
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that climate change is
2 the most critical issue confronting the State of Hawaii. The
3 overwhelming consensus of climate scientists who have studied
4 the issue is that climate change is occurring primarily as a
5 result of the combustion of fossil fuels. The legislature
6 concurs with this conclusion.

7 The Hawaii climate change mitigation and adaptation
8 commission has stated that the most effective single means of
9 reducing greenhouse gas emissions is to "put a price on carbon".
10 The concept of "carbon pricing" is supported by various local
11 and state entities and, as of the end of 2018, fifty-one carbon
12 pricing initiatives have been implemented or scheduled for
13 implementation worldwide. Numerous respected economists have
14 emphasized the importance of assuring that the social costs of
15 the adverse impacts of carbon dioxide emissions will be included
16 in future market pricing involving fossil fuels.



1 The legislature further finds that the best means of carbon
2 pricing for the State is a use-based tax on all carbon dioxide-
3 emitting fuels, such as oil, gas, and coal. The department of
4 taxation already implements various fuel-based taxes, including
5 the environmental response, energy, and food security tax, which
6 imposes a tax on barrels of petroleum products. A separate tax
7 is also imposed on fossil fuels other than petroleum, applied to
8 each million British thermal units (BTUs) of heat value of a
9 fuel. The legislature concludes that the environmental
10 response, energy, and food security tax provisions could be
11 amended to implement a state carbon emissions tax. However, the
12 current tax rates per barrel and per million BTUs of fossil
13 fuels should be replaced with a tax table that reflects the
14 quantity of carbon dioxide emissions produced per barrel or per
15 million BTUs of various fuels.

16 A carbon emissions tax is typically calculated as a value
17 per metric ton of carbon dioxide equivalent emissions. Many
18 climate change experts have concluded that, to be effective in
19 achieving reductions in combustion of fossil fuels to the extent
20 needed to meet the goals set under the Paris Agreement, the
21 price of carbon emissions should be set in the range of \$40 per



1 metric ton of carbon dioxide emissions in 2020, and increase to
2 a price of \$80 by 2030. The legislature finds that the need to
3 establish effective carbon prices is compelling.

4 Accordingly, the purpose of this Act is to:

- 5 (1) Amend the environmental response, energy, and food
6 security tax to address carbon emissions;
- 7 (2) Increase the tax rate to effectively set a price of
8 \$40 per metric ton of carbon dioxide emissions in
9 2021; and
- 10 (3) Incrementally increase the tax rate over time so that,
11 in 2030, the tax rate shall be equivalent to a carbon
12 price of \$80 per metric ton of carbon emissions.

13 The legislature notes that, since the initial increase in tax
14 rates is not scheduled to take effect until 2021, the
15 legislature will have the opportunity to consider any revisions
16 to the tax rates set by this Act that may be warranted by the
17 results of the carbon pricing study currently underway pursuant
18 to Act 122, Session Laws of Hawaii 2019. In amending the
19 environmental response, energy, and food security tax, the
20 legislature has taken into account the license taxes currently
21 imposed on gasoline and diesel fuel. The legislature believes



1 that the combined impact of the amendments made by this Act and
2 the existing license taxes will achieve the carbon price
3 targets.

4 SECTION 2. Section 243-3.5, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "**§243-3.5 Environmental response, energy, carbon**
7 **emissions, and food security tax; uses.** (a) In addition to any
8 other taxes provided by law, subject to the exemptions set forth
9 in section 243-7, there is hereby imposed a state environmental
10 response, energy, carbon emissions, and food security tax on
11 each barrel or fractional part of a barrel of petroleum product
12 sold by a distributor to any retail dealer or end user of
13 petroleum product, other than a refiner. The tax [~~shall be~~
14 ~~\$1.05~~] on each barrel or fractional part of a barrel of
15 petroleum product [~~that is not aviation fuel; provided that of~~
16 ~~the tax~~] shall be in the amounts provided in the following
17 table:

| 18 | <u>Product</u> | <u>2021</u> | <u>2024</u> | <u>2027</u> | <u>2030</u> |
|----|------------------------|----------------|----------------|----------------|----------------|
| 19 | <u>Propane; Butane</u> | <u>\$10.47</u> | <u>\$13.96</u> | <u>\$17.45</u> | <u>\$20.94</u> |
| 20 | <u>Gasoline</u> | <u>\$ 8.22</u> | <u>\$13.20</u> | <u>\$18.18</u> | <u>\$23.16</u> |
| 21 | <u>Diesel</u> | <u>\$10.35</u> | <u>\$15.08</u> | <u>\$21.01</u> | <u>\$26.34</u> |



| | | | | | |
|---|----------------------|----------------|----------------|----------------|----------------|
| 1 | <u>Kerosene</u> | <u>\$16.38</u> | <u>\$21.84</u> | <u>\$27.30</u> | <u>\$32.76</u> |
| 2 | <u>Aviation gas</u> | <u>\$14.03</u> | <u>\$18.71</u> | <u>\$23.39</u> | <u>\$28.07</u> |
| 3 | <u>Jet fuel</u> | <u>\$16.07</u> | <u>\$21.43</u> | <u>\$26.79</u> | <u>\$32.15</u> |
| 4 | <u>No.6 Fuel oil</u> | <u>\$19.81</u> | <u>\$26.41</u> | <u>\$33.01</u> | <u>\$39.62</u> |
| 5 | <u>Other</u> | <u>\$16.00</u> | <u>\$21.33</u> | <u>\$26.66</u> | <u>\$32.00</u> |

6 The tax for each year referenced above shall take effect on July
7 1 of that year and continue to be applicable until the effective
8 date of the next increment.

9 The tax imposed by this subsection shall be paid by the
10 distributor of the petroleum product.

11 (b) Tax revenues collected pursuant to [this]
12 subsection[+] (a) shall be distributed in the following
13 priority, with the excess revenues to be deposited into the
14 general fund:

15 (1) [5 cents of the tax on each barrel] \$1,291,000 shall
16 be deposited into the environmental response revolving
17 fund established under section 128D-2;

18 (2) [5 cents of the tax on each barrel] \$3,872,000 shall
19 be deposited into the energy security special fund
20 established under section 201-12.8;



1 (3) ~~[10 cents of the tax on each barrel]~~ \$2,582,000 shall
 2 be deposited into the energy systems development
 3 special fund established under section 304A-2169.1;
 4 [and]

5 (4) ~~[15 cents of the tax on each barrel]~~ \$3,872,000 shall
 6 be deposited into the agricultural development and
 7 food security special fund established under section
 8 141-10[-];

9 (5) All taxes paid on gasoline or other aviation fuel sold
 10 for use in or used for airplanes shall be deposited in
 11 the airport revenue fund created by section 248-8; and

12 (6) All taxes paid on gasoline, diesel, or other fuel sold
 13 for use in or used for small boats shall be deposited
 14 in the boating special fund created by section 248-8.

15 ~~[The tax imposed by this subsection shall be paid by the~~
 16 ~~distributor of the petroleum product.~~

17 ~~(b)]~~ (c) In addition to subsection (a), the environmental
 18 response, energy, carbon emissions, and food security tax shall
 19 also be imposed on each one million British thermal units of
 20 fossil fuel sold by a distributor to any retail dealer or end
 21 user, other than a refiner, of fossil fuel. The tax ~~[shall be~~



1 ~~19 cents]~~ on each one million British thermal units of fossil
 2 fuel[~~+, provided that of the tax]~~ is set forth in the following
 3 table:

| 4 | <u>Fuel</u> | <u>2021</u> | <u>2024</u> | <u>2027</u> | <u>2030</u> |
|----|---------------------|----------------|----------------|----------------|----------------|
| 5 | <u>Coal (all</u> | | | | |
| 6 | <u>forms)</u> | <u>\$ 3.92</u> | <u>\$ 5.22</u> | <u>\$ 6.53</u> | <u>\$ 7.84</u> |
| 7 | <u>Natural gas</u> | | | | |
| 8 | <u>(including</u> | | | | |
| 9 | <u>liquefied</u> | | | | |
| 10 | <u>natural gas)</u> | <u>\$ 2.12</u> | <u>\$ 2.82</u> | <u>\$ 3.53</u> | <u>\$ 4.24</u> |

11 The tax for each year referenced above shall take effect on
 12 July 1 of that year and continue to be applicable until the
 13 effective date of the next increment.

14 The tax imposed by this subsection shall be paid by the
 15 distributor of the fossil fuel.

16 (d) Tax revenues collected pursuant to [this]
 17 subsection[+] (c) shall be distributed in the following priority
 18 each fiscal year, with the excess revenues to be deposited into
 19 the general fund:

20 (1) 4.8 per cent of the tax on each one million British
 21 thermal units shall be deposited into the



1 environmental response revolving fund established
2 under section 128D-2;

3 (2) 14.3 per cent of the tax on each one million British
4 thermal units shall be deposited into the energy
5 security special fund established under section
6 201-12.8;

7 (3) 9.5 per cent of the tax on each one million British
8 thermal units shall be deposited into the energy
9 systems development special fund established under
10 section 304A-2169.1; and

11 (4) 14.3 per cent of the tax on each one million British
12 thermal units shall be deposited into the agricultural
13 development and food security special fund established
14 under section 141-10.

15 ~~[The tax imposed by this subsection shall be paid by the~~
16 ~~distributor of the fossil fuel.]~~

17 ~~(e)]~~ (e) The tax imposed under subsection ~~[(b)]~~ (c) shall
18 not apply to coal used to fulfill ~~[a signed]~~ an existing power
19 purchase agreement between an independent power producer and an
20 electric utility that is in effect as of June 30, 2015~~[-]~~;
21 provided that this exemption from taxation shall not apply to



1 any extension of an existing power purchase agreement or to any
2 subsequent power purchase agreement. An independent power
3 producer shall be permitted to pass the tax imposed under
4 subsection ~~[(b)]~~ (c) on to an electric utility. In ~~[which]~~ any
5 case~~[r]~~ in which the tax is passed on, the electric utility may
6 recover the cost of the tax through an appropriate surcharge to
7 the end user that is approved by the public utilities
8 commission.

9 ~~[(d)]~~ (f) A gas utility shall be allowed to recover the
10 cost of the tax imposed under subsection ~~[(b)]~~ (c) as part of
11 its fuel cost in its fuel adjustment charge without further
12 approval by the public utilities commission.

13 ~~[(e)]~~ (g) Each distributor subject to the tax imposed by
14 subsection (a) or ~~[(b)]~~ (c), on or before the last day of each
15 calendar month, shall file with the director, on forms
16 prescribed, prepared, and furnished by the director, a return
17 statement of the tax under this section for which the
18 distributor is liable for the preceding month. The form and
19 payment of the tax shall be transmitted to the department of
20 taxation in the appropriate district.



1 ~~[(f)]~~ (h) Notwithstanding section 248-8 to the contrary,
2 the environmental response, energy, and food security tax
3 collected under this section shall be paid over to the director
4 of finance for deposit as provided in subsection ~~[(a) or (b)],~~
5 (b) or (d), as the case may be.

6 ~~[(g)]~~ (i) Every distributor shall keep in the State and
7 preserve for five years a record in a form as the department of
8 taxation shall prescribe showing the total number of barrels,
9 and the fractional part of barrels, of petroleum product or the
10 total number of one million British thermal units of fossil
11 fuel, as the case may be, sold by the distributor during any
12 calendar month. The record shall show any other data and
13 figures relevant to the enforcement and administration of this
14 chapter as the department may require.

15 ~~[(h)]~~ (j) For the purposes of this section:

16 ~~["Barrel" may be converted to million British thermal~~
17 ~~units, using the United States Department of Energy, Energy~~
18 ~~Information Administration annual energy review or annual energy~~
19 ~~outlook.]~~

20 "Fossil fuel" means a ~~[hydrocarbon deposit,]~~ fuel, such as
21 coal, natural gas, or liquefied natural gas, derived from a



1 hydrocarbon deposit resulting from the accumulated remains of
2 ancient plants or animals [~~and used for fuel~~]; provided that the
3 term specifically does not include petroleum product."

4 SECTION 3. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 4. This Act shall take effect on January 1, 2021.

7

INTRODUCED BY: Sean

JAN 23 2020



H.B. NO. 2654

Report Title:

Environmental Response, Energy, and Food Security Tax; Carbon Emissions

Description:

Amends the environmental response, energy, and food security tax to address carbon emissions. Increases the tax rate to effectively set a price of \$40 per metric ton of carbon dioxide emissions in 2021. Incrementally increases the tax rate over time so that, in 2030, the tax rate shall be equivalent to a carbon price of \$80 per metric ton of carbon emissions.

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