

Colorado Department of Revenue



A Revenue Publication for Businesses, Tax Professionals, Local Governments and Individuals

June 2005

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NOTE: All links to DOR forms referenced in this document require you to have the free [Adobe Acrobat Reader](#) software

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Do you want to avoid mailing estimated tax forms and payments?

You may file and pay your estimated income taxes electronically. With one toll-free phone call you can pay your estimated tax without writing a check or mailing a form. The EFT system also lets you establish a payment schedule for the year so you won't forget to make your quarterly payment. The money is transferred to the Department of Revenue and credited to your account on the day you request. If you currently use ACH credit for payments, you may make estimated income tax payments that way as well.

The EFT telephone call will require that you enter your

- EFT authorization number,
- password,
- tax type code,
- filing period,
- dollar amount.

Complete the EFT Authorization Form, [DR 5774](#) for individuals, [DR 5778](#) for corporations, to obtain your EFT authorization number. **Note:** Each of these forms are located in the booklets 112 EP (For Corporations) and 104 EP (For Individuals).



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Child Care Contribution Credit update

The Department of Revenue held a regulation hearing on May 3, 2005 to clarify the child care contribution income tax credit. The major change to regulation 39-22-121 clarified the definition of an unlicensed child care program. This regulation is scheduled to become effective on June 30, 2005. The revised regulation can be viewed at www.taxcolorado.com under "Publication/Resources" and "[Final Regulations](#)". [FYI Income 35 "Child Care Contribution Credit"](#) has also been updated to include the clarified definition and can be viewed at www.taxcolorado.com under "[FYIs](#)".



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2D Barcode begins its second season

Many of the individual income tax returns (Form 104) again had a two dimensional (2D) barcode printed at the top of the form. A collaborative effort that began with last year's 2003 filing season between the Department of Revenue, tax preparers, and software developers, the 2D barcode is designed to improve the processing of a paper return. By the first week of May 2005, more than 90,000 returns containing 2D barcodes were filed.

Information entered on the form including name, address, amount lines, 104 CR (Individual Credit Schedule), 104 PN (Part-Year Resident/Non Resident Tax Calculation Schedule) W2 and 1099 information is incorporated in the barcode on computer generated tax returns. This barcode looks like a pattern of dots in a rectangle printed above the name and address fields. When the department receives the return, the 2D barcode is scanned, automatically capturing all the taxpayer's data without any manual data entry.

Because 2D barcoding will speed the processing of the return while reducing data entry errors, taxpayers should receive their income tax refunds faster with the added benefit of improving department efficiency.

The 2D barcode feature is only available through a few tax professionals using software that is designed to create a barcode and has been tested by the Colorado Department of Revenue. Companies offering 2D barcode generation for tax year 2004 include CCH, Creative Solutions, Drake, H&R Block, and Petz Enterprises. You should contact your software provider to determine their plans regarding the use of 2D barcode capable software.

Avoiding common 2D barcoding mistakes

It is important that those using 2D barcode software be aware of common but avoidable mistakes. Last year the department did experience problems with 2D because of errors such as:

- Information was handwritten on many returns. The 2D barcode only contains the information that is part of the computer-generated form. If a preparer or taxpayer added or changed fields on the return after the form was printed, this data was not included in the 2D barcode.
 - If a name, address, social security number or any of the amount fields was changed, the 2D barcode could not be scanned and the return had to be manually data entered. This delayed the Department's processing and the taxpayer's refund.
 - Direct Deposit information was frequently handwritten on 2D barcoded returns. This meant the direct deposit information was not included in the barcode, and therefore the taxpayer received a paper check rather than an electronic refund. If a taxpayer wants to receive their refund by direct deposit on a 2D barcoded return, the depository account information must be entered *before* the return is printed.

- Preparers and taxpayers also made changes to the second page of the 104 return, but only reprinted that page. Since the 2D barcode is located on the first page, the entire form must be reprinted to reflect any changes. Otherwise, the 2D barcode will not match the data shown on the second page of the form.
- The Department of Revenue received a large percentage of 2D barcoded returns in which the taxpayer owed money, but did not send a check with their return, or sent a check for a different amount than was owed. Therefore, the Department is requiring preparers to print a payment voucher with all 2D barcoded returns calculating an amount due. The Department is also requesting all 2D barcode preparers to instruct taxpayers to include the Form DR 0900, Individual Income Tax Payment Voucher, with their payment, whether or not the payment accompanies the tax return. This will help the Department correctly apply all payments to taxpayer accounts.



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More than 900,000 file income tax returns electronically

The Colorado Department of Revenue again offered income tax filers the opportunity to file their taxes by Internet or by telephone. More 900,000 of Colorado taxpayers filed their income tax returns electronically through Federal State Electronic Filing (filing through a tax professional or tax filing software); NetFile (filing on the Internet); or through TeleFile (filing by touch-tone telephone).

As of mid-May 2005 the following number of taxpayers filed their 2004 state income tax returns electronically:

Federal State Electronic Filing:	780,816
NetFile:	101,923
TeleFile	22,884
Total:	905,623

To learn more about the NetFile and TeleFile programs visit the department's Web site to obtain the [2004 104 Individual Income Tax Form and Instructions](#).

Also visit the department's Web site for electronic filing option information and additional income tax forms, tax information and publications at: www.taxcolorado.com



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Sales Tax:

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Service Fee set for increase

The service fee rate for state sales tax will remain at 2.33% through June 30, 2005.

Effective July 1, 2005, the state service fee (vendor's fee) rate will increase to 3.33 percent. This change is reflected in the 2005 coupon booklet beginning with the July return on line 8 (a).



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Sales on delivery charges on purchases from mail-order catalogue companies

People often ask whether they must pay sales tax on the delivery charges assessed on purchases they make from mail-order catalogue companies doing business in Colorado.

For example, John orders a shirt from a mail-order or website catalogue company for \$30. The company charges a \$5 freight and delivery fee. Should the company charge sales tax on \$30 or \$35?

The answer depends on whether the customer has the option of arranging for their own freight and delivery. If John is given the option of picking up the shirt directly, or arranging for his own shipping

either by U.S. mail or an independent carrier, then sales tax should be charged on only the \$30. If John does not have an option, but must agree to the freight, delivery, or shipping arranged by the company, then sales tax is due on \$35 (the price of the shirt and the transportation).

The Colorado Supreme Court ruled that non-manufacturing services associated with the sale of goods are not subject to tax if they are "separable" from the sale of the goods. One of the key tests for determining whether a service is separable is whether the purchaser has the option to decline the service and/or arrange to provide the service themselves. Thus, unless a customer has a choice in arranging for their own delivery or transportation charges, the charges are subject to tax. For more information see Special Regulation 18 – Transportation Charges and *A.D. Store Co. v. Colorado*, 19 P.3d 680 (Colo. 2001).



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RTA includes parts of Unincorporated Eagle County

Effective January 1, 2005 a .2% RTA tax was added within 4 voting districts in unincorporated Eagle County. The Rural Transportation Authority (RTA) Tax is a sales/use tax applicable to certain areas within Colorado including the Roaring Fork area. Tax rates in this area also include: 0.4% in Basalt, 0.7% in Carbondale and 0.6% in Glenwood Springs and the city of New Castle .4% and. The sales tax is remitted on [Form DR 0100](#) in the Special District column.



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Withholding Tax:

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Important income tax withholding reminder

Every employer required to withhold Colorado income tax must report the information to the Colorado Department of Revenue by the last day of February each year. This information shall be reported using form W2, which can be obtained from the Internal Revenue Service. If the business employs more than 250 persons, they are required to report withholdings using the MMREF-1 format. *It is important to recognize that the Social Security Administration does not forward your information to the Colorado Department of Revenue.* You must submit your data to **both** taxing entities.

Details regarding the MMREF-1 format are located at www.ssa.gov

For more details regarding filing Colorado withholding tax, please refer to [FYI publication Withholding 5 "Colorado Withholding Tax Requirements"](#)



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Wage Withholding Tax System made easy for zero filers

Withholding tax filers that do not have wage withholding to report for a specific filing period must still file a wage withholding tax return with the Colorado Department of Revenue indicating "zero" tax due. However, this process has now been simplified through the Department's "[Colorado Withholding Tax Zero File](#)" system.

This free 24-hour system is designed specifically for zero wage withholding tax filers, allowing them to file their Colorado Wage Withholding Tax Return ([Form DR 1094](#)) easily and safely. The zero filing system allows most employers to file online or by telephone.

Who can use this service?

- Employers who had no state income tax withholding to report and no payment due.
- Employers who file monthly, quarterly or seasonally. (NOTE: This system cannot be used for annual reconciliation filing. See "[FYI Withholding 3 DR 1093 Income Withholding Transmittals or Annual Reconciliation](#)" for information on annual reconciliation filing at www.taxcolorado.com under "[Withholding FYIs](#)")
- Employers with a current Colorado wage withholding account or whose account was closed within the last three years.

Who cannot use this service?

- Employers who are registered for Electronic Funds Transfer (EFT) and have a "frequent" or "weekly" filing status must file a zero return using EFT – they cannot use this "zero" filing system.
- Employers who do not have a Colorado withholding tax account number.

What information do employers need to use this service?

- Valid or current Colorado wage withholding account number
- Filing period(s) being reported.

Other Information

- Zero filers will need either Netscape 4.0 (or higher) or Internet Explorer 3.02 (or higher) to use the online application.
- Account numbers must be 7 digits. If the account is closed or the proper number of digits was not entered the user will receive an error message indicating "No account with that number was found."
- Only one zero return should be filed for a single period, therefore, the employer should not file a paper return in addition to using the service for a specific filing period.
- If a mistake on the return was made, submitted and confirmation received through the zero filing system the employer must then file a paper "amended" wage withholding tax return to correct the error. If a filer has not completed the filing or received a confirmation they can go back during the initial session and make corrections. However, once the return has been completed and confirmed users cannot go back in the system to correct the return if an error is discovered.
- Only original returns can be filed online -- amended returns cannot.
- The online system will **not** allow employers to print a copy of the return. Attach a copy of the confirmation email to the return or coupon for the period filed and keep it as a record.
- If an employer files zero withholding tax using this system they will still continue to receive their paper returns or coupons in the mail.
- If an employer successfully completes the filing of a the tax return an email confirmation will be sent stating the return was submitted. If done by telephone, confirmation will be given at the end of the session. If no confirmation is received the return was not submitted successfully and the employer must file online or by telephone again for that period.

To file a zero return online visit the Web site address at: www.taxcolorado.com "under "Online Services," click on "Electronic Filing Options," then click on the "Wage Withholding Tax Zero File" link.

Filing by Telephone:

Zero wage tax filers may also file by telephone. The basic requirements listed above apply for telephone filing as well. The system will give a confirmation number for returns submitted successfully. To file a zero return by telephone call: (303) 205-8290 (TAX0)

This service is available 24-hours a day, free of charge and no prior registration is required. For additional information regarding "zero" withholding filing go to the online zero system and click on "[Frequently Asked Questions](#)."



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Other Tax Information:

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RTD Tax increases to 1.0 percent

The state collected Regional Transportation District Tax (RTD) was increased from 0.6 percent to 1.0 percent (increased by .4%) effective January 1, 2005. The RTD use tax is also 1.0 percent.

The RTD service fee is 3 1/3 percent. The RTD tax does have certain exemptions that apply, such as food for home consumption, gas and electricity for residential use, occasional sales by charitable organizations, farm equipment and pesticides. These exemptions are the same for state sales tax.



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When to file an Estate Tax Return

The Colorado Estate Return ([Form DR 1210](#)) must be filed if the date of death is prior to January 1, 2005 and a United States Estate (and Generation-Skipping Transfer) Tax Return (Form 706, or 706NA for a non-resident alien decedent) is required to be filed.

Generally, a federal estate tax return is required to be filed if the federal tax exceeds the unified credit amount (or the taxable estate exceeds the applicable exclusion amount) for the year the decedent died. The unified credit schedule is as follows:

<u>Year</u>	<u>Unified Credit</u>	<u>Applicable Exclusion Amount</u>
2002 and 2003	\$345,800	\$1,000,000
2004	\$555,800	\$1,500,000

The state death tax credit has been phased-out of Form 706 for decedents dying after 2004. There is no Colorado estate tax due for estates with decedents dying in 2005 or later.

For more information regarding estate tax see [FYI Estate 1 "Colorado Estate Tax"](#) or visit the [Tax Information Index](#) at www.taxcolorado.com

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Steamboat Springs begins collecting Local Marketing District Tax

Steamboat Springs Local Marketing District established within the City of Steamboat Springs now levies a 2% Local Marketing Tax effective May 1, 2005. The tax is remitted quarterly to the Department of Revenue on [Form DR 1490](#) "Local Marketing District Tax Return."

The Local Marketing District Tax applies to leasing or rental of hotel and motel rooms or other public accommodation in any hotel as well as apartment hotel and motel, lodging house, condominium, guest house, guest ranch, mobile home or trailer court or park for a total continuous duration of less than 30 days if the location is within the Local Marketing District.



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City of Frisco Becomes Home Rule

Effective July 1, 2005 the City of Frisco will become a home-rule self administered city. This is a result of a change in the city ordinance for Frisco so that it may begin collecting and administering its own city tax. See Publication [DRP 1002 "Colorado Sales and Use Tax Rates"](#) for Frisco and other tax rates statewide.



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Web Site Information:

Sales and Use Tax added to online index

Sales and Use Tax topics have now been added to the Colorado Department of Revenue's online "Tax Information Index." The sales and use tax topics are a part of the ongoing expansion of tax topics that also includes income tax, wage withholding, estate tax and severance tax topics. **Note:** The sales and use tax index is in its first phase. Check the site regularly as additional sales and use tax topics are being added weekly.

The Tax Information Index gives users a centralized place to research all available documentation that the Department of Revenue has published on a particular subject. This includes direct links to publications, FYIs, common questions and answers, forms, links to the Colorado Revised Statutes site and direct links to regulations and bulletins and determinations that relate specifically to the topic they want in one easy search.

The index is updated regularly as topics are added and revised to keep taxpayers informed with the most current information. This comprehensive site will continue to expand, eventually including excise and cigarette/tobacco topics.

Visit the "[Tax Information Index](#)" on the Department of Revenue's Web site at www.taxcolorado.com



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