
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 PART I

2 SECTION 1. The goal of this Act is to reduce Hawaii's
3 greenhouse gas emissions in furtherance of the State's zero
4 emissions clean economy target established in Act 15, Session
5 Laws of Hawaii 2018, and to provide financial relief in a
6 progressive manner to the residents of the State. To achieve
7 this goal, this Act establishes a carbon cashback program that
8 utilizes:

- 9 (1) The environmental response, energy, and food security
10 tax to reduce greenhouse gas emissions; and
11 (2) Refundable tax credits to mitigate the effect of the
12 tax on taxpayers.

13 One of the tools available for reducing greenhouse gas
14 emissions is to tax fossil fuels. When the tax is sufficient,
15 it has been proven to be effective in substantially reducing
16 consumption. Hawaii has a thirty-year history of assessing a
17 tax on fossil fuel distributors for fossil fuel distribution in



1 the State. However, the existing tax rate is not designed to
2 reduce consumption, but rather to generate funding to mitigate
3 some of the risks and adverse impacts of fossil fuel use and
4 climate change. This Act raises the tax in increments,
5 gradually increasing its effect in reducing the consumption of
6 fossil fuels.

7 The environmental response tax was established by Act 300,
8 Session Laws of Hawaii 1993. Initially, the tax rate for
9 petroleum products was 5 cents per barrel. The tax revenue was
10 used to:

- 11 (1) Prevent, remove, and remediate oil spills;
 - 12 (2) Support oil recycling programs; and
 - 13 (3) Address concerns related to underground storage tanks.
- 14 Later, Act 73, Session Laws of Hawaii 2010, increased the tax to
15 \$1.05 per barrel and renamed the tax the environmental response,
16 energy, and food security tax. Act 73 also expanded the purpose
17 of the tax by funding activities that mitigate the adverse
18 impacts of climate change.

19 The legislature finds that a policy that taxes fossil fuels
20 based on their emissions, often called a carbon tax, and returns
21 the revenues, commonly known as dividends, has received broad



1 support from economists. More than three thousand six hundred
2 economists have signed a statement endorsing the carbon tax and
3 dividend concept, including twenty-eight Nobel Laureate
4 economists, four former Chairs of the Federal Reserve, and
5 fifteen former Chairs of the Council of Economic Advisors. The
6 statement reads, in part, "[a] carbon tax offers the most cost-
7 effective lever to reduce carbon emissions at the scale and
8 speed that is necessary." The statement goes on to say that the
9 carbon tax should be increased until emission reduction goals
10 are met.

11 In accordance with Act 122, Session Laws of Hawaii 2019,
12 the state energy office commissioned "a study of carbon pricing,
13 including whether and how a carbon pricing policy shall be
14 implemented in Hawaii". In April 2021, the university of Hawaii
15 economic research organization (UHERO) completed the study in
16 April 2021, entitled, "Carbon Pricing Assessment for Hawai'i:
17 Economic and Greenhouse Gas Impacts". The study concluded that
18 a carbon tax and dividend policy would substantially reduce the
19 consumption of fossil fuels, and most of Hawaii's households
20 would receive a net financial benefit, with lower-income
21 households gaining the most.



1 This Act expands the purpose of the environmental response,
2 energy, and food security tax in order to effectively reduce
3 greenhouse gas emissions and renames the tax as the
4 environmental response, energy, carbon emissions, and food
5 security tax. The increase in the tax under this Act is
6 informally referred herein as the "carbon emissions tax" for
7 descriptive purposes and to distinguish it from the existing tax
8 rate. The carbon emissions tax rates are derived from the low
9 tax scenario considered in the UHERO study, updated for
10 inflation. The tax rates in the UHERO study, which are
11 expressed in dollars per metric ton of carbon dioxide
12 equivalent, are converted to the units used in the environmental
13 response, energy, carbon emissions, and food security tax, which
14 are dollars per barrel for petroleum products and dollars per
15 million British thermal units for other types of fossil fuels,
16 such as natural gas. The carbon dioxide equivalent factors for
17 petroleum and non-petroleum fossil fuels include the emissions
18 of carbon dioxide, methane, and nitrous oxide. These emission
19 factors are taken from the United States Environmental
20 Protection Agency's Emission Factors for Greenhouse Gas
21 Inventories (modified April 1, 2021).



1 The progression of the increase in the carbon emissions tax
2 differs from that which is considered in the UHERO study by
3 starting lower in the initial year to avoid a sudden large
4 increase in prices, then increasing until the tenth year of
5 implementation, when it approximates the rate considered in the
6 UHERO study at that point. From that year forward, the annual
7 increase in the tax only accounts for expected inflation. Part
8 of the tax will be used to administer the program, including a
9 public awareness campaign.

10 This Act also reenacts the agricultural development and
11 food security special fund, which was repealed in 2021. At that
12 time, the State found itself in a budget crisis due to a
13 reduction in the general fund, as a result of the COVID-19
14 pandemic. Moneys from the repealed agricultural development and
15 food security special fund were used to fortify the general
16 fund. The legislature finds that the State is now in a more
17 stable financial condition. The legislature further finds that
18 agriculture and food security are just as critical to Hawaii's
19 future as ever, and for those reasons the special fund should be
20 reenacted.

21 Accordingly, the purpose of this Act is to:



- (1) Reenact the agricultural development and food security special fund;
- (2) Establish and appropriate funds into the carbon emissions tax and dividend special fund;
- (3) Establish a refundable carbon cashback tax credit to mitigate the effect of the tax on carbon emissions on taxpayers; and
- (4) Amend the environmental response, energy, and food security tax by taxing fossil fuels based on their emissions.

PART II

SECTION 2. Chapter 141, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§141- Agricultural development and food security special fund; establishment. (a) There is established within the state treasury the agricultural development and food security special fund.

(b) The following moneys shall be deposited into the special fund:



1 (1) The portion of the environmental response, energy,
2 carbon emissions, and food security tax specified
3 under section 243-3.5;

4 (2) Any appropriation by the legislature into the special
5 fund;

6 (3) Any grant or donation made to the special fund; and

7 (4) Any interest earned on the balance of the special
8 fund.

9 (c) Subject to legislative appropriation, moneys in the
10 special fund may be expended for the following purposes:

11 (1) The awarding of grants to farmers for agricultural
12 production or processing activity;

13 (2) The acquisition of real property for agricultural
14 production or processing activity;

15 (3) The improvement of real property, irrigation systems,
16 and transportation networks necessary to promote
17 agricultural production or processing activity;

18 (4) The purchase of equipment necessary for agricultural
19 production or processing activity;

20 (5) The conduct of research on and testing of agricultural
21 products and markets;



1 (6) The funding of agricultural inspector positions within
2 the department of agriculture;

3 (7) The promotion and marketing of agricultural products
4 grown or raised in the State; and

5 (8) Any other activity that is intended to increase
6 agricultural production or processing and that may
7 lead to reduced importation of food, fodder, or feed
8 from outside the State.

9 (d) No later than twenty days prior to the convening of
10 each regular session, the department of agriculture shall submit
11 a report to the legislature on the status and progress of
12 existing programs and activities and the status of new programs
13 and activities funded under the agricultural development and
14 food security special fund. The report shall also include:

15 (1) The spending plan of the agricultural development and
16 food security special fund;

17 (2) All expenditures of agricultural development and food
18 security special fund moneys;

19 (3) The targeted markets of the expenditures, including
20 reasons for selecting those markets;

21 (4) The persons to be served using the expenditures; and



(5) The specific objectives of the expenditures, including measurable outcomes."

SECTION 3. Chapter 231, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§231- Carbon emissions tax and dividend special fund.

(a) There is established the carbon emissions tax and dividend special fund, into which shall be deposited the amount specified by section 243-3.5.

(b) Moneys in the carbon emissions tax and dividend special fund shall be administered by the department of taxation and shall be expended for salaries, contracted services, supplies, and other administrative expenses to:

(1) Administer the environmental response, energy, carbon emissions, and food security tax;

(2) Administer the refundable tax credits established by section 235- ; and

(3) Increase public awareness and interest in the refundable tax credits established by section 235- ."



SECTION 4. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to part III to be appropriately designated and to read as follows:

"§235- Carbon cashback tax credit. (a) There shall be allowed to each qualifying taxpayer subject to the tax imposed under this chapter, a carbon cashback tax credit that shall be applied against the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the tax credit shall be equal to the sum of the following:

(1) Amount based on taxpayer's filing status:

(A) For taxpayers filing as single or married filing separately:

\$40 for 2026

\$80 for 2027

\$154 for 2028

\$222 for 2029

\$283 for 2030

\$335 for 2031

\$380 for 2032



1 \$418 for 2033
2 \$449 for 2034
3 \$473 for 2035
4 \$473 for 2036
5 \$471 for 2037
6 \$469 for 2038
7 \$466 for 2039
8 \$462 for 2040
9 \$442 for 2041
10 \$421 for 2042
11 \$397 for 2043
12 \$373 for 2044
13 \$346 for 2045;
14 (B) For taxpayers filing as a head of household:
15 \$40 for 2026
16 \$80 for 2027
17 \$154 for 2028
18 \$222 for 2029
19 \$283 for 2030
20 \$335 for 2031
21 \$380 for 2032



1 \$418 for 2033
2 \$449 for 2034
3 \$473 for 2035
4 \$473 for 2036
5 \$471 for 2037
6 \$469 for 2038
7 \$466 for 2039
8 \$462 for 2040
9 \$442 for 2041
10 \$421 for 2042
11 \$397 for 2043
12 \$373 for 2044
13 \$346 for 2045; and
14 (C) For taxpayers filing a joint return or as a
15 surviving spouse:
16 \$83 for 2026
17 \$161 for 2027
18 \$309 for 2028
19 \$444 for 2029
20 \$565 for 2030
21 \$670 for 2031



1 \$760 for 2032
2 \$836 for 2033
3 \$898 for 2034
4 \$946 for 2035
5 \$946 for 2036
6 \$943 for 2037
7 \$939 for 2038
8 \$932 for 2039
9 \$925 for 2040
10 \$885 for 2041
11 \$841 for 2042
12 \$795 for 2043
13 \$745 for 2044
14 \$693 for 2045; and
15 (2) Amount per dependent claimed:
16 \$20 for 2026
17 \$40 for 2027
18 \$77 for 2028
19 \$111 for 2029
20 \$141 for 2030
21 \$167 for 2031



1 \$190 for 2032
2 \$209 for 2033
3 \$225 for 2034
4 \$237 for 2035
5 \$236 for 2036
6 \$236 for 2037
7 \$235 for 2038
8 \$233 for 2039
9 \$231 for 2040
10 \$221 for 2041
11 \$210 for 2042
12 \$199 for 2043
13 \$186 for 2044
14 \$173 for 2045.

15 (c) If the tax credit claimed by the taxpayer under this
16 section exceeds the amount of the income tax payments due from
17 the taxpayer, the excess of credit over payments due shall be
18 refunded to the taxpayer; provided that the tax credit properly
19 claimed by a taxpayer who has no income tax liability shall be
20 paid to the taxpayer; provided further that no refunds or



1 payments on account of the tax credit allowed by this section
2 shall be made for amounts less than \$1.

3 All claims for the tax credit under this section, including
4 amended claims, shall be filed on or before the end of the
5 twelfth month following the close of the taxable year for which
6 the credit may be claimed. Failure to comply with the foregoing
7 provision shall constitute a waiver of the right to claim the
8 credit.

9 (d) The director of taxation:

10 (1) Shall prepare any forms that may be necessary to claim
11 a tax credit under this section;

12 (2) May require the taxpayer to furnish reasonable
13 information to ascertain the validity of the claim for
14 the tax credit made under this section; and

15 (3) May adopt rules under chapter 91 necessary to
16 effectuate the purposes of this section.

17 (e) All of the provisions relating to assessments and
18 refunds under this chapter and under section 231-23(c)(1) shall
19 apply to the tax credit under this section.

20 (f) As used in this section, "qualifying taxpayer" means a
21 person subject to the taxes imposed by this chapter.



1 "Qualifying taxpayer" shall not include any person who is
2 claimed or is otherwise eligible to be claimed as a dependent by
3 another taxpayer for federal or Hawaii state individual income
4 tax purposes."

5 SECTION 5. Section 128D-2, Hawaii Revised Statutes, is
6 amended by amending subsection (a) to read as follows:

7 "(a) There is created within the state treasury an
8 environmental response revolving fund, which shall consist of
9 moneys appropriated to the fund by the legislature, moneys paid
10 to the fund as a result of departmental compliance proceedings,
11 moneys paid to the fund pursuant to court-ordered awards or
12 judgments, moneys paid to the fund in court-approved or
13 out-of-court settlements, all interest attributable to
14 investment of money deposited in the fund, moneys deposited in
15 the fund from the environmental response, energy, carbon
16 emissions, and food security tax pursuant to section 243-3.5,
17 and moneys allotted to the fund from other sources."

18 SECTION 6. Section 201-12.8, Hawaii Revised Statutes, is
19 amended by amending subsection (a) to read as follows:

20 "(a) There is created within the state treasury an energy
21 security special fund, which shall consist of:



- 1 (1) The portion of the environmental response, energy,
2 carbon emissions, and food security tax specified
3 under section 243-3.5;
- 4 (2) Moneys appropriated to the fund by the legislature;
- 5 (3) All interest attributable to investment of money
6 deposited in the fund; and
- 7 (4) Moneys allotted to the fund from other sources,
8 including under section 196-6.5."

9 SECTION 7. Section 243-3.5, Hawaii Revised Statutes, is
10 amended to read as follows:

11 **"§243-3.5 Environmental response, energy, carbon**
12 **emissions, and food security tax; uses.** (a) In addition to any
13 other taxes provided by law, subject to the exemptions set forth
14 in section 243-7, there is hereby imposed a state environmental
15 response, energy, carbon emissions, and food security tax on
16 each barrel or fractional part of a barrel of petroleum product
17 sold by a distributor to any retail dealer or end user of
18 petroleum product, other than a refiner. The tax [~~shall be~~
19 ~~\$1.05~~] on each barrel or fractional part of a barrel of
20 petroleum product [~~that is not aviation fuel; provided that of~~



~~the tax collected pursuant to this subsection:] shall be in the~~
amount provided for each year as follows:

2026: \$3.15;

2027: \$5.25;

2028: \$9.45;

2029: \$13.65;

2030: \$17.85;

2031: \$22.05;

2032: \$26.25;

2033: \$30.45;

2034: \$34.65;

2035: \$38.85; and

2036: \$40.11; and

the tax shall be increased by \$1.26 on each barrel or fractional
part of a barrel of petroleum product each year thereafter.

The tax for each year referenced above shall take effect on
January 1 of that year and shall continue until the effective
date of the next increment.

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



1 (b) Tax revenues collected pursuant to subsection (a)
2 shall be distributed in the following priority each fiscal year,
3 with the excess revenues to be deposited into the general fund:

4 (1) ~~[5 cents of the tax on each barrel]~~ \$1,201,000 shall
5 be deposited into the environmental response revolving
6 fund established under section 128D-2;

7 (2) ~~[4 cents of the tax on each barrel]~~ \$892,800 shall be
8 deposited into the energy security special fund
9 established under section 201-12.8;

10 (3) ~~[5 cents of the tax on each barrel]~~ \$1,116,000 shall
11 be deposited into the energy systems development
12 special fund established under section 304A-2169.1;

13 (4) ~~[3 cents of the tax on each barrel]~~ \$669,600 shall be
14 deposited into the electric vehicle charging system
15 subaccount established pursuant to section 269-33(e);
16 ~~[and]~~

17 (5) ~~[3 cents of the tax on each barrel]~~ \$669,600 shall be
18 deposited into the hydrogen fueling system subaccount
19 established pursuant to section 269-33(f) ~~[=]~~ ;



(6) \$3,000,000 shall be deposited into the agricultural development and food security special fund established under section 141- ;

(7) \$1,000,000 shall be deposited into the carbon emissions tax and dividend special fund established under section 231- ;

(8) per cent of all taxes paid shall be deposited in the airport revenue fund established under section 248-8 to reduce carbon emissions; and

(9) per cent of all taxes paid shall be deposited in the boating special fund established under section 248-8.

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

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



~~subsection:]~~ shall be in the amount provided for each year as follows:

2026: \$0.49;

2027: \$0.79;

2028: \$1.39;

2029: \$1.99;

2030: \$2.59;

2031: \$3.19;

2032: \$3.79;

2033: \$4.39;

2034: \$4.99;

2035: \$5.59; and

2036: \$5.77; and

the tax shall be increased by \$0.18 on each one million British thermal units of fossil fuel each year thereafter.

The tax for each year referenced above shall take effect on January 1 of that year and shall continue until the effective date of the next increment.

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



1 (d) Tax revenues collected pursuant to subsection (c)
2 shall be distributed in the following priority each fiscal year,
3 with the excess revenues to be deposited into the general fund:

4 (1) ~~[4.8 per cent of the tax on each one million British~~
5 ~~thermal units]~~ \$49,000 shall be deposited into the
6 environmental response revolving fund established
7 under section 128D-2;

8 (2) ~~[14.3 per cent of the tax on each one million British~~
9 ~~thermal units]~~ \$147,000 shall be deposited into the
10 energy security special fund established under
11 section 201-12.8; and

12 (3) ~~[9.5 per cent of the tax on each one million British~~
13 ~~thermal units]~~ \$98,000 shall be deposited into the
14 energy systems development special fund established
15 under section 304A-2169.1.

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

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



1 provided that this exemption from taxation shall not apply to
2 any extension of an existing power purchase agreement or to any
3 subsequent power purchase agreement. An independent power
4 producer shall be permitted to pass the tax imposed under
5 subsection ~~[(b)]~~ (c) on to an electric utility. In ~~[which~~
6 ~~ease,~~ any case in which the tax is passed on, the electric
7 utility may recover the cost of the tax through an appropriate
8 surcharge to the end user that is approved by the public
9 utilities commission.

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

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



1 [~~(f)~~] (h) Notwithstanding section 248-8 to the contrary,
2 the environmental response, energy, carbon emissions, and food
3 security tax collected under this section shall be paid over to
4 the director of finance for deposit as provided in subsection
5 [~~(a)~~] (b) or [~~(b)~~] (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 units,
17 using the United States Department of Energy, Energy Information
18 Administration annual energy review or annual energy outlook.

19 "Fossil fuel" means a [~~hydrocarbon deposit,~~] fuel, such as
20 coal, natural gas, or liquefied natural gas, derived from a
21 hydrocarbon deposit resulting from the accumulated remains of



1 ancient plants or animals [~~and used for fuel~~]; provided that the
2 term specifically does not include petroleum product."

3 SECTION 8. Section 304A-2169.1, Hawaii Revised Statutes,
4 is amended by amending subsection (b) to read as follows:

5 "(b) Deposits into the special fund may be from the
6 following:

7 (1) Appropriations from the legislature;

8 (2) A portion of the environmental response, energy,
9 carbon emissions, and food security tax pursuant to
10 section 243-3.5; and

11 (3) Investment earnings, gifts, donations, or other income
12 received by the Hawaii natural energy institute."

13 PART III

14 SECTION 9. There is appropriated out of the general fund
15 the sum of \$ or so much thereof as may be necessary
16 for fiscal year 2025-2026 to be deposited into the carbon
17 emissions tax and dividend special fund.

18 SECTION 10. There is appropriated out of the carbon
19 emissions tax and dividend special fund the sum of
20 \$ or so much thereof as may be necessary for fiscal



1 year 2025-2026 to fund the first year of the carbon cashback tax
2 credit program.

3 The sum appropriated shall be expended by the department of
4 taxation for the purposes of this Act.

5 PART IV

6 SECTION 11. The department of taxation shall submit an
7 interim report to the legislature no later than forty days prior
8 to the convening of the regular session of 2026 on preparations
9 for the implementation of the carbon cashback program.

10 The department of taxation shall submit a report to the
11 legislature no later than forty days prior to the convening of
12 each regular session from 2027 until 2035, inclusive, with
13 information about the carbon cashback program. The report shall
14 include revenues from the environmental response, energy, carbon
15 emissions, and food security tax and the amounts distributed
16 through the refundable tax credits under section 235- , Hawaii
17 Revised Statutes. The report shall include any information
18 necessary for the legislature to assess the need to adjust the
19 amounts of the refundable tax credits in future years.

20 SECTION 12. The office of planning and sustainable
21 development, in consultation with the department of taxation,



1 shall submit a report to the legislature no later than forty
2 days prior to the convening of the regular session of 2035. The
3 report shall include an evaluation of the carbon cashback
4 program and any recommended changes to the program, including
5 proposed legislation.

6 PART V

7 SECTION 13. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 14. This Act shall take effect on July 1, 3000;
10 provided that:

11 (1) Section 4 shall apply to taxable years beginning after
12 December 31, 2024;

13 (2) Section 7 shall take effect on January 1, 2026, and
14 shall apply to taxable years beginning after December
15 31, 2025; and

16 (3) Part III shall take effect on July 1, 2025.



Report Title:

Environmental Response, Energy, and Food Security Tax; Carbon Emissions; Tax Credit; Agricultural Development and Food Security Special Fund; Carbon Emissions Tax and Dividend Special Fund; Appropriation

Description:

Reenacts the agricultural development and food security special fund. Establishes and appropriates moneys into the carbon emissions tax and dividend special fund. Establishes a refundable tax credit to mitigate the effect of a carbon emissions tax on taxpayers. Amends the environmental response, energy, and food security tax by taxing fossil fuels based on their emissions. Requires reports to the Legislature. Effective 7/1/3000. (HD1)

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

