

# GENERAL INSTRUCTIONS FOR THE FILING OF FORM F-1

## FRANCHISE TAX RETURN FOR BANKS, BUILDING AND LOAN ASSOCIATIONS, FINANCIAL SERVICES LOAN COMPANIES, OTHER FINANCIAL CORPORATIONS, AND SMALL BUSINESS INVESTMENT COMPANIES

### Chapter 241, Hawaii Revised Statutes (HRS)

References to sections are to Internal Revenue Code (IRC) sections, unless otherwise stated.

### ATTENTION

A tax is imposed by chapter 241, Hawaii Revised Statutes (HRS), on certain types of income of banks and other financial institutions. The tax is commonly referred to as the franchise tax and is in lieu of the income tax and general excise tax.

Chapter 241, HRS, incorporates some of the definitions in chapter 235, HRS (the Hawaii Income Tax Law). While the Hawaii Income Tax Law generally conforms to subtitle A, chapter 1 of the IRC as it applies to the determination of gross income, adjusted gross income, ordinary income, and loss, and taxable income, Hawaii has not adopted the increased expensing deduction under section 179 (Hawaii's limit is \$25,000) or the bonus depreciation provisions.

### Changes To Note.

**Act 69, Session Laws of Hawaii (SLH) 2019** — This act amends Hawaii Income Tax Law under chapter 235, HRS, to conform to certain provisions of the IRC, as amended as of December 31, 2018.

**Act 96, SLH 2019** — This act amends the rules for sourcing the sales factor for net income tax to impose market-based sourcing for sales of intangibles and services to where it is used in the State. Applies to taxable years beginning after December 31, 2019.

**Act 66, SLH 2018** — This act amends section 231-8.5, HRS, to enable the Department of Taxation (Department) to require certain taxpayers to file tax returns electronically, unless a waiver is obtained by filing Form L-110. The penalty for failure to file electronically is 2% of the tax due. For more information, see Department of Taxation Announcement No. 2019-12.

### Where To Get Tax Forms.

Hawaii tax forms, instructions, and schedules may be obtained at any taxation district office or from the Department of Taxation's website at [tax.hawaii.gov](http://tax.hawaii.gov), or you may contact a customer service representative at: 808-587-4242 or 1-800-222-3229 (Toll-Free).

**Initial Year Of Doing Business.** Banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies and qualifying subsidiaries, and small business investment companies engaged in their initial year of doing business and filing a franchise tax return for the first time must file an estimated franchise tax return of the tax due. The tax shall be based on an estimate of the net income of the taxpayer for the first year of doing business or for the part of the first year in which it is in business. The tax is levied at the rate of 7.92%. The estimated tax return shall be filed and the amount of estimated tax paid on or before the 20th day of the third month after the first month the taxpayer began business. The payment of the tax shall accompany the return unless an extension of time for the payment has been granted in writing by the Director of Taxation (Director). Any request for an extension of time for payment of the tax must be made in writing to the Director before the filing due date of the initial year estimated tax return. The box on Form F-1 indicating "First year return" should be checked off on the estimated return filed.

After the close of the initial year of doing business, an amended franchise tax return shall be made to reflect the tax on the actual net income for the initial year of doing business. Any variance between the estimated tax paid and the tax on the actual net income for the initial year shall be adjusted by showing a credit or refund, or payment of additional tax due on the amended tax return. The boxes on Form F-1 indicating "AMENDED Return" and "First year return" should be checked off. Attach a completed Schedule AMD, Explanation of Changes on Amended Return, to the amended return. Also, attach all schedules, forms, and attachments required to file a complete return.

The amended return shall be made and filed, and any tax due paid on or before the 20th day of the 4th month following the close of the taxable year in which the taxpayer commenced business.

**Second Year Of Doing Business.** An estimated tax return is also required of taxpayers in the second year of doing business.

The estimated net income is determined by utilizing the average monthly net income of the first taxable year of doing business multiplied by twelve. Both the payment of the tax as well as the filing of the return shall be made on or before the 20th day of the 4th month following the close of the 1st taxable year of doing business.

An amended franchise tax return shall be filed after the close of the second year of doing business. Any variance between the estimated tax paid and the tax on the actual net income for the second year shall be adjusted by showing a credit or refund, or payment of the additional tax due. The amend-

ed tax return shall be filed on or before the 20th day of the 4th month following the close of the 2nd taxable year. The boxes on the Form F-1 indicating "AMENDED Return" and "Second year return" should be checked off. Attach a completed Schedule AMD, Explanation of Changes on Amended Return, to the amended return. Also, attach all schedules, forms, and attachments required to file a complete return.

**Third and Subsequent Years Of Doing Business.** Taxpayers engaged in their third and subsequent year of operations would compute the tax in the usual manner provided in sections 241-4 and 241-5, HRS.

**Consolidation Or Merger Of Banks, Building And Loan Associations, Development Companies, Financial Corporations, Financial Services Loan Companies, Trust Companies, Mortgage Loan Companies, Financial Holding Companies And Qualifying Subsidiaries, and Small Business Investment Companies.**

Whenever there is a consolidation or merger of taxpayers subject to the franchise tax, the tax shall attach to the taxpayer thus formed and the net income which shall be used for measuring the tax of the taxpayer thus formed shall include the net income of the taxpayers which were consolidated or merged.

**Taxpayer Terminating Business Operations.** If a taxpayer subject to the franchise tax, terminates business operations during the calendar or fiscal year and other than in an acquisition by another company, or merger, or consolidation:

- (1) Before the tax return is filed as required under section 241-5, HRS, a short year return shall be filed and the tax shall apply to the actual net income for the taxable year or part of the taxable year during which the taxpayer conducted business operations; or
- (2) After the return has been filed as provided in section 241-5, HRS, an amended return shall be filed to show the actual net income for the taxable year or part of the taxable year during which the taxpayer conducted business operations. Any variance between the tax computed and paid on the basis of the entire net income of the preceding calendar or fiscal year and the actual net income for the final year or part of a year of business operations shall be adjusted by showing a credit or refund or paying the additional tax.

The return made shall be filed and the tax shall be paid on or before the 20th day of the 4th month following the month business operations ceased or the close of the taxable year, whichever is earlier. The box on Form F-1 indicating "Final return" should be checked off and the "Business end date" should be noted.

### Changing Accounting Period from Calendar Year to Fiscal Year.

The amount of the franchise tax which is assessed for the calendar year and the payment schedule for the tax that is established at the beginning of the calendar year are not affected or canceled when the taxpayer changes its accounting period to a fiscal year.

A taxpayer which changes its accounting period from a calendar to a fiscal year is subject to the following requirements:

1. Submit a written request for a change in the accounting period which is approved by the Department of Taxation (Department).
2. File Form F-1 for the new accounting period reporting the entire net income from all sources for the fiscal year. The original Form F-1 reporting the entire net income from all sources for the calendar year must also be filed.
3. Offset the entire net income from all sources for the duplicated months. To avoid being taxed twice for the duplicated months, an offset for the entire net income from all sources for the duplicated months will be allowed on the Form F-1 for the new accounting period.
4. No carryover of excess amounts. If the entire net income from all sources for the duplicated months on the original Form F-1 exceeds the entire net income from all sources for the duplicated months on the Form F-1 for the new accounting period, the excess amounts shall not be carried over and offset against the entire net income from all sources for the unduplicated months on the Form F-1 for the new accounting period.

## Change of Address.

If your mailing address has changed, you must notify the Department of the change by completing Form ITPS-COA, Change of Address Form, or log in to your Hawaii Tax Online account at [hitax.hawaii.gov](http://hitax.hawaii.gov). Failure to do so may prevent your address from being updated, any refund due to you from being delivered (the U.S. Postal Service is not permitted to forward your State refund check), and delay important notices or correspondence to you regarding your return.

### I. Who Must File Form F-1 and Pay the Franchise Tax.

- (a) Every national banking association located in the State of Hawaii.
- (b) Every bank organized under the laws of the State.
- (c) Every corporation doing a banking business within the State under the authority of chapter 412, HRS.
- (d) Every foreign bank doing business in the State under the authority of chapter 412, HRS.
- (e) Every federal savings and loan association located in the State.
- (f) Every building and loan association subject to the provisions of chapter 412, HRS.
- (g) Every financial services loan company subject to the provisions of chapter 412, HRS.
- (h) Every financial holding company registered under the Federal Bank Holding Act of 1956, or registered as a savings and loan holding company under the Home Owners' Loan Act of 1933.
- (i) Every mortgage loan originator company licensed under chapter 454F, HRS.
- (j) Every subsidiary corporation doing business in Hawaii engaged in activities set forth in Title 12 of the Code of Federal Regulations, sections 225.22 and 225.25 or sections 584.2-1 and 584.2-2, and whose voting stock is more than eighty percent owned by a financial holding company, bank, building and loan association, financial services loan company, financial corporation, or trust company.
- (k) Every trust company authorized to conduct business as a trust company under chapter 406, HRS.
- (l) Every corporation, domestic or foreign, which is a financial corporation (1) within the meaning of section 5219 of the Revised Statutes of the United States, as amended (12 U.S.C. 548), or other similar law, or (2) an interbank broker (effective 7/1/90), doing business in the State and not subject to the taxes imposed by chapters 237 and 235, HRS, or not subject to one of these taxes. However, an insurance company which pays the tax on premiums imposed by chapter 431, HRS, is excluded.
- (m) Every small business investment company approved by the federal Small Business Administration and issued a license to operate under the provisions of the federal Small Business Investment Act of 1958, as amended.
- (n) Every development company approved by the federal Small Business Administration to operate under the provisions of Title V of the federal Small Business Investment Act of 1958, Public Law 699, as amended.

### II. "Income Year," Chapter 241, HRS, References, Explained.

- (a) The income year is the year the income of which is the measure of the tax for the franchise tax year involved. For all years except the first, second, and final year of business, the income year is the preceding calendar year, or in the case of a taxpayer operating on a fiscal year basis, the preceding fiscal year.
- (b) Whenever reference is made to chapter 235, HRS, known as the Hawaii Income Tax Law, the provisions that are to be followed are those that are applicable for income tax purposes to income derived or received on and after the date the franchise tax is imposed. For example, to determine the franchise tax imposed as of January 1, 2020, the governing provisions of chapter 235, HRS, are those applicable to the income derived or received on or after January 1, 2020.

### III. Rate and Measure of Tax.

The rate of the franchise tax is 7.92% and is measured by the entire net income from all sources of the income year, as explained in Instruction II.

### IV. Determination of Entire Net Income From All Sources For The Income Year.

- (a) The "entire net income from all sources" for the income year is determined in the same manner as "taxable income" under the IRC of 1986, as amended, and as further amended by the Hawaii Legislature except as otherwise provided in chapter 235 or chapter 241, HRS. These instruc-

tions set forth the adjustments to be made to Internal Revenue Code taxable income as determined before the net operating loss deduction.

- (b) The expression "entire net income from all sources" is used to signify the inclusion in the measure of the franchise tax of net income that would be excluded if the tax were imposed on the net income itself, such as interest on obligations of the United States. The law requires that all items constituting "income" be included in gross income in computing net income as the measure of the franchise tax imposed by chapter 241, HRS, even though if the tax were imposed on the net income itself the item would not be subject to taxation by the State under the Constitution and laws of the United States or would be excluded by section 235-7(a)(5), HRS, relating to exempt payments made by the United States or the State, or by section 235-7(a)(7), HRS, relating to income expressly exempted by laws of the State other than the Hawaii Income Tax Law itself. However, as shown by Instruction VIII, the exemption allowed by Act 241, SLH 1957, does apply in computing the measure of the franchise tax imposed by chapter 241, HRS.
- (c) While the adjustments to be made in determining the entire net income from all sources for the income year are explained in the instructions that follow, these instructions necessarily are general. They do not purport to set forth each and every adjustment that is to be made. Specific questions should be submitted in writing for a ruling.
- (d) Section 235-92, HRS, is operative for chapter 241, HRS. The filing of a consolidated franchise tax return is allowed for a bank, building and loan association, financial corporation, financial services loan company, small business investment company, development company, mortgage loan company, trust company, or financial holding company and its subsidiaries, as defined in section 241-1, HRS.

### V. Sources Within and Without the State.

Pursuant to sections 235-7(e)(2), 235-21 to 235-39, and 241-4(b)(2), HRS:

- (1) Any financial institution having income from business activity which is taxable both within and without this State shall allocate and apportion its net income by the use of the apportionment of business income allocation provisions of the Uniform Division of Income for Tax Purposes Act (UDITPA). Nonbusiness income shall be allocated pursuant to the provisions of part II of chapter 235, HRS. Business income shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three. The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and located or used in this State during the tax period plus the average value of the taxpayer's loans and credit card receivables located in this State during the tax period, and the denominator of which is the average value of all such property located or used everywhere during the tax period. Real and tangible personal property owned by the taxpayer is valued at its original cost. Real and tangible personal property rented by the taxpayer is valued at eight times the net annual rental rate. Where property is rented for less than a twelve-month period, the rent paid for the actual period of rental shall constitute the annual rental rate for the tax period. Loans and credit card receivables are valued at their outstanding principal balance, without regard to any reserve for bad debts. The average value of property shall be determined by averaging the values at the beginning and ending of the tax period. If averaging on this basis does not properly reflect average value, the taxpayer may elect or the Department may require averaging on a more frequent basis. The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period. The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. If this apportionment does not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for or the Department may require the use of separate accounting, the exclusion of one or more of the factors, the inclusion of one or more additional factors, or the use of any other method to accurately reflect the taxpayer's business activity in the State. For more information, see section 18-241-4, Hawaii Administrative Rules. To compute your apportionment factors, complete Schedule P on page 4 of Form F-1.
- (2) Deductions connected with excluded income from sources without the State are not allowable. Interest paid or accrued to purchase or carry property owned without the State, or to carry on trade or business without the State, is not deductible. Proper adjustments must be made so that no such deductions are taken.

### VI. Interest on Obligations of the United States, States, etc.

- (a) Whether or not included in determining federal taxable income, there must be included in gross income under chapter 241, HRS, the interest:
  - (1) Upon obligations of the United States or its possessions, or upon securities issued under the authority of an Act of Congress.

(2) Upon state, territorial, municipal, county or other bonds or securities, including Hawaiian issues.

(b) Interest paid or accrued within the income year or indebtedness incurred or continued to purchase or carry the securities the interest upon which is included in the franchise tax return, to the extent not deducted as part of the federal return, may be deducted as an adjustment of federal taxable income.

## VII. Bad Debts.

(a) The deductions allowed by sections 166 and 593 do not apply. However:

(1) The provisions of the IRC as to the debts which may be the subject of a bad debt deduction apply in determining the bad debt deduction allowed by section 241-4(b)(3), HRS. That is, except in the case of a bank, a security may not be the subject of a bad debt deduction.

(2) The basis for determining the amount of the deduction for a bad debt is provided in section 166(b) which states that: "...the basis for determining the amount of the deduction for any bad debt shall be the adjusted basis provided in section 1011 for determining the loss from the sale or other disposition of property."

(b) In order to make the adjustment required because the deductions allowed by sections 166 and 593 do not apply, there must be added to federal taxable income the amount of the deduction for bad debts or for addition to a reserve for bad debts taken on federal return. The deduction allowed for bad debts by section 241-4(b)(3), HRS, will be a further adjustment of federal taxable income, as set forth in (c) below.

(c) Under section 241-4(b)(3), HRS, there are two methods of treating bad debts, set out below as (1) and (2). However, the use of method (2) is in the discretion of the Director. Established businesses which prior to the income year had built up an adequate reserve for bad debts will not be permitted to use method (2).

(1) Debts ascertained to be worthless and charged off on the books of the taxpayer within the income year may be deducted. When the Director is satisfied that a debt is recoverable only in part, the nonrecoverable amount, to the extent charged off on the books within the income year, may be deducted. In order to deduct a debt in part, a taxpayer must be able to demonstrate to the satisfaction of the Director the amount thereof which is not recoverable and the part thereof which was charged off.

(2) As an alternative to the treatment of bad debts by method (1), a taxpayer having permission to do so and electing to use this method may deduct a reasonable addition to a reserve for bad debts. If an election to use method (2) is made and the Director grants permission to do so, this method must be used in returns for all subsequent years unless permission is granted by the Director to change to method (1). Application for permission to change to method (1) must be made at least thirty days prior to the close of the income year for which the change is to be effective.

Enter on line 14(a) the amount for the current year from Schedule F, column 5 or 7.

## VIII. Dividends.

(a) The entire amount of dividends received upon the shares of stock of a national banking association is excluded from gross income.

(b) The entire amount of qualifying dividends, as defined in section 243(b) received by members of an affiliated group is excluded from gross income.

(c) The entire amount of dividends received by a small business investment company operating under the Small Business Investment Act of 1958 is excluded from gross income.

(d) The special deductions allowed on a federal return are not allowed. However, there is allowed a deduction of 70% of the amount received as dividends upon stocks from foreign or domestic corporations that do not qualify for the 100% dividends received deduction allowed under section 235-7(c), HRS.

(e) Under section 857(c), a dividend paid by a Real Estate Investment Trust (REIT) is not considered a "dividend" for purposes of section 235-7(c), HRS, and the dividend received deduction is not allowed for Hawaii income tax purposes. Therefore, if a bank, financial institution, or small business investment company is an owner of a REIT, the dividend received deduction is not allowed for franchise tax purposes.

(f) If your mutual fund has provided you with a statement that some of the dividends received from the mutual fund qualify for the dividends received deduction, the amount of the qualifying dividends may be included in Schedule C, column 5. Other taxable dividends received from the mutual

fund (other than capital gains dividends) should be reported on Schedule C, line 9.

## IX. Capital Gains.

(a) Alternative Tax Treatment. Section 1201, with respect to alternative tax on capital gains, is operative for chapter 241, HRS. A tax of 4% of the net capital gains is imposed.

(b) In the case of the sale or exchange of a bond, debenture, note, or certificate or other evidence of indebtedness, sections 582(c) and 1243 shall apply.

(c) For entities which are 100% within Hawaii and, therefore, do not apportion income, the amount on line 8(a) should be adjusted for the difference between the Hawaii and the federal carryforward amounts. A statement should be attached to the return to explain the difference between the federal and State amounts.

## X. Disaster Losses.

(a) At the election of the taxpayer losses of property owned in the State, sustained as the result of a tidal wave, hurricane, earthquake, or volcanic eruption, or as the result of flood waters overflowing the banks or walls of a river or stream, or from other natural disaster, if otherwise deductible, may be prorated in equal installments over a period of five years.

(b) In order to exercise this election, the taxpayer must, in computing "entire net income from all sources" for the income year in which the loss was sustained, reduce the amount otherwise deductible to the one-fifth installment which is deductible pursuant to the election. This adjustment, for the income year in which the loss was sustained, will consist in the addition to federal taxable income of four-fifths of the loss deducted on the federal return for the income year. For subsequent income years this adjustment will consist in the deduction from federal taxable income of the pro rata installment for the year.

## XI. Net Operating Loss (NOL).

The NOL deduction allowed by section 172 as adopted by Hawaii shall apply.

**Note:** For NOLs arising in taxable years ending after December 31, 2017, Act 27, SLH 2018, eliminates NOL carrybacks (except for farming NOLs which are permitted a two-year carryback), and allows unused NOLs to be carried forward indefinitely. Also, the NOL deduction is limited to 80% of taxable income for taxable years beginning after December 31, 2017.

You may elect to carry the farming NOL forward instead of first carrying it back to prior years. If you make this election, then you can use your farming NOL only in the carryforward period. To make this election, attach a statement to your original return filed by the due date (including extensions) for the farming NOL year. This statement must state that you are electing to waive the carryback period under section 235-7(d), HRS, and IRC section 172(b)(1)(B)(iv).

## XII. Change in Federal Taxable Income, Required Reports.

(a) Section 235-101(b), HRS, which pursuant to section 241-6, HRS, applies to the franchise tax, requires a report to the Director if the amount of federal taxable income is changed, corrected, adjusted or recomputed as stated in (c).

(b) This report must be made:

- (1) Within 90 days after a change, correction, adjustment or recomputation is finally determined.
- (2) Within 90 days after a federal amended return is filed.

(c) A report within the time set out in (b) is required if:

- (1) The amount of taxable income as returned to the United States is changed, corrected or adjusted by an officer of the United States or other competent authority.
- (2) A change in taxable income results from a renegotiation of a contract with the United States or a subcontract thereunder.
- (3) A recomputation of the income tax imposed by the United States under the IRC results from any cause.
- (4) An amended income tax return is made to the United States.

(d) The report referred to above shall be in the form of an amended franchise tax return.

(e) The statutory period for the assessment of any deficiency or the determination of any refund attributable to the report shall not expire before the expiration of one year from the date the Department is notified by the taxpayer or the Internal Revenue Service (IRS), whichever is earlier, of such a report in writing. Before the expiration of this one-year period, the Department and the taxpayer may agree in writing to the extension of this period. The period so agreed upon may be further extended by sub-

sequent agreements in writing made before the expiration of the period previously agreed upon.

### XIII. Mandatory Electronic Filing of Tax Returns.

The Department requires franchise company taxpayers to file electronically.

Act 66, SLH 2018, authorizes the Department to require certain taxpayers to file their tax returns electronically, unless a waiver is obtained by filing Form L-110. The penalty for failure to file electronically is 2% of the tax due. For more information, see Department of Taxation Announcement No. 2019-12.

### XIV. Filing of Returns.

- (a) **Time.** In the case of calendar year corporations, returns shall be filed on or before April 20, following the close of the calendar year (income year). In the case of fiscal year corporations, returns shall be filed on or before the 20th day of the 4th month following the close of the fiscal year (income year).

Note: If the due date falls on a Saturday, Sunday, or legal State holiday, the return shall be due on the next regular business day.

The Director may grant a reasonable extension of time for filing the return but in no case shall the extension be for more than 6 months. File Form N-755 to request an automatic 6-month extension of time to file Form F-1 or amended Form F-1 for first and second year entities.

- (b) **Place.**

Form F-1 MUST be filed electronically at [tax.hawaii.gov/eservices/](http://tax.hawaii.gov/eservices/).

You may also mail Form F-1 and payment in full to:

Hawaii Department of Taxation  
P.O. Box 259  
Honolulu, Hawaii 96809-0259

- (c) **Authentication.** Returns shall be authenticated by the signature of the president, vice president, treasurer, assistant treasurer, chief accounting officer or any other officer duly authorized so to act. The fact that an individual's name is signed on the return shall be prima facie evidence that such individual is authorized to sign the return on behalf of the corporation.

The Paid Preparer's Information at the bottom of page 1 of Form F-1 must be signed and completed by the person or in the name of the firm or corporation paid to prepare the return. Individual preparers may furnish their alternative identifying number for income tax return preparers (PTIN) instead of their social security number.

- (d) **Penalty and Interest.**

**Late Filing of Return** — The penalty for failure to file a return on time is assessed on the tax due at a rate of 5% per month, up to a maximum of 25%.

**Failure to Pay Tax After Filing a Timely Return** — The penalty for failure to pay the tax after filing a timely return is 20% of the tax unpaid within 60 days of the prescribed due date.

**Failure to File Electronically** — Form F-1 MUST be filed electronically unless you obtain a waiver. (Use Form L-110 to apply for a waiver). The penalty for failure to file electronically is 2% of the tax due.

**Failure to Pay by EFT** — The penalty for failure to pay by EFT for taxpayers who are required to pay by EFT is 2% of the tax due.

**Interest** — Interest at the rate of 2/3 of 1% per month, or part of a month, shall be assessed on unpaid taxes and penalties beginning with the first calendar day after the date prescribed for payment, whether or not that first calendar day falls on a Saturday, Sunday, or legal holiday.

### XV. Payment of Tax.

The tax must be paid on or before the date prescribed for filing the return. However, the corporation may elect to pay the tax in four equal installments, as follows: For the calendar year corporation, the first installment is to be paid on April 20; the second on June 20; the third on September 20; and the fourth on December 20 following the income year.

Fiscal year corporations paying the tax in installments are to pay as follows: The first installment on the 20th day of the 4th month, the second installment on the 20th day of the 6th month, the third installment on the 20th day of the 9th month, and the fourth installment on the 20th day of the 12th month, following the close of the fiscal year.

Notwithstanding the preceding, if the total tax liability under this chapter for the taxable year exceeds \$100,000, the taxes so levied shall be payable in twelve equal installments, in which case the first installment shall be paid on or before the tenth day of the first month following the close of the taxable year, and the remaining installments shall be paid on or before the tenth day of each calendar month after such date. If any installment is not paid on or before the date fixed for its payment, the Department, at its election may cause the balance of the tax unpaid to become payable upon not less than ten days' notice and demand, and this amount shall be paid upon the date so fixed in the notice and demand from the Department.

If a payment is being made when the Form F-1 is filed or when applying for an extension of time to file (or when paying additional tax due when filing an amended return), attach your payment to the Form F-1 or Form N-755.

Form VP-2, Miscellaneous Taxes Payment Voucher, is no longer required when making a payment with Form F-1 or Form N-755.

**Line 76.** — Enter the total amount of franchise tax installments paid. Installment payments of the franchise tax are reported and paid on Form FP-1.

**Electronic Funds Transfer (EFT).** Section 231-9.9, HRS, authorizes the Department to require those taxpayers whose tax liability for a particular tax exceeded \$100,000 during the past year to pay that tax by EFT instead of by check. The Department reviews the filing records of taxpayers and will mail notices to taxpayers who met this criterion. Any taxpayer who does not meet the criterion may still voluntarily pay by EFT. Use Form EFT-1 to set up payment by EFT. For more information on paying taxes by EFT, please see Tax Information Release Nos. 95-6 and 99-1.

**IMPORTANT:** A penalty of 2% of the tax due will be assessed if a taxpayer who is required to make payments by EFT does not do so without reasonable cause. If an EFT payment is dishonored, a \$25 service fee will be assessed.

### XVI. Refundable Credits.

**Line 70.** — Enter on this line the result from page 4, Schedule I, line 3. Descriptions of the refundable credits follow.

#### Capital Goods Excise Tax Credit.

This 4% credit is available to Hawaii businesses on the acquisition of qualifying business property. See Form N-312 for more information.

The tax credit is claimed in the year the property was purchased and placed in service. If the property is purchased and placed in service after a franchise tax return has been filed, an amended franchise tax return must be filed to claim the tax credit. For example, a calendar year franchise taxpayer files the 2020 franchise tax return on April 20, 2020, but places qualifying property in service in July, 2020. The taxpayer files an amended 2019 franchise tax return to claim the tax credit. If property for which a credit has been taken ceases to be eligible property or is disposed of, recapture of all, or part, of the credit received may be necessary. See the instructions for Form N-312, Part II for more information. Enter the amount of any credit recaptured on page 3, line 64.

**To claim this credit.** Complete and attach Form N-312 to Form F-1 and enter on page 4, Schedule I, line 1 the amount of the credit claimed.

**Deadline for claiming this credit.** Claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month after the close of your taxable year.

#### Renewable Energy Technologies Income Tax Credit for Systems Placed in Service on or after July 1, 2009.

Each taxpayer who files a franchise tax return for 2020 may claim a tax credit for an eligible renewable energy technology system installed and placed in service in the State in 2020. For solar energy systems, you may claim the credit as refundable by reducing the eligible credit amount by 30%. Once an election is made to treat the tax credit as refundable, the election cannot be revoked. An amended return cannot be filed to change the tax credit from refundable to nonrefundable. See Form N-342 for more information.

**To claim this credit.** Complete and attach Form N-342 to Form F-1 and enter on page 4, Schedule I, line 2 the amount of the refundable credit claimed.

**Deadline for claiming this credit.** Claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month after the close of your taxable year.

**Line 71.** — Line 69 (TOTAL TAX) minus line 70. If line 70 is larger than line 69, also enter this amount on line 74 with a minus sign (-) to the left of the amount.

If line 71 is zero or less, the nonrefundable credits may not be used. Even if you are not able to use the nonrefundable credits, complete the forms for any credits you qualify for and attach those forms to your Form F-1. If these forms are not attached, no claim for the credit has been made and you will lose the carryover of your unused credits.

### XVII. Nonrefundable Credits.

**Line 72.** — Enter on this line the result from page 4, Schedule H, line 6. If line 70 is larger than line 69, no nonrefundable credits may be used. Even if you are not able to use the nonrefundable credits, complete the forms for any credits you qualify for and attach those forms to your Form F-1. If these forms are not attached, no claim for the credit has been made and you will lose the carryover of your unused credits. Descriptions of the nonrefundable credits follow.

#### Carryover of the Credit for Energy Conservation.

Note: *The energy conservation tax credit expired on June 30, 2003. You may claim this tax credit only if you have a carryover of the tax credit from a prior year.*

If this tax credit exceeds your franchise tax liability, it is not refunded but may be used as a credit against your franchise tax liability in subsequent years until exhausted.

**To claim the carryover of this credit.** Complete and attach Form N-323 to Form F-1 and enter on page 4, Schedule H, line 1 the amount of the credit claimed.

### Low-Income Housing Tax Credit.

Hawaii's low-income housing tax credit is equal to 50% of the federal credit for qualified buildings located within the State of Hawaii. Effective for taxable years beginning after December 31, 1999, the federal credit does not have to be claimed in order to claim the Hawaii credit. Owners of qualified low-income buildings placed in service after December 31, 2011, may receive a low-income housing tax credit loan instead of taking the credit. Contact the Housing and Community Development Corporation of Hawaii for qualifying requirements and further information.

**To claim this credit.** Complete and attach Form N-586 to Form F-1 and enter on page 4, Schedule H, line 2 the amount of the credit claimed.

### Carryover of the High Technology Business Investment Tax Credit.

The high technology business investment tax credit expired on December 31, 2010. This credit may be claimed only if the organization has a carryover of the credit from a prior year. For more information, see Form N-323, Carryover of Tax Credits.

**To claim this credit.** Complete and attach Form N-323 to Form F-1 and enter on page 4, Schedule H, line 3 the amount of the credit claimed.

### Carryover of the Renewable Energy Technologies Income Tax Credit (for systems installed and placed in service before July 1, 2009).

**To claim the carryover of this credit.** Complete and attach Form N-323 to Form F-1 and enter on page 4, Schedule H, line 4 the amount of the credit claimed.

### Renewable Energy Technologies Income Tax Credit for Systems Placed in Service on or after July 1, 2009.

Each taxpayer who files a franchise tax return for 2020 may claim a tax credit for an eligible renewable energy technology system installed and placed in service in the State in 2020. You may claim the credit as nonrefundable or refundable. A nonrefundable credit means your credit will be applied towards the amount of franchise tax you owe. If your nonrefundable credit is greater than the amount of franchise tax that you owe, then you may carryover the remaining credit and apply it towards next year's franchise tax. You may continue to carryover the credit until it is used up.

### Total Output Capacity

A system classified under "other solar energy system", such as a photovoltaic system, must meet the total output capacity requirement to qualify for the credit, unless an exception applies.

The total output capacity requirements are:

1. Single-family residential property — 5 kilowatts per system
2. Multi-family residential property — 0.360 kilowatts per unit per system
3. Commercial property — 1,000 kilowatts per system

For more information, see Form N-342 and its instructions, and Tax Information Release (TIR) No. 2007-02, *Relating to the Renewable Energy Technologies Income Tax Credit*, TIR No. 2010-10, *Common Income Tax & General Excise Tax Issues Associated with the Renewable Energy Technologies Income Tax Credit*, HRS §235-12.5, and TIR No. 2012-01, *Temporary Administrative Rules Relating to the Renewable Energy Technologies Income Tax Credit*.

**To claim this credit.** Complete and attach Form N-342 to Form F-1 and enter on page 4, Schedule H, line 5 the amount of the nonrefundable credit claimed.

**Deadline for claiming this credit.** Claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month after the close of your taxable year.

**Line 73. — Capital Infrastructure Tax Credit.** — Enter on this line your nonrefundable Capital Infrastructure Tax Credit from Form N-348.

For taxable years from 2014 to 2019, each taxpayer who is a qualified infrastructure tenant subject to Hawaii's franchise tax can claim a nonrefundable franchise tax credit for the taxable year in which the capital infrastructure costs were paid or incurred. The tax credit is the lesser of 50% of the capital infrastructure costs paid or incurred by the qualified infrastructure tenant during the taxable year or \$2,500,000. A tax credit which exceeds the taxpayer's franchise tax liability may be used as a credit against the taxpayer's franchise tax liability in subsequent years until exhausted.

**To claim this credit.** Complete and attach Form N-348 to Form F-1.

**Deadline for claiming this credit.** Claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month after the close of your taxable year.

**Line 74. —** On this line, enter the difference between line 71 and the sum of lines 72 and 73. If line 70 is larger than line 69, however, enter on this line the amount from line 71 with a minus sign (-) to the left of the amount.

## XVIII. Deduction from Entire Net Income— International Banking Facility (IBF).

Certain qualified banks authorized to operate international banking facilities are eligible for a deduction from the entire net income of its operations. Section 241-3.5, HRS, allows the following deductions:

"Sec. 241-3.5 **Deduction from entire net income.** There shall be allowed as a deduction from entire net income to the extent not deductible in determining federal taxable income, the adjusted eligible net income of an

international banking facility, as defined in section 412:5-206, determined as follows:

- (1) The eligible net income of an international banking facility shall be the amount remaining after subtracting from the eligible gross income the applicable expenses.
- (2) Eligible gross income shall be the gross income derived by an international banking facility from:
  - (A) Making, arranging for, placing, or servicing loans to foreign persons; provided that in the case of a foreign person which is an individual, or which is a foreign branch of a domestic corporation (other than a bank), or which is a foreign corporation or foreign partnership which is eighty per cent or more owned or controlled, either directly or indirectly, by one or more domestic corporations (other than a bank), domestic partnership, or resident individual, substantially all the proceeds of the loan shall be for use outside of the United States;
  - (B) Making or placing deposits with foreign persons which are banks or foreign branches of banks (including foreign subsidiaries or foreign branches of the taxpayer) or with other international banking facilities; or
  - (C) Entering into foreign exchange trading or hedging transactions related to any of the transactions described in this paragraph.
- (3) Applicable expenses shall be any expense or other deduction attributable directly or indirectly, to the eligible gross income described in paragraph (2).
- (4) Adjusted eligible net income shall be determined by subtracting from eligible net income the ineligible funding amount, and by subtracting from the amount then remaining the floor amount.
- (5) The ineligible funding amount shall be the amount, if any, determined by multiplying eligible net income by a fraction, the numerator of which is the average aggregate amount for the taxable year of all liabilities, including deposits, and other sources of funds to the international banking facility which were not owed to or received from foreign persons, and the denominator of which is the average aggregate amount from the taxable year of all liabilities, including deposits and other sources of funds of the international banking facility.
- (6) The floor amount shall be the amount, if any, determined by multiplying the amount remaining after subtracting the ineligible funding amount from the eligible net income by a fraction, not greater than one, which is determined as follows:
  - (A) The numerator shall be:
    - (i) The percentage, as set forth in subparagraph (C), of the average aggregate amount of the taxpayer's loans to foreign persons and deposits with foreign persons which are banks or foreign branches of banks, or savings and loan associations or foreign branches of savings and loan associations, as the case may be, (including foreign subsidiaries or foreign branches of the taxpayer), which loans and deposits were recorded in the financial accounts of the taxpayer for its branches, agencies, and offices within the State for taxable years 1980, 1981, and 1982, minus:
    - (ii) The average aggregate amount of such loans and such deposits for the taxable year of the taxpayer (other than such loans and deposits to an international banking facility); provided that in no case shall the amount determined in this clause exceed the amount determined in this subparagraph;
  - (B) The denominator shall be the average aggregate amount of the loans to foreign persons and deposits with foreign persons which are banks or foreign branches of banks, including foreign subsidiaries or foreign branches of the bank, (or savings and loan associations, as the case may be) which loans and deposits were recorded in the financial accounts of the taxpayer's international banking facility for the taxable year;
  - (C) The percentage shall be one hundred per cent for the first taxable year in which the taxpayer establishes an international banking facility and for the next succeeding four taxable years. The percentage shall be eighty per cent for the sixth, sixty per cent for the seventh, forty per cent for the eighth, and twenty per cent for the ninth and tenth taxable years next succeeding the year such bank or savings and loan association establishes such facility, and zero in the eleventh succeeding year and thereafter.
- (7) If adjusted eligible net income is a loss, the amount of such loss shall be added to entire net income.
- (8) As used in this section, the term 'foreign person' means:
  - (A) An individual who is not a resident of the United States,
  - (B) A foreign corporation, a foreign partnership, or a foreign trust, as defined in section 7701 of the federal Internal Revenue Code of 1954, as amended, other than a domestic branch thereof,
  - (C) A foreign branch of a domestic corporation (including the taxpayer),

(D) A foreign government or an international organization or an agency of either, or

(E) An international banking facility.

For the purposes of this paragraph, the term 'foreign' and 'domestic' have the same meaning as set forth in section 7701 of the federal Internal Revenue Code of 1954, as amended."

Attach your separate computation schedule to Form F-1 and report the allowable deduction from entire net income on page 2, line 22, "Other deductions."

### **XIX. Amount Overpaid.**

**Line 80.** — If line 77 is larger than line 74, and line 74 is zero or more, subtract line 74 from line 77 and show the difference on line 80. This is the amount overpaid.

However, if line 74 is less than zero, complete the following worksheet:

1. Amount from line 74 (enter as a positive number)..... \_\_\_\_\_
2. Amount from line 77..... \_\_\_\_\_
3. Add line 1 and line 2. .... \_\_\_\_\_

Enter the amount from line 3 of the worksheet on line 80. This is the amount overpaid.

### **XX. Amended Returns.**

If a return is filed and then it becomes necessary to make changes to income, deductions, or credits, file an amended return on Form F-1. Use the Form F-1 for the year being amended.

Check the AMENDED Return box at the top page 1 of Form F-1 to indicate that this is an amended return. Complete the amended return using corrected amounts through line 80, then go to line 83. Attach a completed Schedule AMD, Explanation of Changes on Amended Return, to the amended return. Also, attach all schedules, forms, and attachments required to file a complete return.

If the return is being amended to take a farming NOL carryback deduction, also check the NOL Carryback box at the top of page 1 of Form F-1.

**Note:** For NOLs arising in taxable years ending after December 31, 2017, Act 27, SLH 2018, eliminates NOL carrybacks (except for farming NOLs which are permitted a two-year carryback), and allows unused NOLs to be carried forward indefinitely. Also, the NOL deduction is limited to 80% of taxable income for taxable years beginning after December 31, 2017.

If you are filing an amended return due to an IRS adjustment to your federal return, also check the IRS Adjustment box at the top of page 1 of Form F-1. See *XII. Change in Federal Taxable Income, Required Reports.*, on page 3 of these instructions.

**Line 83.** — Enter on line 83 the amount paid on the original return (from line 79 of the **original** return) or the amount overpaid (from line 80 of the **original** return). Enter overpayments with a minus sign (-) to the left of the amount.

**Line 84.** — If no amount was entered on line 83, enter on line 84 the amount, if any, from line 79 or line 80 of the **amended** return. If there is an amount on line 83, and that amount is:

- (1) A payment and there is an amount on line 79 of the **amended** return, subtract the amount on line 83 from the amount on line 79 and enter the difference on line 84. If the difference is a negative amount, show the negative amount on line 84 with a minus sign (-).
- (2) A payment and there is an amount on line 80, add these amounts and enter the total on line 84 with a minus sign (-) to the left of the amount.
- (3) An overpayment and there is an amount on line 79, subtract the amount on line 83 from the amount on line 79, and enter the result on line 84. This is the amount owed on the amended return.
- (4) An overpayment and there is an amount on line 80, consider the amount on line 80 a negative amount and subtract the amount on line 83 from the amount on line 80, and enter the difference on line 84. If the difference is a negative amount, show the negative amount on line 84 with a minus sign (-). If there is an overpayment on the amended return, do NOT enter this amount on line 82.