

SCHEDULES O AND P (FORM N-20) ALLOCATION AND APPORTIONMENT OF INCOME



ATTACH THESE SCHEDULES TO FORM N-20

If the partnership had ordinary income or (loss) from trade or business activities both within and without Hawaii, complete these schedules to determine the business income or (loss) apportioned to Hawaii. Each partnership must state specifically the income attributable to the State and the income attributable everywhere with respect to each partner. **Note:** Compute all percentages to 5 decimal places (.00000%).

Schedule O — Apportionment of Income

1 Ordinary income (loss) from trade or business activities for Hawaii tax purposes (From Form N-20, page 1, line 16)		
2 Apportionment factor (From Schedule P, line 8 below)		%
3 Business income apportioned to Hawaii (line 1 multiplied by line 2) (To Form N-20, Schedule K, line 1, col. b).		

Schedule P — Computation of Apportionment Factors

Property — (use original cost)	In Hawaii		Total Everywhere	
	Beginning of taxable year	End of taxable year	Beginning of taxable year	End of taxable year
Land _____				
Buildings _____				
Inventories _____				
Leasehold interests* _____				
Rented Property* _____				
Other Property _____				

* Enter net annual rent X 8.

	A. In Hawaii	B. Everywhere	
1 Property values (average value of property above)			
2 Property factor (line 1, col. A divided by line 1, col. B)			%
3 Total compensation.			
4 Payroll factor (line 3, col. A divided by line 3, col. B)			%
5 Total sales			
6 Sales factor (line 5, col. A divided by line 5, col. B).			%
7 Total of factors (add lines 2, 4, and 6)			%
8 Average of factors (see instructions) (To Schedule O, line 2 above)			%

9 Are the amounts shown on Form N-20, page 1, lines 4 through 7, and on Schedule P, column "B. Everywhere," lines 1, 3, and 5 above, the same as those reported in returns or reports to other states under the Uniform Division of Income for Tax Purposes Act? YES NO If "NO," please explain. _____

Ordinary income or (loss) from trade or business activities shall be attributed to the State by the use of the apportionment of business income allocation provisions of the Uniform Division of Income for Tax Purposes Act (UDITPA), section 235-29, HRS.

Business income shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three. If the denominator of the property factor, payroll factor, or sales factor is zero, the denominator of the fraction in section 235-29, HRS, is reduced by the number of factors with a zero denominator, and the numerator of that fraction shall not include any factor with a zero denominator.

PROPERTY FACTOR

The property factor is a fraction, the numerator of which is the average value of the partnership's real and tangible personal property owned or

rented and used in this State during the tax period and the denominator of which is the average value of all the partnership's real and tangible personal property owned or rented and used during the tax period. Property owned by the partnership is valued at its original cost. The average value of property shall be determined by averaging the values at the beginning and ending of the tax period. The use of monthly values may be required if necessary to properly reflect the average value of the partnership's property. Property rented by the partnership is valued (or capitalized) at eight times the net annual rental rate. Where property is rented for less than a 12 month period, the rent paid for the actual period of rental shall constitute the annual rental rate for the tax period.

If the subrents taken into account in determining the net annual rental rate under section 18-235-31-02, HAR, produce a negative or clearly inaccurate value for any item of property, another method which

will properly reflect the value of rented property may be required by the department or requested by the taxpayer. In no case, however, shall the value be less than an amount which bears the same ratio to the annual rental rate paid by the taxpayer for the property as the fair market value of that portion of the property used by the taxpayer bears to the total fair market value of the rented property. If property owned by others is used by the taxpayer at no charge or rented by the taxpayer for a nominal rate, the net annual rental rate for the property shall be determined on the basis of a reasonable market rental rate for the property, section 18-235-38-02, HAR.

PAYROLL FACTOR

The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the partnership for compensation, and the denominator of which is the total compensation paid everywhere during the tax period.

SALES FACTOR

The sales (or gross receipts) factor is a fraction, the numerator of which is the total sales of the partnership in this State during the tax period, and the denominator of which is the total sales of the partnership everywhere during the tax period.

If this apportionment does not fairly represent the extent of the partnership's business activity in this State, the partnership may request the use of separate accounting, the exclusion of one or more of the factors, the inclusion of one or more additional factors, or the use of any other method to accurately reflect the partnership's business activity in the State. Complete Schedules O and P to show this computation. Other items are attributed as follows:

- Net rents and royalties from real property located in Hawaii are attributed to Hawaii. Federal Form 8825 may be attached to Form N-20 as a schedule of expenses.
- Net rents and royalties from tangible personal property are attributed to Hawaii if and to the extent that the property is utilized in Hawaii.
- Capital gains and losses from sale of real property located in Hawaii are attributed to Hawaii.
- Capital gains and losses from sales of tangible personal property are attributable to Hawaii if the property had a situs in Hawaii at the time of the sale.
- Interest and dividends are attributed to Hawaii if the partnership's commercial domicile is in Hawaii.
- Patent and copyright royalties are attributed to Hawaii if and to the extent that the patent or copyright is utilized by the payor in Hawaii.

- Intangible property is attributed to Hawaii if it is used in Hawaii.
- Services are attributed to Hawaii if it is used or consumed in Hawaii.

Where substantial amounts of gross receipts arise from an occasional sale of a fixed asset used in the regular course of the taxpayer's trade or business, those gross receipts shall be excluded from the sales factor. For example, gross receipts from the sale of a factory or plant will be excluded.

Insubstantial amounts of gross receipts arising from occasional transactions or activities may be excluded from the sales factor unless their exclusion would materially affect the amount of income apportioned to this State. For example, the taxpayer ordinarily may include in or exclude from the sales factor gross receipts from transactions such as the sale of office furniture or business motor vehicles. A transaction qualifying as a casual sale as defined in section 237-1, HRS, and section 18-237-1, HAR, shall be considered an occasional transaction.

Where the income producing activity in respect to business income from intangible personal property can be readily identified, the income is included in the denominator of the sales factor and, if the income producing activity occurs in this State, in the numerator of the sales factor as well. For example, usually the income producing activity can be readily identified in respect to interest income received on deferred payments on sales of tangible property (section 18-235-35-01(a)(1), HAR) and income from the sale, licensing, or other use of intangible personal property (section 18-235-37-01(b)(4), HAR).

Where business income from intangible property cannot readily be attributed to any particular income producing activity of the taxpayer,

the income cannot be assigned to the numerator of the sales factor for any state and shall be excluded from the denominator of the sales factor. For example, where business income in the form of dividends received on stock, royalties received on patents or copyrights, or interest received on bonds, debentures, or government securities results from the mere holding of the intangible personal property by the taxpayer, the dividends and interest shall be excluded from the denominator of the sales factor. Income from a foreign affiliate as defined in section 18-235-38.5-02, HAR, including dividends from a foreign affiliate and interest paid on intercompany loans, shall be excluded from the denominator of the sales factor.

Where gains and losses on the sale of liquid assets are not excluded from the sales factor by other provisions under this section, such gains or losses shall be treated as provided in this subsection. This subsection does not provide rules relating to the treatment of other receipts produced from holding or managing such assets. If a taxpayer holds liquid assets in connection with one or more treasury functions of the taxpayer, and the liquid assets produce business income when sold, exchanged or otherwise disposed, the overall net gain from those transactions for each treasury function for the tax period is included in the sales factor. For purposes of this subsection, each treasury function will be considered separately, section 18-235-38-03, HAR.

Amounts received by a qualified high technology business as royalties and other income derived from patents, copyrights, and trade secrets owned by the qualified high technology business and developed and arising out of a qualified high technology business are excluded from Hawaii income. Expenses related to this income are deductible.