

STATE OF HAWAII—DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-316
MOTION PICTURE AND FILM PRODUCTION INCOME TAX CREDIT

CHANGES TO NOTE

Pursuant to Act 88, Session Laws of Hawaii 2006, effective July 1, 2006, the Motion Picture and Film Production Income Tax Credit is replaced with the Motion Picture, Digital Media, and Film Production Income Tax Credit for the period of July 1, 2006 to December 31, 2015. On January 1, 2016, the Motion Picture, Digital Media, and Film Production Income Tax Credit will be repealed and the Motion Picture and Film Production Income Tax Credit will be reinstated.

Presently, the Motion Picture and Film Production Income Tax Credit can be claimed only for production and transient accommodations costs incurred in the taxable year before July 1, 2006.

GENERAL INSTRUCTIONS

Note: If you are claiming the Ethanol Facility Tax Credit, no other credit can be claimed for the same taxable year.

Note: Use this form to claim a credit based on the receipt of qualifying costs flowed through from a partnership, an S corporation, an estate, or trust that is qualified to flow through the costs.

Effective July 1, 2006, each taxpayer subject to Hawaii's net income tax, who incurs production costs and transient accommodations costs in Hawaii before July 1, 2006, while producing a motion picture or television film that benefits Hawaii's economy, may claim a refundable motion picture and film production income tax credit for the taxable year in which the credit is properly claimed. The tax credit is comprised of two parts: 1) an amount up to 4% of the costs incurred in Hawaii (including expenditures for transient accommodations) before July 1, 2006, in the production of a motion picture or television film; and 2) an amount up to 7.25% of the costs incurred in Hawaii before July 1, 2006, in the production of a motion picture or television film for actual expenditures for transient accommodations.

In the case of an S corporation, partnership, estate, or trust, the tax credit allowable is for qualified production costs and qualified transient accommodations costs incurred by the entity for the taxable year before July 1, 2006. The production costs and the transient accommodations costs which the tax credit is computed is determined at the entity level. Each S corporation shareholder, partner, or beneficiary of an estate

or trust shall separately take into account for its taxable year with or within which the entity's taxable year ends, the shareholder's, partner's, or beneficiary's share of the production costs and the transient accommodations costs and the resulting tax credit. Each S corporation shareholder's production costs and transient accommodations costs is the shareholder's allocated share of the S corporation's production costs and transient accommodations costs. A partner's share of the production costs and the transient accommodations costs shall be determined in accordance with the ratio in which the partners divide the general profits of the partnership. The production costs and the transient accommodations costs of the partnership which are subject to a special allocation that is recognized under IRC section 704(a) and (b) shall be recognized for the purposes of this tax credit. A beneficiary's share of the production costs and transient accommodations costs is allocated between the entity and the beneficiaries based on the income of the entity allocable to each beneficiary. The term "beneficiary" includes an heir, legatee, or devisee.

If a taxpayer is a member of a pass-through entity (i.e., S corporation, partnership, estate, or trust) and the taxpayer claims a tax credit for the entity's qualified production costs and qualified transient accommodations costs, the taxpayer shall attach a copy of the applicable Schedule K-1 to Form N-316 when the tax credit is claimed.

Amount of credits. The maximum allowable tax credits, up to 4% of the production costs and up to 7.25% of the transient accommodations costs, may be claimed when the production of the motion picture or television film provides greater benefits to Hawaii's economy. The amount of the tax credits shall be based upon guidelines issued by the Department of Taxation.

Tax credit to be deducted from income tax liability, if any; refunds. If the tax credit exceeds the taxpayer's income tax liability, the excess of the tax credit over the liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit shall be made for amounts less than \$1.

Time for filing. All claims, including any amended claims, for a tax credit shall be filed on or before the end of the 12th month following the close of the taxable year for which the tax credit may be claimed. An extension of time for filing a return does not

extend the time for claiming the tax credit. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Refer to Tax Information Release No. 98-1 for more information.

SPECIFIC INSTRUCTIONS

Line 1 — Flow through of production costs qualifying for a **4%** credit received from other entities. In the case of a taxpayer who is a member of a pass-through entity (i.e., S corporation, partnership, estate, or trust) and the taxpayer claims a tax credit for the entity's production costs qualifying for the **4%** credit, enter the amount of the costs received from the entity on line 1.

Estates and trusts: The total production costs qualifying for a **4%** credit on line 1 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 2, enter the production costs allocable to the estate or trust with the designation "N-40 PORTION." Attach Form N-316 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 1 on Schedule K, line 27. Form N-35 filers, enter the amount on line 1 on Schedule K, line 17. Form N-40 filers, enter the distributive share amount on line 9 of Schedule K-1, Form N-40, for each beneficiary, otherwise, continue to line 2. All others, continue to line 2.

Line 4 — Flow through of production costs qualifying for a **less than 4%** credit received from other entities. In the case of a taxpayer who is a member of a pass-through entity (i.e., S corporation, partnership, estate, or trust) and the taxpayer claims a tax credit for the entity's production costs qualifying for a **less than 4%** credit, enter the amount of the costs received from the entity on line 4.

Estates and trusts: The total production costs qualifying for a **less than 4%** credit on line 4 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 5, enter the production costs allocable to the estate or trust with the designation "N-40 PORTION." Attach Form N-316 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 4 on Schedule K, line 27. Form N-35 filers, enter the amount on line 4 on Schedule K, line 17. Form N-40 filers, enter the distributive share amount on line 9 of Schedule K-1, Form N-40, for each beneficiary, otherwise, continue to line 5. All others continue to line 5.

Line 7 — Flow through of transient accommodations costs qualifying for a **7.25%** credit received from other entities. In the case of a taxpayer who is a member of a pass-through entity (i.e., S corporation, partnership, estate, or trust) and the taxpayer claims a tax credit for the entity's transient accommodations costs qualifying for a **7.25%** credit, enter the amount of the costs received from the entity on line 7.

Estates and trusts: The total transient accommodations costs qualifying for a **7.25%** credit on line 7 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 8, enter the transient accommodations costs allocable to the estate or trust with the designation "N-40 PORTION." Attach Form N-316 to the N-40 return and show the dis-

tributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 7 on Schedule K, line 27. Form N-35 filers, enter the amount on line 7 on Schedule K, line 17. Form N-40 filers, enter the distributive share amount on line 9 of Schedule K-1, Form N-40, for each beneficiary, otherwise, continue to line 8. All others, continue to line 8.

Line 10 — Flow through of transient accommodations costs qualifying for a **less than 7.25%** credit received from other entities. In the case of a taxpayer who is a member of a pass-through entity (i.e., S corporation, partnership, estate, or trust) and the taxpayer claims a tax credit for the entity's transient accommodations costs qualifying for a **less than 7.25%** credit, enter the amount of the costs received from the entity on line 10.

Estates and trusts: The total transient accommodations costs qualifying for a **less than 7.25%** credit on line 10 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 11, enter the transient accommodations

costs allocable to the estate or trust with the designation "N-40 PORTION." Attach Form N-316 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 10 on Schedule K, line 27. Form N-35 filers, enter the amount on line 10 on Schedule K, line 17. Form N-40 filers, enter the distributive share amount on line 9 of Schedule K-1, Form N-40, for each beneficiary, otherwise, continue to line 11. All others, continue to line 11.

Line 13 — Enter the total tax credit claimed for the year on this line and on the appropriate line for the credit on Schedule CR, or on Form N-40, Schedule F for the estate's or trust's share. For individual taxpayers, round the amount on line 13 to the nearest dollar.

If the tax credit exceeds the taxpayer's income tax liability, the excess of the tax credit over the liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit shall be made for amounts less than \$1.