

STATE OF HAWAII - DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-354
ORGANIC FOODS PRODUCTION
TAX CREDIT

GENERAL INSTRUCTIONS

PURPOSE OF FORM

Use Form N-354 to figure and claim the organic foods production tax credit under section 235-110.94, Hawaii Revised Statutes (HRS).

WHO MAY CLAIM THIS CREDIT

For taxable years beginning AFTER December 31, 2016, and BEFORE December 31, 2021, each qualified taxpayer having qualified expenses to produce organic agriculture products that obtains a credit certificate issued by the Department of Agriculture may claim a nonrefundable organic foods production tax credit.

FLOW-THROUGH ENTITIES

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable shall be determined at the entity level. Distribution and share of the credit shall be determined by rule.

CREDIT REQUIREMENTS

The tax credit is equal to the qualified expenses of the qualified taxpayer, up to a maximum of \$50,000.

The total amount of tax credits allowed under this section shall not exceed \$2,000,000 for all qualified taxpayers in any taxable year; provided that any taxpayer who is not eligible to claim the credit in a taxable year due to the \$2,000,000 cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

To claim this credit, you must attach to your Hawaii income tax return:

- (1) Form N-354 (Complete Part II and attach.)
- (2) A completed Schedule CR (For tax returns for which Schedule CR is required.)
- (3) A completed Schedule K-1 (Required only if you are a member of a flow-through entity claiming a credit for the entity's organic foods production.)

If the credit exceeds the taxpayer's net income tax liability, the excess of credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

DEADLINE FOR CLAIMING THE CREDIT

The deadline to claim the credit, including amended claims, is 12 months after the close of your taxable year. You cannot claim or amend the credit after the deadline.

DEFINITIONS FOR PURPOSES OF THE CREDIT

"Organic Foods Production Act" means the federal Organic Foods Production Act of 1990, as amended (7 United States Code section 6501 et seq.).

"Organic system plan" has the same meaning as provided in 7 Code of Federal Regulations section 205.2.

"Qualified expenses" means expenses incurred by a qualified taxpayer to produce organically produced agricultural products, including expenses incurred to obtain organic certification from the United States Department of Agriculture, pursuant to the Organic Foods Production Act. "Qualified expenses" include:

- (1) Application fees;
- (2) Inspection costs;
- (3) Fees related to equivalency agreement/arrangement requirements, travel/per diem for inspectors, user fees, sales assessments, and postage; and

- (4) Costs for any equipment, materials, or supplies necessary for organic certification or production of agricultural products, in accordance with the qualified taxpayer's organic system plan and the organic production and handling requirements of the National Organic Program, codified at 7 Code of Federal Regulations part 205, subpart C, including but not limited to certified organic seed, cover crops, or animal feed.

"Qualified expenses" shall not include any amount refunded or to be refunded to the taxpayer by the United States Department of Agriculture's organic certification cost-share program or any other similar financial assistance program.

"Qualified taxpayer" means a producer, handler, or handling operation, as those terms are defined in title 7 United States Code section 6502:

- (1) That sells agriculture products in adherence to the standards and requirements of the Organic Foods Production Act;
- (2) That has applied for organic certification, in accordance with the requirements of the Organic Foods Production Act; and
- (3) Whose gross income from the sale of organically produced agricultural products for the most recently reported fiscal year totals no more than \$500,000.

CERTIFICATION OF CREDITS

Every qualified taxpayer shall submit a written, certified statement to the board of agriculture, before March 31 of each year identifying:

- (1) Qualified expenses incurred in the previous taxable year; and
- (2) The amount of the tax credit claimed by the taxpayer pursuant to this section, if any, in the previous taxable year.

The Department of Agriculture will issue a certificate to the taxpayer verifying the information submitted to the Department of Agriculture, including the amount of qualified expenses, the credit amount certified for each taxable year, and the cumulative amount of the tax credits certified. The taxpayer shall file the certificate with the taxpayer's tax return with the Department of Taxation. The Director of Taxation may audit and adjust the certification to conform to the facts.

To request a certificate to claim the Organic Foods Production Tax Credit, contact the Department of Agriculture at:

Department of Agriculture
Market Development Branch
1428 S. King Street
Honolulu, Hawaii 96814

Telephone: (808) 973-9595

Email: hdoa.md@hawaii.gov

Website: hdoa.hawaii.gov

SPECIFIC INSTRUCTIONS

Part II, Computation of Tax Credit

Line 2 - If you are claiming your share of the organic foods production tax credit from a partnership, S corporation, estate or trust, then enter the amount here. If you received a Schedule K-1 (Form N-20), enter the amount from line 29. If you received a Schedule K-1 (Form N-35), enter the amount from line 16n. If you received a Schedule K-1 (Form N-40), enter the amount from line 9c (Organic Foods Production Tax Credit). If you received a federal Form 1099-PATR, enter the appropriate amount. Also, enter the name and federal employer identification number of any flow-through entity that has passed the tax credit through to you.

Line 3. Total New Credit Claimed - This line is the total amount of organic foods production tax credit being claimed in the current tax year. Enter this amount on Schedule CR, line 25, in **Column (a)**.

- Form N-20 filers, enter the amount on line 3 on Form N-20, Schedule K; skip lines 4 through 10 and continue to Part III.
- Form N-35 filers, enter the amount on line 3 on Form N-35, Schedule K; skip lines 4 through 10; and continue to Part III.
- Form N-40 filers, enter the distributive share amount on Form N-40, Schedule K-1, for each beneficiary, otherwise, continue to line 4.
- All others continue to line 4.

Line 4 - This line is the carryover of unused organic foods production tax credit from the prior year.

Line 5 - Add lines 3 and 4. This is your tentative current year organic foods production tax credit.

Line 6 - Enter your adjusted tax liability.

- Form N-11 filers, enter the amount from Form N-11, line 34.
- Form N-15 filers, enter the amount from Form N-15, line 51.
- Form N-30 filers, enter the amount from Form N-30, line 13.

- Form N-40 filers, enter the amount from Form N-40, Schedule G, line 3.
- Form N-70NP filers, enter the amount from Form N-70NP line 18.

Line 7 - Certain other tax credits must be used to offset a taxpayer's tax liability before the organic foods production tax credit may be used. If you are claiming other nonrefundable tax credits, complete the **Credit Worksheet** below and enter the result on line 7. If you are not claiming any of the nonrefundable tax credits listed on the worksheet, enter zero on line 7.

Line 9. Total Credit Applied - Compare the amounts on lines 5 and 8 and enter the smaller amount, rounded to the nearest dollar, here and in **Column (b)** on Schedule CR, line 25. This is your maximum credit allowed for the taxable year.

Line 10. Unused Credit to Carryover - This represents your carryover of unused organic foods production tax credit which exceed your net income tax liability and may be used as a credit against your net income tax liability in subsequent years until exhausted. If this amount is more than zero, also enter it on Schedule CR, line 25, in **Column (c)**.

ORGANIC FOODS PRODUCTION TAX CREDIT WORKSHEET	
Tax Credit	Amount
a. Income Taxes Paid to Another State or Foreign Country	_____
b. Enterprise Zone Tax Credit	_____
c. Carryover of the Energy Conservation Tax Credit.....	_____
d. Credit for Employment of Vocational Rehabilitation Referrals	_____
e. Carryover of the Individual Development Account Contribution Tax Credit	_____
f. Credit for School Repair and Maintenance	_____
g. Carryover of the Renewable Energy Technologies Income Tax Credit (For Systems Installed and Placed In Service Before July 1, 2009).....	_____
h. Renewable Energy Technologies Income Tax Credit (Nonrefundable) ..	_____
i. Cesspool Upgrade, Conversion, or Connection Income Tax Credit....	_____

ORGANIC FOODS PRODUCTION TAX CREDIT WORKSHEET (CONTINUED)	
Tax Credit	Amount
j. Earned Income Tax Credit	_____
k. Healthcare Preceptor Tax Credit.....	_____
l. Historic Preservation Income Tax Credit.....	_____
m. Low Income Housing Tax Credit	_____
n. Carryover of the High Technology Business Investment Tax Credit	_____
o. Carryover of the Technology Infrastructure Renovation Tax Credit	_____
p. Carryover of the Residential Construction and Remodeling Tax Credit.....	_____
q. Carryover of the Hotel Construction and Remodeling Tax Credit.....	_____
r. Capital Infrastructure Tax Credit	_____
s. Renewable Fuels Production Tax Credit.....	_____
t. Add lines a through s. Enter the amount here and on Part II, line 6.....	=====