

FYI – For Your Information

Colorado Withholding Tax Requirements

GENERAL INFORMATION

Employers are required to have a Colorado withholding account and remit Colorado withholding taxes if:

- 1) The compensation is subject to federal withholding for income tax purposes; and
- 2) Employees are Colorado residents (working inside or outside Colorado), **or** employees are nonresidents of Colorado performing services in Colorado.

*See §39-22-604 (2)(a), C.R.S., for definition of "employee."

*Employees who are not residents of Colorado and perform services in connection with any phase of motion picture production or television production or television commercials for less than 120 days during any calendar year are exempt from Colorado income tax withholding.

Colorado does not have a state equivalent of the federal form W-4. Employees should complete the federal W-4 for both federal and Colorado wage withholding tax purposes. An employer must file with the Department of Revenue any W-4 for any employee who is expected to earn more than \$200 per week and who lists more than 10 withholding allowances or an Exempt status. Additionally, these W-4 forms shall include a cover letter listing the employer name, address, FEIN, and the number of Withholding Allowance Certificates included. The Colorado Department of Revenue will contact you should it be determined that the requested exemptions must be modified. Withholding Allowance Certificates shall be mailed to:

Colorado Department of Revenue
Fair Share Section
1375 Sherman Street, Room 634
Denver, CO 80261

OPENING AN ACCOUNT

To open a wage withholding account with the Colorado Department of Revenue, submit a completed "Colorado Business Registration" (CR 0100). There is no fee for a withholding account. An employer may also register for a withholding tax account by filing the CR 0100 online through the Department of Labor and Employment at: www.coworkforce.com Filing the CR 0100 will also establish your unemployment insurance account. Unemployment insurance forms and additional information on unemployment insurance can be obtained by calling the Colorado Department of Labor and Employment at (303) 318-9100 or 1-800-480-8299 (outside of the metro area only) or visiting their Web site as listed above.

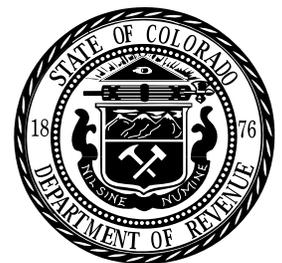
CLOSING AN ACCOUNT

If an employer closes his/her withholding tax account because they no longer employ individuals they must indicate so on their final withholding return or use form DR 1102 "Account Change or Closure Form" no later than 30 days after close of business.

FILING REQUIREMENTS

Withholding tax must be deducted and paid in whole dollar amounts. To determine your filing frequency, estimate the amount of withholding tax you expect to pay for all your employees in one year. Based on that estimation, please review the following:

- **Quarterly** – Employers who report less than \$7,000 withholding tax per year. Quarters end on March 31, June 30, September 30 and December 31. Taxes are due to the Colorado Department of Revenue on the last day of the month following the quarter end date.



Colorado Department
of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Forms: (303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)
www.taxcolorado.com

- **Monthly** – Employers who report between \$7,000 and \$50,000 withholding tax per year. Taxes are due to the Colorado Department of Revenue on or before the fifteenth day of the following month.

- **Weekly** – Employers who report more than \$50,000 withholding tax per year.

Taxes for weekly filers must be transmitted to the Colorado Department of Revenue on or before the third business day following the end of the week. The week always ends on **Friday** with one exception. **Exception** – At the end of the year, weekly filers must make a final transmission that includes all taxes withheld for all payrolls through December 31. Therefore, December 31 will be the filing period ending date for this transmission, even if it is not a Friday. The **payment** transmission is due three business days after December 31.

All weekly filers are required to obtain an EFT account number and remit their tax via electronic funds transfer. Withholding coupon booklets are not issued to weekly filers.

- **Seasonal** – Employers who do not operate their business during the entire calendar year, and do not pay wages while the business is not operating may request special handling of their filing frequency. Prior approval from the DOR must be obtained to file seasonally. Taxes are due to the Colorado Department of Revenue on or before the fifteenth day of the month following the operating month.

A withholding tax return **must** be filed by the prescribed due date even if no taxes have been withheld. In this case, the return should be filed to report zero tax withheld. Weekly filers are granted an exception in this case, and can file “no tax” returns on a monthly basis if applicable.

Should a due date fall on a non-business day, taxes are considered timely if they are paid on the first business day following the due date.

The department will conduct an annual review to evaluate an employer’s filing frequency. The filing frequency is measured by the amount of withholding tax paid during the “lookback period”. The lookback period is defined by the preceding 12-month filing period (July 1 through June 30). For example, the filing status for calendar year 2007 will be set by examining the withholding tax remittances made from July 1, 2005 to June 30, 2006.

Should the filing frequency increase due to this examination, the department will notify the employer before January of the next calendar year. However, if an employer is eligible to file **less** frequently, the department will **not** change the filing frequency. The employer must contact the department to request the frequency change. **The employer must continue to file at the current frequency until the department sends notification of the frequency change if approved.**

Withholding Tax Non-filer Notices

If an employer does not file a required return, an estimated tax due assessment will be automatically issued on Form DR 6604 “Reminder To File.” It is an arbitrary tax assessment based on the filing history. If there is no filing history, then an arbitrary tax amount will be assessed. You are required to file an actual return and pay the appropriate amount of tax due. Even if you pay the estimated tax assessment, you are not relieved of the requirement to file the actual return.

Filing Methods

There are two methods available for remitting Colorado withholding taxes: by check with a remittance coupon, or via Electronic Funds Transfer (EFT.)

- **Withholding Coupon Books** – Employers who are not required to pay by EFT will receive a pre-printed withholding tax coupon book; it will be mailed to you in about six weeks. The coupon book contains tear-out wage withholding returns (DR 1094), the transmittal form used to accompany annual W2 statements (DR 1093), and an account modification form (DR 1102). New coupon books are automatically sent in January of each

calendar year. Use the remittance coupons in order, as they contain pre-printed data regarding the filing period.

• **Electronic Funds Transfer (EFT)** – Employers who pay more than \$50,000 withholding tax per year are **required** to file via EFT. Employers who do not meet this requirement are encouraged to file via EFT as it virtually eliminates the potential of processing errors. EFT is facilitated by making a telephone call and entering a series of touch-tone commands or selecting “e-Payment Options” on the department’s Web site at www.TaxColorado.com under “Online Services.”

To become an EFT filer, you must complete the application form DR 5785 “Authorization For Electronic Funds Transfer (EFT) For Tax Payments.” Applicants should continue to use their coupon books until they are in receipt of the assigned EFT account number, at which time they should discard any remaining coupons. EFT filers **must not** submit paper withholding returns. Once an account is designated as an EFT filer, coupon books will no longer be mailed by the Department of Revenue.

Note: All EFT applicants must indicate whether the account shall be designated as credit or debit. The debit designation is available to all EFT filers, while the credit designation is rarely allowed by banking institutions. Credit transactions may require a bank fee for each occurrence. Please check with your banking institution prior to applying for a credit designation to determine availability and cost.

Additionally, you may be eligible to use your EFT account to remit sales, income and other tax payments. Your application should indicate all taxes for which you will use your EFT account. **However, you must continue to submit all paper sales and income tax returns in order to properly report your taxes.**

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. To file a zero return online visit the Web at:

www.taxcolorado.com under “Online Services,” click on “Electronic Filing Options,” then click on the “Wage Withholding Tax Zero File” link. To file a zero return by telephone call (303) 205-8290 (TAX0)

ANNUAL INFORMATION RETURNS

Annual Wage and Withholding Statements (W-2) must be filed with the Colorado Department of Revenue. Any W-2 paper form that meets the federal filing specifications is acceptable. Please note the following schedule for W-2 forms:

By January 31 Furnish form to each employee

By February 28 File paper W-2 forms and DR 1093 – Annual Reconciliation. Any catch-up payment due

By March 31 File W-2 forms via the Withholding Online (WHO) system

Further details about filing annual information returns is available in publication FYI Withholding 6 “Methods of Filing Colorado Annual W-2 Tax Data” located on the Web at www.taxcolorado.com and at www.revenue.state.co.us/filecow2

CORRECTING RETURNS

Excess withholding paid in error

If a withholding return was previously filed with an erroneous excess payment, the employer should reduce the amount of future payments during the calendar year to offset the error. Complete the back portion of Form 1094 "Income Withholding Tax Return" explaining the correction. The worksheet provides instruction as to the correct amount to be entered on line 2 of Form DR 1094.

If the error is discovered during the following calendar year, the correction is calculated on Form DR 1094, and entered on line 3.

If the amount of the error exceeds the total tax due for the calendar year, Form DR 0137 "Claim For Refund" can be filed to claim any overpayment.

Paying less than the amount due

If a withholding return was submitted that underreported the amount due, the balance of the tax plus penalty and interest can be paid with future returns filed during the calendar year. Complete the back of Form DR 1094 "Withholding Tax Return," explaining the correction and enter the additional amount due on line 7 of Form DR 1094.

If the error is discovered in a future calendar year, the taxpayer must prepare a supplemental return, Form DR 1094, that reports the erroneous period, the amount of additional tax due, and any applicable penalty and interest and submit the return with a payment.

Employees

If erroneous information was reported to an employee as excess tax withheld on a pay stub, or if the amount was withheld from an employee in error, then a supplemental schedule or letter must be attached to the DR 1094 stating:

- what the error is,
- the period in which the error occurred,
- the amount of each error,
- the date the error was discovered, and

- attach an employee affidavit consenting to the refund or credit for the employer and affirmation that the employee will not claim a refund or credit of such for personal income tax purposes.

CORRECTING W-2s

Informational errors If a W-2 is issued with an informational error such as an incorrect social security number or account number, the Department of Revenue will accept a W-2C to correct the error. Submit the corrected W-2C forms with a cover letter to 1375 Sherman St., Room 634, Denver CO 80261.

Withholding errors

If a W-2 is issued with an error in the amount of Colorado tax withheld, a corrected W-2C can be submitted on or before the due date (February 28) of the original W-2 submittal Form DR 1093 "Transmittal of State W-2s and 1099s."

If a W-2C can no longer be filed and the W-2 indicates that an excess amount was withheld and paid to the state of Colorado, the employer must pay the difference and include penalty and interest with a supplemental Form 1094 for the period the excess amount was withheld.

If a W-2C can no longer be filed and the W-2 indicates that less was withheld for Colorado than was actually withheld and paid to the state, the employer must claim a credit or refund for the difference and refund the balance to the employee.

WITHHOLDING FILING FORMS AND RESOURCES

Colorado Business Registration (Withholding Tax Application) – CR 0100

Withholding Tables – DR 1098

Electronic Funds Transfer (EFT)

Application – DR 5785

EFT Information Packet – DR 5782

Withholding Coupons (Return) – DR 1094

Annual Reconciliation – DR 1093

You may obtain forms on the Web at:

www.taxcolorado.com

Colorado Revised Statutes

Withholding Tax: §39-22-604, C.R.S.

EFT: §39-22-604.4, C.R.S.

FURTHER INFORMATION

FYIs and commonly used forms are available on the Web at *www.taxcolorado.com*

For additional withholding and income tax information visit the department's online Tax Index at *www.taxcolorado.com*

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter, or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the department, has not formally reviewed and/or approved these FYIs.