

**Second Regular Session
Seventieth General Assembly
STATE OF COLORADO**

PREAMENDED

*This Unofficial Version Includes Committee
Amendments Not Yet Adopted on Second Reading*

LLS NO. 16-0669.01 Ed DeCecco x4216

SENATE BILL 16-001

SENATE SPONSORSHIP

Crowder, Cadman, Roberts, Scheffel, Sonnenberg, Baumgardner, Marble, Tate, Holbert, Lundberg, Martinez Humenik, Cooke, Woods, Grantham, Scott

HOUSE SPONSORSHIP

(None),

Senate Committees

Finance
Appropriations

House Committees

A BILL FOR AN ACT

101 **CONCERNING THE EXPANSION OF THE STATE INCOME TAX DEDUCTION**
102 **FOR MILITARY RETIREMENT BENEFITS.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://www.leg.state.co.us/billsummaries>.)

The starting point for determining state income tax liability is federal taxable income. This number is adjusted for additions and subtractions (deductions) that are used to determine Colorado taxable income, which amount is multiplied by the state's 4.63% income tax rate. Currently, a person who is 55-64 years old may deduct up to \$20,000 of his or her military retirement benefits from federal taxable income, and

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
*Capital letters indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.*

a person who is 65 years old or older may deduct up to \$24,000.

With respect to military retirement benefits, the bill eliminates these limits and allows a person to claim a state income tax deduction for the entire amount.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. In Colorado Revised Statutes, 39-22-104, **amend** (4) (f) (III); and **add** (4) (f) (IV) as follows:

39-22-104. Income tax imposed on individuals, estates, and trusts - single rate - definitions - repeal. (4) There shall be subtracted from federal taxable income:

(f) (III) For income tax years commencing on or after January 1, 1989, amounts subtracted under this paragraph (f) shall not exceed twenty thousand dollars per tax year; except that:

(A) For income tax years commencing on or after January 1, 2000, amounts subtracted under subparagraph (I) of this paragraph (f) shall not exceed twenty-four thousand dollars per tax year for any individual who is sixty-five years of age or older at the close of the taxable year; ~~For the purpose of determining the exclusion allowed by this paragraph (f), in the case of a joint return, social security benefits included in federal taxable income shall be apportioned in a ratio of the gross social security benefits of each taxpayer to the total gross social security benefits of both taxpayers. For the purposes of this paragraph (f), "pensions and annuities" means retirement benefits that are periodic payments attributable to personal services performed by an individual prior to his or her retirement from employment and that arise from an employer-employee relationship, from service in the uniformed services of the United States, or from contributions to a retirement plan which are deductible for federal income~~

1 tax purposes. "Pensions and annuities" includes lump-sum distributions
2 from pension and profit sharing plans to the extent that such distributions
3 qualify for the tax-averaging computation under section 402 (e)(1) of the
4 internal revenue code, distributions from individual retirement
5 arrangements and self-employed retirement accounts to the extent that
6 such distributions are not deemed to be premature distributions for federal
7 income tax purposes, amounts received from fully matured privately
8 purchased annuities, social security benefits, and amounts paid from any
9 such sources by reason of permanent disability or death of the person
10 entitled to receive the benefits. AND

11 (B) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
12 1, 2017, THERE IS NO LIMIT ON THE AMOUNT SUBTRACTED UNDER
13 SUBPARAGRAPH (I) OF THIS PARAGRAPH (f) FOR AN AMOUNT RECEIVED AS
14 A PENSION OR ANNUITY THAT ARISES FROM AN INDIVIDUAL'S SERVICE IN
15 THE UNIFORMED SERVICES OF THE UNITED STATES. AMOUNTS RECEIVED
16 FROM ALL OTHER TYPES OF PENSIONS OR ANNUITIES ARE SUBJECT TO THE
17 OTHER LIMITS SET FORTH IN THIS SUBPARAGRAPH (III) WITHOUT REGARD
18 TO THE AMOUNT SUBTRACTED UNDER THIS SUB-SUBPARAGRAPH (B).

19 (IV) FOR THE PURPOSE OF DETERMINING THE EXCLUSION ALLOWED
20 BY THIS PARAGRAPH (f), IN THE CASE OF A JOINT RETURN, SOCIAL
21 SECURITY BENEFITS INCLUDED IN FEDERAL TAXABLE INCOME SHALL BE
22 APPORTIONED IN A RATIO OF THE GROSS SOCIAL SECURITY BENEFITS OF
23 EACH TAXPAYER TO THE TOTAL GROSS SOCIAL SECURITY BENEFITS OF
24 BOTH TAXPAYERS. FOR THE PURPOSES OF THIS PARAGRAPH (f), "PENSIONS
25 OR ANNUITIES" MEANS RETIREMENT BENEFITS THAT ARE PERIODIC
26 PAYMENTS ATTRIBUTABLE TO PERSONAL SERVICES PERFORMED BY AN
27 INDIVIDUAL PRIOR TO HIS OR HER RETIREMENT FROM EMPLOYMENT AND

1 THAT ARISE FROM AN EMPLOYER-EMPLOYEE RELATIONSHIP, FROM SERVICE
2 IN THE UNIFORMED SERVICES OF THE UNITED STATES, OR FROM
3 CONTRIBUTIONS TO A RETIREMENT PLAN WHICH ARE DEDUCTIBLE FOR
4 FEDERAL INCOME TAX PURPOSES. "PENSIONS OR ANNUITIES" INCLUDES
5 LUMP-SUM DISTRIBUTIONS FROM PENSION AND PROFIT SHARING PLANS TO
6 THE EXTENT THAT SUCH DISTRIBUTIONS QUALIFY FOR THE
7 TAX-AVERAGING COMPUTATION UNDER SECTION 402 (e) (1) OF THE
8 INTERNAL REVENUE CODE, DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT
9 ARRANGEMENTS AND SELF-EMPLOYED RETIREMENT ACCOUNTS TO THE
10 EXTENT THAT SUCH DISTRIBUTIONS ARE NOT DEEMED TO BE PREMATURE
11 DISTRIBUTIONS FOR FEDERAL INCOME TAX PURPOSES, AMOUNTS RECEIVED
12 FROM FULLY MATURED PRIVATELY PURCHASED ANNUITIES, SOCIAL
13 SECURITY BENEFITS, AND AMOUNTS PAID FROM ANY SUCH SOURCES BY
14 REASON OF PERMANENT DISABILITY OR DEATH OF THE PERSON ENTITLED
15 TO RECEIVE THE BENEFITS.

16 **SECTION 2. Act subject to petition - effective date.** This act
17 takes effect at 12:01 a.m. on the day following the expiration of the
18 ninety-day period after final adjournment of the general assembly (August
19 10, 2016, if adjournment sine die is on May 11, 2016); except that, if a
20 referendum petition is filed pursuant to section 1 (3) of article V of the
21 state constitution against this act or an item, section, or part of this act
22 within such period, then the act, item, section, or part will not take effect
23 unless approved by the people at the general election to be held in
24 November 2016 and, in such case, will take effect on the date of the
25 official declaration of the vote thereon by the governor.