

JAN 23 2026

---

## A BILL FOR AN ACT

RELATING TO CESSPOOLS.

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

1 SECTION 1. The purpose of this Act is to offer financial  
2 assistance to owners of cesspools who:

3 (1) Upgrade or convert a cesspool into a septic system or  
4 an aerobic treatment unit system; or  
5 (2) Connect a cesspool to a sewer system,  
6 by establishing a cesspool upgrade, conversion, or connection  
7 income tax credit.

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

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



1       (b) In the case of a partnership, S corporation, estate,  
2 or trust, the tax credit allowable is for qualified expenses  
3 incurred by the entity for the taxable year. The expenses upon  
4 which the tax credit is computed shall be determined at the  
5 entity level. Distribution and share of credit shall be  
6 determined by rule.

7       (c) The cesspool upgrade, conversion, or connection income  
8 tax credit shall be equal to the qualified expenses of the  
9 taxpayer, up to a maximum of \$10,000; provided that, in the case  
10 of a residential large capacity cesspool, the amount of the  
11 credit shall be equal to the qualified expenses of the taxpayer,  
12 up to a maximum of \$10,000 per residential dwelling connected to  
13 the cesspool, as certified by the department of health pursuant  
14 to subsection (e). There shall be allowed a maximum of one  
15 cesspool upgrade, conversion, or connection income tax credit  
16 per cesspool. The cesspool upgrade, conversion, or connection  
17 income tax credit shall be available only for the taxable year  
18 in which the taxpayer's qualified expenses are certified by the  
19 appropriate government agency.

20       (d) The total amount of tax credits allowed under this  
21 section shall not exceed \$5,000,000 for all taxpayers in any



1 taxable year; provided that any taxpayer who is not eligible to  
2 claim the credit in a taxable year due to the \$5,000,000 cap  
3 having been exceeded for that taxable year shall be eligible to  
4 claim the credit in the subsequent taxable year.

5 (e) The department of health shall:

6 (1) Certify all cesspools for the purposes of this  
7 section; provided that, as a pilot program, the  
8 department of health, in its discretion, may certify  
9 no more than two residential large capacity cesspools;

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

13 (3) Certify to each taxpayer the amount of credit the  
14 taxpayer may claim; provided that if, in any year, the  
15 annual amount of certified credits reaches \$5,000,000  
16 in the aggregate, the department of health shall  
17 immediately discontinue certifying credits and notify  
18 the department of taxation.

19 The director of health may adopt rules under chapter 91 as  
20 necessary to implement the certification requirements under this  
21 section.



1                   (f) The director of taxation:

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

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

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

9                   (g) If the tax credit under this section exceeds the

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

18                   (h) This section shall not apply to taxable years  
19                  beginning after December 31, 2032.

20                   (i) As used in this section:



1        "Aerobic treatment unit system" means an individual  
2        wastewater system that consists of an aerobic treatment unit  
3        tank, aeration device, piping, and a discharge method that is in  
4        accordance with rules adopted by the department of health  
5        relating to household aerobic units.

6        "Cesspool" means an individual wastewater system consisting  
7        of an excavation in the ground whose depth is greater than its  
8        widest surface dimension, which receives untreated wastewater,  
9        and retains or is designed to retain the organic matter and  
10        solids discharged into it, but permits the liquid to seep  
11        through its bottom or sides to gain access to the underground  
12        geographic formation.

13        "Qualified expenses" means costs that are necessary and  
14        directly incurred by the taxpayer for upgrading or converting a  
15        cesspool into a septic system or an aerobic treatment unit  
16        system, or connecting a cesspool to a sewer system, and that are  
17        certified as such by the appropriate government agency.

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

20        "Septic system" means an individual wastewater system that  
21        typically consists of a septic tank, piping, and a drainage

1 field where there is natural biological decontamination as  
2 wastewater discharged into the system is filtered through soil.

3 "Sewer system" means a system of piping, with  
4 appurtenances, for collecting and conveying wastewater from  
5 source to discharge following treatment.

6 "Wastewater" means any liquid waste, whether or not treated  
7 and whether animal, mineral, or vegetable, including  
8 agricultural, industrial, and thermal wastes."

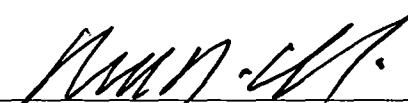
9 SECTION 3. New statutory material is underscored.

10 SECTION 4. This Act shall take effect upon its approval,  
11 and shall:

12 (1) Apply to taxable years beginning after December 31,  
13 2027; and  
14 (2) Be repealed on December 31, 2032.

15

INTRODUCED BY:



\_\_\_\_\_  
By Request



# S.B. NO. 2506

**Report Title:**

Hawaii State Association of Counties Package; Income Tax Credit; Cesspools Upgrade, Conversion, or Connection; DOH; DoTAX

**Description:**

Provides a temporary income tax credit for the cost of upgrading or converting a cesspool to a septic system or an aerobic treatment unit system or connecting to a sewer system. Permits the Department of Health, as a pilot program, to certify no more than two residential large capacity cesspools. Applies to taxable years after 12/31/2027. Sunsets 12/31/2032.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

