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## A BILL FOR AN ACT

RELATING TO A CARBON TAX.

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

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

7           The Hawaii climate change mitigation and adaptation  
8 commission has stated that the most effective single means of  
9 reducing greenhouse gas emission 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 including the social costs of the  
15 adverse impacts of carbon dioxide emissions in future market  
16 pricing involving 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  
3 dioxide-emitting fuels, such as oil, gas, and coal. The  
4 department of taxation already implements various fuel-based  
5 taxes, including the environmental response, energy, and food  
6 security tax, which imposes a tax on distributors of barrels of  
7 petroleum products and of each million British thermal units  
8 (BTUs) of heat value of fossil fuels other than petroleum. The  
9 legislature concludes that the environmental response, energy,  
10 and food security tax provisions could be amended to implement a  
11 state carbon emissions tax. However, the current tax rates per  
12 barrel and per million BTUs of fossil fuels should be replaced  
13 with a tax table that reflects the quantity of carbon dioxide  
14 emissions produced per barrel or per million BTUs of various  
15 fuels.

16           The legislature additionally finds that the virus known as  
17 "SARS-CoV-2" causes a disease named "coronavirus disease 2019"  
18 (COVID-19), which spread globally and was declared a pandemic by  
19 the World Health Organization on March 11, 2020. Upon reaching  
20 Hawaii's shores, the COVID-19 outbreak disrupted the local  
21 economy, leaving hundreds of thousands of residents unemployed,



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1 and leaving the State with an approximately \$2,300,000,000  
2 budget deficit. A July 2016 report by the Brookings Institution  
3 estimated that the State of Hawaii could generate more than  
4 \$360,000,000 annually in carbon tax revenues. To arrive at this  
5 figure, the study used 2013 state-level data on per capita  
6 energy-related carbon dioxide emissions and combustion data for  
7 electric power and industrial, while assuming the imposition of  
8 a tax rate of \$20 per metric ton of carbon dioxide. Yet, many  
9 climate change experts have concluded that, to be effective in  
10 achieving reductions in combustion of fossil fuels to the extent  
11 needed to meet the goals set under the Paris Agreement, the  
12 price of carbon emissions should be set in the range of \$40 per  
13 metric ton of carbon dioxide emissions in 2020 and increase to a  
14 price of \$80 by 2030.

15 The legislature also finds that the need to establish  
16 effective carbon prices to meet the State's goals of addressing  
17 climate change and generating new sources of revenue aligned  
18 with the advancement of a sustainable economy is compelling.

19 Accordingly, the purpose of this Act is to:

- 20 (1) Amend the environmental response, energy, and food  
21 security tax to address carbon emissions;



1           (2) Increase the tax rate to effectively set a price of  
2                     \$40 per metric ton of carbon dioxide emissions in  
3                     2022; and

4           (3) Incrementally increase the tax rate over time to reach  
5                     an equivalent to a carbon price of \$80 per metric ton  
6                     of carbon emissions in 2030.

7           The legislature notes that, since the initial increase in  
8 tax rates is not scheduled to take effect until 2022, the  
9 legislature will have the opportunity to consider any revisions  
10 to the tax rates set by this Act that may be warranted by the  
11 results of the carbon pricing study currently underway pursuant  
12 to section 13 of Act 122, Session Laws of Hawaii 2019. In  
13 amending the environmental response, energy, and food security  
14 tax, the legislature has taken into account the license taxes  
15 currently imposed on gasoline and diesel fuel. The legislature  
16 believes that the combined impact of the amendments made by this  
17 Act and the existing license taxes will achieve the carbon price  
18 targets.

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



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1           "§243-3.5 Environmental response, energy, carbon  
2 emissions, and food security tax; uses. (a) In addition to any  
3 other taxes provided by law, subject to the exemptions set forth  
4 in section 243-7, there is hereby imposed a state environmental  
5 response, energy, carbon emissions, and food security tax on  
6 each barrel or fractional part of a barrel of petroleum product  
7 sold by a distributor to any retail dealer or end user of  
8 petroleum product, other than a refiner. The tax [~~shall be~~  
9 ~~\$1.05~~] on each barrel or fractional part of a barrel of  
10 petroleum product [~~that is not aviation fuel; provided that of~~  
11 ~~the tax~~] shall be in the amounts provided in the following  
12 table:

13	<u>Product</u>	<u>2022</u>	<u>2024</u>	<u>2027</u>	<u>2030</u>
14	<u>Propane: Butane</u>	<u>\$10.47</u>	<u>\$13.96</u>	<u>\$17.45</u>	<u>\$20.94</u>
15	<u>Gasoline</u>	<u>\$8.22</u>	<u>\$13.20</u>	<u>\$18.18</u>	<u>\$23.16</u>
16	<u>Diesel</u>	<u>\$10.35</u>	<u>\$15.08</u>	<u>\$21.01</u>	<u>\$26.34</u>
17	<u>Kerosene</u>	<u>\$16.38</u>	<u>\$21.84</u>	<u>\$27.30</u>	<u>\$32.76</u>
18	<u>Aviation gas</u>	<u>\$14.03</u>	<u>\$18.71</u>	<u>\$23.39</u>	<u>\$28.07</u>
19	<u>Jet fuel</u>	<u>\$16.07</u>	<u>\$21.43</u>	<u>\$26.79</u>	<u>\$32.15</u>
20	<u>No. 6 Fuel oil</u>	<u>\$19.81</u>	<u>\$26.41</u>	<u>\$33.01</u>	<u>\$39.62</u>
21	<u>Other</u>	<u>\$16.00</u>	<u>\$21.33</u>	<u>\$26.66</u>	<u>\$32.00</u>



1 The tax for each year referenced above shall take effect on  
2 July 1 of that year and continue to be applicable through June  
3 30 of the next year that is listed in the table. The tax  
4 imposed by this subsection shall be paid by the distributor of  
5 the petroleum product.

6 (b) Tax revenues collected pursuant to ~~[this]~~  
7 subsection~~[+]~~ (a) shall be distributed in the following priority  
8 each fiscal year, with the excess revenues to be deposited into  
9 the general fund:

10 (1) ~~[5 cents of the tax on each barrel]~~ \$1,291,000 shall  
11 be deposited into the environmental response revolving  
12 fund established under section 128D-2;

13 (2) ~~[5 cents of the tax on each barrel]~~ \$3,872,000 shall  
14 be deposited into the energy security special fund  
15 established under section 201-12.8;

16 (3) ~~[10 cents of the tax on each barrel]~~ \$2,582,000 shall  
17 be deposited into the energy systems development  
18 special fund established under section 304A-2169.1;

19 [and]

20 (4) ~~[15 cents of the tax on each barrel]~~ \$3,872,000 shall  
21 be deposited into the agricultural development and



1 food security special fund established under section  
2 141-10 [-];

3 (5) All taxes paid on gasoline or other aviation fuel sold  
4 for use in or used for airplanes shall be deposited  
5 into the airport revenue fund established under  
6 section 248-8;

7 (6) All taxes paid on gasoline, diesel, or other fuel sold  
8 for use in or used for small boats shall be deposited  
9 into the boating special fund established under  
10 section 248-8; and

11 (7) Twenty-five per cent of the remaining tax collected  
12 pursuant to subsection (a) shall be refunded in an  
13 equal amount to every taxpayer with an adjusted gross  
14 income of less than \$75,000 who files an individual  
15 income tax return with the department of taxation.

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

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



1 user, other than a refiner, of fossil fuel. The tax [~~shall be~~  
 2 ~~19 cents~~] on each one million British thermal units of fossil  
 3 fuel [~~provided that of the tax~~] shall be in the amounts  
 4 provided in the following table:

5	<u>Fuel</u>	<u>2022</u>	<u>2024</u>	<u>2027</u>	<u>2030</u>
6	<u>Coal (all 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 through June  
 13 30 of the next year that is listed in the table. The tax  
 14 imposed by this subsection shall be paid by the distributor of  
 15 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 201-  
6 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[-]; and
- 15 (5) Twenty-five per cent of the tax on each one million  
16 British thermal units shall be refunded in an equal  
17 amount to every taxpayer with an adjusted gross income  
18 of less than \$75,000 who files an individual income  
19 tax return with the department of taxation.

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



1       ~~[(e)]~~ (e) The tax imposed under subsection ~~[(b)]~~ (c) shall  
2 not apply to coal used to fulfill ~~[a signed]~~ an existing power  
3 purchase agreement between an independent power producer and an  
4 electric utility that is in effect as of June 30, 2015~~[-]~~;  
5 provided that this exemption from taxation shall not apply to  
6 any extension of an existing power purchase agreement or to any  
7 subsequent power purchase agreement. An independent power  
8 producer shall be permitted to pass the tax imposed under  
9 subsection ~~[(b)]~~ (c) on to an electric utility. In ~~[which]~~ any  
10 case~~[-]~~ in which the tax is passed on, the electric utility may  
11 recover the cost of the tax through an appropriate surcharge to  
12 the end user that is approved by the public utilities  
13 commission.

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

18       ~~[(e)]~~ (g) Each distributor subject to the tax imposed by  
19 subsection (a) or ~~[(b)-]~~ (c), on or before the last day of each  
20 calendar month, shall file with the director, on forms  
21 prescribed, prepared, and furnished by the director, a return



1 statement of the tax under this section for which the  
2 distributor is liable for the preceding month. The form and  
3 payment of the tax shall be transmitted to the department of  
4 taxation in the appropriate district.

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

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

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



1 "Barrel" may be converted to million British thermal units,  
2 using the United States Department of Energy, Energy Information  
3 Administration annual energy review or annual energy outlook.

4 "Fossil fuel" means a [~~hydrocarbon deposit,~~] fuel, such as  
5 coal, natural gas, or liquefied natural gas, derived from a  
6 hydrocarbon deposit resulting from the accumulated remains of  
7 ancient plants or animals [~~and used for fuel~~]; provided that the  
8 term specifically does not include petroleum product."

9 SECTION 3. Sections 128D-2(a), 141-10(b), 201-12.8(a), and  
10 304A-2169.1(b), Hawaii Revised Statutes, are amended by  
11 substituting the phrase "environmental response, energy, carbon  
12 emissions, and food security tax" wherever the phrase  
13 "environmental response, energy, and food security tax" appears,  
14 as the context requires.

15 SECTION 4. Statutory material to be repealed is bracketed  
16 and stricken. New statutory material is underscored.

17 SECTION 5. This Act shall take effect on January 1, 2022.

18

INTRODUCED BY:



JAN 22 2021



# H.B. NO. 460

**Report Title:**

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

**Description:**

Amends the environmental response, energy, and food security tax (barrel tax) to tax various fossil fuels at a rate equivalent to \$40 per metric ton of carbon dioxide emissions in 2022.

Incrementally increases the barrel tax rate to be equivalent to a carbon price of \$80 per metric ton of carbon emissions in 2030. Amends the distribution of barrel tax revenues. Renames the barrel tax as the environmental response, energy, carbon emissions, and food security tax. Effective 1/1/2022.

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