HOUSE OF REPRESENTATIVES
THIRTY-THIRD LEGISLATURE, 2025
STATE OF HAWAII

H.B. NO. 976 H.D. 2

A BILL FOR AN ACT

RELATING TO RENEWABLE FUEL.

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

SECTION 1. The legislature finds that Hawaii is at a critical crossroad in the State's ongoing quest to reduce greenhouse gas emissions. In 2021, Hawaii became the first state in the nation to declare a climate emergency and is now poised to lead by example in mitigating the impacts of climate change through adaptive and preemptive actions to transition toward a multi-sector decarbonized economy. This is aligned with the ambitious Hawaii clean energy initiative, which seeks to achieve the nation's first-ever one hundred per cent renewable portfolio standards by the year 2045. The legislature acknowledged the necessity to analyze pathways and develop recommendations to achieve economy-wide decarbonization goals by adopting Act 238, Sessions Laws of Hawaii 2022.

The legislature additionally finds that the State has made progress in reducing greenhouse gas pathways by adopting alternatives to fossil fuel for electrical power generation and encouraging alternatives for ground transportation, including

the use of electric vehicles. Additionally, sustainable aviation fuel for air transportation is another pathway that deserves more robust exploration. Hawaii has the opportunity to accelerate its progress toward achieving net-zero or net-negative targets as quickly as practicable, but no later than 2045. As an island state heavily reliant on air transportation, it is important to provide incentives within the airline industry to encourage practices that lower carbon footprints.

The legislature acknowledges that total jet fuel consumption in Hawaii is seventeen million barrels (seven hundred fourteen million gallons) per year between civilian and military consumption. To provide greater energy security for the State, the legislature finds that instead of investing in imported crude oil or refined petroleum products and perpetuating the State's dependence on fossil fuels, local sustainable fuel production will allow investment in the local economy and support job creation.

The legislature further acknowledges that while sustainable aviation fuel offers multiple benefits, the cost of its production is several times that of conventional fuels. Thus, creating a regulatory framework to support local sustainable

aviation fuel production is critical. As with other states, Hawaii must look at policies that will work in tandem with federal policies to make sustainable aviation fuel production sustainable within the State.

Accordingly, the purpose of this Act is to advance Hawaii's commitment to reducing greenhouse gas emissions by amending the renewable fuels production tax credit by:

(1) Increasing the tax credit rate;

(2) Specifying that the credit may be claimed for fuels that meet certain lifecycle greenhouse gas emissions and product transportation emissions thresholds;

(3) Adding credit values for low lifecycle emissions renewable fuels and sustainable aviation fuels produced;

(4) Allowing a taxpayer who previously claimed a credit to claim another one for taxable years beginning after December 31, 2024;

(5) Amending the credit period to be for a maximum period of ten consecutive years, beginning from the effective date of this Act; and

(6) Amending the required information in the certified statement for the credit.

SECTION 2. Section 235-110.32, Hawaii Revised Statutes, is amended as follows:

1. By amending subsection (a) to read:

"(a) Each year during the credit period, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter a renewable fuels production tax credit that shall be applied to the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

For each taxpayer producing renewable fuels, the annual dollar amount of the renewable fuels production tax credit during the ten-year credit period shall be equal to [~~20~~] 35 cents per seventy-six thousand British thermal units of renewable fuels using the lower heating value sold for distribution in the State; provided that [~~the~~]:

(1) The taxpayer's production of renewable fuels is not less than two billion five hundred million British thermal units of renewable fuels per calendar year; provided [~~further that the amount of the tax credit~~

~~claimed under this section by a taxpayer shall not exceed $3,500,000 per taxable year; provided further that the tax credit shall only be claimed for fuels with lifecycle emissions below that of fossil fuels. No~~] that no other tax credit may be claimed under this chapter for the costs incurred to produce the renewable fuels that are used to properly claim a tax credit under this section for the taxable year[~~.~~];

(2) The tax credit shall only be claimed for fuels that meet the lifecycle greenhouse gas emissions reduction threshold and product transportation emissions threshold;

(3) There shall be an additional credit value of $1 per diesel gallon equivalent for low lifecycle emissions renewable fuels; and

(4) There shall be an additional credit value equal to $1 per gallon if the renewable fuel is sustainable aviation fuel.

Each taxpayer, together with all of its related entities as determined under section 267(b) of the Internal Revenue Code and all business entities under common control, as determined under

sections 414(b), 414(c), and 1563(a) of the Internal Revenue Code, shall not be eligible for more than a single [~~ten-year~~] credit period[~~.~~]; provided that taxpayers who previously claimed a tax credit under this section before the effective date of this Act may claim another tax credit for taxable years beginning after December 31, 2024."

2. By amending subsections (c) and (d) to read:

"(c) No later than thirty days following the close of the calendar year, every taxpayer claiming a credit under this section shall complete and file an independent, third-party certified statement, at the taxpayer's sole expense, with and in the form prescribed by the Hawaii state energy office, providing the following information:

(1) The type, quantity, and British thermal unit value, using the lower heating value, of each qualified fuel, broken down by the type of fuel, produced and sold during the previous calendar year;

(2) The feedstock used for each type of qualified fuel;

(3) The proposed total amount of credit to which the taxpayer is entitled for each calendar year and the

cumulative amount of the tax credit the taxpayer received during the credit period;

(4) The number of full-time and [~~number of~~] part-time employees of the facility and those employees' states of residency, totaled per state;

(5) The number and location of all renewable fuel production facilities within and outside of the State; [~~and~~]

(6) The lifecycle greenhouse gas emissions [~~per~~] in kilograms of carbon dioxide equivalent per million British thermal units for each type of qualified fuel produced[~~.~~]; and

(7) The lifecycle greenhouse gas emissions reported to the United States Department of the Treasury, if different than the emissions reported pursuant to paragraph (6).

(d) Within thirty calendar days after the due date of the statement required under subsection (c), the Hawaii state energy office shall:

(1) Acknowledge, in writing, receipt of the statement; and

(2) Issue a certificate to the taxpayer reporting the amount of renewable fuels produced and sold, the

amount of credit that the taxpayer is entitled to claim for the previous calendar year, and the cumulative amount of the tax credit during the credit period[~~; and~~

~~(3) Provide the taxpayer with a determination of whether the lifecycle greenhouse gas emissions for each type of qualified fuel produced is lower than that of fossil fuels~~]."

3. By amending subsection (f) to read:

"(f) The total amount of tax credits allowed under this section shall not exceed $20,000,000 for all eligible taxpayers in any calendar year. In the event that the credit claims under this section exceed [~~$20,000,000~~] the total amount allowed for all eligible taxpayers in any given calendar year, the [~~$20,000,000~~] total amount allowed shall be [~~divided between all~~] allocated to eligible taxpayers [~~for that year~~] in proportion to the total amount of renewable fuels [~~produced by all eligible taxpayers. Upon reaching $20,000,000 in the aggregate, the Hawaii state energy office shall immediately discontinue issuing certificates and notify the department of taxation. In no instance shall the total dollar amount of~~

~~certificates issued exceed $20,000,000 per calendar year.~~]
production tax credits under this section for the calendar year. No taxpayer shall be eligible for more than seventy-five per cent of the total amount allowed in any year. The total aggregate amount of additional credit value for sustainable aviation fuel under subsection (a)(4) shall not exceed fifty per cent of the total aggregate amount of renewable fuels production tax credits allowed in any year. To the extent that the limitations of this subsection reduce the amount of a taxpayer's credit, the amount of the reduction shall be available to the taxpayer to be used as a credit in the subsequent calendar year; provided that the credit shall not be carried over for any calendar year thereafter; provided further that the carryover credit shall be subject to the limitations of this subsection."

4. By amending subsection (o) to read:

"(o) As used in this section:

"Credit period" means a maximum period of ten consecutive years, beginning from [~~the first taxable year in which a taxpayer begins renewable fuels production at a level of at least two billion five-hundred million British thermal units of~~

~~renewable fuels per calendar year.~~] the effective date of this Act.

"Feedstock transportation emissions threshold" means the carbon intensity contribution associated with the oceangoing transportation of the feedstock from the feedstock producer to the renewable fuel producer is less than grams per megajoule as determined by the lifecycle greenhouse gas emissions analysis.

"Lifecycle greenhouse gas emissions" means the aggregate attributional core lifecycle greenhouse gas emissions values utilizing one of the following:

(1) The most recent version of the United States Department of Energy's Argonne National Laboratory's greenhouse gases, regulated emissions, and energy use in technologies model, including agricultural practices and carbon capture and sequestration; or

(2) Another lifecycle methodology approved by the Hawaii state energy office.

"Lifecycle greenhouse gas emissions reduction threshold" means a reduction in lifecycle greenhouse gas emissions of fifty

per cent compared to the fossil fuel for which the renewable fuel is most likely to replace.

"Low lifecycle emissions renewable fuels" means renewable fuel that meets the lifecycle greenhouse gas emissions reduction threshold, product transportation emissions threshold, and feedstock transportation emissions threshold.

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Product transportation emissions threshold" means the carbon intensity contribution associated with the oceangoing transportation of the finished fuel from the renewable fuel producer to the final distribution storage facility is less than grams per megajoule as determined by the lifecycle greenhouse gas emissions analysis.

"Renewable feedstocks" means:

(1) Biomass crops and other renewable organic material, including but not limited to logs, wood chips, wood pellets, and wood bark;

(2) Agricultural residue;

(3) Oil crops, including but not limited to algae, camelina, canola, jatropha, palm, soybean, and sunflower;

(4) Sugar and starch crops, including but not limited to sugar cane and cassava;

(5) Other agricultural crops;

(6) Grease, fats, tallows, and waste cooking oil;

(7) Food wastes;

(8) Municipal solid wastes [~~and~~], industrial wastes[~~,~~], and construction and demolition wastes;

(9) Water, including wastewater; [~~and~~]

(10) Bio-intermediate ethanol produced from renewable feedstock;

[~~(10)~~] (11) Animal residues and wastes[~~,~~];

(12) Biogas or renewable natural gas;

(13) Gaseous carbon dioxide; and

(14) Renewable or zero carbon energy resources,

that can be used to generate energy.

"Renewable fuels" means fuels produced from renewable feedstocks; provided that the fuel:

(1) Is sold as a fuel in the State; [~~and~~]

(2) Meets the lifecycle greenhouse gas emissions reduction threshold; and

[~~(2)~~] (3) Meets the relevant ASTM International specifications or other industry specifications for the particular fuel, including but not limited to:

(A) Methanol, ethanol, or other alcohols;

(B) Hydrogen;

(C) Biodiesel or renewable diesel;

(D) Biogas;

(E) Other biofuels;

(F) Renewable [~~jet fuel or renewable~~] gasoline[~~,~~] or renewable naphtha;

(G) Renewable propane or renewable liquid petroleum gases;

(H) Sustainable aviation fuel; or

[~~(G)~~] (I) Logs, wood chips, wood pellets, or wood bark.

"Sustainable aviation fuel" means liquid fuel that consists of synthesized hydrocarbons and meets the requirements of the American Society for Testing and Materials International Standard D7566 or D1655."

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

SECTION 4. This Act shall take effect on July 1, 3000, and shall apply to taxable years beginning after December 31, 2024.

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Report Title:
Renewable Fuels Production Tax Credit

Description:
Amends the renewable fuels production tax credit by: increasing the tax credit rate; specifying that the credit may be claimed for fuels that meet certain lifecycle greenhouse gas emissions and product transportation emissions thresholds; adding credit values for low lifecycle emissions renewable fuels and sustainable aviation fuels produced; allowing a taxpayer who previously claimed a credit to claim another credit for taxable years beginning after 12/31/2024; amending the credit period to be for a maximum period of ten consecutive years beginning from the effective date of this Act; and amending the required information in the certified statement. Effective 7/1/3000. (HD2)

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