

STATE OF HAWAII - DEPARTMENT OF TAXATION  
**INSTRUCTIONS FOR FORM N-756**  
**ENTERPRISE ZONE TAX CREDIT**

## GENERAL INSTRUCTIONS

### PURPOSE OF FORM

Use Form N-756 to figure and claim the enterprise zone income tax credit under section 209E-10, Hawaii Revised Statutes (HRS).

### WHO MAY CLAIM THIS CREDIT

A qualified business that has received certification from the Department of Business, Economic Development & Tourism (DBEDT) may claim the enterprise zone tax credit.

The amount of the credit is determined by applying a percentage based on the cycle year to: (a) the taxpayer's Hawaii income tax liability attributable to its enterprise zone activity, and (b) the taxpayer's share of unemployment insurance premiums paid for employees employed within the enterprise zone. **The Enterprise Zone Tax Credit is nonrefundable and limited to the taxpayer's tax liability from taxable income attributable to the conduct of business within an enterprise zone. Any unused credit may not be carried over or carried back to another tax period.** (Section 209E-10, HRS).

### FLOW-THROUGH ENTITIES

Each partner, S corporation shareholder, or beneficiary of an estate or trust (member) that has been certified shall separately determine for the member's taxable year within which the business' taxable year ends, the member's share of the credit. The member's share of the entity's net income or loss and unemployment insurance credit shall be determined in accordance with the ratio in which the members divide the profits and losses of the partnership, S corporation, estate or trust respectively. The flow-through entity must provide a separate Form N-756A to each member to report the member's share of the entity's net income and unemployment insurance premiums paid relating to the credit. The flow-through entity must also provide a copy of the certification issued by DBEDT to each member, which must be filed with their income tax return.

### CREDIT REQUIREMENTS

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

1. Form N-756
2. Schedule CR (For tax returns for which Schedule CR is required)
3. Form N-756A (Required only if you are receiving this credit from a flow-through entity)
4. Credit certification letter from DBEDT.

A business that has been certified is entitled, subject to the apportionment provisions, to an enterprise zone tax credit against Hawaii income tax under chapter 235, HRS, according to the following formula:

First year	80% of tax due
Second year	70% of tax due
Third year	60% of tax due
Fourth year	50% of tax due
Fifth year	40% of tax due
Sixth year	30% of tax due
Seventh year	20% of tax due

Qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products may continue to claim the credit in an amount equal to 20% of the taxes due during each of the subsequent three tax years.

In addition, a business that has been certified is entitled, subject to the apportionment provisions, to an enterprise zone tax credit against Hawaii income tax under chapter 235, HRS, in an amount equal to a percentage of unemployment insurance premiums paid on the payroll of all the business' employees employed in the enterprise zone, according to the following formula:

First year	80% of premiums paid
Second year	70% of premiums paid
Third year	60% of premiums paid
Fourth year	50% of premiums paid

Fifth year	40% of premiums paid
Sixth year	30% of premiums paid
Seventh year	20% of premiums paid

Qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products may continue to claim the credit in an amount equal to 20% of the premiums paid during each of the subsequent three tax years.

The enterprise zone tax credit shall apply only to the extent that a qualified business conducts trade or business within the zone. A business which has income taxable both within and outside Hawaii shall apportion and allocate the business' net income under sections 235-21 to 235-39, HRS, prior to calculating the enterprise zone tax credit.

### DEFINITIONS

*"Trade or business"* means all business activity by a qualified business within an enterprise zone, whereby 1) tangible personal property is sold at wholesale and the sale takes place within the zone, 2) a qualified business engages in a service business within the zone, or 3) value is added to materials or products that are manufactured within the zone. *"Trade or business"* also includes engaging in producing agricultural products where the business is a producer as defined in section 237-5; engaging in research, development, sale or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products; and engaging in producing electric power from wind energy for sale primarily to a public utility company for resale to the public.

*"Service business"* means any corporation, partnership, or sole proprietorship that repairs ships, aircraft, or assisted technology equipment, provides telecommunication services, information technology design and production services, medical and health care services, or education and training services as defined in Chapter 209E, HRS.

Tangible personal property shall be sold at wholesale at an establishment of a qualified business located within an enterprise zone. The transfer of title to the buyer of the tangible personal property shall take place in the same enterprise zone in which the tangible personal property is sold.

Services shall be sold at an establishment of a qualified business engaged in a service business within an enterprise zone and the services shall be delivered in the same enterprise zone in which the services are sold. Where the service business, in the same transaction, engages in both the sale of tangible property and services, the service business shall segregate the sale of services from the sale of tangible personal property.

Value must be added to materials or products that are manufactured within the enterprise zone.

### MULTIPLE FORM N-756AS

If you have more than one Form N-756A, submit one Form N-756 to include all N-756As in the computations.

## SPECIFIC INSTRUCTIONS

### PART I

Complete this part to determine the taxpayer's Hawaii income tax liability attributable to its enterprise zone activity and its share of unemployment insurance premiums paid for employees employed within the enterprise zone. Then go to either Part II or Part III, whichever is applicable.

**Line 1.** — Enter the total tax liability from Form N-30, Schedule J, line 25; Form N-70NP, line 16; or Form N-40, Schedule G, line 1 whichever is applicable.

For an individual, enter your total tax liability from Form N-11, line 27 or Form N-15, line 44. Do not include the separate tax from Forms N-2, N-103, N-152, N-168, N-312, N-325, N-338, N-344, N-348, N-405, N-586, N-615, and/or N-814.

**Line 2a.** — Enter the total gross income of the qualified business from trade or business within the zone during the taxable year. Gross income from trade or business within the zone is received when tangible personal property is sold at wholesale to business firms, a qualified business engages in a service business, or value is added to materials or products that are manufactured by a qualified business.

For an individual operating as a sole proprietorship, enter the amount of the business' net income which is attributable to the conduct of trade or business within the zone. This is calculated by multiplying the business' net income by a fraction; the numerator being the total gross receipts of the trade or business within the zone and the denominator being the total gross receipts of the business within Hawaii.

Members should enter the amount from Form N-756A, line 2e.

**Line 2b.** — Enter the total gross income of the qualified business within Hawaii during the taxable year, including sales within and outside the enterprise zone. A business is taxable outside the enterprise zone if the business has: 1) income from business activity within the zone which does not fall within the definition of trade or business, or 2) income from business activity conducted outside the zone. This term includes work that a business located within a zone subcontracts to a business located outside the zone and the work is delivered outside the zone.

For an individual, enter the total gross income required to be reported to Hawaii, including your business's net income (if operating as a sole proprietorship), salary, interest income, dividend income, etc.

Members should include in the total amount reported on line 2b, the amount from Form N-756A, line 2a.

**Line 4.** — Enter the total amount of unemployment insurance premiums paid on the payroll of all the business' employees employed in Hawaii.

Members claiming their share of the entity's unemployment insurance premiums paid within the zone should skip lines 4, and 5a - 5c; and enter the amount from Form N-756A, line 3e, on line 6. On the dotted line next to line 6, write "From Form N-756A" and go to line 7.

**Line 5a.** — Enter the total payroll for employees employed within the zone during the taxable year. **Caution:** The determination of "employees employed within the zone" is different than the increase in employees required in determining the eligibility for the income tax credit as set by the Department of Business, Economic Development, and Tourism. In order to qualify for the income tax benefits, an employee's services to the EZ company must be: 1) performed entirely within enterprise zones in the same county that the company has been qualified in, or 2) the individual's service must be performed both within and outside enterprise zones within the same county, but the service performed outside of enterprise zones in the same county is only incidental to the individual's service within the zones.

**Line 5b.** — Enter the total payroll for all employees within Hawaii.

**Part II**

Complete this part if your 7 or 10-year cycle began at the start of your taxable year, skip Part III, and go to Part IV. If your 7 or 10-year cycle began during your taxable year, then skip Part II and go to Part III.

**Part III**

Complete this part if your 7 or 10-year cycle began during your taxable year rather than at the start of your taxable year and then go to Part IV.

**Part IV**

Complete this part to determine your allowable credit.

**Line 18.** — Divide line 2a from Form N-756 by the total Hawaii income from Form N-11, line 20; Form N-15, line 35 column b; Form N-30, Schedule J, line 4; Form N-70NP, line 6; or Form N-40, line 9, whichever is applicable.

**CREDIT WORKSHEET**

Tax Credit	Amount
a. Credit for Low-Income Household Renters . . . . .	_____
b. Credit for Child and Dependent Care Expenses . . . . .	_____
c. Credit From a Regulated Investment Company . . . . .	_____
d. Fuel Tax Credit for Commercial Fishers . . . . .	_____
e. Credit for Child Passenger Restrain Systems . . . . .	_____
f. Capital Goods Excise Tax Credit . . . . .	_____
g. Motion Picture, Digital Media and Film Production Income Tax Credit . . . . .	_____
h. Refundable Food/Excise Tax Credit . . . . .	_____
i. Renewable Energy Technologies Income Tax Credit (Refundable) . . . . .	_____
j. Tax Credit for Research Activities . . . . .	_____
k. Earned Income Tax Credit (Refundable) . . . . .	_____
l. Important Agricultural Land Qualified Agricultural Cost Tax Credit . . . . .	_____
m. Renewable Fuels Production Tax Credit (Refundable) . . . . .	_____
n. Income Taxes Paid to Another State or Foreign Country . . . . .	_____
o. Add lines a through n. Enter the amount here and on line 16. . . . .	_____