

STATE OF HAWAII — DEPARTMENT OF TAXATION
Instructions For Form N-168
Farm Income Averaging

GENERAL INSTRUCTIONS

Use Form N-168 to elect to figure your 2004 tax by averaging, over the previous 3 years (base years), all or part of your 2004 taxable income from your trade or business of farming. Making this election may give you a lower tax if your 2004 income from farming is high and your taxable income for one or more of the 3 prior years was low.

You may need copies of your original or amended Forms N-11, N-12, or N-15 that you filed for 2001, 2002, and 2003 to figure your tax on Form N-168. If you do not have copies of those returns, you can get them by filing Form L-72, Request for Copies of Income Tax Return. Form L-72 may be obtained from any district tax office, by fax or mail, or via the Internet at:

www.state.hi.us/tax

You do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

SPECIFIC INSTRUCTIONS

Line 2 — To figure **electd farm income**, first figure your taxable income from farming. **Taxable income from farming** includes all income, gains, losses, and deductions attributable to any farming business. However, it does not include gain from the sale or other disposition of land. Generally, farm income, gains, losses, and deductions are reported on:

- Form N-11, N-12, or N-15, to the extent of wages and other compensation you received as a shareholder in an S corporation engaged in a farming business;
- Capital Gain/Loss Worksheet in the Form N-11/N-12 or Form N-15 instruction booklet;
- Federal Schedule E, Part II;
- Federal Schedule F;
- Schedule D-1; and
- Federal Form 4835.

Your **electd farm income** is the amount of your taxable income from farming that you elect to include on line 2. You do not have to include all of your taxable income from farming on line 2. It may be to your advantage to include less than the full amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the **smaller** of your total net capital gain or your net capital gain attributable to your farming business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, **do not** reduce the elected farm income allocated to that base year by any part of the carryover.

Farming Business. A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

- Operating a nursery or sod farm;
- Raising or harvesting of trees bearing fruits, nuts, or other crops;
- Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);
- Raising, shearing, feeding, caring for, training, and managing animals; and
- Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are (a) based on a share of the tenant's production (not a fixed amount), and (b) determined under a written agreement entered into before the tenant begins significant activities on the land.

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else or
- Merely buying or reselling plants or animals grown or raised by someone else.

Line 4 — Figure the tax on the amount on line 3 using the 2004 Tax Table, Tax Rate Schedules, or Capital Gains Tax Worksheet from your 2004 Form N-11/N-12 or Form N-15 instruction booklet. Enter the tax on line 4.

Line 5 — If you used Form N-168 to figure your tax for 2003 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 5 the amount from line 11 of your 2003 Form N-168. If you used Form N-168 to figure your tax for 2002 but not 2003, enter on line 5 the amount from line 15 of your 2002 Form N-168. If you used Form N-168 to figure your tax for 2001 but not 2002 or 2003, enter on line 5 the amount from line 3 of your 2001 Form N-168.

If you figured your tax for 2001, 2002, and 2003 without using Form N-168, enter on line 5 the taxable income from your 2001 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 5.

If you did not file a tax return for 2001, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 8 — If line 7 is zero, enter zero on line 8. Otherwise, figure the tax on the amount on line 7 using either the 2001 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 2 of the instructions.

Line 9 — If you used Form N-168 to figure your tax for 2003 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 9 the amount from line 15 of your 2003 Form N-168. If you used Form N-168 to figure your tax for 2002 but not 2003, enter on line 9 the amount from line 3 of your 2002 Form N-168.

If you figured your tax for both 2002 and 2003 without using Form N-168, enter on line 9 the taxable income from your 2002 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 9.

If you did not file a tax return for 2002, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 12 — If line 11 is zero or less, enter zero on line 12. Otherwise, figure the tax on the amount on line 11 using either the 2002 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 3 of the instructions.

Line 13 — If you used Form N-168 to figure your tax for 2003 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 13 the amount from line 3 of that Form N-168.

If you did not use Form N-168 to figure your tax for 2003, enter on line 13 the taxable income from your 2003 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 13.

If you did not file a tax return for 2003, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 16 — If line 15 is zero or less, enter zero on line 16. Otherwise, figure the tax on the amount on line 15 using either the 2003 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 3 of the instructions.

Lines 18, 19, and 20 — If you used Form N-168 to figure your tax for 2003, enter the amount from the appropriate lines of that Form N-168 on lines 18, 19, and 20. If you used Form N-168 to figure your tax for 2002 but not 2003, enter the amount from the appropriate lines of your 2002 Form N-168 on lines 18 and 19. If you used Form N-168 for 2001 but not 2002 or 2003, enter the amount from line 4 of your 2001 Form N-168 on line 18. Otherwise, enter your tax for the applicable year. If you amended your return or the State Department of Taxation made changes to it, enter the corrected amount. Do not include any amount from Forms N-2, N-103, N-152, N-312, N-318, N-405, N-586, or N-814.

Tax Rate Schedules for Year 2001

Schedule I - Use if your filing status is Single or Married filing separately

If your taxable income is:	Your tax is:
Not over \$2,000	1.5% of taxable income
Over \$2,000 but not over \$4,000	\$ 30 plus 3.7% over \$2,000
Over \$4,000 but not over \$8,000	104 plus 6.4% over \$4,000
Over \$8,000 but not over \$12,000	360 plus 6.9% over \$8,000
Over \$12,000 but not over \$16,000	636 plus 7.3% over \$12,000
Over \$16,000 but not over \$20,000	928 plus 7.6% over \$16,000
Over \$20,000 but not over \$30,000	1,232 plus 7.9% over \$20,000
Over \$30,000 but not over \$40,000	2,022 plus 8.2% over \$30,000
Over \$40,000	2,842 plus 8.5% over \$40,000

Schedule II - Use if your filing status is Married filing jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000	1.5% of taxable income
Over \$4,000 but not over \$8,000	\$ 60 plus 3.7% over \$4,000
Over \$8,000 but not over \$16,000	208 plus 6.4% over \$8,000
Over \$16,000 but not over \$24,000	720 plus 6.9% over \$16,000
Over \$24,000 but not over \$32,000	1,272 plus 7.3% over \$24,000
Over \$32,000 but not over \$40,000	1,856 plus 7.6% over \$32,000
Over \$40,000 but not over \$60,000	2,464 plus 7.9% over \$40,000
Over \$60,000 but not over \$80,000	4,044 plus 8.2% over \$60,000
Over \$80,000	5,684 plus 8.5% over \$80,000

Schedule III - Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000	1.5% of taxable income
Over \$3,000 but not over \$6,000	\$ 45 plus 3.7% over \$3,000
Over \$6,000 but not over \$12,000	156 plus 6.4% over \$6,000
Over \$12,000 but not over \$18,000	540 plus 6.9% over \$12,000
Over \$18,000 but not over \$24,000	954 plus 7.3% over \$18,000
Over \$24,000 but not over \$30,000	1,392 plus 7.6% over \$24,000
Over \$30,000 but not over \$45,000	1,848 plus 7.9% over \$30,000
Over \$45,000 but not over \$60,000	3,033 plus 8.2% over \$45,000
Over \$60,000	4,263 plus 8.5% over \$60,000

Tax on Capital Gains Worksheet for Year 2001

1. Enter your taxable income..... _____
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)..... _____
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured)
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain..... _____
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured)
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured)
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain
8. Enter the **smaller** of line 4 or line 7..... _____
9. If you filed Form N-158, enter the amount from line 4e of Form N-158
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above..... _____
11. Line 1 minus line 10
12. Enter the amount shown below for the filing status you claimed..... _____
 Single or Married filing separately— \$12,000
 Married filing jointly or Qualifying widow(er)— 24,000
 Head of household— 18,000
13. Enter the **greater** of line 11 or line 12
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax..... _____
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above.
16. Multiply line 14 by 7.25% (.0725) and enter the result..... _____
17. Line 15 plus line 16
18. Figure the tax on the amount on line 1. Use the Tax Rate Schedules shown above..... _____
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168

Note: If you filed Form N-15 for 2001, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2001 should be completed using amounts from Column B of your 2001 Form N-15.

Tax Rate Schedules for Years 2002 and 2003

Schedule I - Use if your filing status is Single or Married filing separately

If your taxable income is:	Your tax is:
Not over \$2,000	1.4% of taxable income
Over \$2,000 but not over \$4,000	\$ 28 plus 3.2% over \$2,000
Over \$4,000 but not over \$8,000	92 plus 5.5% over \$4,000
Over \$8,000 but not over \$12,000	312 plus 6.4% over \$8,000
Over \$12,000 but not over \$16,000	568 plus 6.8% over \$12,000
Over \$16,000 but not over \$20,000	840 plus 7.2% over \$16,000
Over \$20,000 but not over \$30,000	1,128 plus 7.6% over \$20,000
Over \$30,000 but not over \$40,000	1,888 plus 7.9% over \$30,000
Over \$40,000	2,678 plus 8.25% over \$40,000

Schedule II - Use if your filing status is Married filing jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000	1.4% of taxable income
Over \$4,000 but not over \$8,000	\$ 56 plus 3.2% over \$4,000
Over \$8,000 but not over \$16,000	184 plus 5.5% over \$8,000
Over \$16,000 but not over \$24,000	624 plus 6.4% over \$16,000
Over \$24,000 but not over \$32,000	1,136 plus 6.8% over \$24,000
Over \$32,000 but not over \$40,000	1,680 plus 7.2% over \$32,000
Over \$40,000 but not over \$60,000	2,256 plus 7.6% over \$40,000
Over \$60,000 but not over \$80,000	3,776 plus 7.9% over \$60,000
Over \$80,000	5,356 plus 8.25% over \$80,000

Schedule III - Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000	1.4% of taxable income
Over \$3,000 but not over \$6,000	\$ 42 plus 3.2% over \$3,000
Over \$6,000 but not over \$12,000	138 plus 5.5% over \$6,000
Over \$12,000 but not over \$18,000	468 plus 6.4% over \$12,000
Over \$18,000 but not over \$24,000	852 plus 6.8% over \$18,000
Over \$24,000 but not over \$30,000	1,260 plus 7.2% over \$24,000
Over \$30,000 but not over \$45,000	1,692 plus 7.6% over \$30,000
Over \$45,000 but not over \$60,000	2,832 plus 7.9% over \$45,000
Over \$60,000	4,017 plus 8.25% over \$60,000

Tax on Capital Gains Worksheet for Years 2002 and 2003

1. Enter your taxable income..... _____
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)..... _____
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured)
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain..... _____
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured)
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured)
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain
8. Enter the **smaller** of line 4 or line 7..... _____
9. If you filed Form N-158, enter the amount from line 4e of Form N-158
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above..... _____
11. Line 1 minus line 10
12. Enter the amount shown below for the filing status you claimed..... _____
 Single or Married filing separately— \$20,000
 Married filing jointly or Qualifying widow(er)— 40,000
 Head of household— 30,000
13. Enter the **greater** of line 11 or line 12
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax..... _____
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above.
16. Multiply line 14 by 7.25% (.0725) and enter the result..... _____
17. Line 15 plus line 16
18. Figure the tax on the amount on line 1. Use the Tax Rate Schedules shown above..... _____
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168

Note: If you filed Form N-15 for 2002 or 2003, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2002 or 2003 should be completed using amounts from Column B of your 2002 or 2003 Form N-15.

Tax Rate Schedules for Year 2002

Schedule I - Use if your filing status is Single or Married filing separately

If your taxable income is:	Your tax is:
Not over \$2,000	1.4% of taxable income
Over \$2,000 but not over \$4,000	\$ 28 plus 3.2% over \$2,000
Over \$4,000 but not over \$8,000	92 plus 5.5% over \$4,000
Over \$8,000 but not over \$12,000	312 plus 6.4% over \$8,000
Over \$12,000 but not over \$16,000	568 plus 6.8% over \$12,000
Over \$16,000 but not over \$20,000	840 plus 7.2% over \$16,000
Over \$20,000 but not over \$30,000	1,128 plus 7.6% over \$20,000
Over \$30,000 but not over \$40,000	1,888 plus 7.9% over \$30,000
Over \$40,000	2,678 plus 8.25% over \$40,000

Schedule II - Use if your filing status is Married filing jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000	1.4% of taxable income
Over \$4,000 but not over \$8,000	\$ 56 plus 3.2% over \$4,000
Over \$8,000 but not over \$16,000	184 plus 5.5% over \$8,000
Over \$16,000 but not over \$24,000	624 plus 6.4% over \$16,000
Over \$24,000 but not over \$32,000	1,136 plus 6.8% over \$24,000
Over \$32,000 but not over \$40,000	1,680 plus 7.2% over \$32,000
Over \$40,000 but not over \$60,000	2,256 plus 7.6% over \$40,000
Over \$60,000 but not over \$80,000	3,776 plus 7.9% over \$60,000
Over \$80,000	5,356 plus 8.25% over \$80,000

Schedule III - Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000	1.4% of taxable income
Over \$3,000 but not over \$6,000	\$ 42 plus 3.2% over \$3,000
Over \$6,000 but not over \$12,000	138 plus 5.5% over \$6,000
Over \$12,000 but not over \$18,000	468 plus 6.4% over \$12,000
Over \$18,000 but not over \$24,000	852 plus 6.8% over \$18,000
Over \$24,000 but not over \$30,000	1,260 plus 7.2% over \$24,000
Over \$30,000 but not over \$45,000	1,692 plus 7.6% over \$30,000
Over \$45,000 but not over \$60,000	2,832 plus 7.9% over \$45,000
Over \$60,000	4,017 plus 8.25% over \$60,000

Tax on Capital Gains Worksheet for Year 2002

1. Enter your taxable income
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured).....
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured)
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain.....
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured)
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured)
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain.....
8. Enter the **smaller** of line 4 or line 7.....
9. If you filed Form N-158, enter the amount from line 4e of Form N-158
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above.....
11. Line 1 minus line 10
12. Enter the amount shown below for the filing status you claimed.....
 Single or Married filing separately— \$20,000
 Married filing jointly or Qualifying widow(er)— 40,000
 Head of household— 30,000
13. Enter the **greater** of line 11 or line 12
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax.
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above.....
16. Multiply line 14 by 7.25% (.0725) and enter the result.....
17. Line 15 plus line 16
18. Figure the tax on the amount on line 1. Use the Tax Rate Schedules shown above.....
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168.....

Note: If you filed Form N-15 for 2002, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2002 should be completed using amounts from Column B of your 2002 Form N-15.