

FYI – For Your Information

Estimated Income Tax

INDIVIDUAL ESTIMATED TAX

A Colorado individual taxpayer must make estimated income tax payments if they can reasonably expect that the net Colorado income tax liability for the current taxable year will exceed the Colorado sales tax refund and withholding credits by \$1,000 or more. Taxpayers who underpay estimated tax may be subject to a penalty. [C.R.S. 39-22-605].

Net Colorado tax liability

The net Colorado tax liability (original tax return, amended return, and any tax assessment) for purposes of the estimated tax computation is defined as the total amount of Colorado tax, alternative minimum tax and recapture of prior year credits that are reported on the Colorado individual income tax return Form 104, less all credits other than the state sales tax refund, withholding credits, and estimated tax credits.

REQUIRED ESTIMATED PAYMENTS

The required annual amount to be paid is the lesser of:

- 1) 70% of net Colorado tax liability.
- 2) 100% of preceding year's net Colorado tax liability.
(This amount only applies if the preceding year was a 12-month tax year, the individual filed a Colorado return, and the federal adjusted gross income for the preceding year was \$150,000 or less; \$75,000 or less if married separate.)
- 3) 110% of preceding year's net Colorado tax liability. (This amount only applies if the preceding year was a 12-month tax year, the individual filed a Colorado return, and the federal adjusted gross income for the preceding year was more than \$150,000; more than \$75,000 if married separate.)

Submitting payments

Estimated tax payments are due in four equal installments on April 15, June 15, September 15 of the tax year and January 15 of the following year. The payments will be due for an individual fiscal year filer on the 15th day of 4th, 6th, 9th month and 1st month of the following tax year. Payments will be credited against the earliest quarterly installment that is due for the tax year regardless of when the payment is received. Payments are submitted with the estimated tax voucher, form 104EP.

Withholding and state sales tax refund credits are treated as if paid 25% in each quarter unless the taxpayer establishes the dates on which the amounts were actually withheld. Wage withholding and other withholding amounts can be treated separately when determining whether to allocate 25% to each quarter or whether to allocate the credit to the quarter in which the amount was actually paid.

Annualized Income Installment Method

Taxpayers who do not receive income evenly during the year (for example, taxpayers who own a seasonal business or receive a lump sum payment late in the year) may elect to use the annualized income installment method to compute their estimated tax payments if they elected annualized installments for the payment of their federal income tax. This method allows taxpayers to pay estimated tax based on the income actually received during the preceding portion of the tax year.



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Forms and other services:
(303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)
Fuel Tax (303) 205-5602
www.taxcolorado.com

The required installment payment on each due date will be:
 The Colorado tax liability computed by annualizing the income received during the months of the tax year ending on the last day of the month before the due date for the installment payment
 times
 the applicable percentage listed below
 minus
 the total of any earlier installment payments made for the tax year.

| <u>Installment Due date</u> | <u>Income annualized from</u> | <u>Income annualized through</u> | <u>Applicable percentage</u> |
|-----------------------------|-------------------------------|----------------------------------|------------------------------|
| 4/15 | 1/1 | 3/31 | 17.5% |
| 6/15 | 1/1 | 5/31 | 35% |
| 9/15 | 1/1 | 8/31 | 52.5% |
| 1/15 | 1/1 | 12/31 | 70% |

A schedule and explanation of the allocation methodology must be made available to the Colorado Department of Revenue upon request in order to use this annualized method.

Farmers and Fishermen

Farmer or fisherman means an individual whose gross income from farming or fishing is at least 2/3 of their total gross income for the tax year or the preceding tax year.

The required annual amount to be paid by a farmer or fisherman is the lesser of:

- 1) 50% of actual net Colorado tax liability, or
- 2) 100% of preceding year's net Colorado tax liability
 (This amount only applies if the preceding year was a 12-month tax year and the individual filed a Colorado return)

Estimated tax payments from a farmer or fisherman are due in a single payment by January 15 of following tax year.

ESTIMATED TAX PENALTY

The estimated tax penalty will be assessed if the required estimated tax payments are not paid in a timely manner. The penalty will be the appropriate Colorado income tax interest rate times the underpayment for each quarter times the underpayment period. This penalty is computed on Form 204. [C.R.S. 39-22-605(3)].

The estimated tax penalty will not be assessed if any of the following conditions are met:

- 1) No penalty is due if the net Colorado tax liability minus any prepayments and credits, other than the estimated tax payments and credits, is less than \$1,000.
- 2) No penalty is due if the taxpayer was a full-year resident for the preceding 12-month tax year and the net Colorado tax liability in that year was -0-.
- 3) No penalty is due if the taxpayer is a farmer or fisherman and files a return with full payment of any tax due by March 1 of the following tax year.

If the tax return is filed and any tax due is paid by January 31 of the following tax year, no penalty will be computed based on any underpayment of the fourth quarter installment payment.

JOINT RETURNS

Taxpayers who file a joint federal declaration of estimated tax must file a joint Colorado payment as well. The payment must be submitted under the same primary social security number that will be used when the income tax return Form 104 is filed.

If an overpayment from an income tax return is applied to estimated taxes for the following year, the tax return for the following year must be filed under the same primary social security number as the original. If this is not possible for any reason, the Department of Revenue must be notified in writing prior to the filing of the tax return of the social security number under which the estimated tax credit will be claimed.

If a joint estimated tax payment is made but separate returns are filed, the estimated tax payments may be divided between the two taxpayers in any manner they desire. In the case of a disagreement between the spouses on how to claim the payments where each spouse claims 100% of the payments or together they claim over 100% of the payments, the payments will be divided in the same proportion as the net Colorado tax liability. If neither spouse has a tax liability, the payments will be split 50% for each spouse. If one spouse claims less than the allocation formula provides, then that spouse will only be credited with the payments that were claimed and the other spouse will receive the balance of the payments.

C CORPORATION ESTIMATED TAX
Corporations are required to pay Colorado estimated income tax during the taxable year if it can reasonably be anticipated that the corporation's Colorado tax liability for the tax year will exceed \$5,000. [C.R.S. 39-22-606].

Estimated tax payments must be submitted in the same manner (separate, consolidated, combined) and using the same account number that the corporation expects to use in filing the income tax return. If payments are made on an account number other than the number used to file the income tax return, the Department of Revenue must be notified of the discrepancy in writing prior to the filing of the tax return.

COLORADO TAX LIABILITY

The Colorado tax liability for purposes of the estimated tax computation is defined as the total amount of Colorado tax plus the recapture of prior year credits less all income tax credits other than withholding credits and estimated tax credits.

REQUIRED ESTIMATED PAYMENTS

The required annual amount to be paid is the lesser of:

- 1) 70% of actual Colorado tax liability, or
- 2) 100% of preceding years Colorado tax liability. Only applies if:
 - The preceding year was 12 month tax year, and
 - The corporation filed a Colorado return, and
 - The corporation is not defined under section 6655 of the federal IRS code as a large corporation *

*Large corporations can base their first quarter estimated tax payment on 25% of the previous year's tax liability. However, future payments must be based on the actual tax liability for the current tax year and any underpayment occurring in the first quarter as a result of this estimation must be repaid with the second quarterly payment.

Submitting payments

Estimated tax payments are due in four equal installments on April 15, June 15, September 15 and December 15 of the tax year. The payments will be due for a fiscal year filer on the 15th day of 4th, 6th, 9th and 12th month of the tax year. The payments will be due for a short tax year on the 15th day of 4th, 6th, 9th months, whichever apply, plus a final payment on the 15th day of the last month of the tax year.

Example: ABC Corporation filing a return for the tax year Feb. 1, 2001 to Sept. 30, 2001. Estimated tax payments are due on May 15, July 15, and Sept. 15.

Each required installment payment will be 25% of the required annual payment. Payments will be credited against the earliest quarterly installment that is due for the tax year regardless of when the payment is received. Payments are submitted with the estimated tax voucher, Form 112EP.

Annualized Income Installment Method

Taxpayers who do not receive income evenly during the year may elect to use the annualized income installment method to compute their estimated tax payments if they elected annualized installments or adjusted seasonal installments for the payment of their federal income tax.

The required installment payment on each due date will be:
the Colorado tax liability computed by annualizing the income received during the months of the tax year ending on the last day of the month before the due date for the installment payment
times
the applicable percentage listed below
minus
the total of any earlier installment payments made for the tax year.

| <i>Installment due date</i> | <i>Income annualized from</i> | <i>Income annualized through</i> | <i>Applicable percentage</i> |
|-----------------------------|-------------------------------|----------------------------------|------------------------------|
| 4/15 | 1/1 | 3/31 | 17.5% |
| 6/15 | 1/1 | 5/31 | 35% |
| 9/15 | 1/1 | 8/31 | 52.5% |
| 12/15 | 1/1 | 11/30 | 70% |

These dates must be adjusted accordingly for fiscal year filers.

If tax is computed by apportioning income, apportionment factors must be computed for each quarter in order to use the annualized income installment method. Use of estimated or prior year factors will not be accepted.

If a short taxable year is involved, the income must be placed on an annual basis, in which case the \$5,000 requirement for filing estimated tax payments will be the same as for a full-year taxpayer.

A schedule and explanation of the allocation methodology must be made available to the Colorado Department of Revenue upon request in order to use the annualized method.

ESTATES AND TRUSTS

Colorado law does not require estimated tax payments to be made by fiduciaries for estates or trusts. If a fiduciary wants to pay estimated tax, payments must be submitted with the estimated tax voucher, Form 105EP.

ESTIMATED TAX PENALTY

The estimated tax penalty for C corporations will be assessed if the required estimated tax payments are not paid in a timely manner. The penalty will be the appropriate Colorado income tax interest rate times the underpayment for each quarter times the underpayment period. This penalty is computed on Form 205. [C.R.S. 39-22-606(3)].

COMPOSITE RETURNS

A composite return is filed by a partnership or S corporation for nonresident partners and shareholders who do not have any other Colorado income. If any individual included in the composite return will have a net Colorado income tax liability for the current taxable year in excess of \$1,000, estimated tax payments should be made for the composite return. Payments are submitted with the estimated tax voucher, form 106EP. Any estimated tax penalty due with the composite return will be computed on the individual level using Form 204.

No penalty is due if the Colorado tax liability is less than \$5,000.

TAX YEARS 2001 AND EARLIER

For the estimated tax rules and an explanation of the estimated tax penalty for tax years 2001 and earlier and fiscal years beginning prior to August 6, 2001, see the estimated tax booklet and the estimated tax penalty computation schedule, Form 204 or 205, for the appropriate year.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are available on the Web at www.taxcolorado.com

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.