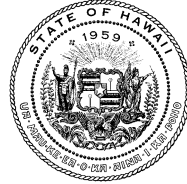


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TAX INFORMATION RELEASE NO. 2021-04

RE: Tax Basis Capital Accounts; Partnerships

The purpose of this Tax Information Release is to provide guidance on the State's adoption of tax basis capital account reporting.

In Notice 2020-43, the Internal Revenue Service (IRS) described two proposed methods for complying with the tax basis capital (TBC) reporting requirement which is required for large partnerships beginning in 2020. After considering the comments submitted in response to Notice 2020-43, the IRS provided updated guidance on satisfying the TBC reporting requirements through the release of IRS Form 1065 Instructions for tax year 2020.

Hawaii adopts, with minor exceptions, Subchapter K (Partners and Partnerships) of the IRC, including sections 705 (Determination of Basis of Partner's Interest), 722 (Basis of Contributing Partner's Interest), 733 (Basis of Distributee Partner's Interest), and 742 (Basis of Transferee Partner's Interest). As such, the Department will also require that a partner's capital account be determined under the Transactional Method for all partnership returns filed for taxable years beginning after December 31, 2019.

It is important to note that taxpayers that meet the conditions and answer "No" in Schedule B of IRS Form 1065 are not subject to the TBS reporting requirements discussed in this Tax Information Release. Please see *Item L. Partner's Capital Account Analysis* of the IRS Form 1065 Instructions, dated February 5, 2021, for more details.

If you have any questions, you may contact the Technical Section by email at tax.technical.section@hawaii.gov, or call (808) 587-1577.

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