



Withholding 7

Colorado 1099/W-2G Income Withholding Tax Requirements

GENERAL INFORMATION

If Colorado tax is withheld, payers are required to have a Colorado 1099 and/or W-2G withholding account and remit the tax.

OPENING AN ACCOUNT

Taxpayers who withhold from amounts paid and reported on a form 1099 or form W-2G must set up a separate tax account with the Department of Revenue to pay the withholding. Complete and mail in the Sales Tax/Withholding Account Application (CR 0100) to apply for a 1099 or W-2G withholding account. Indicate in Box D whether you need a 1099 account or a W-2G account set up. You will use your current Colorado account number (CAN) or receive your CAN by mail if you don't already have an account. Allow four to six weeks for processing. There is no fee for a withholding account.

Beginning Jan. 1, 2012, the 1099 income withholding account is different and separate from the W-2 wage withholding account. The W-2G income withholding account has always been separate. You must still apply for a 1099 income withholding account even if you already have a W-2 wage withholding account or W-2G income withholding account.

CLOSING AN ACCOUNT

If a business no longer has payees, the 1099 income withholding account must be closed within 30 days. The account can be closed using the Address Change or Business Closure Form (DR 1102).

FILING REQUIREMENTS

Withholding tax must be deducted and paid in whole dollar amounts. To determine filing frequency, estimate the amount of withholding tax that the business will expect to pay for all 1099 or W-2G payees in one year. Based on that estimation the filing frequency for a new account will be as follows:

- **Quarterly**—Payers who report less than \$7,000 withholding tax per year. Quarters end on March 31, June 30, Sept. 30 and Dec. 31. Taxes are due on the last day of the month following the quarter end date.
- **Monthly**—Payers who report between \$7,000 and \$50,000 withholding tax per year. Taxes are due on or before the fifteenth day of the following month.
- **Frequent/Weekly**—Payers who report more than \$50,000 withholding tax per year. Taxes for weekly filers must be transmitted by Electronic Funds Transfer (EFT) to the Colorado Department of Revenue on or before the third business day following the end of the week in which a payment to a payee was made. The week always ends on Friday. A payer must file a return/payment for any week during which they have made a payment to a payee and withhold Colorado income tax. A return/payment is not required for any week during which no tax is withheld. However, if no tax is withheld for an entire month, the payer is required to file a zero return for the period ending on the last Friday of the month.

Exception: If December 31 does not fall on a Friday and taxes were withheld between the last Friday filing and December 31, then weekly filers must make a final return/payment that includes all unpaid taxes 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 is due three business days after December 31.

All weekly/frequent filers are required to obtain an EFT account number to remit their taxes electronically. You can sign up for EFT through your Revenue Online account or by using the DR 5785.

- **Seasonal**—Payers who report less than \$50,000 withholding per year, do not operate their business during the entire calendar year, and do not pay payees while the business is not operating may request a seasonal filing frequency. A monthly return must be filed for each month during the designated operating season and is due on or before the fifteenth day of the month following the operating month.

A withholding tax return must be filed for every filing period or at least once a month for weekly filers. If no taxes have been withheld during the filing period a return reporting zero tax withheld must be filed. When the due date falls on a weekend or holiday, 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 a payer's filing frequency. The filing frequency is measured by the amount of withholding tax paid during the "look-back period". The look-back period is defined by the preceding 12-month filing period (July 1 through June 30). For example, the filing status for calendar year 2014 will be set by examining the withholding tax

remittances made from July 1, 2012 to June 30, 2013. Should the filing frequency increase due to this examination, the department will notify the payer before January of the next calendar year. However, if a payer is eligible to file less frequently, the department will not change the filing frequency. The payer must contact the department to request the frequency change. The payer must continue to file at the current frequency until the department provides notification of the frequency change if approved.

HOW TO FILE AND PAY

- **Electronic Funds Transfer (EFT)**—Payers who pay more than \$50,000 withholding tax per year are required to file by EFT. Payers who do not meet this requirement are encouraged to file by EFT as it eliminates the need to file a return and the potential of processing errors.

You can sign up for EFT through your Revenue Online account or by using the Authorization for Electronic Funds Transfer (EFT) for Tax Payments (DR 5785). The EFT withholding payment satisfies the filing requirement and a paper withholding return should not be filed in addition to the EFT payment. Filing a paper return in addition to your electronic payment may result in an erroneous bill being issued. If zero tax is withheld for a tax period, a zero EFT payment can be transmitted to satisfy your filing requirement.

Payers who have an EFT account already set up for W-2 wage withholding **will be required** to add the 1099 or W-2G withholding tax type to their account to be able to file and pay the withholding. Please submit an Authorization for Electronic Funds Transfer (EFT) for Tax Payments (DR 5785) requesting the additional tax type. If desired, applicants may establish separate EFT accounts for their withholding accounts.

Note: For more information, see the Electronic Funds Transfer (EFT) Program for Tax Payments (DR 5782). Additionally, you may use your EFT account to pay sales, income and other tax payments. Your application should indicate all taxes for which you will use your EFT account.

- **Paper return and check or money order**—If a payer pays less than \$50,000 and cannot file by EFT, the Withholding Tax Return (DR 1107 for 1099s, and DR 1091 for W-2Gs) should be completed and mailed along with a check or money order to the department. Please note that this process may increase the chance of an error or problem and the use of the electronic payment option is strongly recommended.

A "bill payment" cannot be made electronically for withholding taxes. To ensure proper credit of a payment include a copy of the bill and write the business name, the Colorado Account Number, filing period, and type of tax on the check. Do not send cash. Make check payable to the Colorado Department of Revenue and mail to the address on the bill.

ANNUAL INFORMATION RETURNS

1099/W-2G statements may be submitted to the department by one of two methods: secure electronic submission through Revenue Online (www.Colorado.gov/RevenueOnline), or by paper.

Payers with greater than 250 payees are required to submit using Revenue Online.

Those businesses with fewer than 250 payees are encouraged to use Revenue Online to attach their file or to manually enter 1099s or W-2Gs. If mailing paper statements, the forms must meet federal filing specifications.

The file format for attached files must conform to the specifications in Internal Revenue Service (IRS) Publication 1220, Part C available at www.irs.gov. Filers may contact an outside vendor to purchase software or transmit files.

Important: The Colorado Department of Revenue **no longer** accepts magnetic media submissions by ½ inch tape, 3480 cartridge, CD-ROM, diskette or submissions through email. Revenue Online must be used instead of magnetic media and email submissions.

If you file your 1099s or W-2Gs electronically, you will not need to file a DR 1106 or a DR 1101 unless you have requested a refund or there is a balance due. In the case of a refund requested or a balance due, you will need to submit a paper DR 1106 or DR 1101 to the Department of Revenue.

If you cannot submit the forms electronically you must prepare the Annual Transmittal of State 1099 Forms (DR 1106) and/or the Annual Reconciliation of Income Tax Withheld on Gaming Winnings (DR 1101) and submit copies of the paper forms to the department.

Please note the following schedule for filing the forms:

- By the last day of January:** Furnish form to each payee
- By the last day of February:** File paper forms and DR 1106 and/or DR 1101. Any catch-up payment due. Or:
- By the last day of March:** File forms through Revenue Online.

CORRECTING RETURNS AND WITHHOLDING REFUND REQUIREMENTS

Claim Refunds on DR1107/1091

Overpayments of withholding for the current year only should first be deducted from the subsequent month(s) DR 1107/1091 returns, zeroing out these returns until the overpayment is satisfied.

If you cannot file using the DR 1107/1091, you may claim an overpayment using DR 1106/1101.

Claiming a Refund or Funds Remitted on a DR 1106/1101

The department issues refunds of 1099/W2G withholding once a year, for all withholding returns filed. These refunds are issued by completing and remitting an Annual Transmittal of State 1099s (DR 1106) or the Annual Reconciliation of Income Tax Withheld on Gaming Winnings (DR 1101) at the end of February, indicating the total amount withheld and reported in the prior year on 1099s/W2Gs. If you file your 1099s/W-2Gs electronically, for filing years 2012 and forward, you do not need to file a DR 1106/1101 unless you are requesting a refund or you are remitting an additional balance due. The DR 1106/1101 should be mailed to the Colorado Department of Revenue, Denver, CO 80261-0009.

Finally, if you are applying for a refund of 1099 or W2G withholding taxes remitted prior to your business filing of annual reconciliation, please indicate the reason for the request on a Claim for Refund (DR 0137). Refunds issued prior to the annual reconciliation will be denied unless an unusual circumstance is documented. For example, you paid your federal withholding to the state of Colorado in error.

To apply for a refund for a previous year, the following is required when submitting a DR 0137:

- An original or amended DR 1106/1101 indicating the year in review
- Copies of corrected W-2Gs or 1099s with complete information, indicating the change in withholding amount
- Documentation showing how the refund request amount was calculated
- Send the DR 0137 and requested documentation to:
Colorado Department of Revenue
Business Tax Section Room 208
PO Box 17087
Denver, CO 80217-0087

CORRECTING 1099S/W2GS

Informational errors

If a 1099 or W-2G is issued with an informational error such as an incorrect Social Security number or account number, the Department of Revenue will accept a corrected 1099/W2G to correct the error. Submit the corrected forms with a cover letter to:

Colorado Department of Revenue
Discover Section,, Room 634
PO Box 17087
Denver, CO 80217-0087.

Withholding errors

If a 1099 or W2G is issued with an error in the amount of Colorado tax withheld, a corrected 1099/W2G can be submitted on or before the due date (last day of February) of the original Annual Transmittal of State 1099 Forms (DR 1106) or the Annual Reconciliation of Income Tax Withheld on Gaming Winnings (DR 1101). If a corrected form can no longer be filed and the 1099/W2G indicates that an excess amount was withheld and paid to the state of Colorado, the payer must pay the difference and include penalty and interest with a supplemental DR 1107 or DR 1091 for the period the excess amount was withheld. If a corrected form can no longer be filed and the 1099/W2G indicates that less was withheld for Colorado than was actually withheld and paid to the state, the payer must claim a credit or refund for the difference and refund the balance to the payee.

WITHHOLDING FILING FORMS AND RESOURCES

Revenue Online, www.Colorado.gov/RevenueOnline

You may obtain all forms referenced at www.TaxColorado.com, the official Taxation Web site.

- Withholding Returns – File by EFT, Revenue Online or DR 1107 for 1099s and DR 1091 for W-2Gs.
- Annual Reconciliation – File by Revenue Online or DR 1106 for 1099s and DR 1101 for W-2Gs.

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 the authority to bind the Department, has not formally reviewed and/or approved these FYIs.