

STATE OF HAWAII - DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-348
CAPITAL INFRASTRUCTURE TAX CREDIT

CHANGES TO NOTE

Act 213, Session Laws of Hawaii 2017, amends the Capital Infrastructure Tax Credit to include structures, machinery, equipment and capital assets in the definition of "capital infrastructure costs," increases the cap on the credit from \$1,250,000 to \$2,500,000, allows qualified infrastructure tenants to create special purpose entities, and specifies that any excess credit may be carried forward. The Act also requires a recapture of the credit if the qualified infrastructure tenant fails to relocate within 90 days of executing a lease with the Department of Transportation, adds a reporting requirement for the taxpayer claiming the credit, and provides penalties for failure to provide required information.

GENERAL INSTRUCTIONS

The capital infrastructure tax credit, which helps tenants who were displaced by the Kapalama container terminal project, is effective for taxable years beginning after December 31, 2013. The credit will not be available for taxable years beginning after December 31, 2019.

The tax credit is the lesser of 50% of the capital infrastructure costs paid or incurred by a qualified infrastructure tenant during the taxable year or \$2,500,000.

The tax credit allowed shall be claimed against the net income tax liability for the taxable year. A tax credit that exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

Purpose of Form

Use Form N-348 to figure and claim the capital infrastructure tax credit under section 235-17.5, Hawaii Revised Statutes.

Who May Claim This Credit

This credit may be claimed by a qualified infrastructure tenant which is defined as a business:

- (1) That owned capital or property or maintained an office, operations, or facilities at the former Kapalama military reservation site on July 1, 2014,
- (2) Whose principal business is maritime, waterfront dependent, and included under the State's plan to relocate the business to piers 24 through 28 within Honolulu Harbor, and
- (3) Who has or will be displaced and relocated by the State pursuant to the Kapalama container terminal project.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable shall be determined at the entity level. Distribution and share of the credit may be determined without regard to the partners', S corporation shareholders', or beneficiaries' proportionate interests in the partnership, S corporation, estate, or trust.

When the Credit May Not Be Claimed

This credit may not be claimed if the capital infrastructure costs are used to claim another credit.

Credit Requirements

To claim this credit, you must complete and attach to your Hawaii income tax or franchise tax return:

- (1) Form N-348
- (2) Schedule CR (For tax returns for which Schedule CR is required)
- (3) Schedule K-1 (Required only if you are claiming a distributive share of a credit from a partnership, S corporation, estate, or trust)

Even if you are not able to use this credit because your tax liability on line 10 is zero, file the forms listed above with your Hawaii tax return to claim and carryover your unused credit. If the forms are not attached, then no claim for the credit has been made, and you will lose the carryover of your unused credit.

Information for Flow-Through Entities

If you are a partnership, S corporation, estate, or trust that is allocating this credit to your partners, shareholders, or beneficiaries, complete Parts I, II (if applicable), and Part V of Form N-348 and attach it to your Hawaii income tax return. Then enter the total capital infrastructure tax credit on the

applicable line of your Hawaii income tax return (see the Hawaii income tax return instructions for more information). Prepare and provide Schedule K-1 reporting the distributive share of the capital infrastructure tax credit for each partner, shareholder, or beneficiary.

Deadline for Claiming the Credit

The deadline to claim the credit, including amended claims, is 12 months after the close of your taxable year. You cannot claim or amend the credit after the deadline.

Recapture of the Tax Credit

Any credit claimed shall be recaptured following the close of the taxable year for which the credit is claimed if:

- (1) Within three years:
 - (A) The qualified infrastructure tenant fails to continue the line of business it conducted as of July 1, 2014; or
 - (B) The interest in the qualified infrastructure tenant, whether in whole or in part, has been sold, exchanged, withdrawn, or otherwise disposed of by the taxpayer claiming a credit; or.
- (2) The qualified infrastructure tenant fails to relocate from the former Kapalama military reservation site to another location, pursuant to a lease with the Department of Transportation, within 90 days of the execution of the lease.

The recapture shall be equal to 100% of the amount of the total tax credit claimed in the preceding five taxable years, and shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

SPECIFIC INSTRUCTIONS

Note: If you are only claiming your share of the capital infrastructure tax credit from a partnership, S corporation, estate, or trust, skip lines 1 through 4 and start on line 5.

Part I, Qualified Infrastructure Tenant and Qualifying Costs

Line 1 — Answer the questions to determine whether you meet the definition of a qualified infrastructure tenant. If you are not a qualified infrastructure tenant, you **cannot** claim this credit.

Line 2 — Enter the amount of your capital infrastructure costs paid or incurred during the taxable year. "Capital infrastructure costs" means capital expenditures, as used in Internal Revenue Code section 263 and the regulations promulgated thereunder, or capital expenditures for real property, fixtures, structures, machinery, equipment, or capital assets that are paid or incurred in connection with the displaced tenant's move of the tenant's current active trade or business to the tenant's new location within Honolulu harbor; provided that the capital infrastructure costs shall not include amounts for which another credit is claimed or any amounts received in any form from the State.

Part II, Tax Credit Received from a Flow-Through Entity

Line 5 — If you are claiming your share of the capital infrastructure tax credit from a partnership, S corporation, estate, or trust, then enter the amount here. Also enter the name and federal employer identification number of any flow-through entity who has passed the tax credit through to you. If additional space is needed, include the information on an attached schedule.

Part III, Allowable Tax Credit for 2017 and Carryover Computation

Line 6 — This line is for the carryover of unused capital infrastructure tax credit from the prior year.

Line 7 — Add lines 4, 5, and 6. This is your tentative current year capital infrastructure tax credit.

Form N-20 filers, enter the amount on line 7 on Form N-20, Schedule K; skip lines 8 through 12; and continue to Parts IV and V. Form N-35 filers, enter the amount on line 7 on Form N-35, Schedule K; skip lines 8 through 12; and continue to Parts IV and V. Form N-40 filers, enter the distributive share amount on Form N-40, Schedule K-1, for each beneficiary, otherwise, continue to line 8. All others, continue to line 8.

Line 9 — The law requires that ALL other credits offset a taxpayer's tax liability BEFORE allowing a capital infrastructure tax credit. If you are claiming other nonrefundable credits, complete the **Credit Worksheet** on page 2 of these instructions and enter the result on line 9. If you are not claiming other nonrefundable credits, enter zero.

Part IV, Recapture of the Tax Credit

Line 1 — The recapture is 100% of the amount of the total tax credit claimed in the preceding five taxable years.

Line 2 — Enter the total amount of recapture of the credit reported on all Schedule K-1(s) issued to you.

Part V, Flow-Through Entities Allocating the Credit to its Partners, Shareholders, or Beneficiaries

Line 1 — Enter the amount from Part III, line 7, to be distributed to partners, S corporation shareholders, or beneficiaries.

Line 2 — Column (b) – Partner, S corporation shareholder, or beneficiary’s name and address.

Column (c) – Partner, S corporation shareholder, or beneficiary’s identifying number. For each partner, S corporation shareholder, or beneficiary, enter the

social security number (SSN) for individuals, or the federal employer identification number (FEIN) for all other entities. For those partners, S corporation shareholders, or beneficiaries who file a joint return, enter the spouse’s SSN.

Column (d) – Amount of the capital infrastructure tax credit allocated to partner, S corporation shareholder, or beneficiary.

Line 3 — If you are allocating the capital infrastructure tax credit to more than 22 partners, S corporation shareholders, or beneficiaries, list the additional partners, S corporation shareholders, or beneficiaries on an attached sheet that follows the format of line 2. Enter on line 3 the total from the attached sheet(s).

Line 4 — Total the amounts in line 2, column (d), and line 3. This amount must equal the amount entered in Part V, line 1.

CAPITAL INFRASTRUCTURE TAX CREDIT WORKSHEET	
Tax Credit	Amount
a. Income Taxes Paid to Another State or Foreign Country	_____
b. Enterprise Zone Tax Credit	_____
c. Carryover of the Energy Conservation Tax Credit.....	_____
d. Credit for Employment of Vocational Rehabilitation Referrals	_____
e. Carryover of the Individual Development Account Contribution Tax Credit	_____
f. Credit for School Repair and Maintenance	_____
g. Carryover of the Renewable Energy Technologies Income Tax Credit (For Systems Installed and Placed In Service Before July 1, 2009).....	_____
h. Renewable Energy Technologies Income Tax Credit (Nonrefundable) ..	_____
i. Cesspool Upgrade, Conversion or Connection Income Tax Credit	_____
j. Low-Income Housing Tax Credit	_____
k. Carryover of the High Technology Business Investment Tax Credit	_____
l. Carryover of the Technology Infrastructure Renovation Tax Credit..	_____
m. Carryover of the Residential Construction and Remodeling Tax Credit.....	_____
n. Carryover of the Hotel Construction and Remodeling Tax Credit.....	_____
o. Add lines a through n. Enter the amount here and on Part III, line 9.....	=====