



Washington State Estate Tax Addendum # 3 Qualified Family-Owned Business Interests

For deaths occurring January 1, 2014 and after
 (Submit only if applicable; see instructions)

Part 1 - Decedent and Executor (type or print in ink):

1. Decedent's first name	2. M.I.	3. Decedent's last name	4. Social Security number	
5. Legal residence/domicile - city and county (or foreign country)		6. State	7. Zip code	8. Date of death
9. Probate or estate administration county court			10. Cause number	
11. Executor's first name	12. M.I.	13. Executor's last name	14. Social Security number	
15. Mailing address		16. City	17. State	18. Zip code

Part 2 - Qualified Family-Owned Business Interests (QFOBI) Requirements:

Complete Part 2 to determine if the estate meets the QFOBI requirements. You must answer "Yes" or "No" to each question. **If you answer "No" for any of the questions, the estate is not eligible to claim the QFOBI deduction (do not complete rest of the form).**

1. Is the QFOBI included in the decedent's tentative taxable estate on the estate tax return (Page 1, Part 2, Line 3)? 1. Yes No
2. During the eight-year period ending on the date of the death of the decedent, have there been periods aggregating five years or more during which such business interests were owned by the decedent or a member of the decedent's family and was there material participation in the operation of the trade or business by the decedent or a member of the decedent's family? 2. Yes No
3. Is the QFOBI acquired by or passed to qualified heir(s) from the decedent?..... 3. Yes No
The qualified heir(s) must continue the trade or business for three years from the date of death of the decedent or an additional tax will be due.
4. Was the decedent a citizen or resident of the United States at the time of his or her death? 4. Yes No
5. Is the QFOBI \$6,000,000 or less (See Part 3, Line 2)? 5. Yes No

Part 3 - Qualified Family-Owned Business Interests Deduction Calculation:

1. Decedent's Tentative Taxable Estate from the estate tax return (Page 1, Part 2, Line 3)..... 1. _____
2. QFOBI assets (including any QFOBI assets deductible on Addendum # 2 – Property Used for Farming):

Schedule / Item	Brief Description	Fair Market Value at Valuation Date	On Farm Addendum (Y/N)

- Subtotal from sheets attached to this addendum, if any _____
- Total value of QFOBI assets 2. _____
3. If eligible for the farm deduction, enter the farm deduction (Addendum # 2, Part 3, Line 6.)
If not eligible for the farm deduction, enter zero. 3. _____
 4. If any of the QFOBI assets from Line 2 are included in the farm deduction listed on Line 3, enter the QFOBI assets amount included in the farm deduction here.
If no assets included in the farm deduction, enter zero. 4. _____
 5. Enter the lesser of QFOBI assets not included in the farm deduction (Line 2 less Line 4) or \$2,500,000. 5. _____
 6. **Adjusted tentative taxable estate** for determining the QFOBI deduction (Line 1 less Lines 3 and 5.) 6. _____

7. **Percentage of adjusted tentative taxable estate:** (Line 2 divided by Line 6) 7. _____
- If Line 7 equals 0.50 or less (50% or less), STOP, the estate is not eligible to take the QFOBI deduction. Do not enter a value on the estate tax return (Page 1, Part 2, Line 4b) or on Line 8 below.**
- If the Line 7 calculation exceeds 0.50, you may continue on to Line 8.
8. **Maximum allowable QFOBI deduction amount:** If Line 7 exceeds 0.50 and all questions in Part 2 are answered "Yes," enter the amount from Line 5. You are eligible for the QFOBI deduction; take this amount to the estate tax return (Page 1, Part 2, Line 4b) 8. _____

Part 4 - Executor: I agree and attest to the following:

I am the executor of the decedent's estate.

Each and every qualified heir who acquired the QFOBI, completed and signed the agreement starting below and continuing on the following page.

Under penalty of law, I declare that, to the best of my knowledge and belief, this addendum is true, correct, and complete.

_____ (Signature of executor) _____ (Telephone Number) _____ (Date)

Part 5 - Qualified Heirs Requirements: (If the answer is "No" for any heir, they are not a qualified heir.)

1. Are each of the persons who acquired the QFOBI from the decedent, a member of the decedent's family or an active employee (employee must have been employed for the last 10 years prior to the date of death)? 1. Yes No
2. Do the qualified heir(s) from Question 1, agree to materially participate, not dispose of (other than to qualified family members,) and keep the principal place of business in the United States for the QFOBI for three years after the date of death of the decedent? 2. Yes No
3. Are the qualified heir(s) from Question 1, United States citizens and do they agree to maintain their citizenship for three years after the date of death of the decedent? 3. Yes No
4. List the name of each qualified heir, their relationship to the decedent, the schedule and item number where the QFOBI is reported, and the fair market value of the portion of QFOBI received by each heir (the total amount listed below should match the amount reported on Part 3, Line 5.)
Attach additional sheets, if necessary:

Qualified Heir Name	Relationship to Decedent	Schedule / Item Number	Fair Market Value Received

Part 6 - Qualified Heir(s): All persons signing below agree and attest to the following:

I am a "qualified heir" as provided by RCW 83.100.048.

Each and every qualified heir who acquired the QFOBI is listed below.

If, as a qualified heir, I fail to materially participate in the QFOBI, dispose of any QFOBI (other than by a disposition to a family member), or lose my United States citizenship during the three-year period following decedent's death, I am personally responsible for filing and paying the additional tax equal to the amount that would have been due if the QFOBI deduction had not been taken. **Note:** The filing and payment due date is no later than six months from the date of the disqualifying cessation or disposition. Interest is due on the payment and accrues from the original decedent's due date through the payment date.

Under penalty of law, I declare that, to the best of my knowledge and belief, this addendum is true, correct, and complete.

Type or print in ink (attach additional sheets, if necessary)

1. Qualified heir's first name	2. M. I.	3. Qualified heir's last name	4. Social Security number	
5. Mailing address		6. City	7. State	8. Zip code
9. Signature of qualified heir		10. Date signed	11. Phone number	

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ADDENDUM # 3 - QUALIFIED FAMILY-OWNED BUSINESS INTERESTS INSTRUCTIONS

WHO MUST FILE This addendum must be completed and filed with the Washington State Estate and Transfer Tax Return if the decedent died on or after January 1, 2014, and the estate is eligible for the qualified family-owned business interests (QFOBI) deduction.

APPLICABLE LAWS AND RULES The applicable laws and rules are Revised Code of Washington (RCW) 83.100.048, Washington Administrative Code (WAC) 458-57-175, and Internal Revenue Code (IRC) §2057 including the corresponding IRC Treasury Regulations. The references to the IRC are as it existed on December 31, 2003. **These instructions contain a general overview; see the applicable laws and rules for complete details.**

QUALIFIED FAMILY-OWNED BUSINESS INTERESTS In general, the term “qualified family-owned business interest” means either:

- An interest as a proprietor in a trade or business carried on as a proprietorship, or
- An interest in an entity carrying on a trade or business, if at least
 - 50% of such entity is owned (directly or indirectly) by the decedent or members of the decedent’s family,
 - 70% of such entity is so owned by members of two families and at least 30% of such entity is so owned by the decedent or members of the decedent’s family, or
 - 90% of such entity is so owned by members of three families and at least 30% of such entity is so owned by the decedent or a member of the decedent’s family.

LIMITATIONS ON QFOBI An interest does not qualify for QFOBI if the trade or business’s principal place of business is located outside of the United States. An interest does not qualify for QFOBI if the trade or business’s stock is readily tradable on an established securities market or secondary market at any time within three years of the date of decedent’s death. There are several other limitations not listed here.

RULES OF OWNERSHIP For ownership of an interest in a trade or business not carried on as a proprietorship, the following rules, along with others not listed here, apply to the ownership of the entity. Ownership of a corporation shall be determined by the holding of stock possessing the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock. Ownership of a partnership shall be determined by the owning of the appropriate percentage of the capital interest in such partnership. A trust can have ownership only if the individual (decedent or members of the decedent’s family) has a present interest in such trust.

WHAT CAN BE DEDUCTED The QFOBI can be deducted as long as the requirements are met. This deduction is in addition to the applicable exclusion amount. The deduction amount is limited to the lesser of the QFOBI or \$2,500,000. Any amount of QFOBI already included in the farm deduction, may not be deducted under QFOBI. QFOBI in a closely-held partnership, corporation, or trust can qualify for the deduction as long as all requirements are met. A qualified heir to the QFOBI is required to repay the tax savings if they do not continue to meet certain requirements of the trade or business as it relates to the QFOBI.

WHAT ARE THE REQUIREMENTS The following requirements must be met to be eligible for the QFOBI deduction:

- During the eight-year period ending on the date of the decedent’s death, there have been periods aggregating five years or more during which such interests were owned by the decedent or a member of the decedent’s family and there was material participation by the decedent or a member of the decedent’s family in the operation of the trade or business to which such interests relate,
- The QFOBI is acquired by or passed to any qualified heir from the decedent,
- On the date of death, the decedent was a citizen or resident of the United States,
- The QFOBI is \$6,000,000 or less, and
- The QFOBI must exceed 50% of the decedent’s Washington taxable estate (without regard to the deduction for the applicable exclusion amount).

WHO QUALIFIES AS A MEMBER OF THE FAMILY A “member of the decedent’s family” refers only to a decedent’s ancestor, spouse, state registered domestic partner, lineal descendant, spouse’s lineal descendant, state registered domestic partner’s lineal descendant, parent’s lineal descendant, or spouse of a lineal descendant. A “member of the qualified heir’s family” refers only to the qualified heir’s ancestor, spouse, state registered domestic partner, lineal descendant, spouse’s lineal descendant, state registered domestic partner’s lineal descendant, parent’s lineal descendant, or spouse of a lineal descendant. A legally adopted child of an individual is considered a child of an individual by blood.

WHAT IS MATERIAL PARTICIPATION The decedent or a member of the decedent's family (the individual) is generally considered to materially participate if the individual works on a continuous and substantial basis in the operation of the trade or business to which the QFOBI relates. This generally means the individual works at least 500 hours per year in the trade or business, no one else works more hours than the individual in the operation of the trade or business, and no one else receives compensation for managing the operation (an agent or trustee does not qualify). The individual should be the one making a substantial number of the management decisions.

WHO IS A QUALIFIED HEIR A "qualified heir" refers to a member of the decedent's family who acquires the QFOBI or the QFOBI is passed to from the decedent. If a qualified heir disposes of any interest in a QFOBI to any member of the qualified heir's family, such member is treated as the qualified heir. A qualified heir includes any active employee of the trade or business to which the QFOBI relates if such employee has been employed by such trade or business for a period of at least 10 years before the date of the decedent's death.

WHAT ARE THE QUALIFIED HEIRS REQUIREMENTS The following requirements must continue to be met for three years after the date of the decedent's death; if not, an additional estate tax is imposed on the qualified heir:

- The qualified heir must continue to materially participate in the operation of the trade or business to which the QFOBI relates,
- The qualified heir cannot dispose of any portion of the QFOBI to anyone other than:
 - A member of the qualified heir's family,
 - A person with an ownership interest in the QFOBI, or
 - Through a qualified conservation contribution,
- The principal place of business for the QFOBI must remain in the United States, and
- The qualified heir must maintain United States citizenship.

The three-year period does not refer to ending on a calendar year. The three-year period starts on the date of the decedent's death and ends three years later. For example, if a decedent died on March 29, 2014, the qualified heir(s) must meet all of the requirements listed above until March 28, 2017.

ADDITIONAL TAX DUE When the qualified heir requirements are not met within the three-year period starting on the date of the decedent's death, the qualified heir is personally liable for additional tax due. The amount of additional tax due is the tax savings amount that would have been due if the QFOBI deduction had not been allowed. If more than one qualified heir received QFOBI, any heir that no longer is qualified will owe the additional tax due in a prorated portion of the tax savings based on the distribution of the QFOBI to all the qualified heirs. The due date of the additional tax is six months after the taxable event occurs. Any additional tax due is a lien on the interest in the trade or business as it relates to the QFOBI. Interest accrues on the additional tax due from the day nine months after the date of the decedent's death through the payment date.

PART 1 - DECEDENT AND EXECUTOR

Items 1-10 - Decedent's Information

Enter the decedent's full name, social security number, legal residence or domicile, date of death, county court where the decedents will was probated or estate administrated, and the county cause number.

Items 11-18 - Executor's Information

Enter the executor's full name, social security number, and mailing address.

PART 2 - QUALIFIED FAMILY-OWNED BUSINESS INTERESTS REQUIREMENTS

Check the appropriate box for each question. The estate can only take the QFOBI deduction if all questions are answered "Yes." *If any question is answered "No," the estate may not take the QFOBI deduction; do not complete or submit the addendum with your estate tax filing.*

Line 1 - QFOBI Included

Check the "Yes" box if the QFOBI to be deducted is included in the decedent's tentative taxable estate. Check the "No" box if the QFOBI is not included in the decedent's tentative taxable estate.

Line 2 - Five Year Aggregate Ownership and Material Participation

Check the "Yes" box if during the eight-year period ending on the date of decedent's death, there have been periods aggregating five or more years during which interest in the trade or business was owned and there was material participation by the decedent or a member of the decedent's family. Check the "No" box if the interest in the trade or business was not owned or there was not material participation for an aggregate of five years or more during the eight-year period ending on the date of decedent's death.

Line 3 - Qualified Heir

Check the "Yes" box if the QFOBI passes to or is acquired by a qualified heir. Check the "No" box if the QFOBI does not pass to or is not acquired by a qualified heir.

A qualified heir is any member of the decedent's family ("member of decedent's family" is defined on Page 4 of these instructions).

Line 4 - Decedent Citizenship

Check the "Yes" box if the decedent was a citizen or resident of the United States on the date of death. Check the "No" box if the decedent was not a citizen or resident of United States on the date of death.

Line 5 - QFOBI Amount

After completing Part 3, Line 2 check the appropriate box. Check the "Yes" box if the total amount of QFOBI adds up to \$6,000,000 or less. Check the "No" box if the total amount of QFOBI adds up to more than \$6,000,000.

PART 3 - QUALIFIED FAMILY-OWNED BUSINESS INTERESTS DEDUCTION CALCULATION

Line 1 - Tentative Taxable Estate

Enter the decedent's tentative taxable estate from the Washington estate tax return. This amount can be found on the estate tax return (Page 1, Part 2, Line 3).

Line 2 - QFOBI Assets

List each QFOBI asset included in the gross estate that meets the requirements from Page 4 of these instructions.

Identify the QFOBI assets by schedule and item number from the estate tax return (Schedules A through I). Give a brief description of the QFOBI asset (a full description should already be included on the appropriate schedules). Enter the fair market value as reported on the schedule. If using alternate value, report the alternate value rather than the date of death value. Do not include any QFOBI assets that are not included on the decedent's estate tax return.

Mark the last column "Yes" if the asset is included on Addendum # 2 - Property Used for Farming. Mark the last column "No" if the asset is not included on Addendum # 2 - Property Used for Farming.

If there are more QFOBI assets than will fit on the addendum, attach a sheet with similar format to continue the QFOBI; bring the total forward to the subtotal line. Enter the sum of all QFOBI assets listed on the addendum and any attached sheets on Line 2.

If Line 2 adds up to \$6,000,000 or less, answer Line 5 on Part 2 as "Yes." If Line 2 adds up to more than \$6,000,000, answer Line 5 on Part 2 with "No," the estate does not qualify for the QFOBI deduction; do not complete or submit the addendum.

Line 3 - Farm Deduction

Enter the eligible farm deduction amount. This amount can be found on either Addendum # 2 - Property Used for Farming (Part 3, Line 6) or if entered, on the Washington estate tax return (Page 1, Part 2, Line 4a).

If not eligible for the farm deduction enter zero.

Line 4 - QFOBI Included on Farm Deduction

Enter the total amount of assets that were marked "Yes" on the Line 2 chart. These are the assets that have already been included as part of the farm deduction calculation. Any assets deductible under the farm deduction may not be included in the QFOBI deduction.

If no assets are included in the farm deduction enter zero.

Line 5 - Tentative Deductible QFOBI Assets

Enter the lesser of the QFOBI assets not included in the farm deduction (Line 2 less Line 4) or the amount of \$2,500,000. The QFOBI deduction may not exceed \$2,500,000.

Line 6 - Adjusted Tentative Taxable Estate

Enter the result of Line 1 less Lines 3 and 5. This is the adjusted tentative taxable estate for determining whether the QFOBI exceeds the 50% of Washington taxable estate requirement.

Line 7 - Percentage of Adjusted Tentative Taxable Estate

Enter the result of Line 2 divided by Line 6.

If Line 7 is 0.50 or less the estate does not qualify for the QFOBI deduction. **Do not complete or submit this addendum.**

If Line 7 exceeds 0.50 the estate is eligible to take the QFOBI deduction.

Line 8 - Maximum Allowable QFOBI Deduction Amount

If all lines of Part 2 are answered "Yes" and Line 7 exceeds 0.50, then you may enter the amount from Line 5 on this line. The eligible amount can now be carried forward to the first page of the Washington estate tax return (Page 1, Part 2, Line 4b).

PART 4 - EXECUTOR AGREEMENT AND ATTESTATION

EXECUTOR SIGNATURE

The executor, on behalf of the estate, must read and agree to the statements listed, then sign, provide a contact telephone number and date this addendum.

PART 5 - QUALIFIED HEIR REQUIREMENTS

Check the appropriate box for each question. An heir is considered "qualified" if all questions on Lines 1 through 3 are answered "Yes." The answer must be "Yes" for each qualified heir. ***If any question is answered "No," the estate may not take the QFOBI deduction; do not complete or submit the form with your estate tax filing. If one heir is not "qualified", you may recalculate the entire QFOBI assets to determine if the remainder is eligible for the QFOBI deduction.***

Line 1 - Qualified Heir(s)

Check the "Yes" box if the QFOBI passes to or is acquired by any qualified heir. Check the "No" box if the QFOBI does not pass to or is not acquired by any qualified heir.

A qualified heir is any member of the decedent's family ("member of decedent's family" is defined on Page 4 of these instructions) or a ten-year active employee of the trade or business.

Line 2 - Qualified Heir(s) Will Follow Requirements

Check the "Yes" box if each qualified heir agrees to materially participate, not dispose of, and will keep the principal place of trade or business in the United States for three years from the date of the decedent's death. Check the "No" box if any qualified heir does not agree to materially participate, will dispose of, or will not keep the principal place of trade or business in the United States for three years from the date of the decedent's death.

Line 3 - Qualified Heir(s) Citizenship

Check the "Yes" box if each qualified heir agrees to maintain his or her United States citizenship or comply with IRC §877(e)(1). Check the "No" box if any qualified heir does not agree to maintain his or her United States citizenship or comply with IRC §877(e)(1). Along with citizenship, the qualified heir must have a physical presence in the United States of 30 days or more per year. Check the "No" box if an heir will be in the United States for 29 or fewer days during any of the three years following the date of the decedent's death.

Line 4 - Qualified Heir(s) QFOBI Received

Enter the name of each qualified heir, his or her relationship to the decedent, the schedule and item number the asset is reported on the Washington estate tax return, and the fair market value of the asset or portion of asset received by each qualified heir.

If all of the QFOBI is received by one qualified heir, it is not necessary to list all of the assets again. Enter the name, relationship, and "see Page 1 for list" (across the schedule/item and fair market value columns).

PART 6 - QUALIFIED HEIR(S) AGREEMENT AND ATTESTATION**QUALIFIED HEIR(S) SIGNATURE**

Each qualified heir must read and agree to the statements listed. Each qualified heir must complete Lines 1-11 in full.

The qualified heir(s) will be contacted periodically to verify they are still in compliance with the requirements and not liable for additional tax. A final release for the decedent's estate will not be issued until the three-year period has lapsed and it has been verified the qualified heir(s) have met their requirements.

FILING REQUIREMENTS

Attach the completed addendum to the end of the Washington estate tax return (after the applicable schedules).

Documents to Include

The following documents, if applicable, should be filed with the addendum:

- Documents showing continuous ownership and ownership percentage:
 - Corporate charter,
 - Partnership agreement, and/or
 - Property tax statements.
- Last three years of federal income tax returns, schedules and attachments.