 104CR form must be completed for each state. You must attach a copy of each tax return filed with another state to your Colorado 104 return. The credit is limited to the smaller of the Colorado tax paid on the income from sources in the other state or the tax paid to the other state on such income.

COMPUTING THE CREDIT

The easiest way to complete your 104CR is to follow these steps:

Step 1: Complete your federal income tax return.

Step 2: Complete your income tax return for the other state.

Step 3: Complete lines 1 through 19 of your Colorado Form 104.

Step 4: Use the following instructions to determine the amounts you should enter on line 5 (b) and line 5 (c) of Form 104CR.

Form 104CR, line 5(b)

Your Colorado adjusted gross income from sources in the other state is the amount of your federal adjusted gross income earned from sources in the other state that is being taxed by both states. This amount must be reduced by any Colorado "subtractions from federal taxable income" and increased by any Colorado "additions to federal taxable income" (from Form 104) to the extent they apply to that income.

Form 104CR, line 5(c)

Your total Colorado adjusted gross income is the amount of your federal adjusted gross income plus and/or minus the Colorado "additions to federal taxable income" and "subtractions from federal taxable income" that apply to that income. The Colorado additions and subtractions that apply to itemized or standard deductions (i.e. state income tax addback, conservation easement deduction, marriage penalty subtraction, etc.) will not affect this computation.

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) 205-5602

EXAMPLE 1

Taxpayer Brown, who is single and claiming the standard deduction, earned $3,000 in California but is a Colorado resident. Taxpayer Brown had a Colorado taxable income of $25,200 and a federal adjusted gross income of $32,150.

The tax computed under California rules is $90.

FORM 104CR - INDIVIDUAL CREDIT SCHEDULE

2000

Taxpayer's Name	Social Security Number

5 Credit for income tax paid to another state – compute a separate credit for each state. Attach a copy of the tax return filed with the other state.

Name of state **CALIFORNIA**

(a) Total of lines 19 and 20, Form 104	**5(a)**	1,195	00	
(b) Colorado adjusted gross income from sources in the other state	**5(b)**	3,000	00	
(c) Total Colorado adjusted gross income	**5(c)**	32,150	00	
(d) Amount on line 5(b) divided by amount on line 5(c)	**5(d)**	9.331 %		
(e) Amount on line 5(a) multiplied by percentage on line 5(d)	**5(e)**	112	00	
(f) Tax liability to the other state	**5(f)**	90	00	
(g) Allowable credit, the smaller of lines 5(e) or 5(f)	**5(g)**			90 00

On the above sample form, taxpayer Brown can take a Colorado tax credit for tax paid to another state of $90, “the smaller of lines 5 (e) or 5 (f).” On the personal credits line of the Colorado Form 104 he would enter $90. He must attach Form 104CR and a copy of the California return to his Colorado Form 104.

PART-YEAR RESIDENTS OF COLORADO

A part-year resident will generally not claim the credit for tax paid to another state since their income is usually taxed only by the state of residency when the income is earned. However, if income is earned from sources in the other state while the taxpayer is a Colorado resident, then it may be taxed by both states. If this is the case the tax credit can be claimed. The computation of the credit for taxes paid to another state by a part-year resident is more complicated than it is for a full-year resident and the different computations are explained below.

Form 104CR, line 5(b)
Colorado adjusted gross income from sources in the other state is the amount of income earned from sources in the other state during that part of the year that the taxpayer was a resident of Colorado. This amount will always be the net of any Colorado subtractions reported on line M of the 104PN schedule to the extent they apply to that income. Do not include any income on this line that was earned while the taxpayer was a resident of the other state.

Form 104CR, line 5(c)
Colorado adjusted gross income is the amount from line N of the Colorado column of the 104PN schedule.

Form 104CR, line 5(e)

Only include the tax paid to the other state on that portion of the income that is being taxed by both states. Do not enter any tax paid on income that was earned while you were a resident of the other state. This amount can be calculated by dividing that portion of the total income earned and taxed by both states by that portion of the total income earned and taxed only by the other state, then multiplying the result by the total tax liability in the other state.

EXAMPLE 2

Tom moved from Kansas in June of 2000. He had wage income of $20,000 in Colorado and $14,000 in Kansas. He also had income of $4,000 from the rental of his Kansas home starting in July 2000. His Kansas tax liability for the year was $600 on his $18,000 Kansas income. His 104PN and 104CR would be completed as follows:

FORM 104 PN - PART YEAR NONRESIDENT FORM

Lines:

Form 104PN	***Federal column***	***Colorado column***
A. Wages	*$34,000*	*$20,000*
F. Rental Income	*$ 4,000*	*$ 4,000*
H. Total Income	*$38,000*	*$24,000*
N. Modified AGI	*$38,000*	*$24,000*
O. Percentage		*63.158%*
P. Tax		*$ 1424*
Q. Apportioned tax		*$ 899*

Credit for tax paid to Kansas from Form 104CR

Lines:

5(a) Colorado Tax	$899
5(b) Colorado AGI from other state	$4,000
5(c) Colorado AGI	$24,000
5(d) Line 5(b) divided by line 5(c)	16.667%
5(e) Line 5(a) times line 5(d)	$150
5(f) Kansas tax	$133 ([$4,000/$18,000] X $600)
5(g) Allowable credit	$133

NONRESIDENTS OF COLORADO

A nonresident of Colorado will never claim a credit for tax paid to another state in Colorado. They may be eligible for a similar credit in their state of residency.

LIMITATION WHEN CREDIT IS CLAIMED FOR MORE THAN ONE STATE

If taxes are paid to two or more states, the credit for tax paid to another state is computed separately for each state. In most cases the total of those credits is the amount to be claimed. However, the total credit may not exceed the Colorado tax attibutable to the total non-Colorado source income.

EXAMPLE 3

Ann is a Colorado resident who has business income from three other states. Her Colorado adjusted gross income is $78,000. Her income from Nebraska is $43,000, her income from Utah is $32,000 and her loss from Iowa is <$17,000>. Her Colorado tax is $2,917. The credit for taxes paid to another state is computed as $1,608 for Nebraska, $1,197 for Utah and $0 for Iowa, which results in a tentative credit of $2,805. However, if the non-Colorado source income is totaled and divided by the Colorado adjusted gross income, the actual credit that can be claimed after the limitation is $2,169 ($58,000/$78,000 x $2,917).

COMMON QUESTIONS:

I am a full-year resident of Colorado, but earned income working in another state that does not have a state income tax. How do I get credit for the tax I computed on this income in Colorado?
There is no credit for this income. As a full-year Colorado resident you must pay Colorado tax on all of your taxable income. The credit for taxes paid to another state prevents double taxation of income by two states and will not apply in this situation since the other state is not taxing the income.

I am a full-year Colorado resident and have interest and pension income being paid to me from another state. Will the credit for taxes paid to another state benefit me?
No, interest and pension income is taxed only by your state of residence and will not be taxed by the other state.

I paid tax to several other states through an S corporation, both as part of a composite return in some states and through an S Corporation tax in other states. Can I claim the credit for taxes paid to another state for any of these taxes paid?
Yes, the credit is available for income taxes paid on your behalf by an S Corporation. The credit must be computed separately for each state and can only be claimed for **income taxes** paid. Taxes such as Michigan's single business tax do not qualify for this credit because they are not considered income taxes. Since copies of each state's composite or corporate returns are generally not available to shareholders, you should attach a copy of the statement of taxes provided to you by the S Corporation.

FURTHER INFORMATION

For related information, see:

- FYI General 1 "Department of Revenue Publications";
- FYI General 8 "The FYI Program - Index and General Information."

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.taxcolorado.com*