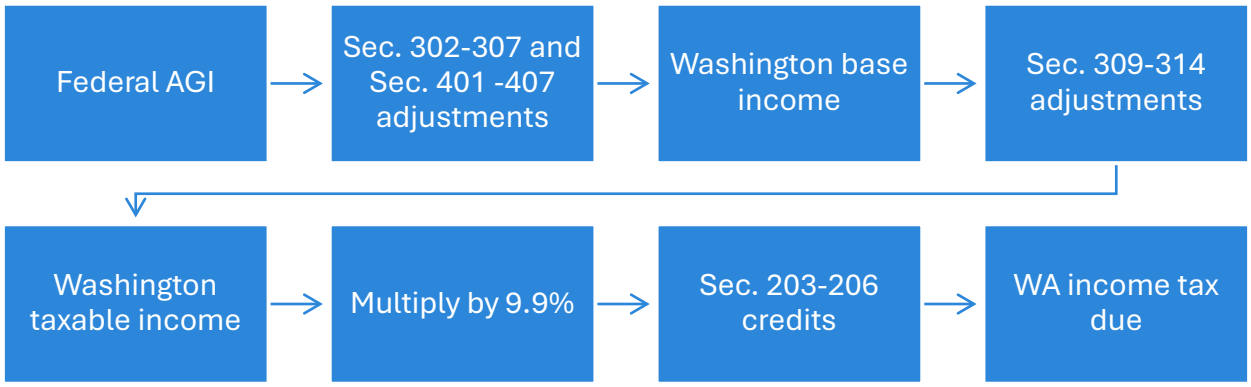
Calculating Washington State Income Tax Due

ESSB 6346 – RCW Chapter 82A.04



Calculating Washington State Base Income (Part III) - Adam Cline's Flowchart Page 1

- Begin with the taxpayer's federal adjusted gross income (AGI), then make the following adjustments:
    - **Source:** Line 11a of Form 1040
    - **Capital gains adjustment (Sec. 302, RCW 82A.04.210) – Sample calculation on Adam Cline's Flowchart Page 4**
        - Subtract long-term capital gains included in federal AGI.
        - Add long-term capital losses included in federal AGI.
        - Add Washington state capital gains subject to tax *and* the Washington state capital gains standard deduction amount (RCW 82.87.060(1)).
        - **Source:** Schedule D of Form 1040 and Washington state capital gains return.
    - **State and local obligations adjustment (Sec. 303, RCW 82A.04.220)**
        - Add interest on state and local bonds excluded from federal income tax under IRC section 103 unless the interest is from Washington state and local debt obligations.
        - **Source:** Form 1099-INT (box 8) and line 2a of Form 1040.
    - **State and local tax adjustment (Sec. 304, RCW 82A.04.230)**
        - Add taxes on net income to the extent they were deducted when calculating federal AGI.

        - Add Business and Occupation (B&O) tax and Public Utility Taxes (PUT) deducted from federal taxes for which a credit is allowed for Washington state income tax purposes (Sec. 204).
        - **Source:** Line 8 of Form 1040 (flows from Schedule 1) and Washington state excise tax return.

    - **Carryover adjustment (Sec. 305, RCW 82A.04.240)**
        - Add carryover losses deducted in computing federal AGI that occurred before January 1, 2028.
        - Add any remaining net operating loss carryover deducted in computing federal AGI.
        - Deduct 80% of net operating loss carryover apportioned to Washington state after January 1, 2028.
        - **Source:** Schedule C (business NOL), schedule E (rental NOL), and possibly schedule A (casualty loss).

    - **Federal debt obligations adjustment (Sec. 306, RCW 82A.04.250)**
        - Subtract income from U.S. debt obligations that Washington state is prohibited from taxing.
        - **Source:** Form 1099-INT or 1099-DIV.

    - **Incomplete nongrantor trusts for Washington residents (Sec. 307, RCW 82A.04.260)**
        - Add income from a trust treated as an incomplete nongrator trust for federal income tax purposes.
        - **Source:** Schedule K-1 from trust (Form 1041).

    - **Tribe derived income for enrolled members (Sec. 308, RCW 82A.04.270)**
        - Income for enrolled tribal members derived from their tribe or exercise of tribal rights is exempt from the state income tax. Subtract this income to the extent it was included in federal AGI.
        - **Source:** TBD – Tribal consultation/further discussion needed.

Allocation and Apportionment of Income for *Nonresidents* (Part IV) - Adam Cline's Flowchart Page 2

- General rules for apportionment (Sec. 401, RCW 82A.04.410).
    - For residents, all worldwide income is allocated to Washington state.
    - For nonresidents, all income "derived from sources within" Washington state must be allocated to the state.
- Pass-through entities distributive share (Sec. 402, RCW 82A.04.420).
- Allocating non-resident income derived from employee compensation (Sec. 403, RCW 82A.04.430).
    - Divide the ratio of days worked in Washington state by total number of days worked worldwide.
- Apportioning income for non-residents of a professional athletic team (Sec. 404, RCW 82A.04.435).
- Apportioning non-resident income from business activity (Sec. 405, RCW 82A.04.440).

- Divide the total receipts of the taxpayer in Washington state by total worldwide receipts.
- Multiply this number by the taxpayer's Washington state business income.

- Proration of part-year resident income (Sec. 406, RCW 82A.04.450).
- Nonresident student athlete income (Sec. 407, RCW 82A.04.460).

Calculating Washington State *Taxable* Income (Part III) - Adam Cline's Flowchart Page 1 and 2.

- Begin with Washington *base* income (see above), then make the following adjustments:

  - **Charitable contributions adjustment (Sec. 309, RCW 82A.04.310)**
    - Subtract charitable contributions that are federally deductible under IRC section 170 up to $100k to qualified Washington state-based charities (RCW 82.87.080).
    - **Source:** Schedule A on Form 1040.

  - **Pass-through entity tax payment adjustment (Sec. 310, RCW 82A.04.320)**
    - Add the distributive share of tax expenses to the extent it was deducted when calculating federal AGI.
    - **Source:** Washington state K-1 from electing pass-through entity.

  - **Capital construction fund for vessel improvements or acquisition adjustment (Sec. 311, RCW 82A.04.330)**
    - Subtract amount deposited in a capital construction fund under IRC section 7518.
    - **Source:** TBD – Further discussion needed.

  - **Wagering loss adjustments (Sec. 312, RCW 82A.04.340)**
    - Subtract 90% of Washington state allocated wagering losses, to the extent the taxpayer has Washington state allocated wagering income.
    - **Source:** Schedule A, line 16.

  - **Commercial cannabis activities (Sec. 313, 82A.04.350)**
    - Subtract expenditures disallowed under IRC section 280E related to Washington state licensed commercial cannabis activity (RCW 69.60.325).
    - **Source:** TBD – Further discussion needed.

  - **Standard deduction adjustment (Sec. 314, RCW 82A.04.360)**
    - Subtract $1 million per:
      - Individual,
      - Married couple, OR
      - Domestic partners
    - Make adjustment for nonresidents (Sec. 315, RCW 82A.04.363)
      - Divide the taxpayer's Washington state base income by their federal worldwide AGI.
    - Multiply this amount by the standard deduction amount.

- Note: the $1 million standard deduction is indexed for inflation (Sec. 316, RCW 82A.04.367).

Washington State Income Tax Credits (Part II) - Adam Cline's Flowchart Page 1 and 2

- If the individual/couple have Washington state taxable income, that amount is subject to the 9.9% income tax (Sec. 201, RCW 82A.04.030).
- The following credits may be available to reduce the amount of tax due:
  - Credit for income taxes due to another jurisdiction (Sec. 203, RCW 82A.04.110).
  - Credit for B&O tax and PUT paid (Sec. 204, RCW 82A.04.120).
  - Credit for Washington state capital gains taxes paid (Sec. 205, RCW 82A.04.130).
  - Credit for pass-through entity tax payments (Sec. 206, RCW 82A.04.140).