2010
(REV. 2010)

STATE OF HAWAII—DEPARTMENT OF TAXATION

INSTRUCTIONS FOR FORM N-20

Partnership Return of Income

(Section references are to the Internal Revenue Code (IRC) unless otherwise specified.)

ATTENTION:

Hawaii has not adopted the increased expensing deduction under IRC section 179 (Hawaii limit is $25,000) or the "bonus" depreciation provisions.

Hawaii has not adopted the domestic activities production deduction under Internal Revenue Code section 199.

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 **www.hawaii.gov/tax**, or you may contact the customer service representative at: 808-587-4242 or 1-800-222-3229 (Toll-Free).

Changes You Should Note

The 2010 State Legislature enacted a number of provisions that may affect a partnership's return. These include:

Conformity of the Hawaii Income Tax Law to the Internal Revenue Code, amended as of December 31, 2009. Hawaii has adopted many of the provisions of federal laws enacting tax provisions in 2009. Descriptions of the changes adopted by Hawaii may be found in Department of Taxation Announcement No. 2010-10 which is available on the Department's website at **www.hawaii.gov/tax**.

Ordering of Tax Credits – Refundable income tax credits shall be applied against a taxpayer's income tax liability before nonrefundable income tax credits are applied.

Deductions for Political Contributions – Deductions for political contributions will no longer be availabe for taxable years beginning after December 31, 2010.

Paid Preparers' Signatures – Paid preparers may sign original returns, amended returns, or requests for filing extensions by rubber stamp, mechanical device, or computer software program.

Purpose of Form

Form N-20 is used to report the income, deductions, credits, gains, and losses from the operation of a partnership. Form N-20 for 2010 is an information return for the calendar year 2010 or other fiscal year beginning in 2010.

Who Must File

Every partnership, including limited liability companies treated as partnerships for federal income tax purposes, unless expressly exempted, shall, for its taxable year, make a return of income on Form N-20 stating specifically the items of gross income and allowable deductions, and such additional information as required below. The partnership return shall include the income, deductions, and credits attributable everywhere together with the income, deductions, and credits attributable only to Hawaii. If the return is filed on behalf of a syndicate, pool, joint venture, or similar group which group was created on or after January 1, 1958, a copy of the agreement, together with all amendments thereto, should be attached to the return, if not already filed.

When and Where to File

The return of a partnership must be filed on or before the 20th day of the 4th month following the close of the taxable year of the partnership, with the Hawaii Department of Taxation, P.O. Box 3559, Honolulu, Hawaii 96811-3559. **Note:** If the due date falls on a Saturday, Sunday, or legal State holiday, the return shall be due on the next succeeding day which is not a Saturday, Sunday, or legal State holiday.

Private delivery services. Hawaii has adopted the IRC provision to allow documents and payments delivered by a designated private delivery service to qualify for the "timely mailing treated as timely filing/paying rule". The Department of Taxation will conform to the IRS listing of designated private delivery service and type of delivery services qualifying under this provision. Timely filing of mail which does not bear the U.S. Post Office cancellation mark or the date recorded or marked by the designated delivery service will be determined by reference to other competent evidence. The private delivery service can tell you how to get written proof of the mailing date.

Extension of time to file. If you need more time to file a partnership return, file Form N-100, Application for Automatic Extension of Time to File Hawaii Return for a Partnership, Trust, or REMIC, for an automatic 6-month extension. File Form N-100 by the regular due date of the partnership return. Federal Form 7004, Application for Automatic 6-Month Extension of Time to File Certain Business Income Tax, Information, and Other Returns, may not be used in lieu of Form N-100. Form N-100 may be electronically filed (e-filed) with the Department of Taxation. For more information, go to **www.ehawaii.gov/efile**.

Rounding Off to Whole-Dollar Amounts

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Recordkeeping

The partnership records must be kept as long as they may be needed for the administration of any provision of the federal Internal Revenue Code. Usually, records that support an item of income, deduction, or credit on the partnership return must be kept for 3 years from the date the return is due or is filed, whichever is later. Keep records that verify the partnership's basis in property for as long as they are needed to figure the basis of the original or replacement property.

Copies of the filed partnership returns should also be kept as part of the partnership's records. They help in preparing future returns and in making computations when filing an amended return.

Amended Return

If, after filing its return, the partnership becomes aware of any changes it must make to income, deductions, credits, etc., it should file an amended Form N-20 and an amended Schedule K-1 for each partner. Check the box on Form N-20 at Item E(4), page 1. Give a corrected Schedule K-1 (Form N-20) to each partner. Check the box at Item F(2) on each Schedule K-1 to indicate that it is an amended Schedule K-1. Fill in the return with all of the correct information and attach a completed Schedule AMD, Explanation of Changes on Amended Return, to the amended return.

Information Returns

Every partnership must file information returns if it makes payments of rents, commissions, or other fixed or determinable income totaling $600 or more to any one person in the course of its trade or business during the calendar year. It must report interest payments if they total $10 or more.

Use Form N-196, Annual Summary and Transmittal of Hawaii Information Returns, to summarize and send information returns to your respective taxation district office. For more information about filing information returns and exceptions, see the instructions for Form N-196.

Attachments

If you need more space on the forms or schedules, attach separate sheets. Use the same arrangement as the printed forms. **Show the totals on the printed forms.** Put the partnership's name and Federal Employer Identification Number on each sheet. Also, be sure that each separate sheet clearly indicates the line or section on the printed form to which the information relates.

To assist us in processing the return, please complete every applicable entry space on Form N-20. Do not attach statements and do not write "See attached" in lieu of completing the entry spaces on the form.

An entity that elects to be classified as a partnership by filing federal Form 8832 with the IRS shall attach a copy of that form to the entity's Form N-20 covering the first taxable year in which the entity carries on business in Hawaii, derives income from sources in Hawaii, or makes distributions that are received by a partner who is either a resident of Hawaii or carries on business in Hawaii and is subject to Hawaii income taxation.

Definitions

a. Partnership. The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by which any business, financial operation, or venture is carried on, and that is not, within the meaning of the federal Internal Revenue Code, a corporation, trust, estate, or sole proprietorship. If an organization more nearly resembles a corpora-

tion than a partnership or trust, it is considered an association taxed as a corporation.

Important factors in determining whether a partnership exists include:

1. The parties' conduct in carrying out the provisions of the partnership agreement;
2. The testimony of disinterested persons;
3. The relationship of the parties;
4. The abilities and contributions of each; and
5. The control each has over the partnership income and the purposes for which the income is used.

A joint undertaking merely to share expenses is not a partnership. Mere co-ownership of property that is maintained and leased or rented does not constitute a partnership. However, if the co-owners provide services to the tenants, a partnership exists.

Some partnerships **may be** excluded completely or partially from being treated as partnerships for federal income tax purposes upon the election of all of the members. See **Specific Instructions** below for more information.

b. General Partner. A general partner is a member of the organization who is personally liable for the obligations of the partnership.

c. Limited Partner. A limited partner is one whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

d. Limited Partnership. A limited partnership is a partnership composed of at least one general partner and one or more limited partners.

e. Nonrecourse Loan. Nonrecourse loans are those liabilities of the partnership for which none of the partners have any personal liability.

f. Limited Liability Company. A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for federal income tax purposes either as a partnership or a corporation, depending on whether it has the corporate characteristics of centralization of management, continuity of life, free transferability of interests, and limited liability. To be classified as a partnership, it may have no more than two of these characteristics. Similar rules apply to a limited liability company formed under the laws of a foreign country. Chapter 428, Hawaii Revised Statutes (HRS), allows LLCs to operate following proper approval from the Department of Commerce and Consumer Affairs (DCCA), Business Registration Division. Hawaii conforms to the federal standards in determining whether an LLC is classified as either a partnership or a corporation following proper approval by the DCCA.

Use of Instructions for Federal Form 1065 —

In an effort to streamline Hawaii's partnership return instructions, the discussion of certain topics already discussed in the federal instructions for Form 1065, U. S. Partnership Return of Income, will not be repeated. Please refer to the federal instructions for discussions on the following topics which Hawaii conforms to:

- Termination of the Partnership;

- Accounting Methods;

- Accounting Periods;

- Separately Stated Items;

- Elections Made by the Partnership;

- Elections Made by Each Partner;

- Partner's Dealings With Partnership;

- Contributions to the Partnership;

- Dispositions of Contributed Property;

- Recognition of Precontribution Gain on Certain Partnership Distributions;

- Unrealized Receivables and Inventory Items; and

- Passive Activity Limitations.

Net Operating Loss Deduction

A partnership is not allowed the deduction for net operating losses. (See section 703(a)(2)(D).)

Signatures

General Partner or Limited Liability Company Member

Form N-20 is not considered a return unless it is signed. One general partner or limited liability company member must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

If someone prepares the return and **does not charge the partnership,** that person should not sign the partnership return.

Generally, anyone who is paid to prepare the partnership return must sign the return and fill in the other blanks in the **Paid Preparer's Information** area of the return. Individual preparers may furnish their alternative identifying number for income tax return preparers (PTIN) instead of their social security number.

The preparer required to sign the partnership's return MUST complete the required preparer information and;

- Sign the return in the space provided for the preparer's signature. Paid preparer's may sign original returns, amended returns, or requests for filing extensions by rubber stamp, mechanical device, or computer software program.
- Give the partnership a copy of the return in addition to the copy to be filed with your taxation district office.

The partnership may authorize the Department of Taxation to discuss its tax return with its paid preparer by checking the "Yes" box above the paid preparer's signature. Checking "Yes" will allow the Department to contact the paid preparer to answer any questions that may arise during the processing of the partnership's return. This designation does not replace Form N-848, Power of Attorney.

Specific Instructions

These instructions follow the line numbers on the first page of Form N-20 and on the schedules that accompany it. Specific instructions for most of the lines have been provided. Those lines that do not appear in the instructions are self-explanatory.

File only one return for each partnership. Mark "duplicate copy" on any copy you give to a partner.

If a syndicate, pool, joint venture, or similar group files Form N-20, a copy of the agreement and all amendments must be attached to the return, unless a copy has already been filed. Under section 761(a), an investing unincorporated organization or one participating in the joint production, extraction, or use of property under an operating agreement or an organization of dealers in securities for a short period for the purpose of underwriting, selling, or distributing a particular issue of securities may elect not to be treated as a partnership. Make the election by attaching a statement to Form N-20 for the first year for which the partnership wants the exclusion.

Fill in applicable lines and schedules.

Form N-20

Amended Return Checkbox

If you are amending a return previously filed, check the AMENDED Return box to indicate that this is an amended return.

Name, Address, Federal Employer I.D. Number and Hawaii Tax I.D. Number

The partnership may use its legal or trade name on all tax returns and other documents filed. Print or type the partnership's legal name and address on the appropriate line. If this is a foreign address, enter the information in the following order: city, province or state, country, and postal code. Do not abbreviate the country name. Show the Federal Employer I.D. Number in item A on page 1 of Form N-20 and the Hawaii Tax I.D. Number in item D.

Lines 1 - 9

Enter on lines 1 through 9 the requested amounts as they appear on the Partnership's federal return. Writing "See attached federal return" on Form N-20 and attaching a copy of the partnership's Form 1065 is not acceptable.

You are NOT required to attach a copy of the Partnership's federal return (Form 1065) to Form N-20.

If this is a return of a partnership with trade or business activities in several states, including Hawaii, and the ordinary income or loss from trade or business activities reported on this return is determined using separate accounting, attach a schedule of the Partnership's Hawaii trade or business activities income and expenses. Enter on lines 1 through 9 applicable amounts from this schedule instead of from the Partnership's federal return.

Amounts received by a qualified high technology business as royalties and other income derived from patents, copyrights, and trade secrets owned by the qualified high technology business and developed and arising out of a qualified high technology business are excluded from Hawaii income. Expenses related to this income are deductible. "Qualified high technology business" means a business conducting more than 50% of its activities in qualified research. "Qualified research" means (1) the same as in section 41(d) of the Internal Revenue Code; (2) the development and design of computer software for ultimate commercial sale, lease, license or to be otherwise marketed, for economic consideration. With respect to the software's development and design, the business shall have substantial control and retain substantial rights to the resulting intellectual property; (3) biotechnology; (4) performing arts products; (5) sensor and optic technologies; (6) ocean sciences; (7) astronomy; or (8) nonfossil fuel energy-related technology. All income earned and proceeds derived from stock options or stock, including stock issued through the exercise of stock options or warrants, from a qualified high technology business or from a holding company of a qualified high technology business by an employee, officer, or director of the qualified high technol-

ogy business, or investor who qualified for the high technology business investment tax credit is excluded from income. If the partnership is a qualified high technology business and has included royalties and other income derived from patents, copyrights, and trade secrets the partnership owns in the income reported on line 1, these amounts should be included in the deductions shown on line 14c. If the amount reported on line 14c includes these royalties and other income from patents, copyrights, and trade secrets, these amounts should be identified by attaching a separate schedule or listing.

Line 11a

List deductions taken for federal tax purposes but not allowed, or allowable only in part, for Hawaii tax purposes. For example, deductions connected with income not taxable for Hawaii purposes or the IRC section 199 domestic activities deduction.

Line 11b

Caution: *Include only ordinary gains or losses from the sale, exchanges, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets will be reported separately on Schedules K and K-1, generally, as a part of the net income (loss) from the rental activity. If the partner does not materially participate in the trade or business, the gains or losses reported on line 11b will be subject to the passive activity rules.*

Line 11c

Enter the portion of the Hawaii jobs credit claimed, applicable to current year new employees that is reported on Schedule K line 16.

Line 11d

As noted on page 1 of these instructions, Hawaii has not adopted federal "bonus" depreciation provisions. If a depreciation deduction is claimed for Hawaii tax purposes, the partnership must: (a) complete a federal Form 4562 for Hawaii tax purposes using the federal depreciation guidelines in effect before the adoption of the "bonus" depreciation provisions, (b) attach the completed federal Form 4562 to the Hawaii tax return, (c) make the necessary adjustments to the Hawaii tax return for the depreciation difference between federal and Hawaii, and (d) attach to the Hawaii tax return any worksheet showing the computation of the adjustments. The partnership must also keep records of the differences in the asset's depreciable basis for federal and Hawaii tax purposes.

Schedule D

Capital Gains and Losses

Purpose of Schedule.—Use Schedule D (Form N-20) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners.

For detailed information, see the instructions on Schedule D (Form N-20).

Schedule K and Schedule K-1

Partners' Share of Income, Credits, Deductions, etc.

Purpose

Schedule K is a summary schedule of all the partners' shares of the partnership's income, deductions, credits, etc. Prepare Schedule K-1 in triplicate. A copy of each partner's K-1 must be attached to the Form N-20 filed with the Hawaii Department of Taxation, one copy to be sent to each partner, and one copy retained for the partnership's files.

Although the partnership is not subject to income tax, the members are liable for income tax on their shares of the partnership income, whether or not distributed, and must include their share on their tax returns.

The total amount of the distributive share items (columns b and c) reported on each line on all of the partners' Schedules K-1 should equal the amount reported on the same line of Schedule K of Form N-20 through line 28.

Complete Schedule K-1 for each partner. Schedules K and K-1 have the same line numbers through line 28 to make it easier for the partnership to prepare Schedule K-1. In addition, Schedule K-1 has questions A through F and item G. Additional copies of Schedule K-1 are available from your taxation district office.

Attributable to Hawaii

Each partnership must state specifically the income attributable to the State and the income attributable everywhere with respect to each partner.

Ordinary income or (loss) from trade or business activities shall be attributed to the State by the use of the apportionment of business income allocation provisions of the Uniform Division of Income for Tax Purposes Act (UDITPA), section 235-29, 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 partnership's real and tangible personal property owned or rented and used in this State during the tax period and the denominator of which is the average value of all the partnership's real and tangible personal property owned or rented and used during the tax period. Property owned by the partnership is valued at its original cost. Property rented by the partnership is valued (or capitalized) at eight times the net annual rental rate. The average value of property shall be determined by averaging the values at the beginning and ending of the tax period. The use of monthly values may be required if necessary to properly reflect the average value of the partnership's property. The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the partnership for compensation, and the denominator of which is the total compensation paid everywhere during the tax period. The sales (or gross receipts) factor is a fraction, the numerator of which is the total sales of the partnership in this State during the tax period, and the denominator of which is the total sales of the partnership everywhere during the tax period.

If this apportionment does not fairly represent the extent of the partnership's business activity in this State, the partnership may request 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 partnership's business activity in the State. Complete Schedules O and P (Form N-20) to show this computation.

Other items are attributed as follows:

- Net rents and royalties from real property located in Hawaii are attributed to Hawaii. Federal Form 8825 may be attached to Form N-20 as a schedule of expenses.
- Net rents and royalties from tangible personal property are attributed to Hawaii if and to the extent that the property is utilized in Hawaii.
- Capital gains and losses from sale of real property located in Hawaii are attributed to Hawaii.
- Capital gains and losses from sales of tangible personal property are attributable to Hawaii if the property had a situs in Hawaii at the time of the sale.
- Interest and dividends are attributed to Hawaii if the partnership's commercial domicile is in Hawaii.
- Patent and copyright royalties are attributed to Hawaii if and to the extent that the patent or copyright is utilized by the payor in Hawaii.

Amounts received by a qualified high technology business as royalties and other income derived from patents, copyrights, and trade secrets owned by the qualified high technology business and developed and arising out of a qualified high technology business are excluded from Hawaii income. Expenses related to this income are deductible.

How Income Is Shared Among Partners

Income (loss) is allocated to a partner only for the part of the year in which that person is a member of the partnership. The partnership will either allocate on a daily basis or divide the partnership year into segments and allocate income, loss, or special items in each segment among the persons who were partners during that segment. (See section 706(c)(2) for more information and for the termination of a partner's interest.)

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. If the partners agree, specific items may be allocated among them in a ratio different from the ratio for sharing income or loss generally. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the special items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K instead of on the numbered lines on page 1 of Form N-20 or Schedule D.

If the partnership agreement does not provide for the partner's share of income, gain, loss, deduction, or credit, or if the allocation under the agreement does not have the substantial economic effect, the partner's share is determined according to the partner's interest in the partnership. (See section 704(b).)

Specific Instructions

(Schedule K only)

Enter the total distributive amount for each applicable items listed.

(Schedule K-1 only)

Prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year. **Schedule K-1 must be provided to each partner on or before the day on which the partnership return is required to be filed.**

Note: *Generally, any person who holds an interest in a partnership as a nominee for another person is required to furnish to the partnership the name, address, etc., of the other person.*

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

For an individual partner, enter the partner's social security number. For all other partners, enter the partner's Federal Employer Identification Number. (However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.)

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them. If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

Note: *Space has been provided after line 33 of Schedule K-1 for you to provide information to the partners. This space may be used in lieu of attachments.*

Question A.—Is This Partner a General Partner?

Question A must be answered for all partners. If a partner holds interests as both a general and limited partner, attach a schedule for each activity which shows the amounts allocable to the partner's interest as a limited partner.

Question B.—What Type of Entity Is This Partner? State on this line whether the partner is an individual, a corporation, a fiduciary, a partnership, an exempt organization, or a nominee (custodian). If the partner entity is a limited liability company (LLC) and it is treated as other than a disregarded entity for state income tax purposes, the partnership must enter the LLC's classification for state income tax purposes (that is, a corporation or partnership). If the partner is a nominee, use one of the following codes after the word "nominee" to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Fiduciary; P—Partnership; E—Exempt Organization; or IRA—Individual Retirement Arrangement.

Item C.—Partner's Profit, Loss, and Capital Sharing Percentages. Enter in item C(ii) the percentage existing at the end of the year. However, if a partner's interest terminated during the year, enter in item C(i) the percentages that existed immediately before the termination. When the profit or loss sharing percentage has changed during the year, show the percentage before the change in item C(i) and the end of year percentage in item C(ii). If there are multiple changes in the profit and loss sharing percentage during the year, attach a statement giving the date and percentage before each change. "Ownership of capital" means the portion of the capital that the partner would receive if the partnership was liquidated at year end by the distribution of undivided interests in partnership assets and liabilities.

Item D.—Partner's Share of Liabilities.

Enter each partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities. If the partner terminated his or her interest in the partnership during the year, enter the share that existed immediately before the total disposition. In all other cases, enter it as of the end of the year.

If the partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, attach a statement showing the partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for **each** activity. See sections 465(c)(2) and (3) to determine if the partnership is engaged in more than one at-risk activity.

If a partnership is engaged in an activity subject to the limitations of section 465(c)(1), give each partner his or her share of the total pre-1976 losses from the section 465(c)(1) activity (i.e., film or video tape, section 1245 property leasing, farm, or oil and gas property) for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the losses occurred.

Items E.—Publicly Traded Partnerships. If the box in Item E is checked, you are a partner in a publicly traded partnership and must follow the rules for **Publicly Traded Partnerships.** See federal Partner's Instructions for Schedule K-1 (Form 1065) for more information.

Item G.—Reconciliation of Partner's Capital Account. If you are not required to complete Item L on Schedule K-1 (Form 1065), you are not required to complete Item G on Schedule K-1 (Form N-20).

Note: *The partnership must maintain a State Accumulated Adjustments Account.*

Box b - Report in this box the capital contributions as reported on the partnership's books.

Box c - Enter in this box the sum of the amounts on lines 1 through 7, column c of this Schedule K-1 and any nontaxable income.

Box d - Enter in this box the sum of the amounts on lines 8 through 11 and 27a, column c of this Schedule K-1 and any disallowed deductions.

Box e - Report in this box the withdrawals and distributions as reported on the partnership's books.

Box f - The amount to enter in this box is the sum of the amounts from boxes a, b, and c less the sum of the amounts from boxes d and e.

(Schedules K and K-1 unless otherwise noted)

Income (loss)

Line 1

Enter the partner's share of the ordinary income (loss) reported on Form N-20, line 16. If line 16 is a loss, enter the partner's full share of the loss. If the partner holds interests in the partnership both as a general partner and as a limited partner, enter the total loss for all interests held in the partnership. Enter the loss without reference to the adjusted basis of the partner's interest in the partnership or the partner's amount at risk. Line 1 should reflect the total ordinary income (loss) from all trade or business operations.

Line 5

Enter: (1) the guaranteed payments to partners for salaries and interest deducted by the partnership and included on Form N-20, line 9; and (2) the guaranteed payments to partners that the partnership is required to capitalize, such as payments or credits to a partner for services rendered in organizing a partnership.

Line 6

Give each partner a schedule that separately shows each partner's share of the amount to be reported on federal Form 4684, Casualties and Thefts.

Line 7

Enter any other items of income, gain, or loss not included on lines 1 through 6, such as:

a. Gains from the disposition of farm recapture property (see Schedule D-1) and other items to which section 1252 apply.

b. Recoveries of bad debts, prior taxes, and delinquency amounts (section 111).

c. Gains and losses from wagering (section 165(d)).

d. Any income, gain, or loss to the partnership under section 751(b).

Deductions

Line 8

Enter the total amount of charitable contributions, and each amount subject to the 50%, 30%, and 20% limitations paid by the partnership during the tax year. Attach an itemized list that separately shows the partnership's charitable contributions subject to the 50%, 30%, and 20% limitations.

If the partnership made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

Line 9

A partnership may elect to expense part of the cost (up to $25,000) of recovery property that the partnership purchased this year for use in its trade or business. The partnership may not deduct the section 179 expense, but should report the expense separately on Schedules K and K-1. The partners report their shares in the year in which the property is placed in service. Show the total section 179 expense on Schedule K, line 9, and allocate it to each partner on Schedule K-1, line 9.

The partnership must specify the item(s) of section 179 property which it elects to treat as an expense and the portion of the cost of each item which is being treated as an expense. Do this on federal Form 4562, Depreciation and Amortization, and on a schedule attached to Schedule K-1. Generally, any election made under section 179 may not be revoked except with the consent of the Director.

Depreciation or amortization may not be taken on any amount for which a deduction is allowed under section 179.

See section 179 and federal Form 4562 for more information.

Please note that Hawaii has not adopted federal provisions relating to the increase of the section 179 deduction and "bonus" depreciation.

Line 11

Enter any other deductions not included on line 8 through 10, such as:

a. Amounts, other than investment interest, paid by the partnership that would be itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. These amounts include, but are not limited to expenses under section 212 for the production of income other than from the partnership's trade or business.

b. Any interest penalty on early withdrawal of savings. The federal Form 1099-INT given to the partnership by a bank or savings and loan as-

sociation will show the amount of any interest penalty the partnership was charged because it withdrew funds from its time savings deposit before its maturity.

c. Soil and water conservation expenditures (section 175).

d. Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped and which the partnership has elected to treat as a current expense (section 190).

e. Contributions to a capital construction fund.

f. Any amounts paid during the tax year for health insurance coverage for a partner (including that partner's spouse and dependents).

g. Payments for a partner to an IRA, qualified plan, or simplified employee pension (SEP) or SIMPLE IRA plan. If a qualified plan is a defined benefit plan, a partner's distributive share of payments is determined in the same manner as his or her distributive share of partnership taxable income. For a defined benefit plan, attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

h. Interest expense allocated to debt-financed distributions. See Internal Revenue Service Notice 89-35 for more information.

i. Interest paid or accrued on debt properly allocable to each general partner's share of a working interest in any oil or gas property (if the partner's liability is not limited). General partners that did not materially participate in the oil or gas activity treat this interest as investment interest; for other general partners, it is a trade or business interest.

Credits

Line 12
Total Cost of Qualifying Property for the Capital Goods Excise Tax Credit

A Capital Goods Excise Tax Credit is available for tangible personal property purchased and used in a trade or business in Hawaii. The amount of the tax credit allowable is 4% of the cost of the qualified tangible property. The tax credit is applied against a taxpayer's net income tax liability and if the tax credit exceeds the amount of the tax liability, the excess will be refunded to the taxpayer. See Form N-312, Capital Goods Excise Tax Credit, and Tax Information Release No. 2001-4 for additional information.

Attach Form N-312 to the partnership return.

Line 13
Fuel Tax Credit for Commercial Fishers

Enter the fuel tax credit for commercial fishers. See Form N-163, Fuel Tax Credit for Commercial Fishers, for additional information.

Attach Form N-163 to the partnership return.

Line 14
Enterprise Zone Tax Credit

A qualified enterprise zone business is eligible to claim a credit for a percentage of taxes due the State attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premiums paid based on the payroll of employees employed at the business firm establishments in the zone. The applicable percentage is 80% the first year; 70% the second year; 60% the third year; 50% the fourth year; 40% the fifth year; 30% the sixth year; and 20% the seventh year. For qualifying businesses engaged in the manufacturing of tangible personal property or the producing of agricultural products, the credit shall continue after the seventh year in a amount equal to 20% of the taxes paid during the eighth, ninth, and tenth tax years. This credit is not refundable and any unused credit may NOT be carried forward.

The partnership is to prepare a separate Form N-756A, Information Statement Concerning the Enterprise Zone Tax Credit, for each partner.

Line 15
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 tax credit allocated by the Housing and Community Development Corporation of Hawaii (HCDCH) for qualified buildings located in the State of Hawaii. Contact the HCDCH for qualifying requirements and further information.

Effective for taxable years beginning after December 31, 1999, a partnership can allocate the State low-income housing tax credit among its partners without regard to their proportionate interests in their partnership investment vehicle. Also, the federal low-income housing tax credit no longer has to be claimed in order to claim the State low-income housing tax credit.

Attach Form N-586, Tax Credit for Low-Income Housing, to the partnership return.

Line 16
Credit for Employment of Vocational Rehabilitation Referrals

The amount of the tax credit for the taxable year shall be equal to 20% of the qualified first-year wages for that year. The amount of the qualified first-year wages which may be taken into account with respect to any individual shall not exceed $6,000.

The credit is computed at the partnership level and then allocated to each of the partners.

Refer to Form N-884 for further information.

Line 17
Motion Picture, Digital Media, and Film Production Income Tax Credit

This credit is available to taxpayers subject to the imposition of Hawaii's income tax and is deductible from the taxpayer's net income tax liability. The amount of the credit is 15% of the qualified production costs incurred by a qualified production in the City and County of Honolulu and 20% of the qualified production costs incurred by a qualified production in any other county in the State of Hawaii. The production must be registered with the Department of Business, Economic Development, and Tourism (DBEDT) in order to be prequalified for the credit and qualified production costs must be certified by DBEDT in order to claim the credit. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed.

Refer to Form N-340 for further information. Attach Form N-340 to the partnership return.

Line 18
High Technology Business Investment Tax Credit

A credit is allowed for investment in a qualified high technology business for the taxable year in which the investment was made and the following four years. The credit is 35% of the investment in the year the investment is made, 25% for the first year following the year the investment was made, 20% for the second year following the investment, and 10% for each of the third and fourth years following the investment. For investments made on or after May 1, 2009, in taxable years beginning on or after January 1, 2009 and ending before January 1, 2011, the credit is limited to 80% of the taxpayer's tax liability for the taxable year. Any credit that exceeds the 80% limit cannot be carried over and is lost. For investments made on or after May 1, 2009, no allocations of credits to a taxpayer may exceed the amount of the investment made by the taxpayer. Other limits may apply. Investments made after June 30, 2004 must be certified in order to claim this credit for the investment. The credit is subject to limitations and recapture requirements. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Report the credit amount on line 18. Partners will use Form N-318 to claim their credit.

The credit is computed at the partnership level and then allocated to each of the partners. For more information, see Forms N-318 and N-318A.

Attach Forms N-318 and N-318A to the partnership return.

Line 19
Tax Credit for Research Activities

This 20% credit is based on the federal credit for increasing research activities, disregarding federal base amounts for purposes of determining the Hawaii credit for research conducted in Hawaii. This credit is available for taxable years beginning before January 1, 2011. Research expenses incurred after June 30, 2004 must be certified in order to claim this credit. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. See Forms N-319 and N-319A for details. Report the credit amount on line 19. Partners will use Form N-319 to claim their credit.

The credit is computed at the partnership level and then allocated to each of the partners. For more information, see Form N-319, Tax Credit for Research Activities.

Attach Forms N-319 and N-319A to the partnership return.

Line 20
Technology Infrastructure Renovation Tax Credit

An income tax credit is allowed for 4% of renovation costs incurred to provide a commercial building with technology-enabled infrastructure. For renovation costs incurred on or after May 1, 2009 in taxable years beginning on or after January 1, 2009, the credit claimed is limited to 80% of the taxpayer's tax liability for the taxable year. Any credit that exceeds the 80% limit cannot be carried over and is lost. Other limits may apply. Renovation costs are costs incurred to plan, design, install, construct, and purchase technology-enabled infrastructure equipment to provide a commercial building with technology-enabled infrastructure. Technology-enabled infrastructure means: (1) high speed telecommunications systems that provide Internet access, direct satellite communications access, and video-conferencing facilities; (2) physical security systems that identify and verify valid entry to secure spaces, detect invalid entry or entry attempts, and monitor activity in these spaces; (3) environmental systems

to include heating, ventilation, air conditioning, fire detection and suppression, and other life safety systems; and (4) backup and emergency electric power systems. The credit shall not be available for taxable years beginning after December 31, 2010. See Form N-326 for more information.

Line 21
Credit for School Repair and Maintenance

A credit is allowed to licensed contractors, pest control operators, and professional engineers, architects, surveyors and landscape architects who are subject to Hawaii's income tax for contributions of in-kind services for the repair and maintenance of public schools. The credit shall be an amount equal to 10% of the value of the services contributed. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Certain other limitations and restrictions apply. See Form N-330 for more information. Report the credit amount on this line. Partners will use Form N-330 to claim their credit.

Line 22
Ethanol Facility Tax Credit

A credit is allowable for the investment in a qualified ethanol facility that is in production on or before January 1, 2017. See Form N-324 for more information.

Line 23
Renewable Energy Technologies Income Tax Credit

A Renewable Energy Technologies Income Tax Credit is available for an eligible renewable energy technology system installed and placed in service in Hawaii. The tax credit shall apply only to the actual cost of the solar, wind, or photovoltaic energy system, including their accessories and installation, and shall not include the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system (such as "free gifts", offers to pay electricity bills, or rebates) and costs for which another credit is claimed. The dollar amount of any utility rebate shall be deducted from the cost of the qualifying system and its installation before determining the State credit.

For systems installed and placed in service on or after July 1, 2009, a partner may elect to have the credit refunded to them under certain circumstances: a) For solar energy systems, a taxpayer may elect to reduce the eligible credit amount by 30%. If this reduced amount exceeds the amount of income tax payment due from the taxpayer, the excess of the credit amount over payments due will be refunded to the taxpayer or b) For any renewable energy technology system, a taxpayer may elect to have any excess of the credit over payments due refunded to the taxpayer if (1) all of the taxpayer's income is exempt from taxation under section 235-7(a)(2), HRS, i.e., distributions from a public retirement plan or system, or section 235-7(a)(3), HRS, i.e., any compensation received in the form of a pension for past services; or (2) the taxpayer has Hawaii adjusted gross income of $20,000 or less (or $40,000 or less if filing a tax return as married filing jointly). A husband and wife who do not file a joint tax return shall only be entitled to make this election to the extent that they would have been entitled to make the election had they filed a joint tax return. Once an election is made it is irrevocable. For more information see Form N-342.

No credit will be available if any part of the system is used to fulfill the substitute renewable energy technology requirement for new single-family residential property constructed on or after January 1, 2010.

The tax credit may be claimed for the following renewable energy technology systems installed and placed in service in Hawaii after July 1, 2009:

Type of Renewable Energy Technology System	Tax Credit Rate
1. **Solar energy systems - Primary purpose is to use energy from the sun to heat water for household use**	
a. Single-family residential property.	The lesser of 35% of the actual cost of the system or $2,250.
b. Multi-family residential property.	Per unit: The lesser of 35% of each unit's actual cost of the system or $350.
c. Commercial property.	The lesser of 35% of the actual cost of the system or $250,000.
Solar energy systems - All other solar energy systems	
a. Single-family residential property.	The lesser of 35% of the actual cost of the system or $5,000.
b. Multi-family residential property.	Per unit: The lesser of 35% of each unit's actual cost of the system or $350.
c. Commercial property.	The lesser of 35% of the actual cost of the system or $500,000.
2. **Wind powered energy systems**	
a. Single-family residential property.	The lesser of 20% of the actual cost of the system or $1,500.
b. Multi-family residential property.	Per unit: The lesser of 20% of each unit's actual cost of the system or $200.
c. Commercial property.	The lesser of 20% of the actual cost of the system or $500,000.

The credit is computed at the partnership level and then allocated to each of the partners. Claims for this credit, including any amended claims, **must** be filed on or before the end of the twelfth month after the close of the tax year. For more information, see Form N-342.

Attach Form N-342 to the partnership return.

The partnership is to prepare a separate Form N-342A, Information Statement Concerning the Renewable Energy Technologies Income Tax Credit for Systems Placed in Service on of After July 1, 2009, for each partner.

Line 24
Ko Olina Resort and Marina Attractions and Educational Facilities Tax Credit

If the partnership is claiming the Ko Olina Resort and Marina Attractions and Educational Facilities Tax Credit, see Form N-336 for more information.

Line 25
Important Agricultural Land Qualified Agricultural Cost Tax Credit

If you are claiming the important agricultural land qualified agricultural cost tax credit, see Form N-344 for information.

Line 26
Credit for income tax withheld on Form N-288 (net of refunds)

Include a schedule listing each partner's share of: (1) the total taxes withheld under the partnership's name and reported on Form N-288A, Statement of Withholding on Dispositions by Nonresident Persons of Hawaii Real Property Interests; (2) any refunds claimed by the partnership on Form N-288C, Application for Tentative Refund of Withholding on Dispositions by Nonresident Persons of Hawaii Real Property Interest; and (3) the net amount of taxes withheld.

Investment Interest

Line 27

Lines 27a-27b(2) must be completed whether or not a partner is subject to the investment interest rules.

Line 27a. Investment Interest Expense.—Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 27a of Schedule K-1 (rather than line 10 of Schedule K-1).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partner and in which the partner does not materially participate. An example would be a partner's working interest in oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity.

Investment interest does not include interest expense allocable to a passive activity.

The amount on line 27a will be deducted (after applying the investment interest expense limitations of section 163(d)) by individual partners on their Form N-11 or N-15.

Lines 27b(1) and 27b(2). Investment Income and Expenses.—Enter on line 27b(1) only the investment income included on line 4 of Schedule K-1. Enter on line 27b(2) only the investment expense included on line 10 of Schedule K-1.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (items other than the amounts included on lines 4 and 10 of Schedule K-1), give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

Other

Schedule K, Line 28

Report on line 28 of Schedule K, credit recapture amounts for the Hawaii Low-Income Housing Tax Credit, the Capital Goods Excise Tax Credit, the High Technology Business Investment Tax Credit, the Tax Credit for Flood Victims, Important Agricultural Land Qualified Agricultural Cost Tax Credit.

See instructions for federal Form 1065, Schedule K for what else to report on line 28.

Schedule K-1, Line 33

See instructions for federal Form 1065, Schedule K-1 for what to report on line 33.

Analysis (Schedule K only)

Lines 29a and 29b

For each type of partner shown, enter the portion of the amount shown on line 29a of Schedule K that was allocated to that type of partner. The sum of the amounts shown on line 29b must equal the amount shown on line 29a.

In classifying partners who are individuals as "active" or "passive," the partnership should apply the following rules:

1. If the partnership's principal activity is a trade or business activity, classify a general partner as "active" if the partner materially participated in all partnership trade or business activities; otherwise, classify a general partner as "passive."
2. If the partnership's principal activity consists of working interest in an oil or gas well, classify a partner holding a working interest in the oil or gas well through an entity that does not limit the partner's liability as "active;" otherwise, classify the partner as "passive."
3. If the partnership's principal activity is a rental real estate activity, classify a general partner as "active" if the partner actively participated in all of the partnership's rental real estate activities; otherwise, classify a general partner as "passive."
4. If the partnership's principal activity is a portfolio activity, classify all partners as "active."
5. Classify all limited partners and all partners in a partnership whose principal activity is a rental activity other than a rental real estate activity as "passive."
6. If the partnership cannot make a reasonable determination as to whether or not a partner's participation in a trade or business activity is material or whether or not a partner's participation in a rental real estate activity is active, classify the partner as "passive."

In applying the above rules, a partnership should classify each partner to the best of its knowledge and belief. It is assumed that in most cases the level of a particular partner's participation in an activity will be apparent.

Schedules O and P

Allocation and Apportionment of Income

If the partnership had ordinary income or (loss) from trade or business activities both within and without Hawaii, complete Schedules O and P to determine the business income or (loss) apportioned to Hawaii. For more details, see the instructions for "Attributable to Hawaii" on page 3, under **Schedule K and Schedule K-1**. Attach a copy of Schedules O and P to Form N-20.

Composite Returns for Nonresident Partners

At present, there are no statutory provisions that: (1) allow partnerships the option to file composite returns on behalf of their nonresident partners, and (2) grant the election to be taxed at the nonresident partners' own individual tax rates but with no standard deduction or personal exemption. However, the Department of Taxation will administratively allow partnerships to elect to file composite Hawaii nonresident income tax returns on behalf of participating partners, all of whom are nonresidents, and make composite payments for the participating partner's distributive share of Hawaii source income based on their own individual tax rate but with no standard deduction or personal exemption, provided the following conditions are met:

- The partner must be an individual.
- The partner's income from the partnership is the partner's only income from Hawaii sources. If a partner has other income from Hawaii sources such as multiple partnerships, even though the partnerships are related, a separate net income tax return must be filed by that partner.
- The partnership will obtain a Power-of-Attorney from each of its partners to permit the partnership to file an income tax return on the partners' behalf. A copy of each power of attorney is to be attached to the initial composite tax return filed by the partnership.
- The partnership, as an agent for the participating partners, shall pay tax, additions to tax, interest, and penalties otherwise required to be paid by the partners.

The composite Hawaii Nonresident Individual Income Tax Return, Form N-15, shall be completed as follows:

1. The first name on the return shall be "Partners of" and the last name is the partnership's name;
2. The partnership's FEIN shall be used in place of the taxpayers' social security number;
3. Indicate the partnership's mailing address as the taxpayers' address;
4. Indicate the partnership's principal business activity in Hawaii as the taxpayers' occupation;
5. Filing status will be single;
6. Complete pages 2 and 3, Col. B, lines 20 and 35;
7. Deductions necessary to determine each partner's distributive share of the partnership income are allowed;
8. Credits directly attributable to the partnership are allowed;
9. Since worldwide source income of each nonresident partner is not required, itemized deductions calculated using the ratio of Hawaii adjusted gross income to Total adjusted gross income may not be claimed. Also, tax credits which are based on total adjusted gross income from all sources may not be claimed;
10. Complete page 3 by:
    a. entering the amount from line 35 on lines 40 and 42;
    b. determining the tax for each nonresident partner and enter the total on line 43; and
    c. completing lines 44 through 50 as appropriate, and line 51 (note: on Schedule CR, skip line 1).
11. Complete page 4, lines 52 through 65 as appropriate.

A schedule is attached to the return detailing each partner's:

1. Name, address, social security number, and filing status;
2. Distributive share of income or (loss);
3. Allowable itemized deductions;
4. Tax due computed on the taxable income of the individual partner; and
5. Distributive share of credits.

Nonresident partners who have made Hawaii estimated tax payments during the 2010 tax year and who are allowed to be included on the composite return may have those payments credited to the composite return. The partnership may claim these payments on Form N-15, line 48, by entering the total of the estimated tax payments along with "see attached schedule" in the amount column of line 48 and attaching a schedule of the estimated tax payments by stating each individual's:

1. Name, address, and social security number, and
2. Each type of estimated payment and amount of payment (e.g., N-1, 1st quarter - $200; N-1, 2nd quarter - $300; etc.) made by the individual.

- The election to file a composite Hawaii nonresident return may be revoked by the Department of Taxation upon failure of the partnership to comply with the terms and conditions of this election.

In making such an election, the partnership will not be required to obtain from the participating partners, income derived from non-entity sources and claims for non-entity deductions.

STATE OF HAWAII — DEPARTMENT OF TAXATION
RELATED FEDERAL/HAWAII PARTNERSHIP TAX FORMS

Federal Form Number	Title or Description of Federal Form	Use Hawaii Form	Copy of Fed. Form May Be Used
970	Application To Use LIFO Inventory Method	None	Yes*
1065	U.S. Return of Partnership Income	N-20	No
Schedule D	Capital Gains and Losses	Sch. D (N-20)	No
Schedule K-1	Partner's Share of Income, Deductions, Credits, Etc.	Sch. K-1 (N-20)	No
1128	Application to Adopt, Change, or Retain a Tax Year	None	Yes*
3115	Application for Change in Accounting Method	None	Yes*
4562	Depreciation and Amortization	None	Yes*
4684	Casualties and Thefts	None	Yes*
4797	Sales of Business Property	Sch. D-1	No
5884	Work Opportunity Credit	N-884	No
6198	At-Risk Limitations	None	Yes*
6781	Gains and Losses from Section 1256 Contracts and Straddles	None	Yes*
7004	Application For Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns	N-100	No
8283	Noncash Charitable Contributions	None	Yes*
8582	Passive Activity Loss Limitations	None	Yes*
8586	Low-Income Housing Credit	N-586	No
8693	Low-Income Housing Credit Disposition Bond	N-587	No
8824	Like-Kind Exchanges	None	Yes*
8825	Rental Real Estate Income and Expenses of a Partnership or an S Corporation	None	Yes*
8832	Entity Classification Election	None	Yes*

* If there is no Hawaii equivalent form, the federal form must be used.