

STATE OF HAWAII - DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-350
CESSPOOL UPGRADE, CONVERSION OR
CONNECTION INCOME TAX CREDIT

GENERAL INSTRUCTIONS

PURPOSE OF FORM

Use Form N-350 to figure and claim the cesspool upgrade, conversion or connection income tax credit under section 235-16.5, Hawaii Revised Statutes (HRS).

WHO MAY CLAIM THIS CREDIT

For taxable years beginning AFTER December 31, 2015, and BEFORE January 1, 2021, each taxpayer who incurs qualified expenses that are certified by the Department of Health may claim a nonrefundable cesspool upgrade, conversion or connection income tax credit for the taxable year in which the taxpayer's qualified expenses are certified by the Department of Health.

FLOW-THROUGH ENTITIES

The qualified expenses upon which the tax credit is computed is determined at the entity level.

CREDIT REQUIREMENTS

Section 235-16.5, HRS, provides that the amount of the credit is:

- (1) Equal to the qualified expenses of the taxpayer, up to a maximum of \$10,000 per cesspool; OR
- (2) Equal to the qualified expenses of the taxpayer, up to a maximum of \$10,000 per residential dwelling connected to a residential large capacity cesspool. Only one certified tax credit per qualified cesspool, or per tax map key number where more than one residence is connected to a residential large-capacity cesspool is allowed.

To claim this credit, you must complete and attach to your Hawaii income tax return:

- (1) Form N-350 (Complete Part II and attach.)
- (2) Schedule CR (For tax returns for which Schedule CR is required.)
- (3) Schedule K-1 (Required only if you are a member of a flow-through entity claiming a credit for the entity's eligible costs of cesspool upgrade, conversion, or connection.)

If the credit exceeds the taxpayer's net income tax liability, the excess of credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

DEADLINE FOR CLAIMING THE CREDIT

The deadline to claim the credit, including amended claims, is 12 months after the close of your taxable year. You cannot claim or amend the credit after the deadline.

DEFINITIONS FOR PURPOSES OF THE CREDIT

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

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

"Qualified cesspool" means a cesspool that is:

- (1) Certified by the department of health to be:
 - (A) Located within:
 - (i) Five hundred feet of a shoreline, perennial stream, or wetland; or

- (ii) A source water assessment program area (two year time of travel from a cesspool to a public drinking water source);

- (B) Shown to impact drinking water supplies or recreational waters: or

- (C) A residential large capacity cesspool; or

- (2) Certified by a county or private sewer company to be appropriate for connections to its existing sewer system.

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

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

"Septic system" means an individual wastewater system that typically consists of a septic tank, piping, and a drainage field where there is natural biological decontamination as wastewater discharged into the system is filtered through soil.

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

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

CERTIFICATION OF CREDITS

The Department of Health shall:

- (1) Certify all qualified cesspools;
- (2) Collect and maintain a record of all qualified expenses certified by an appropriate government agency for the taxable year; and
- (3) Certify to each taxpayer the amount of credit the taxpayer may claim.

Upon each determination, the Department of Health shall issue a certificate to the taxpayer verifying the qualified expenses and the credit amount certified for the taxable year. The taxpayer shall file the certificate with the taxpayer's tax return with the Department of Taxation. Notwithstanding the Department of Health's certification authority, the Director of Taxation may audit and adjust the certification to conform to the facts.

If in any taxable year the annual amount of certified credits reaches \$5,000,000 in the aggregate, the Department of Health shall immediately discontinue certifying credits for that taxable year and notify the Department of Taxation. Any remaining applications for certification for that taxable year may be carried forward to the subsequent year for certification in that taxable year. In no instance shall the Department of Health certify a total amount of credits exceeding \$5,000,000 per taxable year. To comply with this restriction, the Department of Health shall certify credits on a first come, first served basis.

The request for certification to claim the Cesspool Upgrade, Conversion or Connection Income Tax Credit may be obtained by mail from:

Department of Health
Environmental Management Division
Waste Water Branch
2827 Waimano Home Road, Room 207
Pearl City, HI 96782
Telephone: (808) 586-4294

SPECIFIC INSTRUCTIONS

Part II. Computation of Tax Credit(s)

Line 2 - If you are claiming your share of the cesspool upgrade, conversion or connection income tax credit from a partnership, S corporation, estate or trust, then enter the amount here. If you received a Schedule K-1 (Form N-20), enter the amount from line 27. If you received a Schedule K-1 (Form N-35), enter the amount from line 16l. If you received a Schedule K-1 (Form N-40), enter the amount from line 9c (cesspool upgrade, conversion or connection income tax credit). If you received a federal Form 1099-PATR, enter the appropriate amount. Also, enter the name and federal employer identification number of any flow-through entity that has passed the tax credit through to you.

Line 3. Total New Credit Claimed - Add lines 1 and 2. This is the total amount of the credit being claimed in the current year. Also enter this amount on Schedule CR, line 23 in **Column (a)**.

- Form N-20 filers, enter the amount on line 3 on Form N-20, Schedule K, line 27; skip lines 4 through 10 and continue to Part III.
- Form N-35 filers, enter the amount on line 3 on Form N-35, Schedule K, line 16l; skip lines 4 through 10 and continue to Part III.
- Form N-40 filers, either:
 - (1) Enter the distributive share amount on Form N-40, Schedule K-1, for each beneficiary and continue to Part III, OR
 - (2) Report the trust or estate's share by continuing to line 4.
- All other filers, continue to line 4.

Line 4 - This line is the carryover of unused cesspool upgrade, conversion or connection income tax credit from the prior year.

Line 5 - Add lines 3 and 4. This is your tentative current year cesspool upgrade, conversion or connection income tax credit.

Line 6. Adjusted Tax Liability - Enter your adjusted tax liability.

- Form N-11 filers, enter the amount from Form N-11, line 34.
- Form N-15 filers, enter the amount from Form N-15, line 51.
- Form N-30 filers, enter the amount from Form N-30, line 13.
- Form N-40 filers, enter the amount from Form N-40, Schedule G, line 3.
- Form N-70NP filers, enter the amount from Form N-70NP, line 18.

Line 7 - Certain other credits must be used to offset a taxpayer's tax liability before the cesspool upgrade, conversion or connection income tax credit may be used. If you are claiming other nonrefundable credits, complete the **Credit Worksheet** below and enter the result on line 7. If you are not claiming any of the nonrefundable credits listed on the worksheet, enter zero on line 7.

Line 9. Total Credit Applied - Compare the amounts on lines 5 and 8. Enter the smaller of line 5 or 8, rounded to the nearest dollar, here and in **Column (b)** on Schedule CR, line 23. This is your maximum credit applied for the taxable year.

Line 10. Unused Credit to Carryover - This represents your carryover of cesspool upgrade, conversion or connection income tax credit which exceed your net income tax liability and may be used as a credit against your net income tax liability in subsequent years until exhausted. If this amount is more than zero, also enter this on Schedule CR, line 23 in **Column (c)**.

CESSPOOL UPGRADE, CONVERSION OR CONNECTION INCOME TAX CREDIT WORKSHEET	
Tax Credit	Amount
a. Income Taxes Paid to Another State or Foreign Country	_____
b. Enterprise Zone Tax Credit	_____
c. Carryover of the Energy Conservation Tax Credit.....	_____
d. Credit for Employment of Vocational Rehabilitation Referrals	_____
e. Carryover of the Individual Development Account Contribution Tax Credit	_____
f. Credit for School Repair and Maintenance	_____
g. Carryover of the Renewable Energy Technologies Income Tax Credit (For Systems Installed and Placed In Service Before July 1, 2009).....	_____
h. Renewable Energy Technologies Income Tax Credit (Nonrefundable) ..	_____
i. Add lines a through h. Enter the amount here and on Part II, line 7.....	=====