Income Tax Topics: Social Security, Pensions and Annuities

COLORADO
Department of Revenue
Taxation Division

Individuals may be allowed to claim a subtraction on their Colorado Individual Income Tax Return for pension and annuity income included in their federal taxable income. This publication provides information on different pension and annuity income that may qualify for the subtraction and certain limitations that apply.

Separate Colorado subtractions discussed in this publication are allowed for certain specific types of pension and annuity income:

Multiple subtractions may not be claimed for the same income.

This publication is designed to provide general guidance regarding subtractions allowed for pension and annuity income and 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.

Pension and annuity subtraction

Qualifying individuals may claim a subtraction on the Subtractions from Income Schedule (DR 104AD) for pension and annuity income included in their federal adjusted gross income.

Joint filers have additional considerations to claim the subtraction. To determine the subtraction allowed in the case of a joint return, each spouse must separately determine their eligibility for the subtraction (based on their age or receipt of death benefits) and the amount of the subtraction they may claim (based on their respective qualifying income and the maximum allowable amounts, discussed later in this publication). The amount of the subtraction is computed separately for each spouse. If a taxpayer's qualifying pension and annuity income exceeds the maximum allowable amount, the excess income cannot be subtracted either by that taxpayer or their spouse, even if the amount of the spouse's pension and annuity income is less than the maximum allowable subtraction amount.

Qualifying taxpayers

The subtraction is generally allowed only to individuals age 55 or older but may also be claimed by individuals under age 55 for pension and annuity income they receive as a death benefit. The subtraction is generally limited to $20,000 each year or, for individuals age 65 or older, $24,000. In the case of joint filers, the subtraction is allowed separately to each taxpayer included in the joint return.

Non-qualifying taxpayers

The subtraction is not allowed for non-individual taxpayers such as C corporations, trusts, estates, and their beneficiaries.

Individual taxpayers under age 55 may not claim the subtraction unless the pension and annuity income is a death benefit.

Qualifying pension and annuity income

In general, the pension and annuity subtraction may be claimed for the following types of income included in an individual's adjusted gross income and reported on their federal income tax return (IRS Form 1040 or 1040-SR) for the same year the subtraction is claimed:

- pensions and annuities reported on line 5b of the federal return;
- Social Security benefits reported on line 6b of the federal return;
- certain IRA distributions reported on line 4b of the federal return; and
- disability payments reported on line 1h of the federal return because the recipient has not yet reached retirement age.

Please see the following sections for additional information regarding each of these types and other types of income that do not qualify for the subtraction.

Pensions and annuities

Pensions and annuities are periodic payments made to an individual that are attributable to personal services the individual performed prior to retirement, arising from one of the following:

- an employee-employer relationship;
- service in the uniformed services of the United States; or
- contributions previously made to a retirement plan that were deductible for federal income tax purposes in the year the contributions were made.

Pensions and annuities are made in a series of payments at regular intervals (such as weekly, monthly, or yearly) over a period greater than one year.

The amount on line 5b of the taxpayer's federal return, which is the amount included in federal taxable income, is the amount that is eligible for the subtraction, not the amount on line 5a.

Amounts received from privately purchased annuities that have fully matured also qualify for the pension and annuity subtraction.

Death benefit

An individual taxpayer who is under age 55 and who receives pension and annuity benefits due to the death of the person originally entitled to receive such benefits may subtract such pension and annuity income. In this case, the amount the individual may subtract is limited to $20,000. A taxpayer who receives a death benefit should see distribution code 4 in box 7 of IRS Form 1099-R.

Individual taxpayers who are age 55 or older may claim the subtraction for pensions and annuities regardless of whether any benefit received was a death benefit.

Death benefit income only qualifies if the income is paid directly to the individual taxpayer. If death benefit income is paid to a non-individual, such as a trust, estate, partnership, or other legal entity, and then redistributed to an individual taxpayer, that income does not qualify for the subtraction.

Social Security benefits

Not all Social Security benefits are included in federal taxable income. The subtraction is allowed only for Social Security benefits that are included in the taxpayer's federal taxable income. This is the amount on line 6b of the federal return, not the amount on line 6a. IRS Publication 915 provides a worksheet to help a taxpayer determine the amount of Social Security benefits that are taxable.

To determine the subtraction allowed for Social Security benefits in the case of a joint return, Social Security benefits included in federal taxable income must be apportioned in a ratio of the gross Social Security benefits of each taxpayer to the total gross Social Security benefits of both taxpayers. See the worksheet below to determine what part of each spouse's benefits is included in their federal taxable income and therefore eligible for the pension and annuity subtraction

For income tax years beginning January 1, 2022, and after, taxpayers age 65 or older at the end of the tax year may subtract the entire amount of Social Security benefit income included in the taxpayer's federal taxable income.

For income tax years beginning January 1, 2025, and after, taxpayers age 55 to 64 at the end of the tax year may subtract the entire amount of Social Security benefit income included in their federal taxable income if their adjusted gross income does not exceed the following thresholds:

- $75,000 if their filing status is single; or
- $95,000 if their filing status is joint.

For those taxpayers whose adjusted gross income exceeds these thresholds, the cap remains at $20,000.

For tax years 2022 and later, the subtraction for Social Security benefits is claimed on a separate line of the Subtractions from Income Schedule (DR 104AD). Any subtraction claimed for Social Security benefits will reduce the subtraction an individual can claim for any other pension and annuity income. Please see the Individual Income Tax Filing Booklet (DR 0104) for the applicable tax year for additional guidance in determining these limits.

Joint Social Security benefits worksheet

Use this worksheet to calculate joint Social Security benefits that are eligible for subtraction.

1) Spouse A's total Social Security benefits for the year $___________
2) Spouse B's total Social Security benefits for the year $___________
3) Total of lines 1 and 2 $___________
4) Spouse A's percentage (line 1 divided by line 3) $___________
5) Spouse B's percentage (line 2 divided by line 3) $___________
6) Taxable Social Security benefits included on line 6b of federal Form 1040 or 1040-SR $___________
7) Spouse A's share of taxable Social Security benefits (amount on line 6 multiplied by percentage on line 4) $___________
8) Spouse B's share of taxable Social Security benefits (amount on line 6 multiplied by percentage on line 5) $___________

IRA distributions

IRA distributions may include distributions made from a traditional IRA, a simplified employee pension (SEP) IRA, or a savings incentive match plan for employees (SIMPLE) IRA. The amount on line 4b of an individual's federal income tax return, which is the amount included in federal taxable income, is the amount that is eligible for the subtraction, not the amount on line 4a.

Distributions deemed to be premature distributions for federal income tax purposes do not qualify for the subtraction. In general, a distribution is considered premature if it is made to an individual who has not yet reached age 59½, but not if one of several exceptions apply. Please see the instructions for IRS Form 5329 for information about these exceptions.

Disability payments

Certain disability payments may qualify for the pension and annuity subtraction. Taxable permanent disability benefits received by an individual age 55 or older at the close of the tax year qualify for the subtraction, even if the compensation is characterized as wages rather than pension and annuity income for federal income tax purposes.

However, disability payments that are not for permanent disability, regardless of their source, do not qualify for the subtraction, even if reported as pension and annuity income on a taxpayer's federal income tax return.

Railroad disability benefits are exempt from state taxation under Section 231m of the Railroad Retirement Act, along with other railroad retirement annuity benefits. Taxpayers receiving railroad disability benefits in their federal taxable income can claim the railroad benefit subtraction, rather than the pension and annuity subtraction, for those benefits. Information about the subtraction for railroad retirement benefits appears later in this publication.

Divorce settlement

Subject to all applicable requirements and limitations, payments made pursuant to a divorce settlement or decree that arise from one of the qualifying pension and annuity sources listed above may qualify for the subtraction. The divorce settlement or decree must expressly state the amount of the pension or annuity benefit allocated to the taxpayer for the taxpayer to claim the subtraction. A nonperiodic payment representing a future stream of periodic payments from a pension or annuity plan made pursuant to the divorce settlement or decree will not qualify for the subtraction, unless the pension or annuity plan benefit is from:

- an individual retirement arrangement (IRAs);
- self-employed retirement accounts;
- fully-matured, privately purchased annuities;
- Social Security benefits; or
- amounts paid by reason of permanent disability or death of the person entitled to receive the benefits.

Nonqualifying Income

The pension and annuity subtraction is not allowed for any income for which another subtraction is claimed. Additionally, the following income does not qualify for the subtraction.

Premature distributions

Distributions from an IRA or self-employed retirement account plan (e.g., a 401(k), savings incentive match plan for employees (SIMPLE), or Simple Employee Pension (SEP) retirement plan for a self-employed taxpayer) that are deemed to be premature for federal income tax purposes do not qualify for the subtraction. A premature distribution (sometimes referred to as an early distribution) for federal tax purposes means a distribution that is subject to a federal income tax penalty (sometimes referred to as additional federal tax).

In general, a distribution made before a taxpayer reaches the minimum retirement age required by the pension or annuity plan is subject to the premature distribution penalty. However, federal law does not impose the premature distribution penalty for certain distributions made prior to the minimum retirement age (e.g., death or hardship). The subtraction may be claimed for these distributions that are not subject to the federal penalty if they otherwise meet the requirements and limitations for the subtraction. The restriction regarding premature distributions does not apply to pension and annuity benefits distributed from sources other than an IRA or self-employed retirement account plan.

For additional information about premature distributions, penalties, and exceptions, please see Exceptions to Tax on Early Distributions on the IRS website.

Limitations

In general, the amount of income that can be subtracted is limited to:

- $20,000 for a taxpayer under age 55 who received a death benefit;
- $20,000 for a taxpayer who is age 55or older, but not more than are 64, at the end of the tax year; or
- $24,000 for a taxpayer who is age 65 or older at the end of the tax year.

For tax years 2022 and later, individuals age 65 or older at the end of the tax year can subtract the full amount of Social Security benefits included in their federal taxable income. For tax years 2025 and later, individuals age 55 to 64 at the end of the tax year may also be allowed to subtract the full amount of Social Security benefits included in their federal taxable income, if their adjusted gross income does not exceed certain limits. For additional information, please see the section on Social Security benefits earlier in this publication.

The subtraction applies only to the extent the taxpayer reports, in the same tax year that the subtraction is claimed, the pension or annuity benefit as federal taxable income on their federal income tax return.

Railroad retirement benefits subtraction

Federal law exempts railroad retirement benefits from state income taxes. Individuals may claim a subtraction on the Subtractions from Income Schedule (DR 0104AD) for any railroad retirement benefits reported on Form RRB-1099 or Form RRB-1099-R and included in their federal taxable income. Railroad retirement benefits that are eligible for the subtraction include:

- Tier I benefits (both Social Security Equivalent Benefits (SSEB) and Non-Social Security Equivalent Benefits (NSSEB));
- Tier II benefits;
- Vested dual benefits;
- Supplemental annuity benefit; and
- Railroad disability benefits.

Not all Tier I SSEB benefits are included in federal taxable income. Tier I SSEB benefits are reported and treated in the same manner as Social Security benefits, and the taxpayer must determine the taxable amount. To determine the allowable subtraction for Tier I SSEB benefits, please see IRS Publication 915, the Explanation of Form RRB 1099, or the section on Social Security benefits earlier in this publication.

Railroad retirement benefits qualify regardless of the individual's age. The subtraction for railroad retirement benefits is not subject to the same $20,000 and $24,000 limits as the pension and annuity subtraction. If a taxpayer receives both railroad retirement benefits and pension and annuity benefits, the amount of railroad retirement benefits is not considered in determining the allowable subtraction for other pension and annuity benefits.

Military retirement benefits subtraction

A retired servicemember may be able to claim a subtraction for all or part of the military retirement benefits that are included in their federal taxable income. In general, military servicemembers that are eligible for the subtraction are members of the uniformed services of the United States, which includes members of the armed forces as well as members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Commissioned Corps of the Public Health Service. The armed forces include the Army, Navy, Air Force, Marine Corps, Space Force, or Coast Guard. The subtraction that may be claimed depends on the retired servicemember's age at the end of the tax year.

Retired servicemembers under age 55

If a retired servicemember is under age 55 at the end of the tax year, they may claim the military retirement subtraction on the applicable line of the Subtractions from Income Schedule (DR 0104AD) for military retirement benefits included in their federal taxable income, subject to the following limitations based on the tax year:

Military Retirement Subtraction Limits

Tax year(s)	*Limit*
2019	$ 4,500
2020	$ 7,500
2021	$10,000
2022-2028	$15,000

Retired servicemembers age 55 or older

If a retired servicemember is at least 55 years old at the end of the tax year, they may claim the regular pension and annuity subtraction on the applicable line of the Subtractions from Income Schedule (DR 0104AD) for military retirement benefits included in their federal taxable income. The regular pension and annuity subtraction is not subject to the limitations applicable to retired servicemembers under age 55, but rather is subject to its own limitations, discussed earlier in this publication.

PERA/DPSRS subtraction

Under certain circumstances, a portion of pension income paid by the Colorado Public Employees Retirement Association (PERA) or the Denver Public Schools Retirement System (DPSRS) and included in a taxpayer's federal taxable income may qualify for subtraction. Most PERA and DPSRS retirement benefits will not qualify for this subtraction. Current state employees cannot claim a subtraction for PERA contributions they made during the current tax year.

A taxpayer may qualify for this subtraction if they received benefits during the tax year from either PERA or DPSRS for contributions made either:

- to PERA any time between July 1, 1984, and December 31, 1986; or
- to DPSRS any time between January 1, 1986, and December 31, 1986.

For PERA contribution information, contact PERA at www.copera.org or call 303-832-9550 or 1-800-759-7372.

These contributions were subject to state income tax in the years they were made but were tax-deferred for federal income tax purposes. This means federal income tax must be paid when receiving benefit payments upon retirement or termination. The subtraction on the Colorado return enables a taxpayer to subtract from taxable income the amount of pension benefits on which state income tax was already paid.

A taxpayer may not claim the subtraction if they have already subtracted the total amount of previously taxed contributions on Colorado income tax returns they filed for prior tax years.

If a taxpayer is eligible for both the PERA/DPSRS subtraction and the pension and annuity subtraction, the taxpayer should generally claim the pension and annuity subtraction first for their qualifying pension and annuity income. If their pension and annuity income exceeds the applicable limits (discussed earlier in this publication), then the individual may claim the PERA/DPSRS subtraction for any PERA or DPSRS benefits included in their federal taxable income, not to exceed the qualifying contributions not previously subtracted.

Example

A taxpayer retired at the beginning of tax year 2023 at age 60. They contributed $5,000 to PERA between July 1, 1984, and December 31, 1986, that was subject to Colorado income tax at the time. They received $23,000 in PERA benefits in tax year 2023 that were included in their federal taxable income.

The PERA benefits qualify for both the pension and annuity subtraction and the PERA/DPSRS subtraction. The taxpayer first claims the pension and annuity subtraction, which is limited to $20,000. They then claim the PERA/DPSRS subtraction for the remaining $3,000 of PERA benefits included in their federal taxable income for tax year 2023 because this amount is less than the $5,000, they contributed to PERA between July 1, 1984, and December 31, 1986. The $2,000 difference between the amount of qualifying contributions and the PERA/DPSRS subtraction can be claimed as a subtraction in a subsequent tax year.

In tax year 2024, the taxpayer has $24,000 of PERA benefits included in their federal taxable income. The taxpayer first claims the pension and annuity subtraction, which is limited to $20,000. The remaining $4,000 of their PERA benefits is eligible for the PERA/DPSRS subtraction, but they can claim a PERA/DPSRS subtraction of only $2,000 because that is the amount of qualifying contributions remaining available for subtraction.

PERA/DPSRS subtraction worksheet

Use the following worksheet to determine the amount, if any, that can be entered as a PERA/DPSRS subtraction on the Colorado income tax return.

1) Enter the amount of contribution to PERA or DPSRS that was previously taxed for Colorado income tax purposes but not for federal income tax purposes. For PERA members, this would be 8% of the state, local government, or public school salary or wages earned for the period July 1, 1984, through December 31, 1986. For DPSRS members, this would be the amount contributed to DPSRS during 1986. 1) $ _________
2) Enter the amount claimed on prior year's Colorado income tax returns as a PERA/DPSRS subtraction. 2) $ _________
3) Subtract line 2 from line 1. 3) $ _________
4) Amount in box 2a of 1099-R (federally taxable amount). 4) $ _________
5) The potential current year PERA/DPSRS subtraction is the smaller of the amount on line 3 or line 4. 5) $ _________

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to pensions and annuities. 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 regulations

- § 39-22-104(4)(c), (4)(f), (4)(y), C.R.S. Income tax imposed on individuals, estates, and trusts
- Rule 39-22-104(4)(f). Pension and Annuity Subtraction.

Forms and guidance

- Tax.Colorado.gov
- Subtractions from Income Schedule (DR 104AD)
- Colorado Individual Income Tax Guide
- IRS Publication 915