

# 2023 Instructions for Form N-66

(Rev. 2023)

## Real Estate Mortgage Investment Conduit Income Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

### General Instructions

**Purpose of Form.**—Form N-66 is used to report the income, deductions, and gains and losses from the operation of a real estate mortgage investment conduit (REMIC).

**Website:**  
[tax.hawaii.gov](http://tax.hawaii.gov)

**Where to Get Forms and Tax Information.**—Hawaii tax forms, instructions, and schedules may be obtained at any taxation district office or from the Department of Taxation's (Department) website or you may contact a customer service representative at:

Telephone: 808-587-4242  
Toll-Free: 1-800-222-3229

For the hearing impaired:

808-587-1418  
Toll-Free: 1-800-887-8974

**Who Must File.**—An entity that elects to be treated as a REMIC for its first tax year (and for which the election is still in effect) and that meets the requirements of section 860D(a) must file Form N-66.

A REMIC is any entity—

- to which an election to be treated as a REMIC applies for the tax year and all prior tax years,
- where all of the interests are regular interests or residual interests,
- that has one (and only one) class of residual interests (and all distributions, if any, with respect to such interests are pro rata),
- where as of the close of the 3rd month beginning after the startup day and at all times thereafter, substantially all of the assets consist of qualified mortgages and permitted investments,
- that has a tax year that is a calendar year, and
- if the entity has a startup day after March 31, 1988 (unless the entity is formed under a binding written contract in effect on that date), with respect to which there are reasonable arrangements designed to ensure that: (i) residual interests are not held by disqualified organizations (as defined in section 860E(e)(5)), and (ii) information necessary for the application of section 860E(e) will be made available by the entity.

See section 860G for definitions and special rules. See section 860D(a) for qualification as a REMIC during a qualified liquidation.

**Making the Election.**—The election to be treated as a REMIC is made by timely filing,

the first tax year of its existence, a Form N-66 signed by an authorized person. Once the election is made, it stays in effect for all years until it is terminated.

**First Tax Year.**—For the first year of a REMIC's existence, the REMIC must furnish in a separate statement attached to the REMIC's initial return the following:

- information concerning the terms of the regular interests and the designated residual interest of the REMIC, or a copy of the offering circular or prospectus containing such information, and
- a description of the prepayment and reinvestment assumptions made in accordance with section 1272(a)(6) and the regulations thereunder, including documentation supporting the selection of the prepayment assumption.

**Termination of Election.**—If any entity ceases to be a REMIC at any time during the tax year, the election to be a REMIC terminates for such year and all succeeding years. An entity is considered to cease being a REMIC when it no longer meets the requirements of section 860D(a). For the tax year the entity ceased to qualify as a REMIC and for all future years, you must file the tax form for similarly organized entities (corporations, partnerships, trusts, etc.).

**When to File.**—A REMIC must file Form N-66 by the 20th day of the fourth month following the close of its tax year.

However, if 2023 is the entity's final return, Form N-66 is due by the 20th day of the fourth month following the date the REMIC ceased to exist.

The official U.S. Post Office cancellation mark will be considered primary evidence of the date of filing of tax documents and payments.

Hawaii has adopted the Internal Revenue Code provision to allow documents and payments delivered by a designated private delivery service to qualify for the "timely mailing treated as timely filing/paying rule." The Department will conform to the Internal Revenue Service listing of designated private delivery service and type of delivery services qualifying under this provision. Timely filing of mail which does not bear the U.S. Post Office cancellation mark or the date recorded or marked by the designated delivery service will be determined by reference to other competent evidence. The private delivery service can tell you how to get written proof of the mailing date.

**Six month automatic extension of time to file.** Section 18-235-98, Hawaii Administrative Rules, allows an automatic extension of time to file a return without filing an application for ex-

ension. This extension does not include an extension of time to pay. File Form N-201V, Business Income Tax Payment Voucher, to make a payment (if applicable). File Form N-201V by the regular due date of the return.

Federal Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns, may not be used in lieu of Form N-201V. Form N-201V may be filed and payment made electronically through the State's Internet portal. For more information, go to [hitax.hawaii.gov](http://hitax.hawaii.gov).

**Period Covered.**—File the 2023 return for:

- Calendar year 2023,
- Short tax years beginning and ending in 2023, or
- Short tax years beginning and ending in 2024, if the 2024 Form N-66 is not available by the time the REMIC is required to file its return. However, the REMIC must show its 2024 tax year on the 2023 Form N-66 and incorporate any tax law changes that are effective for tax years beginning after December 31, 2023.

**Note:** *In the case of 2 or 3 above, fill in the tax year space at the top of the form.*

**Where to File.**—File Form N-66 with the Hawaii Department of Taxation, P.O. Box 3559, Honolulu, Hawaii 96811-3559.

**Accounting Method.**—A REMIC must compute its taxable income (or net loss) using the accrual method of accounting. See section 860C(b).

Under the accrual method, an amount is includible in income when:

- All the events have occurred that fix the right to receive the income, which is the earliest of the date: (a) the required performance takes place, (b) payment is due, or (c) payment is received and
- The amount can be determined with reasonable accuracy.

See Treasury Regulation section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year when:

- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the

related regulations for the rules for determining when economic performance takes place.

**Rounding Off to Whole Dollars.**—The Department is requiring taxpayers to round off cents to the nearest whole dollar for all dollar entries on the tax return and schedules. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example: \$1.39 becomes \$1 and \$2.69 becomes \$3. If you have to add two or more amounts to figure the amount to enter on a line, schedule, or worksheet, you may choose to use one of two methods. Once a method of rounding is established, you must use the same method throughout the return. The first method is to include the cents when adding and round off only the total. The other method is to round off each entry. For example: You received two 1099-INT forms, one showing interest of \$50.55 and one showing interest of \$185.73. For rounding method 1, show your total interest as \$236 (\$50.55 + \$185.73 = \$236.28 rounded to \$236). For rounding method 2, show your total interest as \$237 (\$50.55 rounded to \$51 + \$185.73 rounded to \$186 = \$51 + \$186 = \$237).

**Recordkeeping.**—The REMIC records must be kept as long as their contents may be material in the administration of any Hawaii Income Tax Law. Copies of the filed tax returns should also be kept as part of the REMIC's records. See federal Pub. 583, Starting a Business and Keeping Records, for more information.

**Final Return.**—If the REMIC ceases to exist during the year, check the box at Item D(1), page 1, Form N-66.

Schedule Q (Form N-66), Quarterly Notice to Residual Interest Holder of REMIC Taxable Income or Net Loss Allocation, Box D(1) should be checked to indicate when the schedule is for the final quarter of the year.

**Amended Return.**—If after the REMIC files its return, and later becomes aware of any changes to income, deductions, etc., the REMIC should file an amended:

- Form N-66 and check the box at Item D(3), page 1 and complete and attach Schedule AMD, Explanation of Changes on Amended Return, to the amended Form N-66.
- Schedule Q (Form N-66), for each residual interest holder, and check the box at Item D(2). Give corrected Schedules Q (Form N-66) to each residual interest holder.

**Note:** *If a REMIC does not meet the small REMIC exception under sections 860F(e), 6231, and the Treasury Regulation thereunder, or if a REMIC makes the election described in section 6231(a)(1)(B)(ii) not to be treated as a small REMIC, the amended return will be a request for administrative adjustment, and federal Form 1065X, Amended Return or Administrative Adjustment Request (AAR), must be filed by the Tax Matters Person. See sections 860F(e) and 6227 for more information.*

## Information Returns That May Be Required

**Form N-196,** Annual Summary and Transmittal of Hawaii Information Returns. Use this form to summarize and send information returns to the Department.

**Federal Forms 1099-INT, MISC, OID, and R.** You may have to file these information returns to report interest income, miscellaneous income payments, original issue discount and distributions from pensions, annuities, retire-

ment or profit-sharing plans, individual retirement arrangements (IRAs), insurance contracts, etc. Also, use these returns to report amounts that were received as a nominee on behalf of another person.

**Note:** *A REMIC must file federal Forms 1099-INT and 1099-OID, as appropriate, to report accrued income of \$10 or more of regular interest holders (including corporate regular interest holders). Also, every REMIC must file information returns if, in the course of its trade or business during the calendar year, it makes payments of rents, commissions, or other fixed or determinable income totaling \$600 or more to any one person.*

**Assembling the Return.**—If you need more space on the forms or schedules, attach separate sheets. Use the same arrangement as the printed forms, and **show the totals on the printed forms.** Be sure to put the REMIC's name and federal employer identification number on each sheet. Also, each separate sheet should clearly indicate the line or section on the printed form to which the information relates.

Please complete every applicable entry space on Form N-66. Do not attach statements and write "See Attached" in lieu of completing the entry space on this form.

**Contributions to the REMIC.**—Generally, no gain or loss is recognized by the REMIC or any of the regular or residual interest holders when property is transferred to the REMIC in exchange for an interest in the REMIC. The adjusted basis of the interest received equals the adjusted basis of the property transferred to the REMIC.

The basis to the REMIC of property transferred by a regular or residual interest holder is its fair market value immediately after its transfer.

If the transferor holds a regular interest and if the issue price of the regular interest exceeds its adjusted basis, the excess is included in income by the regular interest holder as accrued market discount for the tax years to which it is attributable under the rules of section 1278(b). If the transferor holds a residual interest and if the issue price of a regular interest exceeds its adjusted basis, the excess is amortized and included in the residual interest holder's income ratably over the anticipated weighted average life of the REMIC (as defined in Treasury Regulation section 1.860E-1(a)(3)(iv)).

If the transferor holds a regular interest and if the adjusted basis of a regular interest exceeds its issue price, the regular interest holder treats the excess as amortizable bond premium subject to the rules of section 171. If the transferor holds a regular interest and if the adjusted basis of a regular interest exceeds its issue price, the excess is deductible ratably over the weighted average life of the REMIC (as defined in Treasury Regulation section 1.860E-1(a)(3)(iv)).

## Signatures

**REMIC with a startup day after November 9, 1988.**—For a REMIC with a startup day after November 9, 1988, Form N-66 may be signed by any person who could sign the return of the entity in the absence of the REMIC election. Thus, the return of a REMIC which is a corporation or trust would be signed by a corporate officer or trustee, respectively. For REMICs which consist of segregated pools of assets, the returns would be signed by any person who could sign the return of the entity which owns assets of the REMIC under applicable State law.

**REMIC with a startup day before November 10, 1988.**—A REMIC with a startup day before November 10, 1988, may elect to apply the rules for REMICs with a startup day after November 9, 1988. Otherwise, Form N-66 must be signed by a residual interest holder or by a fiduciary who is acting for the REMIC and who has furnished adequate notice.

**Note:** *For this purpose, the term "startup day" means any day selected by a REMIC that is on or before the first day on which interests in such REMIC are issued. Otherwise, "startup day" is defined in the instructions for Item B below.*

**Paid Preparer's Information.**—If someone prepares the return and does not charge the REMIC, that person should not sign the REMIC return.

Generally, anyone who is paid to prepare the REMIC return must sign the return and fill in the other blanks in the **Paid Preparer's Use Only** area of the return. The preparer may furnish his or her alternative identifying number for income tax return preparers (PTIN) instead of his or her social security number.

*The preparer required to sign the REMIC's return must complete the required preparer information and:*

- Sign in the space provided for the preparer's signature.
- Give the REMIC a copy of the return in addition to the copy to be filed with the Department.

The REMIC may authorize the Department to discuss its tax return with its paid preparer by checking the "Yes" box above the paid preparer's identification number. You are authorizing the Department to call your paid preparer to answer any questions that may arise during the processing of your tax return. This does not allow your paid preparer to call the Department for information about the processing of your return or for other issues relating to your return.

**Note:** *This is not a full power of attorney and does not replace Form N-848.*

## Specific Instructions

### Form N-66

**Name, Mailing Address, and Federal Employer Identification Number.**—Print or type the REMIC's legal name and mailing address on the appropriate lines.

If the REMIC's mailing address is outside the United States or its possessions or territories, enter the information on the line for "City or town, state, and postal/ZIP code" in the following order: city, province or state, postal code, and the name of the country. **Do not** abbreviate the country name.

If your mailing address has changed, you must notify the Department of the change by completing Form ITPS-COA, Change of Address Form, or log in to your Hawaii Tax Online account at [hitax.hawaii.gov](http://hitax.hawaii.gov). Failure to do so may prevent your address from being updated, any refund due to you from being delivered (the U.S. Postal Service is not permitted to forward your State refund check), and delay important notices or correspondence to you regarding your return.

**Note:** *Each REMIC must have its own federal employer identification number.*

Enter the federal employer identification number (FEIN) in Item A on page 1 of Form N-66. If the REMIC does not have a FEIN, it

must apply for one by filing federal Form SS-4, Application for Employer Identification Number. If the FEIN has not been received by the filing time for Form N-66, write "Applied For" in the space for the FEIN. See federal Pub. 583 for more information.

**Item B. Date REMIC Started.**—Enter the "startup day" selected by the REMIC as defined in section 860G(a)(9).

The startup day is the day on which the REMIC issued all of its regular and residual interests. However, a sponsor may contribute property to a REMIC in exchange for regular and residual interests over any period of 10 consecutive days and the REMIC may designate any one of those 10 days as the startup day. The day so designated is then the startup day, and all interests are treated as issued on that day.

**Item C. Total Assets at End of Tax Year.**—Enter the total assets of the REMIC. If there are no assets at the end of the tax year, enter zero.

**Item E. Hawaii Tax I.D. No.**—Enter the REMIC's Hawaii Tax I.D. No.

## Section I

**Line 1. Taxable Interest.**—Enter the total taxable interest. "Taxable interest" is interest that is included in ordinary income from all sources except interest exempt from tax and interest on tax-free covenant bonds. You may elect to reduce the amount of interest accrued on taxable bonds by the amount of amortizable bond premium on those bonds attributable to the current tax year. See sections 171(c) and 171(e) for details.

**Line 2. Accrued Market Discount Under Section 860C(b)(1)(B).**—Enter the amount of market discount attributable to the current tax year determined on the basis of a constant interest rate under the rules of section 1276(b)(2).

**Line 4. Ordinary Gain (or Loss).**—Enter the net gain (or loss) from line 19, Part II, Schedule D-1.

**Line 5. Other Income.**—Enter any other taxable income not listed above and explain its nature on an attached schedule. If the REMIC issued regular interests at a premium, the net amount of such premium is income that must be prorated over the term of such interests. Include such income on this line.

REMICs with a start-up date before November 12, 1991, enter any capital gain or (loss) on line 5. Attach the schedule or statement to Form N-66.

**Deductions. (Lines 7-14).**—Do not include any nondeductible amounts on lines 7-14. A REMIC is not allowed the following deductions in computing its taxable income:

1. The net operating loss deduction;
2. The deduction for taxes paid or accrued to foreign countries and U.S. possessions;
3. The deduction for charitable contributions;
4. The deduction for depletion under section 611 for oil and gas wells; and
5. Losses or deductions allocable to prohibited transactions.

**Line 9. Amount Accrued to Regular Interest Holders in the REMIC That is Deductible as Interest.**—Regular interests in the REMIC are treated as indebtedness for federal income tax purposes. Enter the amount of interest, including original issue discount, paid or accrued to regular interest holders for the tax year. Do

not deduct any amounts paid or accrued with respect to residual interests in the REMIC.

**Line 10. Other Interest.**—Do not include interest deducted on line 9 or interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. You may elect to include amortization of bond premium on taxable bonds acquired before 1988 unless you elected to offset amortizable bond premium against the interest accrued on the bond (see the Section I, line 1, instructions). Do not include any amount attributable to a tax-exempt bond.

**Line 11. Taxes.**—Enter taxes paid or accrued during the tax year, but do not include the following:

1. Federal income taxes (except the tax on net income from foreclosure property);
2. Foreign or U.S. possession income taxes;
3. Taxes not imposed on the REMIC; or
4. Taxes, including State or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

**Note:** *If you have to pay tax on net income from foreclosure property, you should include this tax (from line 10 of federal Form 1066, Schedule J) here on line 11.*

See section 164(d) for apportionment of taxes on real property between the seller and purchaser.

**Line 12. Depreciation from Federal Form 4562.**—Complete and attach federal Form 4562.

**Note:** *Hawaii did not adopt the federal provisions for bonus depreciation and the increased section 179 deduction.*

If a depreciation deduction is claimed for Hawaii tax purposes, the REMIC must: (a) complete a federal Form 4562 for Hawaii tax purposes, and (b) attach the completed federal Form 4562 to the Hawaii tax return. The REMIC must also keep records of the differences in the asset's depreciable basis for federal and Hawaii tax purposes.

**Line 13. Other Deductions.**—Enter any other allowable deductions for which no line is provided on Form N-66.

## Designation of Tax Matters Person (TMP)

A REMIC may designate a tax matters person in the same manner in which a partnership may designate a tax matters partner under Treasury Regulation section 301.6231(a)(7)-1. For purposes of applying that section, all holders of a residual interest in the REMIC are treated as general partners. The designation may be made by completing the Designation of Tax Matters Person section on page 2 of Form N-66.

## Additional Information

Be sure to answer the questions and provide other information in items F through J. The instructions that follow are keyed to these items.

**Item F. Type of Entity.**—Check the box for the type of entity that the REMIC is recognized as under State law. If the REMIC is not a separate entity under State law, check the box for "Segregated Pool of Assets," and state the name

and type of entity which owns the assets in the spaces provided.

**Item G. Number of Residual Holders.**—Enter the number of persons who were residual holders at any time during the tax year.

**Item J. Sum of the Daily Accruals.**—Enter the sum of the daily accruals for all residual interests for the calendar year. See section 860E(c)(2) for details.

## Schedule L

### Balance Sheets per Books

The amounts shown should agree with the REMIC's books and records. Attach a statement explaining any differences.

**Line 1a. Cash flow investments** are any investments of amounts received under qualified mortgages for a temporary period (not more than 13 months) before distribution to holders of interests in the REMIC.

**Line 1b. Qualified reserve assets** include any intangible property which is held for investment and as part of a qualified reserve fund. For a definition of qualified reserve fund, including exceptions, see sections 860G(a)(7)(B) and (C).

**Line 1c. Foreclosure property** is any real property (including interests in real property), and any personal property incident to such real property, acquired by the REMIC as a result of the REMIC's having bid in the property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or imminent default on a qualified mortgage held by the REMIC. Generally, this property ceases to be foreclosure property at the close of the third tax year following the tax year in which the REMIC acquired the property. See sections 860G(a)(8), 856(e), and Treasury Regulation section 1.856-6 for additional information.

**Note:** *Solely for purposes of section 860D(a), the determination of whether any property is foreclosure property will be made without regard to section 856(e)(4).*

**Line 7. Regular interests** are interests in the REMIC that are issued on the startup day with fixed terms and that are designated as regular interests, if:

- (1) such interest unconditionally entitles the holder to receive a specified principal amount or other similar amounts; and
- (2) interest payments (or other similar amounts), if any, with respect to the interest at or before maturity are payable based on a fixed rate (or to the extent provided in regulations, at a variable rate), or consist of a specified portion of the interest payments on qualified mortgages and this portion does not vary during the period that the interest is outstanding.

The interest will meet the requirements of subparagraph (1) even if the timing (but not the amount) of the principal payments (or other similar amounts) is contingent on the extent of prepayments on qualified mortgages and the amount of income from permitted investments.

An interest will still qualify as a regular interest even if the specified principal amount of the regular interest (or the amount of interest accrued on the regular interest) can be reduced as a result of the nonoccurrence of 1 or more contingent payments with respect to any reverse mortgage loan held by the REMIC if, on the startup day for the REMIC, the sponsor rea-

sonably believes that all principal and interest due under the regular interest will be paid at or prior to the liquidation of the REMIC.

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## Schedule M

### Reconciliation of Residual Interest Holders' Capital Accounts

Show what caused the changes in the residual interest holders' capital accounts during the tax year.

The amounts shown should agree with the REMIC's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Include in column (d) tax-exempt interest income, other tax-exempt income, income from prohibited transactions, income recorded on the REMIC's books but not included on this return, and allowable deductions not charged against book income this year.

Include in column (e) capital losses in excess of the \$3,000 limitation, other nondeductible amounts (such as losses from prohibited transactions and expenses connected with the production of tax-exempt income), deductions allocable to prohibited transactions, expenses recorded on books not deducted on this return, and taxable income not recorded on books this year.

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## Schedule Q

### Quarterly Notice to Residual Interest Holder of REMIC Taxable Income or Net Loss Allocation

Attach a separate Copy A, Schedule Q (Form N-66), to Form N-66 for each person who was a residual interest holder at any time during the tax year and for each quarter in which such person was a residual holder.

Although the REMIC is not subject to income tax, the residual interest holders are liable for tax on their shares of the REMIC's taxable income, whether or not distributed, and must include their shares on their tax returns.