

FYI – For Your Information

State Income Tax Refund Subtraction

GENERAL INFORMATION

Colorado individual, estate and trust taxpayers are not allowed to claim a deduction on the Colorado income tax return for state income tax paid during the taxable year (via withholding or otherwise). Therefore, any Colorado or other state income tax refund is not subject to tax by Colorado and, to the extent included in federal taxable income, such refunds may be subtracted from federal taxable income in determining Colorado taxable income. [§39-22-104(4)(e), C.R.S.]. The subtraction is to be claimed on the Colorado Individual Income Tax Form 104, or on the fiduciary return, Form 105.

Example: On his 2006 federal income tax return, Taxpayer John Garcia had itemized deductions of \$6,811 including Colorado income tax withheld of \$1,352. He had to add the \$1,352 back to his federal taxable income of \$23,452 in determining his 2006 Colorado taxable income of \$24,804. During 2007, John received a \$503 refund from Colorado which he must report as income on his 2007 federal income tax return. Since he did not receive a benefit on his 2006 Colorado return for the tax that was refunded, he may subtract the \$503 from his 2007 federal taxable income in determining his 2007 Colorado taxable income.

NOTE: For tax years 1997-2001 and 2006, any portion of the refund that is a result of the state sales tax refund should not be reported as income on the federal tax return since it is not a refund of

income tax. Therefore, that portion of the refund would not be included in the amount subtracted from the taxable income.

FURTHER INFORMATION

There are two additional FYIs listed below that deal with the “addback” provision upon which this subtraction is based.

- FYI Income 3 “The Colorado Addback for High-Income Taxpayers”;
- FYI Income 4 “The Colorado Income Tax Deduction Addback.”

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

For additional income 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

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a 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.



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PAGE 1 OF 1
INCOME 12 (11/07)