

JAN 22 2021

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# A BILL FOR AN ACT

RELATING TO ENERGY.

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

1           SECTION 1. More than three thousand five hundred U.S.  
2 economists, including twenty-eight Nobel laureate economists and  
3 four former chairs of the Federal Reserve, have signed a  
4 statement supporting a carbon fee, with revenues returned to the  
5 people. They assert that: "A carbon tax offers the most cost-  
6 effective lever to reduce carbon emissions at the scale and  
7 speed that is necessary", and "[t]o maximize the fairness and  
8 political viability of a rising carbon tax, all the revenue  
9 should be returned directly to U.S. citizens through equal lump-  
10 sum rebates."

11           The carbon fee and dividend represent economic theory that  
12 has also proven to work in practice. More and more countries  
13 are adopting the concept of a carbon fee. A recent peer-  
14 reviewed study used data from the past twenty years and examined  
15 one hundred forty-two countries, some with a carbon fee and  
16 others without it. The study showed that, in the long term, a  
17 carbon fee was responsible for reducing the growth of carbon



1 emissions. In countries without a carbon fee, the growth of  
2 carbon emissions continued to increase. According to the study,  
3 a carbon fee would be a substantial contribution toward meeting  
4 the Paris Agreement commitment of any country.

5 In Hawai'i, the carbon fee would have the effect of raising  
6 the selling prices of fossil fuels so that they are closer to  
7 their true unsubsidized prices. The legislature finds that the  
8 fossil fuel industry receives subsidies from the federal  
9 government that include both direct subsidies to corporations,  
10 as well as indirect subsidies to the fossil fuel industry. A  
11 recent report by the International Monetary Fund estimates total  
12 U.S. fossil fuel subsidies to be \$649,000,000,000 a year. The  
13 increase in fossil fuel prices would help level the playing  
14 field so that renewable energy can compete more fairly with  
15 fossil fuels.

16 The revenue resulting from the carbon fee would be  
17 earmarked for a trust fund. The money in the trust fund would  
18 be distributed as a dividend to everyone who files for Hawai'i's  
19 income tax, along with their dependents. Income tax filers  
20 would each be entitled to one share of the money, and their  
21 dependents would each be entitled to half a share as



1 beneficiaries of the trust fund. The money in the trust fund  
2 would be divided by the total number of shares and the monetary  
3 shares would be transmitted as checks to beneficiaries. A small  
4 portion of the money in the trust fund would be used to  
5 administer it.

6 Most residents would benefit from the carbon fee and  
7 dividend. They would receive more in the dividend than they  
8 would spend for the increase in fossil fuel prices due to the  
9 carbon fee because of the pattern of fossil fuel use. In  
10 general, people with very high incomes consume much more fossil  
11 fuel than others. As a result, they would spend more for the  
12 increase in fossil fuel prices due to the carbon fee than they  
13 would receive in dividends. On the other hand, people with low  
14 incomes would benefit the most because of their low consumption  
15 of fossil fuels. In addition, visitors would pay the fee and  
16 not receive dividends, leaving more funds for Hawai'i residents.

17 To allow regulators and residents to become familiar with  
18 carbon pricing, the first-year fee would be very low, and the  
19 dividend would be distributed only to low-income households as a  
20 social equity measure. Subsequently, all Hawai'i residents would  
21 receive the dividend. In the second year, and every year for



1 seven years thereafter, the carbon fee would be raised. Fossil  
2 fuel prices would increase, but so would dividends. All users  
3 would be encouraged to lower their usage of fossil fuels, with  
4 low users of fossil fuels rewarded the most.

5 Environmentalists and economists agree that a carbon fee  
6 and dividend program is effective in reducing greenhouse gas  
7 emissions, resulting in a cleaner, more sustainable environment.  
8 At the same time, the carbon fee program would support Hawai'i's  
9 people financially and stimulate the economy.

10 This purpose of this Act is to establish the carbon  
11 cashback program, which would set a carbon fee on fossil fuels,  
12 then return the money generated by the carbon fee to Hawai'i  
13 residents in the form of a dividend. Since many people are  
14 likely to spend the dividend immediately - especially during the  
15 COVID-19 pandemic - this program would stimulate the economy.

16 SECTION 2. Chapter 243, Hawaii Revised Statutes, is  
17 amended by adding three new sections to be appropriately  
18 designated and to read as follows:

19 "§243-A Carbon cashback program; established. (a) There  
20 is established the carbon cashback program to be placed within  
21 the department of taxation for administrative purposes.



- 1        (b) The purpose of this program is:
- 2        (1) To assess a fee on fossil fuels that would result in  
3        higher prices for consumers, thereby discouraging the  
4        use of fossil fuels;
- 5        (2) To return the revenue from the fee to people in the  
6        form of equal dividends; and
- 7        (3) To stimulate the economy when money is spent.
- 8        (c) All revenue from the carbon fee shall be deposited  
9        into the carbon cashback trust fund established pursuant to  
10       section 243-C. Everyone who files for Hawaii income tax and  
11       their dependents shall be considered beneficiaries of the trust  
12       fund. Each beneficiary who is an adult shall be entitled to  
13       one share, and each beneficiary who is a dependent shall be  
14       entitled to one-half of a share. The total amount of money in  
15       the trust fund shall be divided by the total number of shares,  
16       and the monetary shares shall be distributed to the  
17       beneficiaries. Up to five per cent of funds collected annually  
18       may be used to pay for administrative costs associated with  
19       collecting the fees established by this section.
- 20       (d) For the purposes of this section:



1        "Program" means the carbon cashback program established by  
2 this section.

3        **§243-B Carbon fees; uses.** (a) In addition to any other  
4 taxes provided by law, subject to the exemptions set forth in  
5 section 243-7, there shall be a fee on each barrel or fractional  
6 part of a barrel of petroleum product sold by a distributor to  
7 any retail dealer or end user of petroleum product, other than a  
8 refiner, pursuant to the carbon fee program established by  
9 section 243-A. The fee on each barrel shall be paid by the  
10 distributor as follows:

- 11        (1) \$3.50 in the taxable year beginning in 2022;
- 12        (2) \$14.00 in the taxable year beginning in 2023;
- 13        (3) \$18.00 in the taxable year beginning in 2024;
- 14        (4) \$22.00 in the taxable year beginning in 2025;
- 15        (5) \$26.00 in the taxable year beginning in 2026;
- 16        (6) \$30.00 in the taxable year beginning in 2027;
- 17        (7) \$34.00 in the taxable year beginning in 2028;
- 18        (8) \$38.00 in the taxable year beginning in 2029; and
- 19        (9) \$42.00 in the taxable year beginning in 2030 and every  
20        taxable year thereafter.



1        (b) In addition to subsection (a), the carbon fee shall  
2 also be imposed on each one million British thermal units of  
3 fossil fuel sold by a distributor to any retail dealer or end  
4 user, other than a refiner, of fossil fuel. The carbon fee on  
5 each one million British thermal units of fossil fuel shall be  
6 paid by the distributor of the fossil fuel as follows:

7        (1) 67 cents in the taxable year beginning in 2022;

8        (2) \$2.69 in the taxable year beginning in 2023;

9        (3) \$3.42 in the taxable year beginning in 2024;

10       (4) \$4.14 in the taxable year beginning in 2025;

11       (5) \$4.86 in the taxable year beginning in 2026;

12       (6) \$5.59 in the taxable year beginning in 2027;

13       (7) \$6.31 in the taxable year beginning in 2028;

14       (8) \$7.04 in the taxable year beginning in 2029; and

15       (9) \$7.76 in the taxable year beginning in 2030 and every

16       taxable year thereafter.

17       (c) The carbon fee imposed under subsection (b) shall not  
18 apply to coal used to fulfill a signed power purchase agreement  
19 between an independent power producer and an electric utility  
20 that is in effect as of June 30, 2015. An independent power  
21 producer shall be permitted to pass the carbon fee imposed under



1 subsection (b) on to an electric utility. In which case, the  
2 electric utility may recover the cost of the carbon fee through  
3 an appropriate surcharge to the end user that is approved by the  
4 public utilities commission.

5 (d) A gas utility may recover the cost of the carbon fee  
6 imposed under subsection (b) as part of its fuel cost in its  
7 fuel adjustment charge without further approval by the public  
8 utilities commission.

9 (e) Each distributor subject to the carbon fee imposed by  
10 subsection (a) or (b), on or before the last day of each  
11 calendar month, shall file with the director of budget and  
12 finance, on forms prescribed, prepared, and furnished by the  
13 director of budget and finance, a return statement of the carbon  
14 fee under this section for which the distributor is liable for  
15 the preceding month. The form and payment of the carbon fee  
16 shall be transmitted to the department of taxation in the  
17 appropriate district.

18 (f) Notwithstanding section 248-8 to the contrary, the  
19 carbon fee collected under this section shall be paid over to  
20 the director of budget and finance for deposit into the carbon  
21 cashback trust fund created in section 243-C.





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

10        (h) For the purpose of this section:

11        "Barrel" may be converted to million British thermal units,  
12 using the United States Energy Information Administration's  
13 annual energy review or annual energy outlook.

14        "Carbon fee" or "fee" means the fee imposed pursuant to the  
15 carbon cashback program established by section 243-A.

16        "Fossil fuel" means a hydrocarbon deposit, such as coal,  
17 natural gas, or liquefied natural gas, derived from the  
18 accumulated remains of ancient plants or animals and used for  
19 fuel; provided that the term specifically does not include  
20 petroleum products.



1        §243-C Carbon cashback trust fund. (a) There is  
2        established as a separate fund in the department of budget and  
3        finance a trust fund to be known as the carbon cashback trust  
4        fund, consisting of such amounts as may be appropriated to such  
5        trust fund as provided for in this section.

6        (b) The fund shall include amounts received from the  
7        carbon fee established by section 243-B and all other amounts  
8        received from other sources, interest, and investment income  
9        earned by the fund. The director shall make carbon dividend  
10       payments to each eligible individual.

11       (c) A carbon dividend payment is one pro-rata share for  
12       each adult beneficiary and half a pro rata share for each  
13       dependent beneficiary of amounts in the carbon cashback trust  
14       fund less any amounts allocated for administrative costs. The  
15       dividends shall be transmitted as checks to the beneficiaries.  
16       In the first year of the operation of the fund, the director of  
17       budget and finance, as trustee, shall distribute the dividends  
18       by December 15 only to beneficiaries filing separately and  
19       reporting \$25,000 in gross income or less and beneficiaries  
20       filing jointly and reporting \$50,000 in gross income or less.  
21       The administrative expenses for any year may not exceed five per



1 cent of the funds collected annually. Trust fund assets shall  
2 be kept and shall not be comingled with other assets.

3 (d) The director of budget and finance shall provide for  
4 the administration of the fund, including maintaining  
5 participant records and accounts, and providing annual audited  
6 reports. The director of budget and finance may enter into  
7 contracts for administrative services, including but not limited  
8 to report preparation.

9 (e) All administrative fees, costs, and expenses,  
10 including investment fees and expenses, may be made without  
11 appropriation or allotment.

12 (f) For the purposes of this section:

13 "Eligible individual" means any natural living person who  
14 has a valid social security number or a State of Hawaii taxpayer  
15 identification number."

16 SECTION 3. The director of budget and finance shall submit  
17 a report to the legislature describing the collection of the  
18 carbon fee, administration of the carbon cashback trust fund,  
19 and the operation of the carbon cashback program no later than  
20 twenty days before the convening of the regular session of 2023.



# S.B. NO. 311

1           SECTION 4. If any provision of this Act, or the  
2 application thereof to any person or circumstance, is held  
3 invalid, the invalidity does not affect other provisions or  
4 applications of the Act that can be given effect without the  
5 invalid provision or application, and to this end the provisions  
6 of this Act are severable.

7           SECTION 5. New statutory material is underscored.

8           SECTION 6. In codifying the new sections added by section  
9 2 of this Act, the revisor of statutes shall substitute  
10 appropriate section numbers for the letters used in designating  
11 the new sections in this Act.

12           SECTION 7. This Act, upon its approval, shall apply to  
13 taxable years beginning after December 31, 2021.

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INTRODUCED BY:

Karl Rhoads (B/R)



# S.B. NO. 311

**Report Title:**

Energy; Carbon Cashback Program; Carbon Dividend; Carbon Fee;  
Trust Fund

**Description:**

Imposes a fee on the carbon content of fossil fuels.  
Establishes a carbon cashback trust fund into which fees will be  
deposited and dividend payments will be made to Hawaii  
residents. Effective for taxable years beginning after  
12/31/2021.

*The summary description of legislation appearing on this page is for informational purposes only and is  
not legislation or evidence of legislative intent.*

