

Individuals and C corporations that receive non-wage income may be required to make quarterly estimated income tax payments. In general, Colorado law requires the payment of tax on income received throughout the tax year. In the case of wage income, the employer withholds the applicable amount of tax and remits it to the Department on the employee’s behalf. For other types of income, such as business income, capital gains, interest, dividends, and rents, the payer generally does not withhold any state tax. Consequently, taxpayers that receive these other types of income generally must remit quarterly estimated tax payments in order to pay tax as they receive income throughout the year. Taxpayers that do not remit required estimated payments are subject to an estimated tax penalty. Estates, trusts, and pass-through entities are not generally required to make estimated payments, but may elect to do so.

## ESTIMATED TAX PAYMENTS FOR INDIVIDUALS

In general, an individual (or married couple, if filing jointly) must remit Colorado estimated tax payments if his or her total Colorado tax liability, less withholding and credits, exceeds \$1,000. Colorado taxpayers who remit federal estimated tax payments to the IRS with federal Form 1040-ES typically must pay estimated tax to the Colorado Department of Revenue as well. The amount a taxpayer must remit for estimated payments is based upon the taxpayer’s net Colorado income tax liability for either the current or prior year.

### Net Colorado tax liability

For the purpose of calculating required estimated tax payments, a taxpayer’s net Colorado income tax liability is the total tax determined on the taxpayer’s return or by any subsequent amendment or assessment minus certain credits. For this calculation, total tax includes Colorado tax, alternative minimum tax, and any recapture of prior year credits. The credits subtracted in this calculation consist of all credits other than wage withholding, non-resident real estate withholding, sales tax refund credits, and any payments remitted by the taxpayer. This calculation is illustrated below.

#### *Calculation of Net Colorado Tax Liability*

Total tax including:	Minus	Certain credits	Equals	
<ul style="list-style-type: none"> <li>Colorado tax</li> <li>Colorado alternative minimum tax</li> <li>Recapture of prior year credits</li> </ul>	(-)	All credits <b>EXCEPT</b> : <ul style="list-style-type: none"> <li>Wage withholding</li> <li>Non-resident real estate withholding</li> <li>Sales tax refund credit</li> <li>Payments remitted by the taxpayer</li> </ul>	(=)	Net Colorado tax liability

### Determining required payment amounts

Taxpayers required to make estimated payments typically must make four equal quarterly payments. Each required quarterly payment is 25% of the total required annual payment. The total required annual payment is either 70% of the taxpayer’s net tax liability for the current tax year or 100% of the taxpayer’s net tax liability for the preceding tax year (110% if the taxpayer’s federal adjusted gross income (“AGI”) for the preceding year was more than \$150,000 or, if married filing separately (“MFS”), more than \$75,000). The taxpayer cannot base their total required annual estimated payment on their liability for the prior year if the taxpayer did not file a Colorado income tax return for the prior tax year or if the taxpayer’s prior tax year was a short year (less than 12 months).

#### *Total Required Annual Payment*

Prior year AGI <u>under</u> \$150,000 or \$75,000 if MFS	Prior year AGI <u>over</u> \$150,000 or \$75,000 if MFS
70% of current year liability	70% of current year liability
100% of prior year liability*	110% of prior year liability*
* A taxpayer’s total required annual payment can be based upon prior year liability only if the taxpayer’s prior tax year was 12 months and if the taxpayer filed a Colorado return.	

### Annualized income installment method

The annualized income installment method allows taxpayers who do not receive income evenly throughout the year (for example, taxpayers who own a seasonal business or receive a lump sum payment late in the year) to calculate the amount of each quarterly estimated payment separately, based upon the income actually received in the months preceding the payment due date. Taxpayers may use the annualized income installment method only if they also use the annualized income installment method to compute their federal estimated tax payments.

Individual taxpayers can use the following schedule, taken from Part 4 of Form 204, to calculate their required quarterly estimated payments using the annualized income installment method. In determining each required quarterly payment amount, the taxpayer must calculate their Colorado taxable income for the annualization period which, for calendar year filers, runs from January 1<sup>st</sup> through the end of the month preceding the due date of the payment. Generally, a taxpayer must first complete the federal annualized installment schedule (Schedule AI of Form 2210 or the Annualized Estimated Tax Worksheet from IRS Publication 505) in order to calculate their Colorado taxable income for each annualization period. Part-year residents and non-residents will also need to apportion their income to determine their Colorado taxable income (please see FYI Income 6 for information about apportionment). Taxpayers must retain records detailing the calculation of their quarterly estimated payments and provide those records to the Department upon request.

#### Annualized Installment Method Schedule

Quarterly payment due date*		April 15 <sup>th</sup>	June 15 <sup>th</sup>	September 15 <sup>th</sup>	January 15 <sup>th</sup> of next year
Annualization period*		January 1 to March 31	January 1 to May 31	January 1 to August 31	January 1 to December 31
1.	Colorado taxable income during annualization period .....	1.			
2.	Annualization factor.....	2.	4	2.4	1.5
3.	Annualized taxable income (line 1 times line 2) ...	3.			
4.	Annualized Colorado tax (line 3 times 4.63%) .....	4.			
5.	Applicable percentage .....	5.	17.5%	35%	52.5%
6.	Installment payment amount due (line 4 times line 5, minus any amounts entered on line 6 for any earlier quarters) .....	6.			

\* The due dates and annualization periods listed here are for calendar year filers and must be adjusted to the corresponding dates and periods for any fiscal year filer.

### Remitting estimated payments

Taxpayers must remit any required quarterly estimated payments by the applicable due dates. Estimated tax payments are generally due on April 15, June 15, September 15 of the tax year and January 15 of the following year. Please see the table to the right for due dates for both calendar year filers and fiscal year filers. If a required payment is not remitted or is underpaid, the Department will first credit any subsequent payments to resolve the underpayment, regardless of when the payment is received.

Taxpayers may remit estimated payments through Revenue Online or via EFT. Taxpayers remitting estimated payments by check must include a Colorado Estimated Income Tax Payment Form (104EP) with their payment to ensure proper crediting of their account.

Any taxpayer who jointly files their estimated tax with the IRS must also jointly file estimated tax with the State of Colorado. Please exercise care when remitting joint estimated payments and when filing joint returns to ensure

#### Due dates for quarterly estimated payments\*

Quarter	Calendar year filers**	Fiscal year filers**
1 <sup>st</sup>	April 15 <sup>th</sup>	15 <sup>th</sup> day of fourth month
2 <sup>nd</sup>	June 15 <sup>th</sup>	15 <sup>th</sup> day of sixth month
3 <sup>rd</sup>	September 15 <sup>th</sup>	15 <sup>th</sup> day of ninth month
4 <sup>th</sup>	January 15 <sup>th</sup> of the next year	15 <sup>th</sup> day of first month of the next tax year

\* If any due date listed here falls on a Saturday, Sunday, or legal holiday, the payment will be due on the next business day.

\*\* Most individuals are calendar year filers, meaning they file tax returns for calendar years (from January 1 through December 31). Rarely do individuals file their taxes on a fiscal year basis.

that the taxpayers' Social Security numbers are entered in the same order on all submitted forms. The Department credits estimated tax payments to the account associated with the Social Security number that is listed first on the 104EP payment voucher. If, by mutual agreement between spouses or in the case of a surviving spouse, the payment needs to be applied in a manner other than originally requested on the 104EP, the taxpayer(s) must make a written request to the Department prior to the filing of the Colorado Income Tax Return (Form 104).

### **Estimated tax penalty**

If a taxpayer fails to remit required estimated payments or underpays their required estimated tax, the taxpayer will owe an estimated tax penalty. The penalty is actually an assessment of interest, calculated on the unpaid or underpaid amount, from the due date of the payment until the date of payment is made or the date the annual income tax return is due, whichever is later. See Form 204 and FYI General 11 to determine the applicable interest rate. Taxpayers can calculate the estimated tax penalty they owe using Form 204.

In calculating the penalty, a taxpayer's wage withholding and nonresident real estate withholding are treated as a payment toward estimated tax, with 25% allocated to each quarter unless the taxpayer establishes the dates on which the amounts were actually withheld.

Under certain circumstances a taxpayer may be exempt from the requirement to remit estimated payments. A taxpayer will owe no estimate tax payments and owe no estimated tax penalty if either of the following conditions exist:

1. the taxpayer's net Colorado tax liability minus all credits, withholding, and any sales tax refund (but not any payment the taxpayer remits), is less than \$1,000; or
2. the taxpayer was a full-year resident for the preceding tax year and the preceding tax year was 12 months and the taxpayer had no net Colorado tax liability for the preceding 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 due for any underpayment of the fourth quarter installment payment.

### **Farmers and fishermen**

Special rules apply for the calculation and remittance of required estimated payments for farmers and fisherman. A taxpayer is considered a farmer or fisherman subject to these special rules if at least 2/3 of their gross income is from farming or fishing for the tax year or for the preceding tax year. See IRS Publication 505 for assistance in calculating gross income from farming and fishing. The Department verifies taxpayers' farming and fishing income with the IRS.

Three special rules apply to estimated tax payments for farmers and fisherman:

1. A farmer or fisherman's required annual payment, based upon his or tax liability for the current year, is 50% of actual net Colorado tax liability (rather than 70%).
2. Farmers and fisherman are not required to make four quarterly payments, but rather are only required to make one payment, due January 15 of the following tax year, for the entire required annual amount.
3. A farmer or fisherman owes no estimated tax penalty if he or she files a return and remits full payment of any tax due by March 1 of the following tax year.

### **C CORPORATION ESTIMATED TAX**

In general, a C corporation must remit Colorado estimated tax payments if its net Colorado tax liability for the tax year exceeds \$5,000.

#### **Net Colorado tax liability**

For the purpose of calculating required estimated tax payments, a C corporation's net Colorado income tax liability is the total tax determined on the C corporation's return or by any subsequent amendment or assessment minus certain credits. For this calculation, total tax includes Colorado tax plus any recapture of prior year credits. The credits subtracted in this calculation consist of all credits allowed to the taxpayer, but not any payments remitted by the taxpayer.

### Determining required payment amounts

C corporations required to make estimated payments typically must make four quarterly estimated payments, each of which is 25% of the total required annual payment (for tax years that are less than 12 months, see “short tax years” below). The total required annual payment is either 70% of the C corporation’s net tax liability for the current year or, if the C corporation meets certain qualifications, 100% of the C corporation’s net tax liability for the preceding year. A C corporation can base its estimated payments on its preceding year’s liability only if **all** of the following conditions are met:

1. the C corporation’s preceding tax year was 12-months;
2. the C corporation filed a Colorado return for the preceding tax year; **and**
3. the corporation does not meet the IRS definition of a “large corporation” for estimated tax purposes.

In general, a C corporation is a “large corporation” if it (or any predecessor corporation) had a federal taxable income of \$1,000,000 or more for any of the three immediately preceding tax years (see 26 U.S.C. § 6655 and associated regulations for additional information). A large corporation must base its estimated payments on its tax liability for the current year. A large corporation can initially base its first quarter estimated tax payment on 25% of the previous year’s tax liability, but must subsequently recalculate the required amount based upon its current year liability and include with its second quarter payment any additional amount due for the first quarter. The large corporation must calculate the required estimated payments for the second, third, and fourth quarters based upon the current year net tax liability.

### Annualized income installment method

The annualized income installment method allows taxpayers who do not receive income evenly throughout the year to calculate the amount of each quarterly estimated payment separately, based upon the income actually received in the months preceding the payment due date. Taxpayers may use the annualized income installment method only if they also use the annualized income installment method to compute their federal estimated tax payments.

C corporations can use the following schedule, taken from Part 4 of Form 205, to calculate their required quarterly estimated payments using the annualized income installment method. In determining each required quarterly payment amount, the taxpayer must calculate their Colorado taxable income for the annualization period, which runs from the first day of the tax year through the end of the month preceding the due date of the payment. Generally, a taxpayer must first complete the federal annualized installment schedule (Part II of Schedule A of either Form 1120-W or Form 2220) in order to calculate their Colorado taxable income for each annualization period. Taxpayers with business activity both inside and outside Colorado must calculate apportionment factors for each annualization period and may not use estimated apportionment factors or apportionment factors from a prior year. Taxpayers must retain records detailing the calculation of their quarterly estimated payments and provide those records to the Department upon request.

**Annualized Installment Method Schedule**

Quarterly payment due date (within tax year)		15 <sup>th</sup> day of 4 <sup>th</sup> month	15 <sup>th</sup> day of 6 <sup>th</sup> month	15 <sup>th</sup> day of 9 <sup>th</sup> month	15 <sup>th</sup> day of 12 <sup>th</sup> month
Annualization period (within tax year)		Months 1 through 3	Months 1 through 5	Months 1 through 8	Months 1 through 11
1.	Colorado taxable income during annualization period .....	1.			
2.	Annualization factor .....	2.	4	2.4	1.5
3.	Annualized taxable income (line 1 times line 2) ...	3.			
4.	Annualized Colorado tax (line 3 times 4.63%) .....	4.			
5.	Applicable percentage .....	5.	17.5%	35%	52.5%
6.	Installment payment amount due (line 4 times line 5, minus any amounts entered on line 6 for any earlier quarters) .....	6.			

## Remitting estimated payments

Taxpayers must remit any required quarterly estimated payments by the applicable due dates. Estimated tax payments are due on 15<sup>th</sup> day of the fourth, sixth, ninth, and twelfth months of the tax year. See the table to the right for due dates for both calendar year filers and fiscal year filers. If a required payment is not remitted or is underpaid, the Department will first credit any subsequent payments to resolve the underpayment, regardless of when the payment is received.

Taxpayers may remit estimated payments through Revenue Online or via EFT. Taxpayers remitting estimated payments by check must include a Corporate Estimated Income Tax Payment Form (112EP) with their payment to ensure proper crediting of their account.

### *Due dates for quarterly estimated payments\**

Quarter	Calendar year filers	Fiscal year filers
1 <sup>st</sup>	April 15 <sup>th</sup>	15 <sup>th</sup> day of fourth month
2 <sup>nd</sup>	June 15 <sup>th</sup>	15 <sup>th</sup> day of sixth month
3 <sup>rd</sup>	September 15 <sup>th</sup>	15 <sup>th</sup> day of ninth month
4 <sup>th</sup>	December 15 <sup>th</sup>	15 <sup>th</sup> day of twelfth month

\* If any due date listed here falls on a Saturday, Sunday, or legal holiday, the payment will be due on the next business day.

For estimated tax purposes, all C corporations included in a combined and/or consolidated return are considered a single taxpayer. Estimated payments should be remitted using the same parent account number under which they will ultimately be claimed. If a taxpayer remits payments using a different account number, such as the account number for a subsidiary company, the taxpayer must notify the Department in writing prior to the filing of the tax return upon which the payment will be claimed.

## Short tax years

In the case of a short tax year (a tax year of less than 12 months), estimated payments are due on the 15<sup>th</sup> day of the fourth, sixth, and ninth months of the year, if the year is of sufficient length to include such months, and the 15<sup>th</sup> day of the final month of the tax year. Consequently, taxpayer filing for a short tax year may not be required to remit a full four estimated payments, but rather only one, two, or three, depending on the length of the short tax year. The amount of each required payment is an equal share of the total required annual payment. For example, a taxpayer with an eight-month tax year must remit three estimated payments, each equal to 33% of the total required annual payment, by the 15<sup>th</sup> day of the fourth, sixth, and eighth months of the short tax year. See the following table for details regarding the amounts and due dates for estimated payments for short tax years.

### *Payment amounts and due dates for short tax years*

	Tax years consisting of 4 months or less	Tax years consisting of 5 or 6 months	Tax years consisting of 7, 8, or 9 months	Tax years consisting of 10 or 11 months
No. of required estimated payments	1	2	3	4
Required amount of each payment	100% of total required annual payment	50% of total required annual payment	33% of total required annual payment	25% of total required annual payment
Due date of 1 <sup>st</sup> estimated payment	15 <sup>th</sup> day of final month of tax year	15 <sup>th</sup> day of fourth month of tax year	15 <sup>th</sup> day of fourth month of tax year	15 <sup>th</sup> day of fourth month of tax year
Due date of 2 <sup>nd</sup> estimated payment	N/A	15 <sup>th</sup> day of final month of tax year	15 <sup>th</sup> day of sixth month of tax year	15 <sup>th</sup> day of sixth month of tax year
Due date of 3 <sup>rd</sup> estimated payment	N/A	N/A	15 <sup>th</sup> day of final month of tax year	15 <sup>th</sup> day of ninth month of tax year
Due date of 4 <sup>th</sup> estimated payment	N/A	N/A	N/A	15 <sup>th</sup> day of final month of tax year

## Estimated tax penalty

If a C corporation fails to remit required estimated payments or underpays its required estimated tax, the C corporation will owe an estimated tax penalty. The penalty is actually an assessment of interest, calculated on the unpaid or underpaid amount, from the due date of the payment until the date of payment is made or the date the annual income tax return is due, whichever is later. See Form 205 and FYI General 11 to determine the applicable interest rate. C corporations can calculate the estimated tax penalty they owe using Form 205.

No estimated tax penalty is due if a C corporation's net tax liability is less than \$5,000. For short tax years, this \$5,000 threshold will be prorated based upon the length of the tax year, by multiplying \$5,000 times the number of months in the tax year and dividing by 12. For example, for a nine month tax year, a C corporation will owe no estimated tax penalty if its net tax liability is less than \$3,750 (\$5,000 times 9 divided by 12).

## ESTATES AND TRUSTS

Colorado law does not require estimated tax payments for estates or trusts. However, a fiduciary may voluntarily make estimated payments for an estate or trust with the Estate/Trust Estimated Tax Payment Form (105EP).

## COMPOSITE RETURNS

Partnerships and S corporations (collectively referred to as "pass-through entities") may file composite returns on behalf of some or all of their nonresident partners and shareholders (collectively referred to as "nonresident members"). Pass-through entities are not required to make estimated payments, but individual nonresident members included in a composite return may be subject to the estimated payment requirements discussed in this FYI if their individual net Colorado tax liabilities exceed \$1,000. Pass-through entities may use the Composite Nonresident Estimated Tax Payment Form (106EP) to remit payments on behalf of any nonresident member included in a composite who is subject to estimated payment requirements. Any estimated tax penalty due for a nonresident member included in a composite return will be computed on the individual level using the Form 204.

## ADDITIONAL RESOURCES

- *Colorado statutes and regulations*
  - § 39-22-605, C.R.S. Failure by individual to pay estimated income tax.
  - Reg. 39-22-605. Estimated Individual Income Tax.
  - § 39-22-606, C.R.S. Failure by corporation to pay estimated income tax.
  - Reg. 39-22-606. Estimated Corporate Income Tax.
- *Colorado forms, publications, and guidance*
  - FYI General 11 - Colorado Civil Tax Penalties and Interest
  - Form 204 - Underpayment of Colorado Individual Estimated Tax
  - Form 205 - Underpayment of Colorado Corporate Estimated Tax
  - [www.colorado.gov/revenueonline](http://www.colorado.gov/revenueonline)
- *Federal laws*
  - 26 U.S.C. § 6655. Failure by corporation to pay estimated income tax.
  - 26 CFR § 1.6655-4. Large corporations.
- *IRS forms, publications, and guidance*
  - IRS Publication 505 - Tax Withholding and Estimated Tax
  - IRS Form 2210 - Underpayment of Estimated Tax by Individuals, Estates, and Trusts
  - IRS Form 2220 - Underpayment of Estimated Tax by Corporations

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FYIs represent a good faith effort to provide general information concerning a variety of Colorado tax topics in simple and straightforward language. By their nature, however, FYIs cannot and do not address all taxpayer situations nor do they provide a comprehensive overview of Colorado's tax laws. For this reason, FYIs are not binding on the Colorado Department of Revenue, nor do they replace, alter, or supersede Colorado law and regulations.

A taxpayer seeking additional guidance regarding the tax consequences of a particular transaction or factual scenario can request a Private Letter Ruling (PLR) or General Information Letter (GIL). Requests for PLRs and GILs must comply with certain requirements, which are currently set forth at 1 Code of Colorado Regulations 201-1, Regulation 24-35-103.5. PLRs are binding upon the Department only with respect to the specific taxpayer that requested the PLR. GILs are for informational purposes only and are not binding on the Department.