



Individuals who claim an itemized deduction on their federal income tax return for state income tax must add back the amount of state income tax deducted on their Colorado returns, subject to certain limitations. A state income tax addback is also required for any partner or shareholder in a partnership or S corporation that claimed a federal deduction for state income taxes.

This publication is designed to provide general guidance regarding the state income tax addback and is intended to supplement guidance provided in the *Colorado Individual Income Tax Guide*. Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

Please see the *Colorado Corporate Income Tax Guide* for information about state income tax addback requirements for C corporations.

Taxes deducted on federal Schedule A

In general, if an individual claims an itemized deduction on their federal return for state income taxes, they must add the amount of the deduction to their federal taxable income on line 2 of their *Colorado Individual Income Tax Return* (DR 0104). Certain limitations, discussed later in this publication, apply in determining the amount a taxpayer must add back. Individuals must add back the state income taxes they deduct, regardless of whether they are a resident or nonresident of Colorado and regardless of whether the state income taxes were paid to Colorado or to another state. Additionally, the addback requirement applies to any state income tax deduction the individual claims on their federal return for premiums withheld from their wages pursuant to the Paid Family and Medical Leave Act ("FAMLI").

Taxpayers are not required to add back any of the following types of taxes that they may have deducted on their federal returns: general sales taxes, local income or occupational taxes, state or local real estate taxes, or state or local personal property taxes.

Limitations

Two limitations apply to the required addback for state income taxes an individual deducts on their federal income tax return. Both limitations are illustrated in the worksheet and examples appearing later in this publication. These limitations do not apply to the required addback for a partner's or shareholder's distributive or pro rata share of state income taxes deducted by a partnership or S corporation, discussed later in this publication.

Allowable federal standard deduction

The required addback for taxes an individual deducts is limited in order to effectively give the individual the benefit of the federal standard deduction they could have claimed on their federal return. The required addback is the amount of the state income tax deduction claimed on the taxpayer's federal return or the amount by which a taxpayer's total itemized deductions exceed the standard deduction otherwise allowable to the taxpayer, whichever is less. In the case of married taxpayers who file separately, either of whom itemizes deductions on their federal return, the allowable standard deduction for each spouse is \$0.

Limit on state and local tax deduction

For tax years 2018 through 2025, federal law limits the total amount of state and local taxes an individual may deduct on their federal return to \$10,000. If a taxpayer's total federal deduction for state and local taxes is limited to \$10,000, the required addback is equal to the amount by which the \$10,000 limit exceeds the sum of all state and local taxes, other than state income tax, for which a deduction was claimed on the Schedule A of the taxpayer's federal return.



Worksheet for Determining Limitation on Addback for Taxes Deducted on Federal Schedule A

- 1) Enter the total state and local tax deduction from IRS Form 1040, Schedule A, line 5e. _____
- 2) Enter any local income tax deduction included on IRS Form 1040, Schedule A, line 5a. _____
- 3) Enter the state and local real estate tax deduction from IRS Form 1040, Schedule A, line 5b. _____
- 4) Enter the state and local personal property tax deduction from IRS Form 1040, Schedule A, line 5c. _____
- 5) Subtract lines (2), (3), and (4) from line (1). Enter the result, but not less than \$0. _____
- 6) Enter the total itemized deductions from IRS Form 1040, Schedule A, line 17. _____
- 7) Enter the amount of federal standard deduction the taxpayer could have claimed. _____
- 8) Subtract line (7) from line (6). Enter the result, but not less than \$0. _____
- 9) Enter the smaller of line (5) or line (8). This is the required addback amount. _____

Example A: Addback Limitation Based on Federal Standard Deduction

A taxpayer files a 2023 federal income tax return claiming a \$2,500 state income tax deduction, a \$2,000 deduction for state and local real estate taxes (resulting in a total state and local tax deduction of \$4,500), and \$15,000 in total itemized deductions. As a single filer, the taxpayer would have been allowed a standard deduction of \$13,850. The taxpayer’s total itemized deductions exceed the allowable standard deduction by \$1,150, so the taxpayer is required to add back only \$1,150, rather than the full amount of the \$2,500 state income tax deduction.

- 1) Enter the total state and local tax deduction from IRS Form 1040, Schedule A, line 5e. \$ 4,500
- 2) Enter any local income tax deduction included on IRS Form 1040, Schedule A, line 5a. \$ 0
- 3) Enter the state and local real estate tax deduction from IRS Form 1040, Schedule A, line 5b. \$ 2,000
- 4) Enter the state and local personal property tax deduction from IRS Form 1040, Schedule A, line 5c. \$ 0
- 5) Subtract lines (2), (3), and (4) from line (1). Enter the result, but not less than \$0. \$ 2,500
- 6) Enter the total itemized deductions from IRS Form 1040, Schedule A, line 17. \$ 15,000
- 7) Enter the amount of federal standard deduction the taxpayer could have claimed. \$ 13,850
- 8) Subtract line (7) from line (6). Enter the result, but not less than \$0. \$ 1,150
- 9) Enter the smaller of line (5) or line (8). This is the required addback amount. \$ 1,150



Example B: Addback Limitation Based on Limited Federal State and Local Tax Deduction

A taxpayer files a 2023 federal income tax return claiming a \$6,000 state income tax deduction, a \$500 local income tax deduction, a \$7,000 local real estate tax deduction, and a \$1,500 local personal property tax deduction. The taxpayer’s total state and local tax deduction is limited to \$10,000. The taxpayer’s total itemized deductions are \$25,000 and, as a single filer, the taxpayer would have been allowed a standard deduction of \$13,850. The taxpayer’s \$10,000 total state and local tax deduction, minus the \$500 local income tax deduction, the \$7,000 local real estate tax deduction, and the \$1,500 local personal property tax deduction is \$1,000. Consequently, the taxpayer is only required to add back \$1,000, rather than the full amount of the \$6,000 state income tax deduction.

1) Enter the total state and local tax deduction from IRS Form 1040, Schedule A, line 5e.	<u> \$ 10,000 </u>
2) Enter any local income tax deduction included on IRS Form 1040, Schedule A, line 5a.	<u> \$ 500 </u>
3) Enter the state and local real estate tax deduction from IRS Form 1040, Schedule A, line 5b.	<u> \$ 7,000 </u>
4) Enter the state and local personal property tax deduction from IRS Form 1040, Schedule A, line 5c.	<u> \$ 1,500 </u>
5) Subtract lines (2), (3), and (4) from line (1). Enter the result, but not less than \$0.	<u> \$ 1,000 </u>
6) Enter the total itemized deductions from IRS Form 1040, Schedule A, line 17.	<u> \$ 25,000 </u>
7) Enter the amount of federal standard deduction the taxpayer could have claimed.	<u> \$ 13,850 </u>
8) Subtract line (7) from line (6). Enter the result, but not less than \$0.	<u> \$ 11,150 </u>
9) Enter the smaller of line (5) or line (8). This is the required addback amount.	<u> \$ 1,000 </u>

Taxes deducted by a partnership

If a partnership claims a deduction on its federal return (IRS Form 1065) for state income taxes paid, each partner must add their distributive share of the deducted tax to their federal taxable income on their Colorado return. The addition is required for the partner’s distributive share of the state income tax deduction claimed by the partnership, regardless of whether the partner is a Colorado resident or nonresident and regardless of the state to which the deducted tax was paid. The limitations discussed earlier in this publication do not apply to the required addback for a partner’s distributive share of the state income tax deduction claimed by the partnership.

The partnership must report the partner’s distributive share of the deducted tax and the amount of the required state income tax addback for the partner on line 9 of the partner’s *Colorado K-1* (DR 0106K). The partner’s required addback is the amount in Column A, *Share of Income and Other Items*, of the *Colorado K-1*.

Any state income tax addback a partner must make for taxes deducted by the partnership is in addition to any addback the partner must make for any state income taxes the partner deducted on their own federal income tax return.

Taxes deducted by an S corporation

The state income tax addback rules for S corporation shareholders depend on whether the shareholder was a Colorado resident for any part of the income tax year.

Resident shareholders

If an S corporation claims a deduction on its federal return (IRS Form 1120-S) for state income taxes paid, each resident shareholder must add their pro rata share of the deducted tax to their federal taxable income on their Colorado return. The limitations discussed earlier in this publication do not apply to the required addback for a shareholder's pro rata share of the state income tax deduction claimed by the S corporation.

The S corporation must report the resident shareholder's pro rata share of the deducted tax and the required state income tax addback for the shareholder on line 9 of the shareholder's *Colorado K-1* (DR 0106K). The resident shareholder's required addback is the amount in Column A, *Share of Income and Other Items*, of the *Colorado K-1*. The addition is required for the resident shareholder's pro rata share of the state income tax deduction claimed by the S corporation, regardless of the state to which the deducted tax was paid.

Nonresident shareholders

If an S corporation claims a deduction on its federal return (IRS Form 1120-S) for Colorado income taxes paid, each nonresident shareholder must add their pro rata share of the deducted tax to their federal taxable income on their Colorado return. The limitations discussed earlier in this publication do not apply to the required addback for a shareholder's pro rata share of the state income tax deduction claimed by the S corporation.

The S corporation must report the nonresident shareholder's pro rata share of the deducted tax and the required state income tax addback for the shareholder on line 9 of the shareholder's *Colorado K-1* (DR 0106K). The nonresident shareholder's required addback is the amount in Column B, *Share of Income and Other Items Attributable to Colorado*, of the *Colorado K-1*. The

addition is required for the nonresident shareholder's pro rata share of any Colorado income tax deduction claimed by the S corporation, and not for any deduction claimed by the S corporation for taxes paid to any other state.

Additional resources

The following is a list of statutes, rules, forms, and guidance pertaining to the state income tax addback. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and rules

- § 39-22-104, C.R.S. Income tax imposed on individuals, estates, and trusts.
- § 39-22-202, C.R.S. Resident partners.
- § 39-22-203, C.R.S. Nonresident partners.
- § 39-22-321, C.R.S. Definitions.
- § 39-22-322, C.R.S. Taxation of S corporations and its shareholders.
- § 39-22-323, C.R.S. Modifications and characterization of income.

Forms and guidance

- [Colorado.gov/Tax](https://colorado.gov/Tax)
- [Tax.Colorado.gov/individual-income-tax-forms](https://tax.colorado.gov/individual-income-tax-forms)
- *Colorado Individual Income Tax Return* (DR 0104)
- *Colorado K-1* (DR 0106K)
- *Colorado Individual Income Tax Guide*