



## TAXATION IN HAWAII

# Franchise Tax (1/2)

Franchise tax is imposed by Hawaii Revised Statutes (HRS), on certain types of income of banks and other financial institutions. The tax is commonly referred to as the franchise tax and is in lieu of the income tax and general excise tax for these institutions. The rate of franchise tax is 7.92% and is measured by the entire net income from all sources of the income year.

## Entities that are subject to Franchise Tax are:

- National banking associations located in Hawaii
- Banks organized under the laws of the State of Hawaii
- Corporations engaged in banking business in the state
- Foreign banks operating in Hawaii
- Federal savings and loan associations located in Hawaii
- Building and loan associations
- Financial services loan companies
- Financial holding companies and savings & loan holding companies
- Mortgage loan originator companies
- Subsidiary corporations engaged in specific financial activities and majority-owned by certain financial entities
- Trust companies
- Certain financial corporations and interbank brokers
- Small business investment companies
- Development companies approved by the federal small business administration.



# Franchise Tax (2/2)

Form F1 is used to file the franchise tax. In case of calendar year corporation's returns shall be filed on or before April 20, following the close of the calendar year (income year).

The tax must be paid on or before the date prescribed for filing the return. However, the corporation may elect to pay the tax in four equal installments, as follows: For the calendar year corporation, the first installment is to be paid on April 20; the second on June 20; the third on September 20; and the fourth on December 20 following the income year.

- **Late Filing of Return** — The penalty for failure to file a return on time is assessed on the tax due at a rate of 5% per month, up to a maximum of 25%.
- **Failure to Pay Tax After Filing a Timely Return** — The penalty for failure to pay the tax after filing a timely return is 20% of the tax unpaid within 60 days of the prescribed due date.
- **Interest** — Interest at the rate of  $\frac{2}{3}$  of 1% per month, or part of a month, shall be assessed on unpaid taxes and penalties beginning with the first calendar day after the date prescribed for payment.



# Corporate Income Tax

Corporations, including C corporations and S corporations, that are doing business in Hawaii or have income derived from Hawaii sources are subject to corporate income tax in the state. Hawaii imposes a graduated tax rate structure for corporate income tax. The rates range from **4.4% to 6.4%**, depending on the corporation's taxable income.

## Due Date

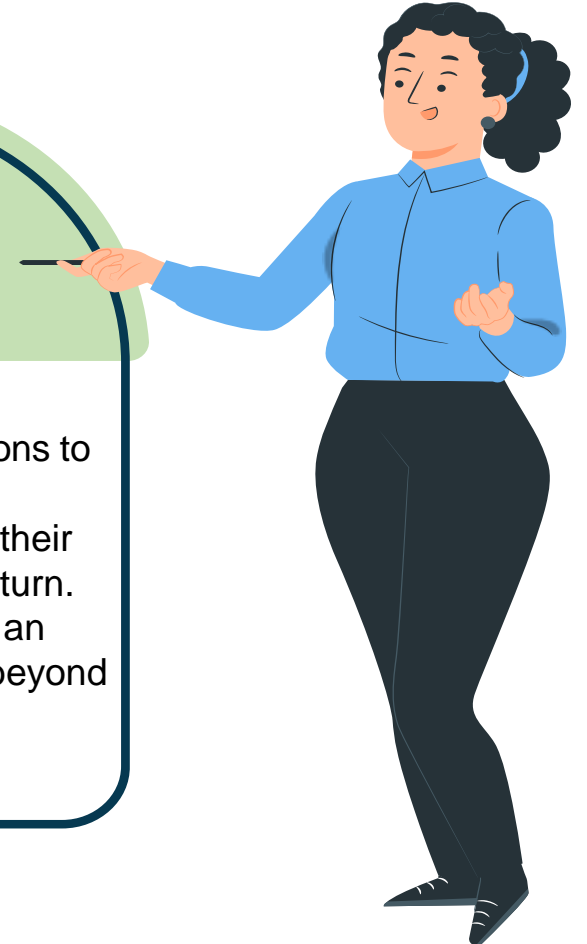
The due date for filing corporate income tax returns in Hawaii is generally the **20th day of the fourth month** following the close of the taxable year.

## Filing Requirements

Corporations in Hawaii are required to file the **Hawaii Corporation Income Tax Return**, which is **Form N-30**. This form is used to report the corporation's income, deductions, and tax liability.

## Extension

Hawaii allows corporations to request an automatic extension of time to file their corporate income tax return. The extension provides an additional **six months** beyond the original due date.



# Non - Corporate Income Tax (1/2)

S Corporations, Partnership LLCs (Limited Liability Companies), and LLPs (Limited Liability Partnerships) that have income derived from Hawaii sources or are doing business in Hawaii are subject to individual income tax in the state. For S Corporations, Partnership LLCs, and LLPs in Hawaii, the tax rates are not applied at the entity level. Instead, the income or losses of the entities "flow through" to the individual owners or partners, who report them on their individual income tax returns. The individual income tax rates for Hawaii individuals range from 1.4% to 11%, depending on the taxable income.

## Due Date

The due date for filing individual income tax returns for S Corporations, Partnership LLCs, and LLPs in Hawaii is generally the **20th day of the fourth month** following the close of the taxable year.

## Filing Requirements

S Corporations in Hawaii must file the Hawaii S Corporation Income Tax Return, which is **Form N-35**. Partnership LLCs and LLPs must file the Hawaii Partnership Return of Income, which is Form N-35.

## Extension

Hawaii allows S Corporations, Partnership LLCs, and LLPs to request an extension of time to file their individual income tax returns. The extension provides an additional **six months** to file the return.



# Estimated Payments & Interest and Penalty

## Estimated Tax Payment

If the corporation expects to have a tax liability of USD 500 on its tax return for the year, it shall submit Form N-201V with to the Department. Estimated payments are paid in four installments. Form N-201V can be filed and payment can be made electronically through the State's Internet portal. A corporation on a calendar year basis must pay the first installment, on or before April 20, the second installment on or before June 20, the third installment on or before September 20 of the tax year, and the fourth installment on or before January 20 of the year following the close of the calendar year.



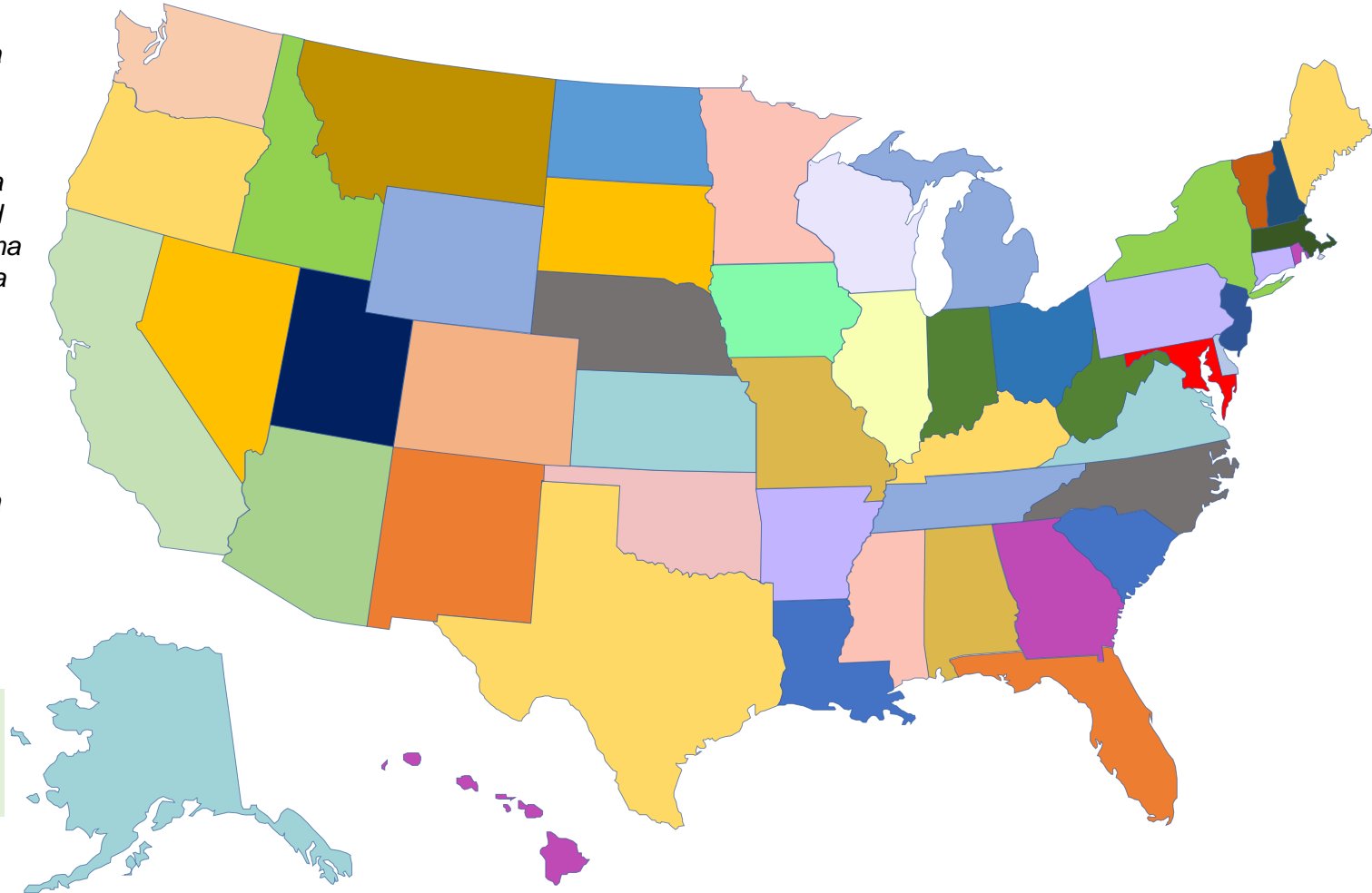
## Interest and Penalty Rates

- **Late Filing of Return** – The penalty for failure to file a return on time is assessed on the tax due at a rate of **5% per month**, or part of a month, up to a **maximum of 25%**.
- **Failure to Pay Tax After Filing Timely Return** – The penalty for failure to pay the tax after filing a timely return is **20%** of the tax unpaid within **60 days** of the prescribed due date.
- **Interest** at the rate of **2/3 of 1%** per month or part of a month shall be assessed on unpaid taxes and penalties beginning with the first calendar day after the date prescribed for payment, whether or not that first calendar day falls on a Saturday, Sunday, or legal holiday.

# Upcoming Series

Please find below the list of completed alerts from the series. In case you have missed the previous alerts, click on the hyperlink for the completed alerts to refer the same.

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