

WAC 458-16A-115 Senior citizen, disabled person, and disabled veteran exemption—Adjusted gross income. (1) **Introduction.** This rule provides guidance to the assessor on how to determine and verify the adjusted gross income for the claimant, the claimant's spouse or domestic partner, and any cotenants. To meet the income requirements for the senior citizen, disabled person, and disabled veteran exemption program, the claimant must provide supporting documents verifying combined disposable income. The adjusted gross income for federal income tax purposes of the claimant, the claimant's spouse or domestic partner, and any cotenants represents a part of the claimant's combined disposable income.

(a) **Federal income tax return.** In most cases, the claimant presents copies of federal income tax returns to demonstrate adjusted gross income amount(s) for the claimant, the claimant's spouse or domestic partner, and any cotenants. The assessor then determines and may verify, the disposable income for each person based on that person's federal income tax return and other information supplied by the claimant.

(b) **No federal income tax return.** If the claimant does not present federal income tax return(s), the assessor must determine what constitutes the adjusted gross income and the disposable income of the claimant, the claimant's spouse or domestic partner, and any cotenants. The assessor obtains copies of income documents to determine and verify the claimant, the claimant's spouse or domestic partner, and any cotenant's income amounts.

(2) **Adjusted gross income.** Internal Revenue Code section 62 defines "adjusted gross income" as gross income minus the following deductions:

(a) **Trade and business deductions.** Business owners may deduct from gross income trade or business expenses. If the claimant submits a copy of a Form 1040 federal income tax return, these deductions will be taken on the Schedule C, the Schedule C-EZ, or, for a farm, the Schedule F. If the business owned is a partnership, limited partnership, S Corporation, or Limited Liability Company (LLC), the deduction is taken on the return submitted by the partnership, limited partnership, S Corporation, or LLC, and passed through to the individual on a Schedule K-1. Any claimant, a claimant's spouse or domestic partner, or cotenant that does not file a federal income tax return, but claims to have trade or business deductions should provide documentation of income and expenses from the business to allow the assessor to determine the amount of trade or business expenses to be deducted.

(b) **Certain unreimbursed expenses.**

(i) **Teachers.** An elementary or secondary school teacher may deduct from their gross income, up to two hundred fifty dollars of unreimbursed amounts that they pay for educational materials and equipment used in their classroom. A teacher may take this deduction on a Form 1040 or a 1040A.

(ii) **Performing artists.** A qualified performing artist, defined by Internal Revenue Code section 62(b), may deduct from gross income any unreimbursed trade or business expense incurred for their employer as an employee. If the claimant submits a copy of a Form 1040 federal income tax return, the deduction will be taken on the dotted line before the final line for determining adjusted gross income with a designation of "QPA."

(iii) **State and local government officials.** A state or local government official paid on a fee basis may deduct from gross income any

unreimbursed trade or business expense incurred for their employer as an employee. If the claimant submits a copy of a Form 1040 federal income tax return, the deduction will be taken on the dotted line before the final line for determining adjusted gross income with a designation of "FBO."

(iv) No federal income tax return. Any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return, but claims to have unreimbursed expenses for this deduction, must provide documentation to demonstrate employee status and documentation of the unreimbursed expenses incurred as an employee for their employer.

(c) **Losses from sale or exchange of property.** A property owner may deduct from gross income losses from the sale or exchange of property for federal income tax purposes. If the claimant submits a copy of a Form 1040 federal income tax return, the deduction is generally determined on a Schedule D. For purposes of this exemption, losses cannot be deducted from income. Any losses taken must be added onto adjusted gross income. An assessor may refuse documentation of losses from any claimant, the claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return as these losses do not result in any change to the claimant's final combined disposable income.

(d) **Deductions attributable to rents and royalties.** A property owner may deduct from gross income expenses attributable to property held for the production of rents and royalties. If the claimant submits a copy of a Form 1040 federal income tax return, the deductions are determined on a Schedule E. Any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return, but claims to have expenses from rental property or licensed property, should provide documentation of these expenses to the assessor.

(e) **Certain deductions of life tenants and income beneficiaries of property.** A life tenant or income beneficiary of a trust or estate may deduct from gross income for federal income tax purposes depreciation or depletion expenses related to the business or rental property in which they have a life estate or when the property is owned by a trust or estate, if they have a beneficial interest in the property. If the claimant submits a copy of a Form 1040 federal income tax return, these deductions are shown on Schedule E. Any claimant, a claimant's spouse or domestic partner, or cotenant with a beneficial interest in business property owned by a trust or estate will document the depreciation or depletion deduction on the Schedule K-1 from that trust or estate. An assessor may refuse documentation of depreciation or depletion on property from any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return as these expenses do not result in any change to the claimant's final combined disposable income.

(f) **Pension, profit-sharing, annuity, and annuity plans of self-employed individuals.** A self-employed person may deduct from gross income contributions to a SEP, SIMPLE, or other qualified plan. These deductions are claimed on the Form 1040 federal income tax return. Any self-employed claimant, the claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return, but claims this deduction, should provide to the assessor documentation of the contributions made to a qualified plan by their business.

(g) **Self-employed health insurance deduction.** As part of their trade and business expenses, a self-employed person may deduct from

gross income, the business's payments for their health insurance. This deduction is claimed on the Form 1040 federal income tax return. Any self-employed claimant, the claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return, but claims this deduction, should provide to the assessor documentation of the payments made for their health insurance by their business. The assessor may request that the claimant submit a copy of the deduction worksheet provided in the instructions for Form 1040 to calculate this deduction, regardless of whether the self-employed person filed a federal income tax return.

(h) **One-half of self-employment tax.** As part of their trade or business expenses, a self-employed person may deduct from gross income one-half of the self-employment tax paid to the federal government determined on a Schedule SE. This deduction is claimed on the Form 1040 federal income tax return. A self-employed person that has not filed a federal income tax return may not claim this deduction as the self-employment tax is reported and paid with that return.

(i) **Retirement savings.** A person may deduct from gross income, qualifying contributions made to an individual retirement account (IRA). This deduction may be claimed on either the Form 1040 or Form 1040A federal income tax return. Any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return, but claims to have made qualifying contributions to an IRA, should provide documentation of these contributions to the assessor. The assessor may request the claimant to submit a copy of the IRA deduction worksheet provided in the instructions for Form 1040 and Form 1040A to calculate this deduction, regardless of whether the person filed a federal income tax return.

(j) **Penalties on early withdrawal of savings.** A person may deduct from gross income for purposes of federal income tax penalties paid because of an early withdrawal of savings. This deduction is claimed on the Form 1040 federal income tax return. The IRS classifies these penalties as losses. For purposes of this exemption, losses may not be deducted from gross income. Any deduction taken on this line must be added to adjusted gross income. An assessor may refuse documentation regarding these penalties from any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return as these losses do not result in any change to the claimant's final combined disposable income.

(k) **Alimony.** A person may deduct from gross income alimony paid in cash to a previous spouse. This deduction is claimed on the Form 1040 federal income tax return. A person that does not file a federal income tax return, but made alimony payments, should provide copies of documentation showing the alimony payments were made in cash to a prior spouse. The documents should include a copy of the divorce or separation instrument providing for the alimony payments and the amount of the alimony payments made during the year.

(l) **Reforestation costs.** A landowner may deduct from gross income for purposes of federal income tax the amortized reforestation costs for qualified timber property over a period of eighty-four months. If the property is held as business property, the deduction will appear with the trade and business expenses. If the property is not held as business property and the claimant submits a copy of a Form 1040 federal income tax return, the deduction is claimed on the dotted line before the final line for determining adjusted gross income on the Form 1040 federal income tax return and identified as "RFST." An assessor may refuse documentation of the amortization of reforestation

costs from any claimant, a claimant's spouse or domestic partner, or cotenant who does not file a federal income tax return as these amortized costs are depreciation expenses. These expenses will be added to adjusted gross income for purposes of this exemption and do not result in any change to the claimant's final combined disposable income.

(m) **Required repayment of supplemental unemployment compensation.**

A person may deduct from gross income required repayments of supplemental unemployment compensation benefits. If the claimant submits a Form 1040 federal income tax return, the deduction may show on the tax return in one of two ways. If the repayment is made in the same year the benefits are received, the claimant reduces the total unemployment compensation reported on the tax return by the amount of repayment. If the repayment is made in a subsequent year, the claimant deducts the repayment on the dotted line before the final line for determining adjusted gross income on the tax return and identifies it as "Sub-Pay TRA." A person that does not file a federal income tax return, but claims to have repaid supplemental unemployment compensation, should provide documentation of these repayments to the assessor.

(n) **Jury duty pay given to employer.** An employee may deduct from gross income jury duty pay given to their employer. The employee deducts the jury pay given to the employer on the dotted line before the final line for determining adjusted gross income on the Form 1040 federal income tax return and identifies it as "Jury Pay." A person that does not file a federal income tax return, but claims to have given jury pay received during the year to their employer, should provide documentation to the assessor for the amount of jury pay given to the employer.

(o) **Unreimbursed moving expenses.** If the claimant, the claimant's spouse or domestic partner, and any cotenant had to move a significant distance for a job or business, they may deduct from gross income, in years prior to 2018, unreimbursed moving expenses. This deduction is claimed on the Form 1040 federal income tax return. If any claimant, the claimant's spouse or domestic partner, or cotenant does not file a federal income tax return, the claimant should provide documentation of the distance moved, the reason for the move, and the moving expenses. The assessor may request a copy of Form 3903, Moving Expenses, and the distance test worksheet on that form to show the amount of the person's adjusted gross income, regardless of whether the claimant, the claimant's spouse or domestic partner, or cotenant filed a federal income tax return.

(p) **Archer MSAs (medical savings accounts).** A person may deduct from gross income a qualifying contribution to an Archer MSA. An MSA is an account set up exclusively for paying the qualified medical expenses of the account holder or the account holder's spouse or dependent(s) in conjunction with a high deductible health plan (HDHP). To be eligible for an MSA, the person must work as an employee for a small employer or be self-employed. The person must also have an HDHP, and have no other health insurance coverage except permitted coverage. The calculation of the deduction is performed on a Form 8853 and claimed on the Form 1040 federal income tax return. If the person does not file a federal income tax return, but claims to have made a qualifying contribution to an Archer MSA, the claimant should provide copies of documentation to the assessor as to that person's qualifications for the deduction and how the deduction was calculated. If this deduction is claimed, the assessor may ask the claimant to submit a copy of Form 8853, and Archer MSAs and Long Term Care Insurance Contracts, regard-

less of whether the claimant, the claimant's spouse or domestic partner, or cotenant filed a federal income tax return.

(q) **Interest on student loans.** A person may deduct from gross income some or all student loan interest paid on their student loan(s). The deduction may not be claimed by a person claimed as a dependent, a person filing as married filing separately, or when the individual has an adjusted gross income over the limits established by the Internal Revenue Service. The deduction is claimed on either the Form 1040 or Form 1040A federal income tax return. A person that does not file a federal income tax return, but claims to have paid student loan interest, should provide copies of documentation to the assessor of that person's qualification for the deduction and how the deduction was calculated. See Internal Revenue Code section 221.

(r) **Higher education expenses.** A person may deduct from gross income, some or all amounts they paid for qualified tuition and related expenses for themselves, their spouse, or their dependent. The deduction is claimed on either the Form 1040 or Form 1040A federal income tax return. A person that does not file a federal income tax return, but claims to have paid higher education expenses, should provide the assessor with copies of documentation of their qualification for the deduction and how the deduction was calculated. This deduction may only be taken if the income was not excluded from gross income. See Internal Revenue Code, section 222.

[Statutory Authority: RCW 84.36.865. WSR 20-04-017, § 458-16A-115, filed 1/24/20, effective 2/24/20. Statutory Authority: RCW 84.36.383, 84.36.389, and 84.36.865. WSR 08-16-078, § 458-16A-115, filed 7/31/08, effective 8/31/08; WSR 03-09-002, § 458-16A-115, filed 4/2/03, effective 5/3/03.]