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## A BILL FOR AN ACT

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RELATING TO CESSPOOLS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1       SECTION 1. The legislature finds that water pollution from  
2 nonpoint contamination sources that flow off the land directly,  
3 rather than through pipes or ditches, poses a significant threat  
4 to the State's water resources, including streams, groundwater,  
5 and the ocean. As a nonpoint contamination source, cesspools  
6 are substandard systems that discharge raw, untreated sewage  
7 into the ground. Cesspool pollution poses a significant risk to  
8 the State's finite groundwater, drinking water, streams, ocean,  
9 and other aquatic resources.

10       The legislature additionally finds that cesspools in Hawaii  
11 release approximately fifty-three million gallons of untreated  
12 sewage into the ground each day. There are approximately  
13 eighty-eight thousand cesspools in the State, with nearly fifty  
14 thousand located on Hawaii island, approximately fourteen  
15 thousand on Kauai, over twelve thousand on Maui, over eleven  
16 thousand on Oahu, and over one thousand four hundred on Molokai.



1 Of these cesspools, forty-three thousand pose a risk to the  
2 State's water resources.

3 To address the ongoing threat of water contamination caused  
4 by cesspools, the legislature passed Act 125, Session Laws of  
5 Hawaii 2017, which requires the upgrade, conversion, or  
6 connection of all cesspools before January 1, 2050.

7 Prior to this, Act 120, Session Laws of Hawaii 2015,  
8 established an income tax credit for the costs to upgrade or  
9 convert a qualified cesspool into a septic system or an aerobic  
10 treatment unit system, or to connect a qualified cesspool to a  
11 sewer system, effective for taxable years beginning after  
12 December 31, 2015. This tax credit expired on December 31,  
13 2020. Before its expiration, the tax credit was claimed on  
14 sixty-four tax returns for tax year 2019, and the amounts  
15 claimed totaled \$371,000. For tax year 2018, the tax credit was  
16 claimed on forty-one tax returns, and the amounts claimed  
17 totaled \$219,000, up from \$143,000 claimed for tax year 2017.

18 Current average costs to upgrade or convert a cesspool to a  
19 septic system range between \$20,000 and \$40,000; to convert to  
20 an aerobic treatment unit system, the cost ranges between  
21 \$20,000 and \$50,000. Current estimated costs to connect to a



1 sewer system, the most environmentally desirable option,  
2 approach \$80,000.

3 The purpose of this Act is to reinstate the cesspool  
4 upgrade, conversion, or connection income tax credit, with the  
5 credit amount adjusted for inflation since the original credit  
6 was established in 2015.

7 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
8 amended by adding a new section to be appropriately designated  
9 and to read as follows:

10 "§235- Cesspool upgrade, conversion, or connection;  
11 income tax credit. (a) There shall be allowed to each taxpayer  
12 subject to the tax imposed under this chapter a cesspool  
13 upgrade, conversion, or connection income tax credit that shall  
14 be deductible from the taxpayer's net income tax liability, if  
15 any, imposed by this chapter for the taxable year in which the  
16 credit is properly claimed.

17 (b) The cesspool upgrade, conversion, or connection income  
18 tax credit may be claimed for every cesspool that undergoes an  
19 upgrade or conversion to a septic system or aerobic treatment  
20 unit system, or connection to a sewerage system that is  
21 installed and placed in service in the State by a taxpayer



1 during the taxable year for which it is claimed. The amount of  
2 the credit shall be equal to either thirty-five per cent of the  
3 qualified expenses of the taxpayer or the applicable cap amount  
4 established by subsection (d), whichever is less; provided that  
5 in the case of a qualified cesspool that is a residential large  
6 capacity cesspool, the amount of the credit shall be equal to  
7 thirty-five per cent of the qualified expenses of the taxpayer  
8 per residential dwelling connected to the cesspool or the  
9 applicable cap amount established by subsection (d), whichever  
10 is less.

11 (c) In the case of a partnership, S corporation, estate,  
12 or trust, the tax credit allowable is for qualified expenses  
13 incurred by the entity for the taxable year. The expenses upon  
14 which the tax credit is computed shall be determined at the  
15 entity level. Distribution and share of credit shall be  
16 determined by rule.

17 (d) The amount of credit allowed shall not exceed the  
18 applicable cap amount, which is determined as follows:

19 (1) \$14,000 for each cesspool upgrade or conversion to a  
20 septic system;



1        (2) \$17,500 for each cesspool upgrade or conversion to an  
2        aerobic treatment unit system; and

3        (3) \$28,000 for each cesspool eliminated through  
4        connection to a sewerage system.

5        (e) Any taxpayer who has received a federal, state,  
6        county, or private grant to support the upgrade or conversion to  
7        a septic system or aerobic treatment unit system or connection  
8        to a sewerage system is ineligible for the tax credit.

9        (f) The department of health shall:

10       (1) Collect and maintain a record of all qualified  
11       expenses certified by an appropriate government agency  
12       for the taxable year; and

13       (2) Certify to each taxpayer the amount of credit the  
14       taxpayer may claim.

15       The director of health may adopt rules under chapter 91 as  
16       necessary to implement the certification requirements under this  
17       section.

18       (g) The director of taxation:

19       (1) Shall prepare any forms that may be necessary to claim  
20       a tax credit under this section;



1        (2) May require the taxpayer to furnish reasonable  
2        information to ascertain the validity of the claim for  
3        the tax credit made under this section; and

4        (3) May adopt rules under chapter 91 necessary to  
5        effectuate the purposes of this section.

6        (h) If the tax credit under this section exceeds the  
7        taxpayer's income tax liability, the excess of the credit over  
8        liability may be used as a credit against the taxpayer's income  
9        tax liability in subsequent years until exhausted. All claims  
10       for the tax credit under this section, including amended claims,  
11       shall be filed on or before the end of the twelfth month  
12       following the close of the taxable year for which the credit may  
13       be claimed. Failure to comply with the foregoing provision  
14       shall constitute a waiver of their right to claim the credit.

15       (i) As used in this section:

16       "Cesspool" has the same meaning as in section 342D-72.

17       "Qualified expenses" means costs that are necessary and  
18       directly incurred by the taxpayer for upgrading or converting a  
19       cesspool into a septic system or an aerobic treatment unit  
20       system, or connecting a cesspool to a sewerage system, and that  
21       are certified as such by the appropriate government agency.



1       "Residential large capacity cesspool" means a cesspool that  
2       is connected to more than one residential dwelling.

3       "Sewerage system" has the same meaning as in section  
4       342D-1."

5       SECTION 3. Section 23-95, Hawaii Revised Statutes, is  
6       amended by amending subsection (c) to read as follows:

7       "(c) This section shall apply to the following:

8       (1) Section 235-5.5--Deduction for individual housing  
9       account deposit;

10      (2) Section 235-7(f)--Deduction of property loss due to a  
11      natural disaster;

12      (3) Section [~~235-16.5~~] 235-\_\_--Credit for cesspool  
13      upgrade, conversion, or connection;

14      (4) Section 235-19--Deduction for maintenance of an  
15      exceptional tree;

16      (5) Section 235-55.91--Credit for the employment of a  
17      vocational rehabilitation referral;

18      (6) Section 235-110.2--Credit for in-kind services  
19      contribution for public school repair and maintenance;  
20      and



1           (7) Sections 235-110.8 and 241-4.7--Credit for ownership  
2           of a qualified low-income housing building."

3           SECTION 4. Statutory material to be repealed is bracketed  
4 and stricken. New statutory material is underscored.

5           SECTION 5. This Act shall take effect on July 1, 2026, and  
6 shall apply to taxable years beginning after December 31, 2026.

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INTRODUCED BY:



By Request

JAN 23 2026





# H.B. NO. 2079

**Report Title:**

Hawaii Council of Mayors Package; Wastewater; Cesspool Upgrade, Conversion, or Connection; Income Tax Credit

**Description:**

Reestablishes the cesspool upgrade, conversion, or connection income tax credit. Applies to taxable years beginning after 12/31/2026.

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