

Colorado Department of Revenue

Best Practices for Preparing 2015 Colorado Returns

January 11, 2015

The Colorado Department of Revenue (CDOR) provides the following information for practitioners' use in preparing 2015 returns. These tips are organized in the general order of the filing process. Links to FYI publications, Web pages on www.TaxColorado.com, and other services and reference tools are included where applicable.

Remember, as a Colorado Society of CPAs member, you can request assistance with particularly difficult client issues involving the CDOR by emailing the following information to COCPA CEO Mary E. Medley at mmedley@cocpa.org. Medley will forward your email and attachment(s) to the COCPA's contact in the Department for assistance.

- Taxpayer Name(s)
- Colorado Account Number(s) or last four digits of the SSN(s)
- Brief summary of the issue(s)
- Whether you have a Power of Attorney on file – If yes, the CDOR will contact you to resolve the issue. If no, the CDOR will contact you to let you know a representative will contact your client directly.
- Attached recent notice in pdf format, redacted, if you wish, to preserve client(s) confidentiality

Also, note the **tax practitioners' helpline, 303-232-2419**. This line is a service for tax professionals only.

Collect, Review, and Verify

Estimated Tax Payments and Prepayments: Taxpayers who have made estimated tax payments should carefully review their payment records before this line on the return is completed. The Department suggests reviewing taxpayer account information at Revenue Online to verify the payment(s) the CDOR received. Generally, taxpayers make estimated payments from a checking account but occasionally may make a payment from a savings or other account so it is important to check all records. Additionally, the 104 form requires a separate designation of each payment type and entry on the individual income tax return as follows:

- Prior-year Estimated Tax Carryforward on line 39
- Estimated Tax Payments on line 40
- Extension Payment on line 41
- Other Prepayments (104BEP, DR 0108 and DR 1079) on line 42

Errors in properly accounting for estimated payments will delay return processing and issuance of a potential refund. Estimated tax credit lines of other income tax type returns (corporation, partnership) will vary. See the corresponding tax booklets for details.

Employer or Entity FEINs on W-2s/1099s: Review, compare, and verify Federal Employer Identification Numbers (FEINs) when entering them into e-file software. Make sure the numbers entered match what is on the paper W-2 or 1099. If the FEIN entered into the tax software does not match the FEIN on the W-2 or 1099 submitted by the employer/entity, the taxpayer will be asked to submit paper copies of the W-2s/1099s.

Pay stubs are not W-2s: Pay stubs do not usually have the employer's FEIN on them. The FEIN is required when taxpayers file their income tax – whether electronically or on paper. The CDOR verifies the FEINs to ensure the employer has paid the taxpayer's withholding tax. **When there is no FEIN with the income tax filing or the FEIN is incorrect, the taxpayer will be required to communicate with the Department to verify withholding, which will delay refund processing.**

Filing Method and Process

Taxpayers and tax practitioners are strongly encouraged to file all tax returns either through your tax software or through Revenue Online, www.colorado.gov/revenueonline. If you need to file a paper return, you must list the name and SSN of the primary taxpayer on the top of every page of the return where indicated.

Accepted Tax Software: The Department maintains a list of Accepted Software for individual income tax. The list shows supported tax credits and limitations by software name. As software is approved, through the third week of January, the list will be updated. See the [Software Developers – Income Tax](#) Web page. Look for the section Tax Year 2015. Open the tax type you need and click on the link **“Accepted Software.”**

Driver License Information Required: As part of the Department's security measures to protect taxpayers against refund fraud, tax returns now require the last four digits of the taxpayer's driver license or ID number, as well as the state that issued it and the issue date. Omitting any of this information may delay return and refund processing.

Full, Legal Name: The Department matches the taxpayer name(s) used on the Colorado return with the names used on the federal return. When the names do not match, this causes process delays, which will affect the speed of receiving any refund.

Filing Status: Taxpayers must file their Colorado income tax returns with the same filing status that they indicated on the federal return.

Paper Filers

W-2s: When filing a **paper** return, all W-2s must be attached (stapled) to the front of the form where indicated. When the W-2s do not add up to the withholding claimed on the Individual return (Line 38 of Form 104), return processing will be delayed. The Department will ask the taxpayer to either send copies of the W-2s or other additional information. When filing an **electronic** return, the CDOR recommends attaching scanned copies to the e-filed tax return. While there is no requirement to electronically attach scanned W-2s to an e-filed return, the copies will allow CDOR to process the returns when questions arise during return review, or when employers have not yet sent in their W-2 statements to CDOR. Documents also may be submitted through [Revenue Online](#). Click on **Submit an e-Filer Attachment**.

1099s: The Department of Revenue receives 1099 income withholding statements from entities that have withheld Colorado income tax on behalf of a taxpayer. Preparers are urged to ask their clients whether they have any 1099 statements that show Colorado withholding. When filing a **paper** return, the 1099s that show Colorado withholding should be attached (stapled) to the form in the same area where the W-2s are attached. When filing an **electronic** return, the Department recommends listing the Colorado gross income, as well as any Colorado withholding. Additionally, it recommends attaching scanned copies to the e-filed tax return. While there is no requirement to provide this information or to attach 1099s to an e-filed return, doing so will allow the CDOR to process the returns when questions arise during return review, or when the entities that issued the 1099s have not yet submitted the statements to CDOR. The taxpayer's 1099s may also be submitted through [Revenue Online](#). See publication [FYI Income 2](#).

Credits and Subtractions

Many credits and subtractions require submission of additional supporting documentation with the return. Be sure to review the income tax booklet and FYI publications for specific details. Also see [Income Tax -- Credits](#) and [Income Tax -- Subtractions](#)

Capital Gain Subtraction: The CDOR will make every effort to verify required documentation was included in the filing of the return before contacting the taxpayer for more information. That is why it is important the following supporting documents be submitted with the return.

- A DR 1316 form, "Colorado Source Capital Gain Affidavit," must be completed and included with the return (electronic or paper). With e-filed returns, attaching the form to the electronic return or submitting it as an E-Filer Attachment in Revenue Online is not sufficient. For electronic returns, the information must be data entered on the DR 1316 portion of the return.
- A copy of the closing statements for both the purchase and sale of the property, or official documentation from the county detailing purchase date and price and sale date and price
- Copies of the first two pages of the corresponding federal return, Schedule D, and any Schedule D attachments
- If the capital gain were received via a pass-through entity, documentation that the interest in the underlying business satisfies the required five-year holding period

If the capital gain is claimed on a 2009 or prior year return and was due to the sale of stock or ownership interest, documentation must verify the stock or ownership interest was held for at least five years prior to the sale, that the company was a Colorado company, and that the stock was acquired after May 9, 1994.

If form DR 1316 is included, and the capital gain subtraction claimed is \$100,000 or less, the CDOR will continue its practice of reviewing the capital gain subtraction claim two to three years after the return is originally filed, when the IRS provides federal return information to Colorado's Discovery Section. For more information, see publication [FYI Income 15](#).

Colorado Marijuana Business Deduction on Form 104: This deduction is designed to allow businesses in Colorado engaged in retail or medical marijuana to claim a state tax deduction on expenses that would otherwise be allowed on the federal return but are forbidden pursuant to IRC 280 (e). To claim the deduction, a taxpayer must file a pro-forma federal return showing its tax liabilities as though expenses were allowed and must submit the pro-forma return with the Colorado tax return to expedite processing.

Consumer Use Tax: Individuals are required to pay either a sales tax on tangible personal property or a use tax on tangible personal property if no sales tax were assessed. In an effort to make it easier for individuals to declare the amount of tangible personal property subject to use tax, the 104 form includes space to calculate the amount of use tax due. See the 104 booklet for specific instructions.

TABOR Sales Tax Refund

Due to Colorado’s current revenue surplus, under the Taxpayer’s Bill of Rights (TABOR), any excess funds must be distributed to Colorado’s residents.

Eligibility

Anyone applying for this refund must be domiciled (made his or her home) in Colorado from January 1 through December 31, 2015 and must be age 18 or older as of January 1, 2015. Full-year residents under the age of 18 qualify for the refund only if they are required to file a Colorado return because of a federal income tax filing requirement. The refund amount depends on the taxpayer’s modified (for Colorado income tax purposes) federal adjusted gross income (AGI) and whether the taxpayer files as single or married.

Modified AGI Tiers for State Sales Tax Refund						
If Line 25 of the 2015 104 Form is:	\$36,000 or less	\$36,001 to \$77,000	\$77,001 to \$120,000	\$120,001 to \$163,000	\$163,001 to \$204,000	\$204,001 or more
Single Filers	\$13	\$18	\$21	\$23	\$24	\$41
Joint Filers	\$26	\$36	\$42	\$46	\$48	\$82

104CR Credit Schedule

When calculations from the 104CR credit schedule are transferred to the 104 return, the 104CR MUST be included with the Form 104 regardless of whether it is electronically or paper filed. Take care to enter the correct amounts on the correct lines in the tax software. You may be required to enter the credit amount or the amount that creates the credit. The CDOR needs to verify that these amounts came from the 104CR.

- Refundable credits from Line 8 104CR go on Line 45 of the Form 104.
- Nonrefundable credits from Line 35 104CR go on Line 35 of the Form 104.

If you have to paper file, you must ensure that the amounts on the 104CR schedule, or any other supporting schedule, match exactly to their corresponding locations on the 104. If a discrepancy exists, it will slow down return processing and generate correspondence from the Department.

Earned Income Tax Credit (104CR Part I): Beginning with tax year 2015, this credit is available to Colorado taxpayers who claimed the earned income tax credit on their federal returns. The Colorado credit is 10% of the amount claimed on the federal return. Returns that claim the Colorado earned income tax credit should include the following documentation to avoid processing and refund issuance delays: (1) the federal tax return and (2) the associated schedules for determining the federal credit.

Business Personal Property Tax Credit (104CR Part I): Businesses that have \$15,000 or less of property on which they pay property taxes may take an income tax credit. The following worksheet is included on the paper return for the calculation:

Enter the Amount of Business Personal Property Tax Paid in 2015	A
Enter the Credit Rate from Table 1 that corresponds with your Federal Taxable Income and Filing Status	B
Multiply line A times line B to calculate the credit allowed, enter on Form 104CR line 6	

Table 1:

Federal Taxable Income (Form 104, Line 1)	Filing Status Table for Business Personal Property Credit				
	Single	Joint	Head of Household	Married Filing Separate	Credit Rate
\$0 - \$9,225	\$0 - \$18,450	\$0 - \$13,150	\$0 - \$9,225	.8537	
\$9,226 - \$37,450	\$18,451 - \$74,900	\$13,151 - \$50,200	\$9,226 - \$37,450	.8037	
\$37,451 - \$90,750	\$74,901 - \$151,200	\$50,201 - \$129,600	\$37,451 - \$75,600	.7037	
\$90,751 - \$189,300	\$151,201 - \$230,450	\$129,601 - \$209,850	\$75,601 - \$115,225	.6737	
\$189,301 - \$411,500	\$230,451 - \$411,500	\$209,851 - \$411,500	\$115,226 - \$205,750	.6237	
\$411,501 - \$413,200	\$411,501 - \$464,850	\$411,501 - \$439,000	\$205,751 - \$232,425	.6037	
\$413,201 and up	\$464,851 and up	\$439,001 and up	\$232,426 and up	.5577	

Taxpayers claiming this credit must submit a copy of the assessor’s statement to substantiate that personal property taxes were paid.

Credit for Income Tax Paid to Another State (104CR Part II): A copy of the tax return filed for each state MUST be included with Colorado income tax return, unless the other state does not require a return. We understand that some of these returns can be several pages in length. Include the portion of the return that shows tax paid to the other state (enough information for us to see the net tax liability after credits). The tax returns for the other states must be included as electronic attachments with an e-filed return or may be submitted through [Revenue Online](#). For paper returns, a copy of each state income tax return must be submitted with the paper Form 104. The total credit for taxes paid to other states may not exceed the Colorado tax attributable to the total non-Colorado source income. If taxes were paid to two or more states, or if income and/or losses are incurred in two or more other states, a separate credit must be computed for each state to which taxes are paid and a limitation computation must be done for all income and/or losses received from other states. The credit will be the lesser of:

- The total of credits computed for each state to which taxes are paid,
- The credit computed using the combined tax paid, income, and losses from all other states.

Colorado Alternative Minimum Tax Credit (104CR Part III): Input the federal minimum tax credit amount in the box within Line 18 of the 104CR. When the box is not completed, it causes the Colorado credit to be denied even when the line item has the Colorado Minimum Tax Credit in it. See publication [FYI Income 14](#).

Child Care Contribution Credit (104CR Part III): When a taxpayer claims the Child Care Contribution Tax Credit, the DR 1317 “Child Care Contribution Tax Credit Certification” must be completed by the organization/entity that receives the donation from the taxpayer. If taxpayers are uncomfortable providing the organization with their Social Security Number(s), taxpayers may obtain their Colorado Account Number (CAN) by accessing their tax account in [Revenue Online](#). The CAN may be used on the certification form instead of the SSN.

The organization gives the completed form to the taxpayer. A copy of this form **MUST** be submitted with the return that claims this tax credit. The taxpayer may complete the Social Security/Colorado Account Number portion of the certification form after the organization completes the form. For information about this credit, see publication [FYI Income 35](#).

Enterprise Zone Credits – IMPORTANT: There is an electronic return filing requirement for all taxpayers who claim these credits. Paper returns may be filed **ONLY** if an electronic return would create a hardship **for the taxpayer**. If your software product does not support the DR 1366, “2015 Enterprise Zone Credit and Carryforward Schedule,” we suggest you file using [Revenue Online](#), which has a document attachment feature. The total credit amount is calculated using the DR 1366 schedule. Enter on line 36 of the 104 income tax return the sum of all enterprise zone credits used. (See the corresponding tax booklets for further instructions regarding other types of returns.) **Both the DR 1366 and the applicable certification form** (or email printout from the Office of Economic Development and International Trade) **for each EZ credit claimed** must accompany the income tax return, whether the return is e-filed or submitted on paper.

Innovative Motor Vehicle and Innovative Truck Credits: Use the Form DR 0617 “Innovative Motor Vehicle Credit and Innovative Truck Credits” schedule. Complete this form, and attach it to any income tax return claiming this credit. The CDOR checks a county motor vehicle database to verify ownership of these vehicles. If the registration is not in the taxpayer’s name in this database, the Department tax examiners will ask for a copy of the purchase invoice and proof of Colorado registration. For information about this credit, see publication [FYI Income 67](#).

Voluntary Checkoffs: Colorado offers taxpayers the opportunity to donate a portion or all of their refunds to charitable organizations. For tax year 2015, there are 14 organizations on the form. When creating your end of year check-list and questionnaire, the Department recommends that you include information on these organizations with a goal of letting your clients know their options regarding potential income tax refunds. The organizations on the 2015 form follow, along with a short description of what the organizations do.

<p>Nongame and Endangered Wildlife Cash Fund Nongame wildlife includes 750 species of wildlife that cannot be hunted, fished for, or trapped. Funds go to projects that manage or recover wildlife such as lynx, river otter, black-footed ferret, green back cutthroat, and others. The nongame program receives no state tax dollars and depends on voluntary contributions.</p>	<p>Roundup River Ranch Fund Part of Paul Newman’s Serious Fun Children’s Network, Roundup River Ranch enriches the lives of children with serious illnesses and their families by offering free, medically-supported camp programs that provide unforgettable opportunities to discover joy, friendships, and confidence.</p>
<p>Domestic Abuse Program Fund Donations to this fund help support critical services provided by community-based domestic abuse programs across Colorado. These agencies provide 24-hour crisis line response, emergency</p>	<p>9Health Fair Fund This fund provides free blood screenings and exams to thousands of underserved Coloradans each year. Donations to this fund help offset lab and supply costs at 140 locations across the state.</p>

<p>safe shelter, counseling, and advocacy services for victims of domestic violence and their children, information and referrals for their communities, and community education.</p>	<p>9Health Fair is an independent nonprofit separate from 9News, our media partner, serving over 60,000 annually. Improving Colorado's health since 1979.</p>
<p>Homeless Preventive Activities Program Fund Approximately 52,000 people in Colorado are at risk of becoming homeless this year. Keeping people in their homes saves tax dollars and is an effective and humane way of helping families in crisis. Your contribution will be used to support activities and programs which help prevent people from becoming homeless.</p>	<p>American Red Cross Colorado Disaster Response, Readiness, and Preparedness Fund The American Red Cross prevents and alleviates human suffering in the face of emergencies. In Colorado, the Red Cross teaches tens of thousands of people lifesaving skills every year, provides critical services for members of the military and their families, and responds to, on average, a disaster a day.</p>
<p>Western Slope Military Veterans Cemetery Fund Funds assist in the maintenance of the Veterans Memorial cemetery of Western Colorado. The veterans cemetery is intended as a dignified final resting place for Colorado's veterans and eligible dependents. It is a place of quiet contemplation for the veterans community. Please help maintain this solemn beauty for Colorado veterans.</p>	<p>Colorado for Healthy Landscapes Fund The health and beauty of our landscapes defines our lifestyles as Coloradans. The Healthy Landscapes Initiative promotes sustainable management and healthy relationships with our lakes, rivers, peaks, and high deserts. Stewardship efforts support education, wildlife habitats, agricultural diversity, research, and invasive species management. Your contributions are the seeds for sustainability.</p>
<p>Pet Overpopulation Fund The Pet Overpopulation Fund provides funding to local animal care and control organizations and veterinarians for sterilization surgeries for pets owned by Coloradans in areas of the state with the greatest need. The Fund also supports efforts to educate the public about the importance of preventing pet overpopulation.</p>	<p>Habitat for Humanity of Colorado Fund Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities, and hope. Through volunteer labor and donations, Habitat for Humanity builds and rehabilitates simple, decent homes in partnership with hardworking low-income individuals and families in 45 Colorado communities.</p>
<p>Military Family Relief Fund Provides emergency grants for financial hardships to members of Colorado National Guard or Reservist and their families when ordered to Active Military duty and to Active Duty Military Personnel stationed in Colorado and their family members when the Active Duty military member is deployed to a declared hostile fire zone.</p>	<p>Special Olympics of Colorado Fund Special Olympics Colorado provides year-round athletic competition in 22 sports for over 19,000+ athletes with intellectual disabilities from 2 to 80+ years old. We create inclusive and welcoming schools for children with all differences through unified sports and youth leadership. Programs are free of charge to athletes and their families.</p>
<p>Public Education Fund This fund supports the Colorado Preschool Program which provides high-quality preschool for children impacted by factors such as poverty, homelessness, abuse, or neglect. Children are supported by qualified early childhood professionals in safe and nurturing learning environments. Children overcome substantial gaps and make significant gains that persist throughout their schooling.</p>	<p>Colorado Youth Corps Association Fund This fund helps employ youth, young adults, and military veterans on critical projects in Colorado such as flood recovery, fire mitigation and suppression, removing invasive species, and building trails for hikers, bikers, and equestrian users—all while earning education scholarships. Please help CYCA change lives and landscapes for the better!</p>

Other Income Tax Types

Claiming credits from a Pass-through Entity: Individuals claiming tax credits that are issued by a partnership should obtain from the partnership a federal K-1 schedule for each credit. The federal K-1 is created and issued by the partnership. If a K-1 is unavailable, attach a statement to the individual return with the name of any pass-through entity. The CDOR verifies the claim by reviewing the partnership's return. The K-1s or statements may be submitted through the [Revenue Online Submit an e-Filer Attachment](#) service, through tax software, or may be attached to a paper return.

Finishing the Tax Return

When in doubt, include attachments: Provide as much supporting documentation as you can. Follow the instructions for supporting documentation.

Most MeF software (the abbreviation for what the IRS calls "Modernized e-File") will allow for document attachments. If your e-file tax software does not support attachments, the Department strongly recommends using the **Submit an e-Filer Attachment** service in [Revenue Online](#) immediately after submitting the return. The documents will be directed to your client's account. This will allow the CDOR to view these documents concurrently with the return. When a return is filed in Revenue Online, you may submit the attachments during the return completion process.

For paper return submission, attach the required documentation to the return before mailing. The CDOR recommends **against** using Form DR 1778 to submit documentation. Using Form 1778 to submit supporting documentation can now delay processing a minimum of six weeks. The Department created the DR 1778 in the early days of e-file software availability when most software did not provide the document attachment option. It is transitioning away from the DR 1778.

To repeat, MeF (tax software) attachments are preferred, followed by Revenue Online e-Filer Attachments, and finally, attaching paper documents to the paper return. If you need to send paper documents in separately, you must use the DR 1778 to help get the documents into the taxpayer's account.

Third Party Designee: The designation has been expanded. The form now states, "Do you want to allow another person to discuss this return **and any other information related to this return** with the Colorado Department of Revenue?" The added language accommodates situations where other tax years have an impact on the return and allows CDOR staff to discuss the information with the designee.

The Department encourages e-filed returns because the Third Party designation is included in the electronic return and CDOR staff can see the name and phone number of the Third Party Designee on the e-filed returns. On paper returns, staff do not data enter any of the Third Party Designee information as they do the return lines. Designee information from a paper return is not available to see until the paper return is imaged and attached to the taxpayer account, which could take a minimum of two weeks, depending on the time of the year. During that time, it is possible the taxpayer may receive correspondence from the CDOR. If the Third Party Designee contacts the Department about the letter, CDOR staff may not yet have access to the paper return image. In the case of a paper return, customer service representatives may ask for a fax copy of the return with the designee information before providing information to the tax professional.

Prevent delays with your tax returns and payments: Missing Social Security numbers (SSN) and Colorado Account numbers (CAN) on forms and/or payments made by check cause processing problems and could delay proper credit for a tax account. This also could result in billing notices sent to taxpayers because the accounting system doesn't know to which tax account the tax payment applies.

Make sure the SSN or CAN is listed on the Memo Line of the check and is on any documentation mailed to the CDOR. This is especially important when a check is sent without a form. The Department receives thousands of checks each month that do not have an SSN or CAN resulting in time researching to properly credit the taxpayer. This causes delays in return processing and any refund.

The best way to avoid these problems is to e-file and pay Colorado taxes through [Revenue Online](#).

After You File

Amended Returns: Amended returns **replace** the original tax return. Send only the **NEW** supporting documents with the amended return and **ALL** the schedules. In the past, the CDOR asked for all supporting documents even if they were already submitted. See the [Amended Return Quick Answer](#).

The 104X and schedules must be completed and submitted together, whether this is done in [Revenue Online](#) or on paper. If a paper 104X is filed, do not re-submit the original 104 form. This will only complicate and delay return processing.

Make sure you use the appropriate 104X version for the year you are amending because the 104X is year-specific (for example, use a 2015 Form 104X for an amended 2015 return).

Individual income tax returns from 2009 and forward may be amended electronically through [Revenue Online](#). Filing and amending returns in Revenue Online is a free service. You may amend online even if the original return was filed on paper. Revenue Online has all the information from the original return; there is no need to re-enter everything. If you do not have access to the Internet and cannot amend online, you may file a paper Form 104X.

When changing the Colorado return because the IRS made changes to the federal return, you must file Form 104X within 30 days of being notified by the IRS. When the IRS makes changes to federal taxable income, the Colorado return **MUST** be amended, even if there is no net change to the Colorado tax liability.

What to expect based on when a return is filed: Filing state tax returns electronically or earlier in the year can result in receiving refunds faster as long as the return is “correct and complete.”*

How soon can taxpayers receive their refund? It depends on how and when they file their return.

Electronic filers whose returns are “correct and complete” can expect their refunds in about seven to 14 business days because the data is transmitted directly into the CDOR’s tax accounting system, which makes processing go much faster than with paper returns.

Paper filers have a longer wait depending on when they file.

*Correct and complete means the return/refund does not have any missing information or documentation and it does not fall into the risk profile for a fraudulent filing and fraudulent refund. If the return falls into that profile, it may take up to two months to review and verify information and then communicate and exchange information with taxpayers who are expecting a refund.

Correct and Complete Income Tax Filing	Refund Made/Issued Within
January	14 days
February	21 days
March	28 days
April	45 days

Refund Status: You can monitor refund status through the [Revenue Online](#) service. Once you sign up through Revenue Online, you can file a return, view filing history, and conduct other common transactions with the CDOR.

File a Protest: Protests may be filed in Revenue Online without logging into a specific account. Look for **File a Protest** on the main [Revenue Online](#) site.

This year, the Department will continue to look at tax returns for signs of refund fraud. The review that the Department undertakes may result in correspondence from the Department, may result in a refund requested as direct deposit being converted to a paper check, or may result in other actions. The Department's goal is to issue refunds as quickly and efficiently as possible; however there is the possibility that delays will occur. The CDOR continues to ask for your patience and understanding as it takes steps to safeguard taxpayers' refunds and the integrity of Colorado's finances.