

# FYI – For Your Information

## The State Income Tax Deduction Addback for High-Income Taxpayers

### GENERAL INFORMATION

Individuals who itemize deductions on their federal income tax returns, as well as estates and trusts, must add back on their Colorado return any state income tax deducted on their federal return. Enter this modification on line 2 of the Colorado Individual Income Tax Return (Form 104). Fiduciaries will put the addback on line 2 of the Form 105 Fiduciary Return. [§39-22-104(3)(d), C.R.S.]

*If you do not itemize deductions on your federal income tax return, you do not add back your state income tax on your Colorado return. Additionally, you are not required to add back any real estate taxes or net disaster loss included in your total standard deduction.*

*If you do itemize deductions on your federal income tax return but deduct general sales taxes on line 5, Schedule A, Form 1040, you do not add back your taxes on your Colorado return.*

If the addback of the state tax deduction reduces your allowable itemized deductions to an amount that is less than what your appropriate standard deduction (single, head-of-household, married filing jointly, married filing separately) would have been, you are allowed the benefit of the federal standard deduction. In determining the standard deduction to which you would have been entitled,

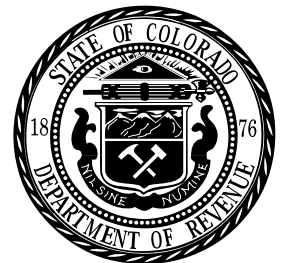
include any real estate taxes or net disaster loss you would have been allowed to deduct as part of your standard deduction. Your state tax deduction addback should be the smaller of 1) the state tax deduction allowed for federal income tax purposes, or 2) the amount by which the total allowable federal itemized deductions exceed what would otherwise be allowable as a standard deduction.

**NOTE:** See FYI Income 4 "The Colorado Income Tax Deduction Addback" for the state income tax deduction addback in the case of a married couple filing separate returns.

### STATE INCOME TAX DEDUCTION ADDBACK WORKSHEET FOR HIGH- INCOME TAXPAYERS

Taxpayers who itemize deductions and whose 2008 federal adjusted gross income is more than \$159,950 (\$79,975 if married filing separately) generally cannot claim all of their itemized deductions for federal income tax purposes.

**NOTE:** Use this worksheet to determine the amounts to enter in the "Line 2, State Income Tax Deduction Addback" Schedule (on page 6 of the Colorado 104 - Income Tax booklet).



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- 1) Enter the amount from line 11 of your federal itemized deduction worksheet\*  
\$ \_\_\_\_\_
- 2) Enter the amount from line 3 of your federal itemized deduction worksheet \$  
\_\_\_\_\_
- 3) Amount on line 1 (above) divided by amount on line 2 (above) \_\_\_\_\_%
- 4) Amount of all state income taxes entered on line 5 of the federal Schedule A \$ \_\_\_\_\_
- 5) Amount on line 4 multiplied by percentage on line 3 \$ \_\_\_\_\_
- 6) Amount on line 4 minus amount on line 5 \$ \_\_\_\_\_

The amount on line 6 above is the amount to enter on line (a) of the "State Income Tax Deduction Addback" schedule included in the Colorado instructions for line 2 of Form 104. The amount on line 12 of the federal itemized deductions worksheet is the amount to enter on line (b) of the schedule.

\* The federal "Itemized Deductions Worksheet" can be found in the Schedule A instructions of the Federal 1040 instruction booklet.

**EXAMPLE**

John Smith has \$67,238 in total federal itemized deductions. Of that, \$18,916 is not to be included in the computation (not subject to phase-out). After subtracting the amount not subject to phase-out from his total federal itemized deductions, \$48,322 is subject to phase-out. John's state tax deduction on line 5 of the federal Schedule A is \$35,000.

|   |           |
|---|-----------|
| John's Federal Adjusted Gross Income        | \$338,058 |
| Threshold Amount                            | \$159,950 |
| Excess                                      | \$178,108 |
| Amount of Itemized Deductions NOT Allowed   |           |
| $\$178,108 \times 3\% \times 2/3 = \$3,562$ |           |
| Amount of Itemized Deductions Allowed       |           |
| $\$67,238 - \$3,562 = \$63,676$             |           |

John's federal "Itemized Deduction Worksheet" would look like this:

- |         |  |
|---------|--|
| Line 1  | \$67,238 (total itemized deductions)                                     |
| Line 2  | \$18,916 (deductions not subject to phase-out)                           |
| Line 3  | \$48,322 (deductions subject to phase-out)                               |
| Line 4  | \$38,658 (80 percent of line 3)  |
| Line 5  | \$338,058 (federal adjusted gross income)                                |
| Line 6  | \$159,950 (federal threshold)  |
| Line 7  | \$178,108 (excess income over threshold)                                 |
| Line 8  | \$5,343 (3 percent of amount on line 7)                                  |
| Line 9  | \$5,343 (smaller of line 4 or line 8)                                    |
| Line 10 | \$1,781 (Line 9 divided by 3)  |
| Line 11 | \$3,562 (Line 9 minus line 10)   |
| Line 12 | \$63,676 (allowable itemized deductions for federal income tax purposes) |

John's "State Income Tax Deduction Addback Worksheet" (see worksheet on page 1 of this FYI) would look like this:

- 1) \$3,562 - Federal itemized deductions phased out (the amount from line 11 of your federal itemized deduction worksheet)
- 2) \$48,322 - Federal deductions subject to phase-out (the amount from line 3 of your federal itemized deduction worksheet)
- 3) 7.371%: \$3,562 divided by \$48,322 [Amount on line 1 (above) divided by amount on line 2 (above)]
- 4) \$35,000 - John's state income tax deduction, Line 5, Schedule A
- 5) \$2,580 - Amount of state income tax deduction disallowed for federal

income tax purposes (amount on line 4 multiplied by percentage on line 3)

- 6) \$32,420 - Amount of state tax allowed for federal purposes and amount to be added back for Colorado purposes (amount on line 4 minus amount on line 5).

On the worksheet for line 2 of the 104 - income tax form, John would enter:

- (a) \$32,420 - (state tax deduction actually allowed for federal income tax purposes)
- (b) \$63,676 - (amount of itemized deductions the taxpayer is allowed to claim for federal purposes)
- (c) \$5,450 - (standard deduction for single taxpayer)
- (d) \$58,226 - (line b minus line c)

You must enter the smaller of line (a) or line (d) on line 2 of the 104 Form. In John's case, line (a) is the smaller amount. John's Addback, which he will enter on line 2 of the 104 Form, is \$32,420.

### ***Tax Years 2000-2002***

For tax years beginning on or after January 1, 2000 but prior to January 1, 2003, to compute this addback the appropriate standard deduction for a return filed married filing jointly is double the standard deduction for a single taxpayer. See FYIs Income 4 and Income 38 for more information.

### ***FURTHER INFORMATION***

FYIs, commonly used forms and additional tax information are available on the Web at [www.taxcolorado.com](http://www.taxcolorado.com)

For additional tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The Tax Information Index is located at [www.taxcolorado.com](http://www.taxcolorado.com)

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