
A BILL FOR AN ACT

RELATING TO CARBON DISPLACEMENT.

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

1 SECTION 1. The legislature finds that imported goods often
2 carry a high, uncharged carbon cost due to long-distance
3 transport, the use of fossil fuels, and associated greenhouse
4 gas emissions. Locally produced goods, when they replace or
5 displace imported goods, reduce these carbon emissions by
6 minimizing transportation distances and fuel usage. Current
7 market prices do not fully account for the invisible or
8 externalized costs of greenhouse gas emissions associated with
9 imported goods.

10 The legislature further finds that encouraging the
11 production and consumption of locally sourced goods can help the
12 State meet its climate goals, support local businesses, and
13 reduce dependency on external supply chains.

14 The purpose of this Act is to establish a system under
15 which producers of certain local goods that displace equivalent
16 imported products may claim a carbon displacement tax credit to



1 reflect the uncharged carbon cost avoided by not importing those
2 goods.

3 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
4 amended by adding a new section to part I to be appropriately
5 designated and to read as follows:

6 "§235- Carbon displacement tax credit. (a) There
7 shall be allowed to each taxpayer subject to the tax imposed by
8 this chapter, a tax credit for carbon displacement that shall be
9 deductible from the taxpayer's net income tax liability, if any,
10 imposed by this chapter for the taxable year in which the tax
11 credit is properly claimed.

12 (b) The amount of the tax credit determined under this
13 section for the taxable year shall be equal to the amount
14 specified in the carbon displacement certificate issued to the
15 taxpayer by the department of business, economic development,
16 and tourism for the taxable year in which the certificate is
17 issued.

18 (c) The tax credit allowed under this section shall be
19 claimed against net income tax liability for the taxable year.
20 A tax credit under this section that exceeds the taxpayer's
21 income tax liability may be used as a credit against the



1 taxpayer's income tax liability in subsequent years until
2 exhausted.

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

9 (e) To obtain a carbon displacement certificate, a
10 taxpayer shall submit an application to the department of
11 business, economic development, and tourism containing:

12 (1) A detailed description of the goods locally produced
13 by the taxpayer;

14 (2) The estimated quantity of equivalent imported product
15 that the goods locally produced by the taxpayer will
16 replace in the State during the applicable tax year;

17 (3) Documentation of market data, contracts, or sales
18 projections demonstrating the likelihood of displacing
19 imports; and

20 (4) Any additional information required by the department
21 to assess carbon displacement.



1 (f) The department of business, economic development, and
2 tourism shall approve the application and issue a carbon
3 displacement certificate to a taxpayer if the department
4 determines that:

5 (1) The goods locally produced by the taxpayer are
6 substantially similar to the imported goods the
7 application claims to replace;

8 (2) At least fifty per cent of the value added by the
9 taxpayer for the locally produced goods occurs within
10 the State; and

11 (3) There is a reasonable expectation, supported by
12 evidence, that the goods locally produced by the
13 taxpayer will reduce the volume of imported equivalent
14 goods.

15 The carbon displacement certificate shall include the amount of
16 the tax credit the taxpayer may claim and shall be calculated as
17 specified in subsection (h).

18 (g) Any taxpayer that is issued a carbon displacement
19 certificate shall submit an annual report to the department of
20 business, economic development, and tourism verifying actual
21 sales, quantities, and market share displaced. The department



1 may adjust credits in subsequent years if actual displacement
2 deviates significantly from projections.

3 (h) The department of business, economic development, and
4 tourism shall establish by rule a standardized formula to
5 calculate the amount of the tax credit for each unit of the
6 local product, reflecting:

7 (1) The average greenhouse gas emissions factor for
8 importing an equivalent product to Hawaii from a
9 typical export location;

10 (2) Adjustments for different modes of transportation of
11 the product by air or land; and

12 (3) Adjustments for any known variations in supply chain
13 emissions.

14 The formula may be based upon weight, volume, or another
15 relevant metric. The carbon displacement credit for each unit
16 of local production shall be the greenhouse gas emissions factor
17 multiplied by the applicable carbon cost rate. This carbon cost
18 rate may be updated periodically to align with current state or
19 federal carbon pricing guidelines.

20 (i) The department shall adopt rules under chapter 91 to
21 implement this section, including:



1 (1) The methodology for verifying displaced imports;

2 (2) The greenhouse gas emissions factor per product
3 category; and

4 (3) The procedure for credit distribution, tracking, and
5 recapture.

6 (j) The department of business, economic development, and
7 tourism may conduct periodic audits of taxpayers receiving
8 credits to verify compliance. Taxpayers found to have knowingly
9 submitted inaccurate information or falsified records shall be
10 subject to penalties, including repayment of credits plus
11 interest, and potential ineligibility for future participation.

12 (k) The department shall submit an annual report to the
13 legislature that includes:

14 (1) The number of approved taxpayers and total amount of
15 goods subject to the tax credit;

16 (2) The total amount of tax credits issued and the
17 estimated reduction in greenhouse gas emissions; and

18 (3) Recommendations for improving program efficiency,
19 adjusting the carbon cost rate, or expanding the
20 program to additional product categories.

21 (l) For purposes of this section:



1 "Equivalent imported product" means a product that is
2 similar in function, quality, and primary use to the locally
3 produced good for which the tax credit is sought.

4 "Greenhouse gas emissions factor" means a standardized
5 measure of carbon dioxide or carbon dioxide-equivalent emissions
6 associated with transporting goods, as determined by the
7 department through rulemaking, taking into account distance,
8 mode of transport, and typical fuel usage."

9 SECTION 3. If any provision of this Act, or the
10 application thereof to any person or circumstance, is held
11 invalid, the invalidity does not affect other provisions or
12 applications of the Act that can be given effect without the
13 invalid provision or application, and to this end the provisions
14 of this Act are severable.

15 SECTION 4. There is appropriated out of the general
16 révenues of the State of Hawaii the sum of \$ or so much
17 thereof as may be necessary for fiscal year 2025-2026 and the
18 same sum or so much thereof as may be necessary for fiscal year
19 2026-2027 for the department of business, economic development,
20 and tourism to review applications and issue carbon displacement
21 certificates.



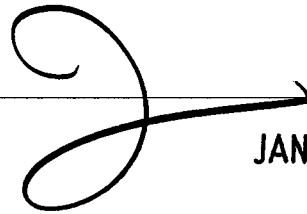
1 The sums appropriated shall be expended by the department
2 of business, economic development, and tourism for the purposes
3 of this Act.

4 SECTION 5. New statutory material is underscored.

5 SECTION 6. This Act, upon its approval, shall apply to
6 taxable years beginning after December 31, 2024.

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INTRODUCED BY: _____

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JAN 21 2025



H.B. NO. 946

Report Title:

Tax Credit; Carbon Displacement; DBEDT

Description:

Establishes a carbon displacement tax credit for taxpayers of locally produced goods. Requires the Department of Business, Economic Development, and Tourism to certify tax credit amounts.

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