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# A BILL FOR AN ACT

RELATING TO GRAY WATER INCOME TAX CREDIT.

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

1           SECTION 1. The legislature finds that chronic drought  
2 conditions and water shortages across the State impact  
3 agricultural operations and crucial water infrastructure.  
4 Certain areas of the State such as east and upcountry Maui  
5 experience severe drought conditions that affect access to  
6 clean, reliable sources of water. By incorporating and  
7 utilizing gray water systems in residential units, the State can  
8 preserve valuable water resources and critical infrastructure.

9           Therefore, the purpose of this Act is to establish a gray  
10 water income tax credit.

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

14           "§235-     Gray water income tax credit. (a) There shall  
15 be allowed to each qualified taxpayer subject to the tax imposed  
16 under this chapter, a gray water income tax credit that shall be  
17 deductible from the qualified taxpayer's net income tax



1 liability, if any, imposed by this chapter for the taxable year  
2 in which the credit is properly claimed.

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

9 (c) The amount of the tax credit shall be equal  
10 to \_\_\_\_\_ per cent of the cost of each system, up to a  
11 maximum of \$ \_\_\_\_\_ in any taxable year; provided that the  
12 qualified gray water system is certified by the department of  
13 health pursuant to subsection (f); provided further that the  
14 gray water income tax credit, combined with other credits  
15 allowed pursuant to this chapter during the privilege period,  
16 shall not exceed fifty per cent of the qualified taxpayer's tax  
17 liability and shall not reduce the taxpayer's minimum income tax  
18 liability.

19 (d) The total amount of tax credits allowed under this  
20 section shall not exceed \$ \_\_\_\_\_ for all qualified taxpayers  
21 in any taxable year; provided that any qualified taxpayer who is



1 not eligible to claim the credit in a taxable year due to the  
2 \$ \_\_\_\_\_ cap having been exceeded for that taxable year shall  
3 be eligible to claim the credit in the subsequent taxable year.

4 (e) If the tax credit under this section exceeds the  
5 qualified taxpayer's net income tax liability, the excess of the  
6 credit over liability may be used as a credit against the  
7 qualified taxpayer's net income tax liability in subsequent  
8 years until exhausted.

9 (f) The department of health shall:

10 (1) Certify all qualified gray water systems claimed for  
11 the purposes of this section;

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

15 (3) Certify the amount of the tax credit for each taxable  
16 year and cumulative amount of the tax credit; provided  
17 that if, in any year, the annual amount of certified  
18 credits reaches \$ \_\_\_\_\_ in the aggregate, the  
19 department of health shall immediately discontinue  
20 certifying credits and notify the department of  
21 taxation.



1        The director of health may adopt rules under chapter 91 as  
2 necessary to implement the certification requirements under this  
3 section.

4        (g) The director of taxation:

5        (1) Shall prepare forms as may be necessary to claim a  
6 credit under this section;

7        (2) May require the qualified taxpayer to furnish  
8 information to ascertain the validity of the claim for  
9 the tax credit under this section; and

10       (3) May adopt rules pursuant to chapter 91 necessary to  
11 effectuate the purposes of this section.

12       (h) All of the provisions relating to assessments and  
13 refunds under this chapter and under section 231-23(c)(1) shall  
14 apply to the tax credit under this section.

15       (i) All claims for the tax credit under this section,  
16 including amended claims, shall be filed on or before the end of  
17 the twelfth month following the close of the taxable year for  
18 which the credit may be claimed. Failure to comply with the  
19 foregoing provision shall constitute a waiver of the right to  
20 claim the credit.



1        (j) This section shall not apply to taxable years  
2 beginning after December 31, 2034.

3        (k) As used in this section:

4        "Gray water" has the same meaning as defined in section  
5 342D-1.

6        "Qualified taxpayer" means an individual homeowner,  
7 landowner, or corporate entity that installs a qualified gray  
8 water system:

9        (1) On residential property owned by the taxpayer;

10       (2) While constructing a new home owned by the taxpayer;

11       or

12       (3) For the construction of multiple homes as part of a  
13 new housing development.

14       "Qualified gray water system" means a gray water filtration  
15 system approved by the department of health used for irrigating  
16 lawns and gardens under a county gray water recycling program  
17 pursuant to section 342D-70."

18       SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act, upon its approval, shall apply to  
2 taxable years beginning after December 31, 2024; provided that  
3 section 2 of this Act shall repeal on January 1, 2035.

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INTRODUCED BY:

Lyn Bullock



# S.B. NO. 2496

**Report Title:**

DOH; Gray Water; Gray Water System; Tax Credit

**Description:**

Establishes a gray water income tax credit to encourage the installation of qualified gray water systems certified by the Department of Health on existing residential properties and new housing developments. Effective for taxable years beginning after 12/31/2024. Repeals 1/1/2035.

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