

## Income 4: State Income Tax Addback for Individuals

Individuals who itemize deductions on their federal income tax returns and claim a deduction for state income tax must add back the deducted state income tax on line 2 of their Colorado income tax return (Form 104). The amount that must be added back is generally equal to the amount deducted on line 5a of the taxpayer's federal Schedule A. However, the amount a taxpayer must add back may be limited, as discussed in this publication.

The addback requirement does not apply to individuals who claim the standard deduction on their federal income tax returns or to individuals who claim a deduction for general sales taxes, rather than state and local income taxes.

Corporations, estates, and trusts are also required to add back certain state taxes deducted on their federal returns. However, the information in this publication pertains only to individual income taxpayers.

### FEDERAL DEDUCTION FOR STATE AND LOCAL TAXES

Individuals who itemize deductions on their federal returns can deduct various state and local taxes. However, the addback requirement applies only to state income taxes deducted on their federal returns. Individuals must add back the state income taxes they deduct, regardless of whether the state income taxes were paid to Colorado or to another state.

Taxpayers are not required to add back any of the following types of taxes that they may have deducted on their federal Schedule A:

- general sales taxes;
- local income or occupational taxes;
- state or local real estate taxes; or
- state or local personal property taxes.

### LIMITATIONS

Various limitations may reduce the amount an individual taxpayer must add back. For tax year 2018, these limitations relate to the allowable federal standard deduction and to the federal limitation on the deduction of state and local taxes. For tax years 2017 and prior, the required addback was also limited based on the overall limitation on federal itemized deductions

#### Allowable standard deduction

The required addback is limited in order to effectively give taxpayers the benefit of the federal standard deduction they could have claimed on their federal returns. 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. The calculation of this limitation is illustrated in the section titled *Application of limitations for tax year 2018* on the following page.

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

Beginning with tax year 2018, the total amount of state and local taxes an individual deducts on their federal return cannot exceed \$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 taxpayer's Schedule A. The calculation of this limitation is illustrated in the section titled *Application of limitations for tax year 2018* on the following page.

## Application of limitations for tax year 2018

Worksheet 4-1 incorporates both of the limitations described on the preceding page, can be used to calculate the required addback amount, and includes two examples illustrating the calculation of the addback.

### Examples:

**Example A:** A taxpayer files a 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 \$13,000 in total itemized deductions. As a single filer, the taxpayer would have been allowed a standard deduction of \$12,000. The taxpayer's total itemized deductions exceed the allowable standard deduction by \$1,000, so the taxpayer is required to add back only \$1,000, rather than the full amount of the \$2,500 state income tax deduction.

**Example B:** A taxpayer files a 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 \$12,000. 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.

<i>Worksheet 4-1. State income tax addback for tax years 2018 and later</i>		<b>Example A</b>	<b>Example B</b>
a) Enter the total state and local tax deduction from federal Form 1040, Schedule A, line 5e.	\$	\$ 4,500	\$ 10,000
b) Enter any local income tax deduction included on federal Form 1040, Schedule A, line 5a.	\$	\$ 0	\$ 500
c) Enter the state and local real estate tax deduction from federal Form 1040, Schedule A, line 5b.	\$	\$ 2,000	\$ 7,000
d) Enter the state and local personal property tax deduction from federal Form 1040, Schedule A, line 5c.	\$	\$ 0	\$ 1,500
e) Subtract lines (b), (c), and (d) from line (a). Enter the result, but not less than \$0.	\$	\$ 2,500	\$ 1,000
f) Enter the total itemized deductions from federal Form 1040, Schedule A, line 17.	\$	\$ 13,000	\$ 25,000
g) Enter the amount of federal standard deduction the taxpayer could have claimed on federal Form 1040, line 8. For the purpose of the addback, the federal standard deduction allowed to married taxpayers filing separately is \$0.	\$	\$ 12,000	\$ 12,000
h) Subtract line (g) from line (f). Enter the result, but not less than \$0.	\$	\$ 1,000	\$ 13,000
i) Enter the smaller of line (e) or line (h). This is the required addback amount.	\$	\$ 1,000	\$ 1,000

## Limitations for tax years 2017 and prior

For tax years 2017 and prior, the amount a taxpayer must add back may be limited in two different ways. For all taxpayers, the required addback is limited based upon the allowable standard deduction, as described on page 1 of this publication. This limitation is calculated using Worksheet 4-2. Additionally, a second limitation applies with respect to taxpayers whose total itemized deductions are limited based on the taxpayer's adjusted gross income. Taxpayers whose total itemized deductions are limited based upon their adjusted gross income must also complete Worksheet 4-3 to determine the amount they are required to add back on their Colorado return.

### *Worksheet 4-2. Limitation based upon allowable standard deduction - tax years 2017 and prior*

a) Enter the amount state income taxes included on federal Form 1040, Schedule A, line 5.	\$
b) Enter the total itemized deductions from federal Form 1040, Schedule A, line 29.	\$
c) Enter the amount of federal standard deduction the taxpayer could have claimed on federal Form 1040, line 40. For the purpose of the addback, the federal standard deduction allowed to married taxpayers filing separately is \$0.	\$
d) Subtract line (c) from line (b). Enter the result, but not less than \$0.	\$
e) Enter the smaller of line (a) or line (d).	\$

The amount calculated on line (e) of Worksheet 4-2 is the required addback amount, unless the taxpayer's total itemized deductions were limited based upon adjusted gross income. If a taxpayer's total itemized deductions are limited, Worksheet 4-3 must also be completed to determine the required addback amount. The limitation on total itemized deductions is calculated using the Itemized Deduction Worksheet in the instructions for federal Schedule A. If a taxpayer's total itemized deductions are limited, the taxpayer's required addback amount is proportionally reduced.

### *Worksheet 4-3. Limitation based upon total itemized deductions - tax years 2017 and prior*

a) Enter the amount from line 9 of the federal Itemized Deductions Worksheet.	\$
b) Enter the amount from line 3 of the federal Itemized Deductions Worksheet.	\$
c) Divide the amount on line (a) by the amount on line (b) and enter the result.	\$
d) Enter the amount state income taxes included on federal Form 1040, Schedule A, line 5.	\$
e) Multiply the amount on line (d) by the percentage on line (c) and enter the result.	\$
f) Subtract line (e) from line (d) and enter the amount.	\$

The required addback is the smaller of the amounts calculated on line (e) of Worksheet 4-2 and line (f) of Worksheet 4-3.

## ADDITIONAL RESOURCES

- *Colorado statutes and regulations*
  - § 39-22-104(3)(d), C.R.S.

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.