General Instructions

Basis in Corporate Stock.—You are responsible for maintaining a correct adjusted basis in stock of the corporation. Schedule K-1 provides you with information to help you make the computation at the end of each corporation tax year.

The initial basis of a resident shareholder in the stock of an S corporation and in any indebtedness of the corporation owed to the shareholder shall be determined in the manner provided under the IRC. The initial basis shall be determined as of the last to occur of the following:

1. The shareholder last became a resident of Hawaii;
2. The shareholder acquired the stock or the indebtedness of the corporation; or
3. The corporation became an S corporation.

The initial basis of a resident shareholder in the stock of an S corporation and in any indebtedness of an S corporation shall be adjusted after the above date in the manner and to the extent required by section 1011 except that, with respect to any taxable period during which the shareholder was a resident of Hawaii, any modification made (other than for income exempt from federal or State taxation) to the shareholder’s income from the S corporation shall be taken into account; and any adjustments made pursuant to section 1367 for a taxable period during which Hawaii did not measure S corporation shareholder income by reference to the corporation’s income shall not be taken into account.

The basis of a resident shareholder in the stock of an S corporation shall be reduced by the amount allowed as a loss or deduction, not to exceed the combined adjusted basis of the shareholder in the stock and indebtedness of the corporation.

The initial basis of a nonresident shareholder in the stock of an S corporation and in any indebtedness of an S corporation shall be adjusted after the above date in the manner provided in section 1367, except that adjustments to basis shall be limited to the income attributable to Hawaii and taxable to the nonresident shareholder for Hawaii income tax purposes. In computing income attributable to Hawaii, any modification made for income exempt from federal or Hawaii taxation shall be taken into account.

Nonresident Shareholders.—Shareholders who are not Hawaii residents will be asked by the S corporation to complete and sign an agreement (Schedule NS) stating that the shareholder agrees to file a Hawaii net income tax return, make timely payments of taxes due, and to be subject to personal jurisdiction in the State of Hawaii for purposes of the collection of unpaid income tax. Shareholders for whom an agreement is not obtained and filed by the S corporation on its timely filed return are subject to withholding by the S corporation of 8.25% of the shareholder’s income attributed to Hawaii. This amount, shown on line 16p, may be claimed as a credit on a nonresident Hawaii net income tax return (Form N-15) subsequently filed by the shareholder or may take the place of filing a Hawaii return by the nonresident shareholder. No credit will be allowed for this amount until the S corporation has filed and paid the amount due. Shareholders for whom an agreement is obtained and filed as required may be included in a composite net income tax return filed on behalf of an S corporation’s nonresident shareholders.

Errors.—If you believe the corporation has made an error on your Schedule K-1, notify the corporation and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule K-1 to the Hawaii Department of Taxation.

Specific Instructions

Name, Mailing Address, and Identifying Number.—Your name, mailing address, and identifying number, the corporation’s name, address, and identifying number, and item A should have been entered. The corporation completes item B, if applicable.

Lines 1 through 28

If you are an individual shareholder, take the amounts shown in column (b) and the total sum of amounts shown in columns (b) and (c) and enter them on the appropriate worksheet and/or lines of your tax return. If you are an estate or trust, report the amounts shown in column (b) and/or (c) as instructed on Form N-40, Hawaii Fiduciary Income Tax Return.

The amounts on lines 1 through 28 show your pro rata share of ordinary income, loss, deductions, credits, and other information from all corporate activities. These amounts do not take into account limitations on losses or other items that may have to be adjusted because of your adjusted basis in stock and debt in the corporation, the at-risk rules under section 465, the passive activity limitations of section 469, or any other limitations that must be taken into account at the shareholder level in figuring taxable income (e.g., the section 179 expense limitation (further limited for Hawaii purposes to $25,000)). These limitations are discussed in the instructions for federal Schedule K-1 (Form 1120S). If you are an individual shareholder and your share of pro rata items is affected by any limitations, adjust the amounts before you enter the amounts on your return.

Caution: If you have losses, deductions, credits, etc., from a prior year that were not deductible or useable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on your return. Instead, report the amounts on your return on a year-by-year basis.

Line-by-Line Instructions

For Form N-11 filers, most of your pro rata share of ordinary income, loss, deductions, etc. are included in federal adjusted gross income (federal AGI). If the total sum of the amounts in columns (b) and (c) of your Hawaii Schedule K-1 (Form N-35) and the amounts in your federal Schedule K-1 (Form 1120S) are different, make the necessary adjustments in the Hawaii Additions Worksheet and/or Hawaii Subtractions Worksheet of the Form N-11 Instructions.
Investment Interest

If the corporation paid or incurred interest on debts properly allocable to investment property, the amount of interest you are allowed to deduct may be limited. For more information and the special provisions that apply to investment interest expense, see Form N-158, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Line 15a. Interest expense on investment debts.—Include the amount on Form N-158 along with your investment interest expense from other sources to determine how much of your total investment interest is deductible.

Lines 15b(1) and 15b(2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on line 1 of Form N-158.

Caution: The amounts shown on lines 15b(1) and 15b(2) include only investment income and expenses reported on lines 4, 5, 6, and 13 of this Schedule K-1. If applicable, the corporation will have listed in the line 29 Supplemental Information section any other items of investment income and expenses reported elsewhere on this Schedule K-1. Be sure to take these amounts into account, along with the amounts on lines 15b(1) and 15b(2) and your investment income and expenses from other sources when figuring the amount to enter on line 1 of Form N-158.

Credits

All filers should complete the appropriate forms to claim their pro rata share of credits. Also attach a copy of this Schedule K-1 to the Hawaii net income tax return you file to support your credit.

Line 16a. FuelTax Credit for Commercial Fishers.—Figure your credit on Form N-163.

Line 16b. Total cost of qualifying property for the Capital Goods Excise Tax Credit.—Figure your credit on Form N-312. See Form N-312 and Tax Information Release No. 2001-4 for additional information.

Line 16c. Amounts needed to claim the Enterprise Zone Tax Credit.—There should be attached to this Schedule K-1 a copy of Form N-756A showing your share of the corporation’s amounts needed to claim the credit. If the form is not attached, contact your corporation as you will need to attach a copy of the form to the Hawaii net income tax return you file in order to receive the credit. Figure your credit on Form N-756.

Line 16d. Hawaii Low-Income Housing Tax Credit.—Hawaii’s low-income housing tax credit is equal to 50% (30% for property placed in service prior to July 1, 2005) of the federal credit for qualified buildings located in the State of Hawaii. Figure your credit on Form N-340.

Note: You may apply this nonrefundable credit only after all other credits except the carryover of the High Technology Investment Tax Credit have been applied against your Hawaii income tax liability.

Line 16e. Credit for Employment of Vocational Rehabilitation Referrals.—Your share of the credit is shown on this line. Refer to Form N-864 for further information.

Line 16f. Qualified production costs for the Motion Picture, Digital Media and Film Production Income Tax Credit.—Your share of the qualified production costs is shown on line 16f. Figure your credit on Form N-340.

Line 16g. Credit for School Repair and Maintenance.—Your share of the Credit for School Repair and Maintenance is shown on line 16g. Use Form N-330 to claim this credit.

Line 16h. Renewable Energy Technologies Income Tax Credit.—There should be attached to this Schedule K-1 a copy of Form N-342A. If the form is not attached, contact your corporation as you will need to attach a copy of the form to the Hawaii net income tax return you file in order to receive the credit. Use Form N-342 to claim this credit.

Line 16i. Important Agricultural Land Qualified Agricultural Cost Tax Credit.—Figure your credit on Form N-344.

Line 16j. Tax Credit for Research Activities.—Your share of the Tax Credit for Research Activities is shown on line 16j. Use Form N-346 to claim this credit.

Line 16k. Capital Infrastructure Tax Credit.—Your share of the Capital Infrastructure Tax Credit is shown on line 16k. Use Form N-348 to claim this credit.

Line 16l. Cesspool Upgrade, Conversion or Connection Income Tax Credit.—Your share of the Cesspool Upgrade, Conversion or Connection Income Tax Credit is shown on line 16l. Use Form N-350 to claim this credit and attach Schedule K-1 to your return.

Line 16m. Renewable Fuels Production Tax Credit.—Your share of the Renewable Fuels Production Tax Credit is shown on line 16m. Use Form N-352 to claim this credit and attach Schedule K-1 to your return.

Line 16n. Organic Foods Production Tax Credit.—Your share of the Organic Foods Production Tax Credit is shown on line 16n. Use Form N-354 to claim this credit and attach Schedule K-1 to your return.

Recapture of Tax Credits

Line 24. Recapture of Hawaii Low-Income Housing Tax Credit.—Report your pro rata share of recapture of the Hawaii Low-Income Housing Tax Credit from section 42(j)(5) partnerships and other sources. Complete Form N-586. See Form N-587, Low-Income Housing Credit Disposition Bond, for an alternative to credit recapture.

Line 25. Capital Goods Excise Tax Credit.—You should receive a completed copy of Form N-312, Part II from the corporation. Use this information to determine the amount of credit recapture on Form N-312.

Recapitulate of Tax Credits

Line 26. Recapitulate of the Tax Credit for Flood Victims.—Report your pro rata share of recapitulate of the Tax Credit for Flood Victims on Form N-338.

Line 27. Recapitulate of Important Agricultural Land Qualified Agricultural Cost Tax Credit.—Report your pro rata share of recapitulate of the Important Agricultural Land Qualified Agricultural Cost Tax Credit on Form N-344.

Line 28. Recapitulate of Capital Infrastructure Tax Credit.—Report your pro rata share of recapitulate of the Capital Infrastructure Tax Credit on Form N-348.