

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 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.

7

INTRODUCED BY: 
By Request



S.B. NO. 2525

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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