Instructions for Applying for an Income Tax Credit for Upgrading a Qualified Cesspool

A State income tax credit is available for upgrading to a septic system or aerobic treatment unit, or connecting to a sewer, certain qualified cesspools depending on their location. Qualified cesspools are cesspools that are: located within 200 feet of a shoreline (as defined in Hawaii Administrative Rules §13-222-2), perennial stream or wetland (as defined in Hawaii Administrative Rules §11-54-1), or within a source water assessment program area (as determined by the Department of Health based on a two year time of travel from a cesspool to a public drinking water source).

Section 235-16.5, Hawaii Revised Statutes, provides a temporary income tax credit for the cost of upgrading or converting a qualified cesspool to a septic tank system or an aerobic treatment unit system, or connecting to a sewer system. A taxpayer may apply for a tax credit of up to $10,000 for the documented expenses of upgrading each qualified cesspool. Tax credits are available for five years. The tax credit starts in tax year 2016 and ends in tax year 2020, December 31, 2020. There is a $5,000,000 total cap on the credits that are available for each tax year. Any taxpayer who has upgraded a qualified cesspool but is not eligible to claim the credit in a taxable year because the cap has been reached shall be eligible to claim the credit in the subsequent taxable years from 2017 to 2020.

Below are the instructions for applying for the tax credit.

Step #1: Complete the Application for Income Tax Credit for Qualified Cesspool and submit to the Wastewater Branch at 919 Ala Moana Blvd., Honolulu, HI, 96814.

Step #2: The Wastewater Branch will review the application and will send a letter confirming that your cesspool is a qualified cesspool. Cesspool owners should not assume they qualify for the tax credit until they receive a letter stating that their cesspool is a qualified cesspool. If you proceed with the upgrade before you receive such a letter, you have no guarantee that you will qualify for the tax credit.

If you are upgrading or converting a qualified cesspool to a septic tank system or an aerobic treatment unit system, proceed to Step #3. If you are connecting to a sewer system, proceed to Step #6.

Step #3: Retain the services of a licensed wastewater engineer to prepare septic tank system or aerobic treatment unit system plans for the upgrade of the qualified cesspool. Plans should be submitted to the Wastewater Branch for their review and approval.

Step #4: After the Wastewater Branch approves the septic tank system or aerobic treatment units plans for construction, retain the services of a licensed contractor (A, C-9, C-37, C-37a or C-43) to construct the system.

Step #5: After construction, the licensed wastewater engineer shall perform a final construction inspection of the septic tank system or aerobic treatment unit system. The engineer shall submit a final construction inspection report with all original receipts of qualified expenses for the upgrade of the qualified cesspool to the Wastewater Branch. For example, receipts for services of the licensed engineer, materials used in construction, contractor labor, etc. Go to Step #7.

Step #6: Submit a letter from the County or owner of the Private wastewater treatment plant stating that you have connected to its sewer system. In addition, submit all original receipts of qualified expenses for the connection to the sewer system and abandonment of your cesspool. For example, receipts for services of the licensed engineer, materials used in construction, contractor labor, etc.

Step #7: The Wastewater Branch will determine the total qualified expenses based on the receipts submitted and will complete Tax Form N-350, CESSPOOL UPGRADE, CONVERSION OR CONNECTION INCOME TAX CREDIT. The completed form will be mailed to the taxpayer for that tax year. However, if the $5 million cap is reached for that tax year and the taxpayer is therefore not awarded a credit, the taxpayer will be placed on the list to receive the tax credit for the subsequent tax year, except that if the cap is exceeded in the final year, 2020, no additional credits are available under current law. Taxpayers wishing to receive a tax credit therefore should not wait to upgrade their cesspools as the credit is temporary and may no longer be available.

Should you have any questions, please contact the Wastewater Branch at (808) 586-4294.