

FYI – For Your Information

Colorado Pension Exclusion

GENERAL INFORMATION

Colorado allows a \$20,000 pension/annuity exclusion (the first \$20,000 is not taxed by Colorado) for the following:

- taxpayers who are at least 55 years of age as of the last day of the tax year;
- beneficiaries such as a widowed spouse or orphan child who are receiving a pension or annuity because of the death of the person who earned the pension.

For tax years beginning on or after January 1, 2000, Colorado allows a \$24,000 pension/annuity exclusion for taxpayers who are at least 65 years of age as of the last day of the tax year. Taxpayers 55 to 64 years of age and beneficiaries remain eligible for the \$20,000 exclusion.

Each spouse must qualify by age to claim the pension exclusion. Each spouse's exclusion is computed separately and no part of one spouse's \$20,000 or \$24,000 exclusion may be claimed by the other.

QUALIFYING INCOME

To qualify for the exclusion, a payment must be:

- 1) a retirement benefit that is a periodic payment attributable to personal services performed by an

individual prior to his retirement from employment and which arose from:

- a) an employer-employee relationship;
 - b) service in the uniformed services of the United States;
 - c) contributions to a retirement plan that are deductible (deferred) for federal income tax purposes.
- 2) a lump sum distribution from a pension or profit sharing plan to the extent such distribution qualifies for the federal tax averaging computation;
 - 3) a distribution from an individual retirement arrangement or a self-employed retirement account to the extent such distribution is not deemed to be a premature distribution for federal income tax purposes (A premature distribution is one on which the taxpayer is required to pay a federal penalty tax);
 - 4) amounts received from a privately-purchased (non-employment related) annuity;
 - 5) Social Security benefits. [§39-22-104-(4) (f) C.R.S.]

Premature distributions, regardless of the source, do not qualify for the exclusion.



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Income Tax: (303) 232-2446
Severance Tax: (303) 232-2446
Fuel Tax: (303) 205-5602

DISABILITY RETIREMENT BENEFITS

Disability retirement payments received by persons 55 years of age or older qualify for the pension exclusion even if such payments may be reported as wages for federal income tax purposes. Disability retirement payments received by persons under 55 years of age **do not** qualify for the pension exclusion.

RAILROAD RETIREMENT BENEFITS

Railroad retirement benefits (Tier 1 and Tier 2) and disability payments are exempt from state taxation under Section 231m of the Railroad Retirement Act. To the extent included in federal taxable income, railroad retirement benefits may be subtracted on the "other subtractions" line of the Colorado Individual Income Tax Form 104. Claiming a modification for railroad retirement benefits does not use up any of the pension exclusion. The limitations of 55 years of age and a pension exclusion of \$20,000/\$24,000 do not apply to railroad retirement beneficiaries.

ROTH IRA ROLLOVERS

When a traditional IRA is rolled over into a Roth IRA, the roll over amount is included in federal adjusted gross income as an IRA distribution. This income qualifies for the pension exclusion in the year the amount is included in the federal adjusted gross income if the taxpayer is over 55 as of December 31 of that year. This is true whether the roll over is reported in full in the year of the conversion or reported over a four-year period.

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 8 "Credits and Deferrals For the Elderly and Disabled in Colorado";
- FYI Income 18 "Colorado Pension Exclusion For Married Couples When Both Spouses Receive Social Security";
- FYI Income 16 "Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits";
- FYI Income 21 "Colorado Taxation of Military Servicepersons."

Single FYIs are free from the Taxpayer Service Division. They may be obtained at any statewide Taxpayer Service Center; 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