2019

Shareholder’s Instructions for Schedule K-1 (Form N-35)

Shareholder’s Share of Income, Credits, Deductions, etc.
(For Shareholder’s Use Only)

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

General Instructions

Basis in Corporate Stock.—You are responsible for maintaining correct basis information for your pro rata share of ordinary income, loss, deductions, credits, and other items of income (loss) from the stock and indebtedness of the corporation. The initial basis shall be determined as of the last to occur of the following:

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

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

1. The shareholder acquired the stock or the indebtedness of the corporation; or
2. The corporation became an S corporation.

Specific Instructions

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

Lines 1 through 28

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

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

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

Income

Line 1. Ordinary income (loss) from trade or business activities.—The amount reported on line 1 is your share of the ordinary income (loss) from trade or business activities of the corporation. Generally, where you report the amount depends on whether the amount is from an activity that is a passive activity to you. Refer to the federal Shareholder’s Instructions for Schedule K-1 (Form 1120S) for more information.

Line 2. Net income (loss) from rental real estate activities.—Generally, the income (loss) reported on line 2 is a passive activity amount for all shareholders. If there are exceptions, then refer to the federal Shareholder’s Instructions for Schedule K-1 (Form 1120S).

Line 3. Net income (loss) from other rental activities.—The amount on line 3 is a passive activity amount for all shareholders. Report a loss following the instructions for federal Form 8582. Report income on Form N-15, line 17.

Line 4. Interest.—Include the amount in the Interest Worksheet in the Form N-15 Instructions.

Lines 5 and 6. Royalties. —Include the amount on line 6 of Form 1120S. Include the amount on line 17 on Form N-15.

Line 7. Net short-term capital gain (loss).—Include the amount in the Capital Gain/Loss Worksheet in the Form N-15 Instructions.

Line 8. Net long-term capital gain (loss).—Include the amount in the Capital Gain/Loss Worksheet in the Form N-15 Instructions.

Line 9. Net section 1231 gain (loss).—Include the amount in the Capital Gain/Loss Worksheet in the Form N-15 Instructions.

Deductions

Line 11. Charitable contributions. —The corporation will give you a schedule that shows the amount of contributions subject to the 50%, 30%, and 20% limitations. Refer to the federal Shareholder’s Instructions for Schedule K-1 (Form 1120S) for more information. Include the amount in the Worksheet A-4 - Gifts to Charity in the Form N-11 Instructions or Worksheet PY-4 or NR-4 in the Form N-15 Instructions.
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ble to a passive activity from the corporation, report the amount following the instructions for federal Form 8582. If the amount is not a passive activity deduction, include it on Form N-15, line 17. The maximum Hawaii deduction is $25,000.

Line 13. Deductions related to portfolio income (loss).—Amounts on line 13 are the expenses (other than investment interest expense and section 212 expenses from a REMIC) paid or incurred to produce portfolio income. Generally, include the amounts in the Worksheet A-6 - Miscellaneous Deductions in the Form N-11 Instructions or Worksheet PY-6 or NR-6 in the Form N-15 Instructions. These deductions are not taken into account in figuring your passive activity loss for the year.

Line 14. Other deductions.—Amounts on line 14 are other deductions not included on lines 11, 12, and 13. The corporation should give you a description and your share of each of the expense items. Include the amount of deduction on the applicable line of your return. Refer to the federal Shareholder’s Instructions for Schedule K-1 (Form 1120S) for more information.

Investment Interest

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

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

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

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

Credits

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

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

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

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

Line 16d. Hawaii Low-Income Housing Tax Credit.—Hawaii’s low-income housing tax credit is equal to 50% (30% for property placed in service prior to July 1, 2005) of the federal credit for qualified buildings located in the State of Hawaii. Figure your credit on Form N-330 to claim this credit.

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

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

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

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

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

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

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

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

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

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

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

Line 16o. Hawaii income tax withheld on Form N-288A.—If there is an amount on line 16o, include this amount on Schedule CR, line 27a and attach a copy of this Schedule K-1 to your Form N-11 or Form N-15.

Line 16p. Credit for Hawaii income tax withheld on Form N-288A.—If there is an amount on line 16p, include this amount on Form N-15, line 54.

Line 16q. Pro rata share of net income tax paid (Resident and part-year resident shareholders only).—A resident or a part-year resident shareholder shall be considered to have paid a tax imposed on the shareholder in an amount equal to the shareholder’s pro rata share of any net income tax paid by the S Corporation to a state which does not measure the income of S corporation shareholders by the income of the S corporation. Include amount in Other State and Foreign Tax Credit Worksheet in the Forms N-11 Instructions or in the Form N-15 Instructions.

Other

Line 17. Property distributions.—Reduce the basis of your stock in the corporation by the distributions on line 17. If these distributions exceed the basis of your stock, the excess is treated as gain from the sale or exchange of property and is reported in the Capital Gain/Loss Worksheet in the Form N-15 Instructions.

Line 18. Tax exempt interest income.—Generally, you must increase the basis of your stock in the corporation by the amount shown.

Line 19. Other tax exempt income.—Generally, you must increase the basis of your stock in the corporation by the amount shown.

Line 20. Nondeductible expenses.—The nondeductible expenses paid or incurred by the corporation are not deductible on your tax return. Generally, you must decrease the basis of your stock in the corporation by this amount.

Line 21. Amount of loan repayments for “Loans from Shareholders.”—If the line 21 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan.

Lines 22. Adjustments.—Report your pro rata share of adjustments as applicable.

Line 23. Interest penalty on early withdrawal of savings.—The amount of line 23 is included on the “Other adjustments” line of the Hawaii Subtractions Worksheet of the N-11 Instructions (attach an explanation to Form N-11).

Recapture of Tax Credits

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

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

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

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

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