2005

(REV. 2005)

State of Hawaii
Department of Taxation

Partner's Instructions for Schedule K-1 (Form N-20)

(For Partner's Use Only)

Where to Get Tax Forms

Hawaii tax forms, instructions, and schedules may be obtained at any taxation district office or through the following:

Website Address:
www.hawaii.gov/tax

Forms by Fax/Mail:
808-587-7572
Toll-Free: 1-800-222-7572

Purpose of Schedule K-1

The partnership uses Schedule K-1 to report your share of the partnership's income, credits, deductions, etc. **Please keep it for your records. Do not file it with your tax return unless otherwise instructed.** A copy has been filed with the Department of Taxation.

Although the partnership is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed, and you must include your share on your tax return.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1. Generally, the amount of loss and deduction you may claim is limited to your basis in the partnership and the amount for which you are considered at risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity rules. **It is the partner's responsibility to consider and apply any applicable limitations.** See **Limitations on Losses and Deductions,** on page 2, for more information.

Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Where "(attach schedule)" appears beside a line item, it means you should see the schedule that the partnership has attached for that line or the space provided on page 2 of Schedule K-1.

Schedule K-1 provides you with information relating to the source of your share of the income of the partnership. How this income is reported by you to the State of Hawaii depends on your residency status. Partners who are Hawaii residents are to report the income and deductions attributable everywhere, and the credits attributable to Hawaii. Partners who are not residents of Hawaii or who are part-year residents of Hawaii are to use the income, deduction, and credit amounts attributable to Hawaii and attributable everywhere in preparing their Hawaii income tax returns. Resident partners may make an adjustment to income reported on their net income tax return for interest penalty on early withdrawal of savings if a penalty was imposed on the early withdrawal of savings by the partnership and the interest income is not attributable to Hawaii. See the Instructions for Forms N-11/N-12. The amount of this deduction should be reported on line 33.

General Information

Inconsistent treatment of items.—Generally, you must report partnership items shown on your Schedule K-1 (and any attached schedules) or similar statement, consistent with the way the partnership treated the items on its filed return. This rule does not apply if your partnership is within the "small partnership exception" and does not elect to have the tax treatment of partnership items determined at the partnership level.

If the treatment on your original or amended return is (or may be) inconsistent with the partnership's treatment, or if the partnership was required to, but has not filed a return, you must file federal Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain the inconsistency (or to note that a partnership return has not been filed).

Errors.—If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. **Do not** change any items on your copy. Be sure that the partnership sends a copy of the corrected Schedule K-1 to the Department of Taxation. However, see **Inconsistent treatment of items** above.

Sale or exchange of partnership interest.—Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the partner must notify the partnership, in writing, within 30 days of the exchange. An exception to this rule is made in the case of sales or exchanges of publicly traded partnership interest for which a broker is required to file federal Form 1099-B. See federal Form 8308 for the types of unrealized receivables involved.

Definitions

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

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. Some members of other entities, such as business trusts or limited liability companies that are classified as partnerships, may be treated as limited partners for certain purposes.

Nonrecourse loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Elections.—Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your income tax return and not by the partnership. These elections are made under the following code sections:

- Section 108(b)(5) (income from discharge of indebtedness); and
- Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

Additional information.—For more information on the treatment of partnership income, deductions, etc., see federal Publication 541, Partnerships; and federal Publication 535, Business Expenses.

Specific Instructions

Name, address, and identifying number.—Your name, address, and identifying number, as well as the partnership's name, address, and identifying number, should be entered.

Item D.—Item D should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, Item D should show the share that existed immediately before the total disposition. A partner's "other liability" is, generally, any partnership liability for which a partner is personally liable.

Use the total of the three amounts for computing the adjusted basis of your partnership interest.

Generally, you may use only the amounts shown next to "Qualified nonrecourse financing" and "Other" to compute your amount at risk. **Do not** include any amounts that are not at risk if such amounts are included in either of these categories.

If your partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for each activity.

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government or borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See federal **Publication 925** for more information on qualified nonrecourse financing.

Both the partnership and you must meet the qualified nonrecourse rules on this debt before you can include the amount shown next to "Qualified nonrecourse financing" in your at-risk computation.

See **Limitations on Losses, and Deductions** for more information on the at-risk limitations.

Item E.—If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it should have completed Item E. If you claim or report income, loss or deduction, from a tax shelter, attach federal Form 8271, Investor Reporting of Tax Shelter Registration Number, to your tax return. If the partnership has invested in a tax shelter, it is required to give you a copy of its federal Form 8271 with Schedule K-1. You should use the information on this federal Form 8271 to complete Part I of your federal Form 8271.

If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (name of the partnership, partnership identifying number, and tax shelter registration number) to complete Part I of federal Form 8271.

Item F.—If the box in Item F is checked, you are a partner in a publicly traded partnership and must follow the rules with respect to publicly traded partnerships. For additional information see the Instructions for federal Form 8582.

Lines 1 - 33

If you are an individual partner, take the amounts shown in column (b) and/or column (c) and enter them on the appropriate worksheet and/or lines of your tax return as indicated in column (d). If you are not an individual partner, report the amounts in column (c) as instructed on your tax return.

The line number references in column (d) are references to forms in use for calendar year 2005. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, you must enter the amounts shown in column (b) and/or column (c) on your tax return for the year in which the partnership's fiscal year ends.

If you have losses and deductions etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net 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 any supporting schedules, statements, or forms (such as federal Schedule E, Supplemental Income Schedule) attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

If you have amounts, other than those shown on Schedule K-1, to report on federal Schedule E, enter each item on a separate line of Part II of Schedule E.

Lines 1 - 3

The amounts shown on lines 1 through 3 reflect your share of income or loss from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of (1) the adjusted basis of your partnership interest, (2) the amount for which you are at risk as determined under section 465, or (3) the passive activity limitations of section 469. Information on these provisions is given below.

Limitations on Losses and Deductions

Basis Rules

Generally, you may **not** claim your share of a partnership loss (including capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year.

Items which increase your basis are:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the partnership's income.
- Your share of the increase in the liabilities of the partnership (or your individual liabilities caused by your assumption of partnership liabilities).

Items which decrease your basis are:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (or your individual liabilities assumed by the partnership).

The above is not a complete list of items and factors which determine basis. See federal Publication 541 for a more complete discussion of how to determine the adjusted basis of your partnership interest.

At-Risk Rules

Generally, if you have (1) a loss or other deduction from any activity carried on as a trade or business or for the production of income by the partnership and (2) amounts in the activity for which you are not at risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return.

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity.

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than that used in the activity). See **Item D**, on page 1, for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than yourself) having such an interest.

To help you complete federal Form 6198, the partnership should give you your share of the total pre-1976 losses from a section 465(c)(1) activity for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the partnership.

Passive Activity Limitations

See the federal instructions for Schedule K-1 (Form 1065) for a discussion on passive activity limitations.

Line-by-Line Instructions

In general, for Form N-11 filers, if your federal Schedule K-1 (Form 1065) and Hawaii Schedule K-1 (Form N-20) are different, the necessary adjustments are to be made in the Hawaii Additions Worksheet and/or Hawaii Subtractions Worksheet in the Forms N-11/N-12 Instructions.

Income

Line 1. Ordinary income (loss) from trade or business activities.—The amount reported for line 1 is your share of the ordinary income (loss) from the trade or business activities of the partnership. Generally, where you report this amount depends on whether or not the amount is from an activity that is a passive activity to you. If you are an individual partner filing your 2005 Form N-12 or N-15, find your situation in the following guide and report your line 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses:

1. Report line 1 income (loss) from partnership trade or business activities in which you materially participated on Form N-12, line 18 or on Form N-15, line 17.
2. Report line 1 income (loss) from partnership trade or business activities in which you did not materially participate, as follows:
   - **a.** If income is reported on line 1, report the income on Form N-12, line 18 or on Form N-15, line 17. However, if the box in Item F is checked, report the income following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).
   - **b.** If a loss is reported on line 1, report the loss following the instructions for federal Form 8582, to determine how much of the loss can be reported on Form N-12, line 18 or on Form N-15, line 17. However, if the box in Item F is checked, report the loss following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

Line 2. Income or loss from rental real estate activities.—Generally, the income (loss) reported on line 2 is a passive activity amount for all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of section 469 do not apply to qualified investors in qualified low-income housing projects. The partnership will have attached a schedule for line 2 to identify such amounts, if applicable.

Use the following instructions to determine where to enter a line 2 amount:

1. If you have a loss (other than from a qualified low-income housing project) on line 2 and you meet **all** of the following conditions, enter the loss on Form N-12, line 16b or on Form N-15, line 17:
   - **a.** You determined that you actively participated in the partnership rental real estate activities. (See **Special allowance for a rental real estate activity** discussed in the federal instructions for Schedule K-1 (Form 1065).)
   - **b.** Rental real estate activities with active participation were your only passive activities.

c. You have no prior year unallowed losses from these activities.

d. Your total loss from the rental real estate activities was not more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).

e. If you are a married person filing separately, you lived apart from your spouse all year.

f. You have no current or prior year unallowed credits from a passive activity.

g. Your modified adjusted gross income was not more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).

h. Your interest in the rental real estate activity was **not** held as a limited partner.

2. If you have a loss on line 2 (other than from a qualified low-income housing project), and **you do not meet** all of the conditions in **1** above, report the loss following the instructions for federal Form 8582 to determine how much of the loss can be reported on Form N-12, line 16b or on Form N-15, line 17. However, if the box in Item F is checked, report the loss following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

3. If you are a qualified investor reporting a qualified low-income housing project loss, report the loss on Form N-12, line 16b or on Form N-15, line 17.

4. If you have income on line 2, enter the income on Form N-12, line 16b or on Form N-15, line 17. However, if the box in Item F is checked, report the income following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

Line 3. Income or loss from other rental activities.—The amount on line 3 is a passive activity amount for all partners. Report the income or loss as follows:

1. If line 3 is a loss, report the loss following the instructions for federal Form 8582. However, if the box in Item F is checked, report the loss following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

2. If income is reported on line 3, report the income on Form N-12, line 16b or on Form N-15, line 17. However, if the box in Item F is checked, report the income following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

Line 4. Portfolio Income (loss).—Income or loss referred to as "portfolio" income or loss in these instructions is not part of a passive activity subject to the rules of section 469. Portfolio income includes interest, dividend, and royalty income, and gain or loss on the sale of property held for investment.

Line 4a. Interest.—Include the amount in the Interest Worksheet in the Forms N-11/N-12 Instructions or Form N-15 Instructions.

Line 4b. Ordinary Dividends.—Include the amount on Form N-12, line 9 or on Form N-15, line 9.

Line 4c. Royalties.—Include the amount on Form N-12, line 18 or on Form N-15, line 17.

Line 4d. Net short-term capital gain (loss).—Include the amount in the Capital Gain/Loss Worksheet in the Forms N-11/N-12 Instructions or Form N-15 Instructions.

Line 4e. Net long-term capital gain (loss).—Include the amount in the Capital Gain/Loss Worksheet in the Forms N-11/N-12 Instructions or Form N-15 instructions.

Line 5. Guaranteed payments.—Generally, amounts on this line are not passive income and should be reported on Form N-12, line 18 or on Form N-15, line 17.

Line 6. Net gain (loss) under IRC section 1231 (other than due to casualty or theft).—The amount on line 6 is generally a passive activity amount if it is from a rental activity or a trade or business activity in which you did not materially participate.

- If the amount is not from a passive activity, report it on line 2, column (g) or (h), whichever is applicable, of Schedule D-1, Sales of Business Property. You do not have to complete the information called for in columns (b) through (f). Write "From Schedule K-1 (Form N-20)" across these columns.
- If gain from a passive activity is reported on line 6, report the gain on line 2, column (h), of Schedule D-1 and be sure to see **Passive Loss Limitations** in the Instructions for Schedule D-1.
- If a loss from a passive activity is reported on line 6, see **Passive Loss Limitations** in the Instructions for Schedule D-1. You will need to use federal Form 8582 to determine how much of the loss is allowed on Schedule D-1. However, if the box in Item F is checked, report the loss following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

Line 7. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1 through 6. The partnership should give you a description and the amount of your share for each of these items.

Report loss items which are passive activity amounts to you following the instructions for federal Form 8582. However, if the box in Item F is checked, report the loss following the rules for **Publicly traded partnerships** discussed in the federal instructions for Schedule K-1 (Form 1065).

Report income or gain items which are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any source, also report the passive activity income or gain on federal Form 8582.

The instructions given below tell you where to report line 7 items if such items are **not** passive activity amounts.

Line 7 items may include the following:

- Partnership gains from disposition of farm recapture property (see Schedule D-1) and other items to which section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (section 111). Report these amounts on Form N-12, line 18 or on Form N-15, line 19.
- Gains and losses from wagering (section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b). Report this amount on line 11, Schedule D-1.
- Specially allocated ordinary gain (loss). Report this amount on Schedule D-1, line 11.
- Net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, columns (b)(i), (b)(ii), and (c).

Deductions

Line 8. Charitable contributions.—The partnership will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations.

If property other than cash is contributed and if the claimed deduction for one item or group of similar items of property exceeds $5,000, the partnership is required to give you a copy of federal Form 8283, Noncash Charitable Contributions, to attach to your tax return. **Do not** deduct the amount shown on this form. It is the partnership's contribution. Instead, deduct the amount shown on line 8 of your Schedule K-1 (Form N-20).

If the partnership provides you with information that the contribution was property other than cash and does not give you a federal Form 8283, see the Instructions for Form 8283 for filing requirements. Do not file federal Form 8283 unless the total claimed deduction for all contributed items of property exceeds $500.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on federal Form 8582.

Include the amount on line 8 in the Itemized Deduction Worksheet, Worksheet A-4 — Gifts to Charity, in the Forms N-11/N-12 Instructions; or in the Itemized Deduction Worksheet - For Nonresidents, Worksheet NR-4 — Gifts to Charity, in the Form N-15 Instructions; or in the Itemized Deduction Worksheet - For Part-Year Residents, Worksheet PY-4 — Gifts to Charity, in the Form N-15 Instructions.

Line 9. Expense deduction for recovery property.—Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of federal **Form 4562,** Depreciation and Amortization. Use Part I of federal Form 4562 to figure your allowable section 179 expense deduction from all sources. Report the amount on line 12 of federal Form 4562 allocable to a passive activity from the partnership following the instructions for federal Form 8582. However, if the box in Item F is checked, report this amount following the rules for **Publicly traded partnerships,** discussed in the federal instructions for Schedule K-1 (Form 1065). If the amount is not a passive activity deduction, include it on Form N-12, line 18 or on Form N-15, line 19.

Please note that Hawaii has not adopted changes to federal tax law relating to the increase of the section 179 deduction for enterprise zone businesses and "bonus" depreciation.

Line 10. Deductions related to portfolio income.—Amounts entered on this line are the expenses (other than investment interest expense and section 212 expenses from a REMIC) paid or incurred to produce portfolio income. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on federal Form 8582. Generally, include these amounts in the Itemized Deduction Worksheet, Worksheet A-6 — Miscellaneous Deductions, in the Forms N-11/N-12 Instructions; or in the Itemized Deduction Worksheet - For Nonresidents, Worksheet NR-6 — Miscellaneous Deductions, in the Form N-15 Instructions; or in the Item-

ized Deduction Worksheet - For Part-Year Residents, Worksheet PY-6 — Miscellaneous Deductions, in the Form N-15 Instructions.

Line 11. Other deductions.—Amounts on this line are other deductions not included on lines 8, 9, and 10, such as:

- Itemized deductions other than those reported on line 10.

Note: *If there was a gain (loss) from a casualty or theft to property not used in trade or business or for income-producing purposes, the partnership will notify you. You will have to complete your own federal Form 4684.*

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership has elected to treat as a current expense (section 190).
- Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents.
- Payments made on your behalf to an IRA, Keogh, or a Simplified Employees Pension (SEP) plan. See the Instructions for Forms N-11/N-12 to figure your IRA deduction. See the Instructions for Forms N-11/N-12 or Form N-15 as to payments to a Keogh or SEP plan. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. See Notice 89-35, 1989-1 C.B. 675, for details.
- Interest paid or accrued on debt properly allocable to your share of a working interest in any oil or gas property (if your liability is not limited). If you did not materially participate in the oil or gas activity, this interest is investment interest reportable as described below; otherwise, it is trade or business interest.

The partnership should give you a description and the amount of your share for each of these items.

Credits

Line 12. Total cost of qualifying property for the Capital Goods Excise Tax Credit.—Figure your credit on Form N-312.

Line 13. Fuel Tax Credit for Commercial Fishers.—Figure your credit on Form N-163.

Line 14. Enterprise Zone Tax Credit.—A qualified enterprise zone business is eligible to claim a credit for a percentage of taxes due to the State attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premium 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. This credit is not refundable and any unused credit may NOT be carried forward.

Your partnership should attach a statement (Form N-756A) to your Schedule K-1(Form N-20) showing your share of the partnership's amounts needed to claim the credit. Figure your credit on Form N-756.

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 for qualified buildings located in the State of Hawaii.

Your share of the partnership's tax credit is shown on this line. Figure your credit on Form N-586.

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 per year.

Your share of the partnership's tax credit is shown on this line. Figure your credit on Form N-884.

Lines 17a and 17b. Motion Picture and Film Production Income Tax Credit.—A tax credit comprised of two parts: 1) an amount up to 4% of the costs incurred in the State in the production of motion picture or television films, and 2) an amount up to 7.25% of the transient accommodations costs incurred in the State in the production of motion picture or television films, is available to taxpayers subject to the imposition of Hawaii's income tax and is deductible from the taxpayer's net income tax liability.

Your share of the partnership's total production costs qualifying for a 4% credit is shown on line 17a and the total transient accommodations costs qualifying for a 7.25% credit is shown on line 17b. Your share of the partnership's total production costs qualifying for a less than 4% credit and the total transient accommodations costs qualifying for a less than 7.25% credit is shown on line 33. Figure your credit on Form N-316.

Line 18. High Technology Business Investment Tax Credit.— Your share of the partnership's High Technology Business Investment Tax Credit is shown on this line. Figure your credit on Form N-318.

Line 19. Tax Credit for Research Activities.— Your share of the partnership's Tax Credit for Research Activities is shown on line 19. Figure your credit on Form N-319.

Line 20. Renovation costs for the Technology Infrastructure Renovation Tax Credit. — Your share of the total renovation costs to be used to claim this credit is shown on line 20. Attach a copy of this Form K-1 to the Hawaii net income tax return you file. Figure your credit on Form N-326.

Line 21. Total construction or renovation costs qualifying for the Hotel Construction and Remodeling Tax Credit.—Taxpayers subject to Hawaii's income and transient accommodations taxes can claim a tax credit of the construction or renovation costs incurred during the taxable year for each qualified hotel facility located in Hawaii. The credit is 4% of the qualified construction or renovation costs incurred during the taxable year.

Figure your credit on Form N-314.

Line 22. Individual Development Account Contribution Tax Credit.— For taxable years beginning after December 31, 1999, and before January 1, 2005, a taxpayer can claim a tax credit of 50% of the amount contributed to a fiduciary organization as matching funds to individual development accounts. If a deduction is taken under section 170 (with respect to charitable contributions and gifts), no tax credit will be allowed for that portion of the contribution for which the deduction was taken.

Your share of the partnership's tax credit is shown on this line. Figure your credit on Form N-320.

Line 23. Total qualifying costs for the Drought Mitigating Water Storage Facility Tax Credit. — Your share of the total qualifying costs to be used to claim this credit is shown on line 23. Attach a copy of this Schedule K-1 to the Hawaii net income tax return you file. Figure your credit on Form N-328.

Line 24. Credit for School Repair and Maintenance. — Your share of the Credit for School Repair and Maintenance is shown on line 24. Figure your credit on Form N-330.

Line 25. 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, 2012. See Form N-324 for more information.

Line 26. Renewable Energy Technologies Income Tax Credit.—There should be attached to this Schedule K-1 a copy of Form N-334A showing the type of system and your share of the partnership's amounts needed to claim the credit. If the form is not attached, contact your partnership 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-334 to claim this credit.

Line 27. Ko Olina Resort and Marina Attractions and Educational Facilities Tax Credit.— If there is an amount on this line, see Form N-335 for information.

Line 28. Credit for Income Tax Withheld on Form N-288. — Enter your share of taxes withheld on the disposition of Hawaii real property interests, net of refunds, on Schedule CR, line 22a or on Form N-20, Schedule K, line 28 if the partner is a partnership.

Investment Interest

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can 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 29a. Interest expense on investment debts.—Enter this amount on line 1 of Form N-158 along with your investment interest expense from other sources. Form N-158 will help you determine how much of your total investment interest in deductible.

Lines 29b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter in Part II of Form N-158.

Caution: *The amount shown on lines 29b(1) and (2) includes only investment income and expenses included on lines 4 and 10 of this Schedule K-1. The partnership should attach a schedule which shows the amount of any investment income and expenses included in any other lines of this Schedule K-1. Use these amounts, if any, to adjust lines 29b(1) and 29b(2) to determine your total investment income and total investment expenses from this partnership. Combine these totals with investment income and expenses from all other sources to determine the amount to enter in Part II of Form N-158.*

Recapture of Tax Credits

Line 30. 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, Part III. See Form N-587, Low-Income Housing Credit Disposition Bond, for an alternative to credit recapture.

Line 31. Capital Goods Excise Tax Credit Properties.— You should receive a completed copy of Form N-312, Part II from the partnership. Use this information to determine the amount of credit recapture on Form N-312.

Line 32. Recapture of the High Technology Business Investment Tax Credit.— Report your share of the recapture of the High Technology Business Investment Tax Credit on Form N-318, Part III.

Other

Line 33.—Amounts included on the statement for this line are other amounts not included elsewhere such as:

a. Taxes paid on undistributed capital gains by a regulated investment company. Enter your share of these taxes on Schedule CR, line 22b and add the words "Form N-20."

b. For the Motion Picture and Film Production Income Tax Credit, your share of the partnership's total production costs qualifying for a less than 4% credit and the total transient accommodations costs qualifying for a less than 7.25% credit is shown on line 33.

c. Any other information you may need to file your return that is not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.