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Seventy-fifth General Assembly
STATE OF COLORADO

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BILL 7

LLS NO. 25-0221.01 Nicole Myers x4326

INTERIM COMMITTEE BILL

Legislative Oversight Committee Concerning Tax Policy

BILL TOPIC: Pension or Annuity State Income Tax Deduction

A BILL FOR AN ACT

101 **CONCERNING THE STATE INCOME TAX DEDUCTION OF AMOUNTS**
102 **RECEIVED BY INDIVIDUALS AS PENSIONS OR ANNUITIES FROM**
103 **ANY SOURCE.**

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://leg.colorado.gov/>.)

Legislative Oversight Committee Concerning Tax Policy. Currently, individuals who are 55 years of age or older are allowed to subtract amounts received as pensions or annuities from any source from the individual's federal taxable income, to the extent the pensions or annuities are included in federal adjusted gross income. For individuals

*Capital letters or bold & italic numbers indicate new material to be added to existing law.
Dashes through the words indicate deletions from existing law.*

who are 55 years of age or older but less than 65 years of age, the current annual cap on the amount of pensions or annuities that may be subtracted from federal taxable income (annual cap) is \$20,000. For individuals who are 65 years of age or older, the current annual cap is \$24,000.

For income tax years commencing on or after January 1, 2026, the bill increases the annual cap for individuals who are 55 years of age or older but less than 65 years of age to \$40,000 and increases the annual cap for individuals who are 65 years of age or older to \$50,000. Both annual caps are annually adjusted for inflation. For income tax years commencing on or after January 1, 2026, the subtraction allowed for amounts received as pensions or annuities is not allowed for any individual whose adjusted gross income for the applicable tax year is greater than \$100,000.

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

2 **SECTION 1.** In Colorado Revised Statutes, 39-22-104, **amend**
3 (4)(f)(III)(A) and (4)(f)(III)(B); **repeal** (4)(f)(III)(C) and (4)(f)(III)(D);
4 and **add** (4)(f)(IV), (4)(f)(V), and (4)(f)(VI) as follows:

5 **39-22-104. Income tax imposed on individuals, estates, and**
6 **trusts - single rate - report - tax preference performance statement**
7 **- legislative declaration - definitions - repeal.** (4) There shall be
8 subtracted from federal taxable income:

9 (f) (III) (A) FOR INCOME TAX YEARS COMMENCING PRIOR TO
10 JANUARY 1, 2026, amounts subtracted under this subsection (4)(f) are
11 capped at twenty thousand dollars per tax year for any individual who is
12 fifty-five years of age or older but less than sixty-five years of age at the
13 close of the taxable year. For income tax years commencing on or after
14 January 1, 2025, the cap set forth in this subsection (4)(f)(III)(A) is
15 calculated by first considering the total amount of social security benefits
16 a taxpayer received that were included in federal taxable income at the
17 close of the taxable year. If the total amount of such social security
18 benefits exceeds the cap set forth in this subsection (4)(f)(III)(A), and the

1 taxpayer's adjusted gross income for the applicable tax year is less than
2 or equal to seventy-five thousand dollars if filing individually or
3 ninety-five thousand dollars if filing jointly, then the cap is increased to
4 an amount equal to the total amount of such social security benefits.

5 (B) FOR INCOME TAX YEARS COMMENCING PRIOR TO JANUARY 1,
6 2026, amounts subtracted under this subsection (4)(f) are capped at
7 twenty-four thousand dollars per tax year for any individual who is
8 sixty-five years of age or older at the close of the taxable year. For
9 income tax years commencing on or after January 1, 2022, the cap set
10 forth in this subsection (4)(f)(III)(B) is calculated by first considering the
11 total amount of social security benefits a taxpayer received that were
12 included in federal taxable income at the close of the taxable year. If the
13 total amount of such social security benefits exceeds the cap set forth in
14 this subsection (4)(f)(III)(B), then the cap is increased to an amount equal
15 to the total amount of such social security benefits.

16 ~~(C) For the purpose of determining the subtraction allowed by this~~
17 ~~subsection (4)(f), in the case of a joint return, social security benefits~~
18 ~~included in federal taxable income shall be apportioned in a ratio of the~~
19 ~~gross social security benefits of each taxpayer to the total gross social~~
20 ~~security benefits of both taxpayers.~~

21 ~~(D) As used in this subsection (4)(f), "pensions and annuities"~~
22 ~~means retirement benefits that are periodic payments attributable to~~
23 ~~personal services performed by an individual prior to his or her retirement~~
24 ~~from employment and that arise from an employer-employee relationship,~~
25 ~~from service in the uniformed services of the United States, or from~~
26 ~~contributions to a retirement plan that are deductible for federal income~~
27 ~~tax purposes. "Pensions and annuities" includes distributions from~~

1 ~~individual retirement arrangements and self-employed retirement~~
2 ~~accounts to the extent that such distributions are not deemed to be~~
3 ~~premature distributions for federal income tax purposes, amounts~~
4 ~~received from fully matured privately purchased annuities, social security~~
5 ~~benefits, and amounts paid from any such sources by reason of permanent~~
6 ~~disability or death of the person entitled to receive the benefits.~~

7 (IV) (A) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
8 JANUARY 1, 2026, AMOUNTS SUBTRACTED UNDER THIS SUBSECTION (4)(f)
9 ARE CAPPED AT FORTY THOUSAND DOLLARS PER TAX YEAR FOR ANY
10 INDIVIDUAL WHO IS FIFTY-FIVE YEARS OF AGE OR OLDER BUT LESS THAN
11 SIXTY-FIVE YEARS OF AGE AT THE CLOSE OF THE TAXABLE YEAR; EXCEPT
12 THAT THE SUBTRACTION ALLOWED PURSUANT TO THIS SUBSECTION (4)(f)
13 IS NOT ALLOWED FOR ANY INDIVIDUAL WHOSE ADJUSTED GROSS INCOME
14 FOR THE APPLICABLE TAX YEAR IS GREATER THAN ONE HUNDRED
15 THOUSAND DOLLARS. THE CAP SET FORTH IN THIS SUBSECTION
16 (4)(f)(IV)(A) IS CALCULATED BY FIRST CONSIDERING THE TOTAL AMOUNT
17 OF SOCIAL SECURITY BENEFITS A TAXPAYER RECEIVED THAT WERE
18 INCLUDED IN FEDERAL TAXABLE INCOME AT THE CLOSE OF THE TAXABLE
19 YEAR. IF THE TOTAL AMOUNT OF SUCH SOCIAL SECURITY BENEFITS
20 EXCEEDS THE CAP SET FORTH IN THIS SUBSECTION (4)(f)(IV)(A), AND THE
21 TAXPAYER'S ADJUSTED GROSS INCOME FOR THE APPLICABLE TAX YEAR IS
22 LESS THAN OR EQUAL TO SEVENTY-FIVE THOUSAND DOLLARS IF FILING
23 INDIVIDUALLY OR NINETY-FIVE THOUSAND DOLLARS IF FILING JOINTLY,
24 THEN THE CAP IS INCREASED TO AN AMOUNT EQUAL TO THE TOTAL
25 AMOUNT OF SUCH SOCIAL SECURITY BENEFITS.

26 (B) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
27 1, 2026, AMOUNTS SUBTRACTED UNDER THIS SUBSECTION (4)(f) ARE

1 CAPPED AT FIFTY THOUSAND DOLLARS PER TAX YEAR FOR ANY INDIVIDUAL
2 WHO IS SIXTY-FIVE YEARS OF AGE OR OLDER AT THE CLOSE OF THE
3 TAXABLE YEAR; EXCEPT THAT THE SUBTRACTION ALLOWED PURSUANT TO
4 THIS SUBSECTION (4)(f) IS NOT ALLOWED FOR ANY INDIVIDUAL WHOSE
5 ADJUSTED GROSS INCOME FOR THE APPLICABLE TAX YEAR IS GREATER
6 THAN ONE HUNDRED THOUSAND DOLLARS. THE CAP SET FORTH IN THIS
7 SUBSECTION (4)(f)(IV)(B) IS CALCULATED BY FIRST CONSIDERING THE
8 TOTAL AMOUNT OF SOCIAL SECURITY BENEFITS A TAXPAYER RECEIVED
9 THAT WERE INCLUDED IN FEDERAL TAXABLE INCOME AT THE CLOSE OF THE
10 TAXABLE YEAR. IF THE TOTAL AMOUNT OF SUCH SOCIAL SECURITY
11 BENEFITS EXCEEDS THE CAP SET FORTH IN THIS SUBSECTION (4)(f)(IV)(B),
12 THEN THE CAP IS INCREASED TO AN AMOUNT EQUAL TO THE TOTAL
13 AMOUNT OF SUCH SOCIAL SECURITY BENEFITS.

14 (C) THE CAPS SET FORTH IN SUBSECTIONS (4)(f)(IV)(A) AND
15 (4)(f)(IV)(B) OF THIS SECTION ARE ANNUALLY ADJUSTED FOR INFLATION.
16 AS USED IN THIS SUBSECTION (4)(f)(IV)(C), "INFLATION" MEANS THE
17 AVERAGE ANNUAL PERCENTAGE CHANGE OVER THE PRECEDING ONE-YEAR
18 PERIOD IN THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR
19 STATISTICS, CONSUMER PRICE INDEX FOR DENVER-AURORA-LAKEWOOD
20 FOR ALL ITEMS AND ALL URBAN CONSUMERS, OR ITS APPLICABLE
21 PREDECESSOR OR SUCCESSOR INDEX. THE DEPARTMENT OF REVENUE
22 SHALL POST THE CAPS SET FORTH IN SUBSECTIONS (4)(f)(IV)(A) AND
23 (4)(f)(IV)(B) OF THIS SECTION AS ANNUALLY ADJUSTED FOR INFLATION ON
24 THE DEPARTMENT'S WEBSITE.

25 (D) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
26 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
27 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY

1 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND
2 DECLARES THAT THE GENERAL PURPOSE OF THE TAX EXPENDITURES
3 CREATED IN THIS SUBSECTION (4)(f)(IV) IS TO PROVIDE TAX RELIEF FOR
4 CERTAIN INDIVIDUALS AND THAT THE SPECIFIC PURPOSE OF THE TAX
5 EXPENDITURES IS TO PROVIDE SUCH TAX RELIEF TO INDIVIDUALS WHO
6 RECEIVE PENSIONS AND ANNUITIES TO HELP FILL THE GAP BETWEEN THE
7 AMOUNT OF COST OF LIVING ADJUSTMENTS FOR PENSION RECIPIENTS AND
8 THE RATE OF INFLATION. THE GENERAL ASSEMBLY AND THE STATE
9 AUDITOR SHALL MEASURE THE EFFECTIVENESS OF THE EXEMPTION
10 ALLOWED BY THIS SECTION BASED ON THE TOTAL AMOUNTS RECEIVED AS
11 PENSIONS AND ANNUITIES THAT INDIVIDUALS WHO ARE FIFTY-FIVE YEARS
12 OF AGE OR OLDER SUBTRACT FROM THEIR FEDERAL TAXABLE INCOME
13 WHEN CALCULATING THEIR STATE TAXABLE INCOME. THE DEPARTMENT OF
14 REVENUE, IN CONSULTATION WITH THE STATE AUDITOR, SHALL COLLECT
15 THE INFORMATION NECESSARY FOR THE STATE AUDITOR TO MEASURE THE
16 EFFECTIVENESS OF THE INCOME TAX SUBTRACTION ALLOWED BY THIS
17 SUBSECTION (4)(f)(IV).

18 (V) FOR THE PURPOSE OF DETERMINING THE SUBTRACTION
19 ALLOWED BY THIS SUBSECTION (4)(f), IN THE CASE OF A JOINT RETURN,
20 SOCIAL SECURITY BENEFITS INCLUDED IN FEDERAL TAXABLE INCOME
21 SHALL BE APPORTIONED IN A RATIO OF THE GROSS SOCIAL SECURITY
22 BENEFITS OF EACH TAXPAYER TO THE TOTAL GROSS SOCIAL SECURITY
23 BENEFITS OF BOTH TAXPAYERS.

24 (VI) AS USED IN THIS SUBSECTION (4)(f), "PENSIONS AND
25 ANNUITIES" MEANS RETIREMENT BENEFITS THAT ARE PERIODIC PAYMENTS
26 ATTRIBUTABLE TO PERSONAL SERVICES PERFORMED BY AN INDIVIDUAL
27 PRIOR TO THE INDIVIDUAL'S RETIREMENT FROM EMPLOYMENT AND THAT

1 ARISE FROM AN EMPLOYER-EMPLOYEE RELATIONSHIP, FROM SERVICE IN
2 THE UNIFORMED SERVICES OF THE UNITED STATES, OR FROM
3 CONTRIBUTIONS TO A RETIREMENT PLAN THAT ARE DEDUCTIBLE FOR
4 FEDERAL INCOME TAX PURPOSES. "PENSIONS AND ANNUITIES" INCLUDES
5 DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ARRANGEMENTS AND
6 SELF-EMPLOYED RETIREMENT ACCOUNTS TO THE EXTENT THAT SUCH
7 DISTRIBUTIONS ARE NOT DEEMED TO BE PREMATURE DISTRIBUTIONS FOR
8 FEDERAL INCOME TAX PURPOSES, AMOUNTS RECEIVED FROM FULLY
9 MATURED PRIVATELY PURCHASED ANNUITIES, SOCIAL SECURITY BENEFITS,
10 AND AMOUNTS PAID FROM ANY SUCH SOURCES BY REASON OF PERMANENT
11 DISABILITY OR DEATH OF THE PERSON ENTITLED TO RECEIVE THE BENEFITS.

12 **SECTION 2. Safety clause.** The general assembly finds,
13 determines, and declares that this act is necessary for the immediate
14 preservation of the public peace, health, or safety or for appropriations for
15 the support and maintenance of the departments of the state and state
16 institutions.