

FYI – For Your Information

Dual Resident Trust Credit

GENERAL INFORMATION

For tax years beginning on or after January 1, 2006, an income tax credit is available to any qualifying trust that is a resident of both Colorado and another state. [§39-22-108.5, C.R.S.]

A qualifying trust is one that is established in another state and retains residency in that state despite the fact that the administration of the trust has been moved to Colorado, which establishes Colorado residency for the trust. The credit reduces the impact of the double taxation that occurs in this situation.

LIMITATIONS

The dual resident trust credit and the credit for tax paid to another state may not be claimed in the same tax year.

The credit is not available to a trust that became a Colorado resident trust prior to May 26, 2006.

Any excess credit is not refundable and may not be carried forward or back to another tax year.

COMPUTING THE CREDIT

The credit is computed using the following formula:

$$[\text{Colorado tax on income subject to taxation in both states}] \times [\text{Other state's tax rate} / \text{Other state's tax rate} + 4.63]$$

The other state's tax rate is computed by dividing the trust's state income tax liability in the other state by the trust's taxable income used to compute the other state's income tax liability.

Examples:

Trust A has taxable income of \$100,000 that is taxable in both Colorado and another state. The Colorado tax is \$4,630 and the tax in the other state computed using a graduated tax table is \$6,400 (6.4%). The dual resident trust credit will be \$2,686 [$\$4,630 \times (6.4/11.03)$].

Trust B was a resident trust in Colorado for part of the tax year. The trust is a resident trust in its original state for the entire tax year. The trust has taxable income of \$80,000 for the year, 60% of which was earned after administration of the trust moved to Colorado. The Colorado tax is \$2,222 and the tax in the other state is \$4,000 (5%). The dual resident trust credit will be \$1,154 [$\$2,222 \times (5/9.63)$].

Trust C has taxable income of \$30,000 for the tax year, \$5,000 of which is income that is not taxed by the other state. The Colorado tax is \$1,389 and the tax in the other state is \$1,500 (5%). The Colorado tax on the income subject to tax in both states is \$1,158. The dual resident trust credit will be \$601 [$\$1,158 \times (5/9.63)$].

Trust D has taxable income of \$30,000 for the tax year, plus \$3,000 of income that is not taxed by Colorado but is taxed by the other state. The Colorado tax is \$1,389 and the tax in the other state is \$990 (3%). The Colorado tax on the income subject to tax in both states is \$1,389. The dual resident trust credit will be \$546 [$\$1,389 \times (3/7.63)$].



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DOCUMENTATION

The form Schedule G Fiduciary Credit Schedule and a copy of the tax return for the other state must be attached to Colorado Fiduciary Income Tax Return Form 105 when a trust claims the dual resident trust credit.

FURTHER INFORMATION

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

For additional tax information visit the "Tax Information Index" which covers a variety of topics including links to forms publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at www.taxcolorado.com

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