FYI
FOR YOUR INFORMATION

COLORADO
Department of Revenue
Taxation Division

Income 25: Pension and Annuity Subtraction

If you meet certain qualifications, you can subtract some or all of your pension and annuity income on your Colorado individual income tax return (Form 104). You must be at least 55 years of age unless you receive pension and annuity income as a death benefit. You can claim the subtraction only for pension and annuity income that is included in your federal taxable income in the year you claim the subtraction.

Certain types of pension and annuity income may qualify for subtraction under rules other than the general pension/annuity subtraction. Other subtractions allowed for pension income include:

- PERA/DPSRS subtraction – see *FYI Income 16: Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits*
- Railroad retirement benefits subtraction - see the information at the end of this FYI
- Military retirement benefits subtraction – see *FYI Income 21: Military Servicemembers*

WHO CAN CLAIM THE PENSION AND ANNUITY SUBTRACTION

You can claim the pension and annuity subtraction if you received qualifying pension or annuity income (defined below) and either:

- you were 55 years or older and the end of the tax year, or
- you received the qualifying pension or annuity income as a beneficiary because of the death of the person who earned the pension or annuity.

PENSION AND ANNUITY INCOME THAT QUALIFIES FOR THE SUBTRACTION

Pension and annuity income qualifies for the subtraction only if it is included in your federal taxable income in the same tax year you claim the subtraction. The income must also be one of the income types included in the following table and reported on the appropriate line of your federal income tax return.

Types of Income Eligible for the Pension and Annuity Subtraction

Type of Income	*Line # on federal Form 1040 or 1040-SR*	*Exceptions (income not eligible for the pension and annuity subtraction)*
IRA distributions and pensions and annuities (including disability pensions)	4b or 4d	• privately purchased annuities that have not fully matured • lump-sum distributions • railroad retirement benefits subtracted separately on the Colorado return under the railroad benefit subtraction • PERA or DPSRS retirement income subtracted separately on the Colorado return under the PERA/DPSRS subtraction • income that is subject to the IRS premature distribution penalty**
Social security benefits	5b	• benefits subtracted separately on the Colorado return under the railroad benefit subtraction
Disability benefits (reported as wages)	1*	• any disability benefits that are not for permanent disability

*Taxable disability payments received before you have reached minimum retirement age must be reported on line 1 of federal Form 1040. See IRS Publication 575 for additional information. These benefits are eligible for the Colorado pension/annuity subtraction so long as the recipient is 55 years or older.

**Generally, distributions you receive before you reach age 59½ are subject to a federal penalty. See the federal resources at the end of this FYI for additional information. Distributions subject to this penalty do not qualify for the Colorado pension/annuity subtraction.

HOW TO CALCULATE THE PENSION AND ANNUITY SUBTRACTION

The amount of the pension and annuity subtraction is equal to the amount of your qualifying income, except that the subtraction cannot exceed the maximum allowable amount based upon your age. The following table reflects the maximum allowable subtraction based upon the taxpayer's age at the end of the tax year.

Maximum Allowable Subtraction Based Upon Age at the End of the Tax Year

Age at the end of the tax year	*Maximum allowable subtraction*
At least 65 years old	$24,000
At least 55, but less than 65 years old	$20,000
Under 55 years old*	$20,000*

* Taxpayers under 55 years of age can claim the subtraction only for pension or annuity income received due to the death of the person who earned the income

Pension and annuity subtraction for joint filers

If you file a joint Colorado income tax return and both you and your spouse receive qualifying pension or annuity income, you may both be able to claim the pension and annuity subtraction. Each spouse must separately determine their eligibility for the subtraction (based upon their age or receipt of death benefits) and the amount of the subtraction they may claim (based upon their respective qualifying income and the maximum allowable amounts, above). 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.

Social Security retirement benefits included in federal taxable income qualify for the pension and annuity subtraction. However, Social Security retirement benefits are not fully taxable on the federal level and, therefore, are not fully included in federal taxable income. If you file a joint return and both you and your spouse have taxable Social Security retirement benefits, then each spouse must separately calculate the amount of their own subtraction. Use the formula to the right to determine what part of each spouse's benefits is included in their federal taxable income and therefore eligible for the pension/annuity subtraction. Each spouse's share of the taxable Social Security benefits is eligible for the pension and annuity subtraction. See also the example for additional assistance.

Formula for calculating joint social security benefits 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 5b 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) $__________

Example.

Jamie and Jordan are married and file a joint return. They each receive pension income and Social Security retirement benefits. Their age and income information is detailed to the right. In completing their federal income tax return, they determine that only $6,000 of their $20,000 total Social Security benefits are taxable at the federal level and therefore included in their federal taxable income.

	Jamie	Jordan
Age	63	66
Pension income	$18,000	$0
Social Security benefits	$8,000	$12,000

Using this information, they complete the formula to determine the Social Security benefits of each spouse that are eligible for the subtraction.

Formula for calculating joint Social Security benefits eligible for subtraction	
1. Jamie's total Social Security benefits for the year	$ 8,000
2. Jordan's total Social Security benefits for the year	$ 12,000
3. Total of lines 1 and 2	$ 20,000
4. Jamie's percentage (line 1 divided by line 3)	40 %
5. Jordan's percentage (line 2 divided by line 3)	60 %
6. Taxable Social Security benefits included on federal Form 1040, line 20b or federal Form 1040A, 14b	$ 6,000
7. Jamie's share of taxable Social Security benefits (amount on line 6 multiplied by percentage on line 4)	$ 2,400
8. Jordan's share of taxable Social Security benefits (amount on line 6 multiplied by percentage on line 5)	$ 3,600

Jamie and Jordan's federal taxable income includes $2,400 of Social Security benefits for Jamie and $3,600 of Social Security benefits for Jordan. Jamie has a total of $20,400 income that is eligible for the pension and annuity subtraction: $2,400 of Social Security benefits and $18,000 of pension income. However, Jamie's pension and annuity subtraction is limited to $20,000 because Jamie is under the age of 65. Jamie cannot subtract the $400 of income in excess of the $20,000 limit nor can the income be included in Jordan's pension and annuity subtraction despite the fact that Jordan's own pension and annuity income ($3,600) falls under the maximum allowable subtraction Jordan could claim (a maximum allowable subtraction of $24,000 because Jordan was age 65 or older).

HOW TO CLAIM THE PENSION AND ANNUITY SUBTRACTION

If you meet the criteria outlined in this FYI and have qualifying pension or annuity income included in your federal taxable income, you can claim the pension and annuity subtraction by entering the appropriate amount on the applicable line ("Primary Taxpayer Pension, Annuity, IRA, Social Security, or Disability Income" or "Spouse Pension, Annuity, IRA, Social Security, or Disability Income") of your Colorado income tax return. The subtraction is claimed on the Subtractions from Income Schedule (Form DR 0104AD). For part-year residents and nonresidents, the subtraction must also be entered on the appropriate line(s) of Part-Year Resident/Nonresident Tax Calculation Schedule (Form 104PN).

RAILROAD RETIREMENT BENEFITS SUBTRACTION

Federal law exempts railroad retirement benefits from state income taxes. The railroad retirement benefits subtraction is allowed on the *Subtractions from Income Schedule* (Form DR 0104AD) for any railroad retirement benefits reported on Form RRB-1099 or Form RRB-1099-R and included in a taxpayer's 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 Benefits (NSSEB);
- Tier II benefits;
- Vested dual benefits; and
- Supplemental annuity benefit.

ADDITIONAL RESOURCES

The following is a list of statutes, regulations, forms, and guidance pertaining to pension 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. Taxpayers with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-22-104(4)(f), C.R.S.
- Regulation 39-22-104(4)(F). Pension and annuity subtraction.
- 45 U.S.C. § 231m. Assignability; exemption from levy.

Colorado forms and guidance

- Form 104 booklet – Colorado Individual Income Tax Filing Guide
- FYI Income 16 – Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits

IRS forms, publications, and guidance

- Form 1099-R – Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- Form SSA-1099 – Social Security Benefit Statement
- Form RRB-1099 – Payments by the Railroad Retirement Board
- Form RRB-1099-R - Annuities or Pensions by the Railroad Retirement Board
- IRS Topic 410 – Pension and Annuities
- IRS Topic 412 – Lump-Sum Distributions
- IRS Topic 413 – Rollovers from Retirement Plans
- IRS Topic 557 – Additional Tax on Early Distributions from Traditional and Roth IRAs
- IRS Topic 558 – Additional Tax on Early Distributions from Retirement Plans Other Than IRAs
- IRS Publication 575 – Pension and Annuity Income
- IRS Publication 590-B – Distributions from Individual Retirement Arrangements (IRAs)
- IRS Publication 721 – Tax Guide to U.S. Civil Service Retirement Benefits
- IRS Publication 915 - Social Security and Equivalent Railroad Retirement Benefits
- IRS Publication 939 – General Rule for Pensions and Annuities