

# Instructions For Form N-168

## Income Averaging for Farmers and Fishermen

### GENERAL INSTRUCTIONS

Use Form N-168 to elect to figure your 2008 tax by averaging, over the previous 3 years (base years), all or part of your 2008 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2008 income from farming or fishing is high and your taxable income for one or more of the 3 prior years was low.

In order to qualify for this election, you are not required to have been in the business of farming or fishing during any of the base years.

You may elect to average farming or fishing income even if your filing status was not the same in the election year and the base years.

You do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

You may need copies of your original or amended Forms N-11, N-12, or N-15 that you filed for 2005, 2006, and 2007 to figure your tax on Form N-168. If you do not have copies of those returns, you can get them by filing Form L-72, Request for Copies of Income Tax Return. Form L-72 may be obtained from any district tax office, by fax or mail, or via the Internet at:

[www.hawaii.gov/tax](http://www.hawaii.gov/tax)

### Definitions

**Farming Business.** A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

1. Operating a nursery or sod farm;
2. Raising or harvesting of trees bearing fruits, nuts, or other crops;
3. Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);
4. Raising, shearing, feeding, caring for, training, and managing animals; and
5. Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are (a) based on a share of the tenant's production (not a fixed amount), and (b) determined under a written agreement entered into before the tenant begins significant activities on the land.

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else, or
- Merely buying or reselling plants or animals grown or raised by someone else.

**Fishing Business.** A fishing business is the trade or business of fishing in which the fish harvested, either in whole or in part, are intended to enter commerce or enter commerce through sale, barter, or trade. This includes:

1. The catching, taking, or harvesting of fish;
2. The attempted catching, taking or harvesting of fish;
3. Any other activity which can reasonably be expected to result in the catching, taking, or harvesting of fish; or
4. Any operations at sea in support of, or in preparation for, any activity described in (1) through (3) above.

The word fish means finfish, mollusks, crustaceans, and all other forms of marine animal and plant life other than marine mammals and birds.

A fishing business does not include any scientific research activity which is conducted by a scientific research vessel.

### SPECIFIC INSTRUCTIONS

**Line 2** — To figure your **electd farm income**, first figure your taxable income from farming or fishing. This includes all income, gains, losses, and deductions attributable to any farming or fishing business. Include the deduction for one-half of self-employment tax only to the extent that deduction is attributable to your farming or fishing business. However, it does not include gain from the sale or other disposition of land.

Generally, income, gains, losses, and deductions from farming or fishing are reported on:

- Form N-11 or N-15, income from wages and other compensation you received as a shareholder in an S corporation engaged in a farming or fishing business;
- Federal Schedule C or C-EZ;
- Capital Gain/Loss Worksheet in the Form N-15 instruction booklet;
- Federal Schedule E, Part II;
- Federal Schedule F;
- Schedule D-1; and
- Federal Form 4835.

Your **electd farm income** is the amount of your taxable income from farming or fishing that you elect to include on line 2. You do not have to include all of your taxable income from farming or fishing on line 2. It may be to your advantage to include less than the full amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your **electd farm income** cannot exceed your taxable income. Also, the portion of your **electd farm income** treated as a net capital gain cannot exceed the **smaller** of your total net capital gain or your net capital gain attributable to your farming or fishing business. If your **electd farm income** includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, **do not** reduce the **electd farm income** allocated to that base year by any part of the carryover.

**Line 4** — Figure the tax on the amount on line 3 using the 2008 Tax Table, Tax Rate Schedules, or Capital Gains Tax Worksheet from your 2008 Form N-11 or Form N-15 instruction booklet. Enter the tax on line 4.

**Line 5** — If you used Form N-168 to figure your tax for 2007 (that is, you entered the amount from the 2007 Form N-168, line 22, on your 2007 Form N-11, line 26 or Form N-15, line 44), enter on line 5 the amount from your 2007 Form N-168, line 11. If you used Form N-168 to figure your tax for 2006 but not 2007, enter on line 5 the amount from your 2006 Form N-168, line 15. If you used Form N-168 to figure your tax for 2005 but not 2006 or 2007, enter on line 5 the amount from your 2005 Form N-168, line 3.

If you figured your tax for 2005, 2006, and 2007 without using Form N-168, enter on line 5 the taxable income from your 2005 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 5.

If you did not file a tax return for 2005, use the amount you would have reported as your taxable income had you been required to file a tax return.

**Line 8** — If line 7 is zero, enter zero on line 8. Otherwise, figure the tax on the amount on line 7 using either the 2005 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 2 of the instructions.

**Line 9** — If you used Form N-168 to figure your tax for 2007 (that is, you entered the amount from the 2007 Form N-168, line 22, on your 2007 Form N-11, line 26 or Form N-15, line 44), enter on line 9 the amount from your 2007 Form N-168, line 15. If you used Form N-168 to figure your tax for 2006 but not 2007, enter on line 9 the amount from your 2006 Form N-168, line 3.

If you figured your tax for both 2006 and 2007 without using Form N-168, enter on line 9 the taxable income from your 2006 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 9.

If you did not file a tax return for 2006, use the amount you would have reported as your taxable income had you been required to file a tax return.

**Line 12** — If line 11 is zero or less, enter zero on line 12. Otherwise, figure the tax on the amount on line 11 using either the 2006 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 2 of the instructions.

**Line 13** — If you used Form N-168 to figure your tax for 2007 (that is, you entered the amount from the 2007 Form N-168, line 22, on your 2007 Form N-11, line 26 or Form N-15, line 44), enter on line 13 the amount from your 2007 Form N-168, line 3.

If you did not use Form N-168 to figure your tax for 2007, enter on line 13 the taxable income from your 2007 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if that amount is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 13.

If you did not file a tax return for 2007, use the amount you would have reported as your taxable income had you been required to file a tax return.

**Line 16** — If line 15 is zero or less, enter zero on line 16. Otherwise, figure the tax on the amount on line 15 using either the 2007 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 3 of the instructions.

**Lines 18, 19, and 20** — If you used Form N-168 to figure your tax for 2007, enter the amount from the appropriate lines of that Form N-168 on lines 18, 19, and 20. If you used Form N-168 to figure your tax for 2006 but not 2007, enter the amount from the appropriate lines of your 2006 Form N-168 on lines 18 and 19. If you used Form N-168 for 2005 but not 2006 or 2007, enter the amount from line 4 of your 2005 Form N-168 on line 18. Otherwise, enter your tax for the applicable year. If you amended your return or the State Department of Taxation made changes to it, enter the corrected amount. Do not include any amount from Forms N-2, N-103, N-152, N-312, N-318, N-338, N-405, N-586, or N-814.

### Tax Rate Schedules for Years 2005 and 2006

#### Schedule I – Use if your filing status is Single or Married Filing Separately

If your taxable income is:	Your tax is:
Not over \$2,000 .....	1.40% of taxable income
Over \$2,000 but not over \$4,000 .....	\$ 28 plus 3.20% over \$2,000
Over \$4,000 but not over \$8,000 .....	92 plus 5.50% over \$4,000
Over \$8,000 but not over \$12,000 .....	312 plus 6.40% over \$8,000
Over \$12,000 but not over \$16,000 .....	568 plus 6.80% over \$12,000
Over \$16,000 but not over \$20,000 .....	840 plus 7.20% over \$16,000
Over \$20,000 but not over \$30,000 .....	1,128 plus 7.60% over \$20,000
Over \$30,000 but not over \$40,000 .....	1,888 plus 7.90% over \$30,000
Over \$40,000 .....	2,678 plus 8.25% over \$40,000

#### Schedule II – Use if your filing status is Married Filing Jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000 .....	1.40% of taxable income
Over \$4,000 but not over \$8,000 .....	\$ 56 plus 3.20% over \$4,000
Over \$8,000 but not over \$16,000 .....	184 plus 5.50% over \$8,000
Over \$16,000 but not over \$24,000 .....	624 plus 6.40% over \$16,000
Over \$24,000 but not over \$32,000 .....	1,136 plus 6.80% over \$24,000
Over \$32,000 but not over \$40,000 .....	1,680 plus 7.20% over \$32,000
Over \$40,000 but not over \$60,000 .....	2,256 plus 7.60% over \$40,000
Over \$60,000 but not over \$80,000 .....	3,776 plus 7.90% over \$60,000
Over \$80,000 .....	5,356 plus 8.25% over \$80,000

#### Schedule III – Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000 .....	1.40% of taxable income
Over \$3,000 but not over \$6,000 .....	\$ 42 plus 3.20% over \$3,000
Over \$6,000 but not over \$12,000 .....	138 plus 5.50% over \$6,000
Over \$12,000 but not over \$18,000 .....	468 plus 6.40% over \$12,000
Over \$18,000 but not over \$24,000 .....	852 plus 6.80% over \$18,000
Over \$24,000 but not over \$30,000 .....	1,260 plus 7.20% over \$24,000
Over \$30,000 but not over \$45,000 .....	1,692 plus 7.60% over \$30,000
Over \$45,000 but not over \$60,000 .....	2,832 plus 7.90% over \$45,000
Over \$60,000 .....	4,017 plus 8.25% over \$60,000

### Tax on Capital Gains Worksheet for Years 2005 and 2006

1. Enter your taxable income..... \_\_\_\_\_
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)..... \_\_\_\_\_
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured) .....
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain..... \_\_\_\_\_
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured) .....
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured) .....
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain .....
8. Enter the **smaller** of line 4 or line 7..... \_\_\_\_\_
9. If you filed Form N-158, enter the amount from line 4e of Form N-158 .....
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above..... \_\_\_\_\_
11. Line 1 minus line 10 .....
12. Enter the amount shown below for the filing status you claimed..... \_\_\_\_\_  
 Single or Married filing separately— \$20,000  
 Married filing jointly or Qualifying widow(er)— 40,000  
 Head of household— 30,000
13. Enter the **greater** of line 11 or line 12 .....
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax..... \_\_\_\_\_
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above. ....
16. Multiply line 14 by 7.25% (.0725) and enter the result..... \_\_\_\_\_
17. Line 15 plus line 16 .....
18. Compute the tax on the amount on line 1. Use the Tax Rate Schedules shown above..... \_\_\_\_\_
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168 .....

**Note:** If you filed Form N-15 for 2005 or 2006, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2005 or 2006 should be completed using amounts from Column B of your 2005 or 2006 Form N-15.

**Tax Rate Schedules for Year 2007**

**Schedule I – Use if your filing status is Single or Married Filing Separately**

If your taxable income is:	Your tax is:
Not over \$2,400 .....	1.40% of taxable income
Over \$2,400 but not over \$4,800 .....	\$ 34 plus 3.20% over \$2,400
Over \$4,800 but not over \$9,600 .....	110 plus 5.50% over \$4,800
Over \$9,600 but not over \$14,400 .....	374 plus 6.40% over \$9,600
Over \$14,400 but not over \$19,200 .....	682 plus 6.80% over \$14,400
Over \$19,200 but not over \$24,000 .....	1,008 plus 7.20% over \$19,200
Over \$24,000 but not over \$36,000 .....	1,354 plus 7.60% over \$24,000
Over \$36,000 but not over \$48,000 .....	2,266 plus 7.90% over \$36,000
Over \$48,000 .....	3,214 plus 8.25% over \$48,000

**Schedule II – Use if your filing status is Married Filing Jointly or Qualifying Widow(er)**

If your taxable income is:	Your tax is:
Not over \$4,800 .....	1.40% of taxable income
Over \$4,800 but not over \$9,600 .....	\$ 67 plus 3.20% over \$4,800
Over \$9,600 but not over \$19,200 .....	221 plus 5.50% over \$9,600
Over \$19,200 but not over \$28,800 .....	749 plus 6.40% over \$19,200
Over \$28,800 but not over \$38,400 .....	1,363 plus 6.80% over \$28,800
Over \$38,400 but not over \$48,000 .....	2,016 plus 7.20% over \$38,400
Over \$48,000 but not over \$72,000 .....	2,707 plus 7.60% over \$48,000
Over \$72,000 but not over \$96,000 .....	4,531 plus 7.90% over \$72,000
Over \$96,000 .....	6,427 plus 8.25% over \$96,000

**Schedule III – Use if your filing status is Head of Household**

If your taxable income is:	Your tax is:
Not over \$3,600 .....	1.40% of taxable income
Over \$3,600 but not over \$7,200 .....	\$ 50 plus 3.20% over \$3,600
Over \$7,200 but not over \$14,400 .....	166 plus 5.50% over \$7,200
Over \$14,400 but not over \$21,600 .....	562 plus 6.40% over \$14,400
Over \$21,600 but not over \$28,800 .....	1,022 plus 6.80% over \$21,600
Over \$28,800 but not over \$36,000 .....	1,512 plus 7.20% over \$28,800
Over \$36,000 but not over \$54,000 .....	2,030 plus 7.60% over \$36,000
Over \$54,000 but not over \$72,000 .....	3,398 plus 7.90% over \$54,000
Over \$72,000 .....	4,820 plus 8.25% over \$72,000

**Tax on Capital Gains Worksheet for Year 2007**

1. Enter your taxable income..... \_\_\_\_\_
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)..... \_\_\_\_\_
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured) .....
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain..... \_\_\_\_\_
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured) .....
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured) .....
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain .....
8. Enter the **smaller** of line 4 or line 7..... \_\_\_\_\_
9. If you filed Form N-158, enter the amount from line 4e of Form N-158 .....
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above..... \_\_\_\_\_
11. Line 1 minus line 10 .....
12. Enter the amount shown below for the filing status you claimed..... \_\_\_\_\_  
 Single or Married filing separately— \$24,000  
 Married filing jointly or Qualifying widow(er)— 48,000  
 Head of household— 36,000
13. Enter the **greater** of line 11 or line 12 .....
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax..... \_\_\_\_\_
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above. ....
16. Multiply line 14 by 7.25% (.0725) and enter the result..... \_\_\_\_\_
17. Line 15 plus line 16 .....
18. Compute the tax on the amount on line 1. Use the Tax Rate Schedules shown above..... \_\_\_\_\_
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168 .....

**Note:** If you filed Form N-15 for 2007, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2007 should be completed using amounts from Column B of your 2007 Form N-15.