

JAN 23 2026

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that based on the carbon
2 pricing study commissioned under Act 122, Session Laws of Hawaii
3 2019, and the findings and recommendations of the 2020-2022 tax
4 review commission's final report, establishing a carbon cashback
5 program that increases taxes on fossil fuels and distributes
6 most of the new tax revenues back to taxpayers would be a
7 cost-effective and equitable way to reduce the State's
8 greenhouse gas emissions, as well as to provide financial relief
9 to most households in the State.

10 Accordingly, the purpose of this Act is to establish a
11 carbon cashback program that:

- 12 (1) Gradually increases the environmental response,
13 energy, carbon emissions, and food security tax to
14 reduce fossil fuel imports and reduce greenhouse gas
15 emissions and pollution in furtherance of the State's
16 zero emissions clean economy target established in
17 Act 15, Session Laws of Hawaii 2018; and



(2) Distributes most of the new tax revenues as refundable income tax credits to mitigate the effect of the increased tax on income taxpayers and provide net financial benefits to most of them.

SECTION 2. 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 carbon cashback tax credit established by section 235- ; and



1 (3) Increase public awareness and interest in the carbon
2 cashback tax credit established by section 235- and
3 other refundable tax credits.

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

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

13 (b) The amount of the tax credit for the first taxable
14 year beginning after December 31, 2025, shall be equal to the
15 sum of the following:

- 16 (1) \$52 for a taxpayer filing as single or married filing
17 separately;
18 (2) \$52 for a taxpayer filing as a head of household;
19 (3) \$104 for a taxpayer filing a joint return or as a
20 surviving spouse; and
21 (4) \$26 per dependent claimed by the taxpayer.



1 (c) The amount of the tax credit for any taxable year
2 beginning after December 31, 2026, shall be as specified in
3 subsection (d), where the value of one share shall be the amount
4 of revenue collected through the environmental response, energy,
5 carbon emissions, and food security tax specified under section
6 243-3.5 and deposited into the general fund in the calendar year
7 that ends with the end of the corresponding taxable year,
8 divided by the number of whole shares, where the number of whole
9 shares is 1,440,000.

10 (d) The amount of the credit for any taxable year
11 beginning after December 31, 2026, shall be equal to the sum of
12 the following:

13 (1) One share for a taxpayer filing as single or married
14 filing separately;

15 (2) One share for a taxpayer filing as a head of
16 household;

17 (3) Two shares for a taxpayer filing a joint return or as
18 a surviving spouse; and

19 (4) 0.5 shares per dependent claimed by the taxpayer.

20 (e) If the tax credit allowed to the taxpayer under this
21 section exceeds the amount of the income tax payments due from



1 the taxpayer, the excess of credit over payments due shall be
2 refunded to the taxpayer; provided that the tax credit properly
3 allowed to a taxpayer who has no income tax liability shall be
4 paid to the taxpayer; provided further that no refunds or
5 payments on account of the tax credit allowed by this section
6 shall be made for amounts less than \$1.

7 To be allowed a tax credit under this section, the
8 individual income tax return, including amended returns, shall
9 be filed on or before the end of the twelfth month following the
10 close of the taxable year for which the credit is allowed.
11 Failure to comply with the foregoing provision shall constitute
12 a waiver of the right to be issued the credit.

13 (f) Any carbon cashback tax credits not issued pursuant to
14 this section for the most recent taxable year for which the
15 return filing deadline has passed shall be allocated to the Med-
16 QUEST division of the department of human services that
17 administers the State's medicaid program. To determine the
18 amount of credits not issued, the department of taxation shall
19 calculate the product of the number of whole shares and the
20 value of one share for the relevant taxable year, less the total
21 amount of eligible allowances for carbon cashback tax credits



1 issued for the relevant taxable year. The department of
2 taxation may use a substantively similar calculation to
3 determine the amount.

4 (g) The director of taxation:

5 (1) Shall prepare any forms that may be necessary to allow
6 issuance of a tax credit under this section in a
7 manner that does not require an explicit claim by the
8 taxpayer;

9 (2) Shall alert eligible taxpayers of the tax credit using
10 appropriate means; and

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

13 (h) All of the provisions relating to assessments and
14 refunds under this chapter and under section 231-23(c)(1) shall
15 apply to the tax credit under this section.

16 (i) As used in this section, "qualifying taxpayer" means a
17 person subject to the taxes imposed by this chapter.

18 "Qualifying taxpayer" does not include any person who is claimed
19 or is otherwise eligible to be claimed as a dependent by another
20 taxpayer for federal or Hawaii state individual income tax
21 purposes."



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SECTION 4. Section 128D-2, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

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

SECTION 5. Section 201-12.8, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

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

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

(2) Moneys appropriated to the fund by the legislature;



(3) All interest attributable to investment of money deposited in the fund; and

(4) Moneys allotted to the fund from other sources, including under section 196-6.5."

SECTION 6. Section 243-3.5, Hawaii Revised Statutes, is amended to read as follows:

"§243-3.5 Environmental response, energy, carbon emissions, and food security tax; uses. (a) In addition to any other taxes provided by law, subject to the exemptions set forth in section 243-7, there is hereby imposed a state environmental response, energy, carbon emissions, and food security tax on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user of petroleum product, other than a refiner. The tax ~~[shall be \$1.05]~~ on each barrel or fractional part of a barrel of 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:

(1) \$5.25 for 2027;

(2) \$9.45 for 2028;

(3) \$13.65 for 2029;



1 (4) \$17.85 for 2030;

2 (5) \$22.05 for 2031;

3 (6) \$26.25 for 2032;

4 (7) \$30.45 for 2033;

5 (8) \$34.65 for 2034;

6 (9) \$38.85 for 2035; and

7 (10) \$43.05 for 2036;

8 provided that the tax shall be increased by \$1.00 on each barrel
9 or fractional part of a barrel of petroleum product each year
10 thereafter.

11 The tax for each year referenced above shall take effect on
12 January 1 of that year and shall continue until the effective
13 date of the next increment. The tax imposed by this subsection
14 shall be paid by the distributor of the petroleum product.

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

18 (1) 5 cents of the tax on each barrel shall be deposited
19 into the environmental response revolving fund
20 established under section 128D-2;



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- 1 (2) 4 cents of the tax on each barrel shall be deposited
2 into the energy security special fund established
3 under section 201-12.8;
- 4 (3) 5 cents of the tax on each barrel shall be deposited
5 into the energy systems development special fund
6 established under section 304A-2169.1;
- 7 (4) 3 cents of the tax on each barrel shall be deposited
8 into the electric vehicle charging system subaccount
9 established pursuant to section 269-33(e); ~~[and]~~
- 10 (5) 3 cents of the tax on each barrel shall be deposited
11 into the hydrogen fueling system subaccount
12 established pursuant to section 269-33(f) ~~[-]~~;
- 13 (6) \$1,000,000 shall be deposited into the carbon
14 emissions tax and dividend special fund established
15 under section 231- ;
- 16 (7) All of the tax collected on aviation fuel shall be
17 deposited in the airport revenue fund established
18 under section 248-8; and
- 19 (8) \$1.05 of the tax on each barrel of liquid fuel sold
20 for use in or used for small boats shall be deposited
21 in the boating special fund established under section



1 248-8, in accordance with the meaning of "small
2 boats", as defined in section 248-8, and the method of
3 determining the amount of tax derived from the sale of
4 liquid fuel for use in or used for small boats as
5 specified in section 248-8.

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

8 ~~(b)]~~ (c) In addition to subsection (a), the environmental
9 response, energy, carbon emissions, and food security tax shall
10 also be imposed on each one million British thermal units of
11 fossil fuel sold by a distributor to any retail dealer or end
12 user, other than a refiner, of fossil fuel. The tax ~~[shall be~~
13 ~~19 cents]~~ on each one million British thermal units of fossil
14 fuel ~~[, provided that of the tax collected pursuant to this~~
15 ~~subsection:]~~ shall be in the amount provided for each year as
16 follows:

- 17 (1) \$0.79 for 2027;
18 (2) \$1.39 for 2028;
19 (3) \$1.99 for 2029;
20 (4) \$2.59 for 2030;
21 (5) \$3.19 for 2031;



1 (6) \$3.79 for 2032;

2 (7) \$4.39 for 2033;

3 (8) \$4.99 for 2034;

4 (9) \$5.59 for 2035; and

5 (10) \$6.09 for 2036;

6 provided that the tax shall be increased by 15 cents on each one
7 million British thermal units of fossil fuel each year
8 thereafter.

9 The tax for each year referenced above shall take effect on
10 January 1 of that year and shall continue until the effective
11 date of the next increment. The tax imposed by this subsection
12 shall be paid by the distributor of the fossil fuel.

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

16 (1) 4.8 per cent of the tax on each one million British
17 thermal units shall be deposited into the
18 environmental response revolving fund established
19 under section 128D-2;

20 (2) 14.3 per cent of the tax on each one million British
21 thermal units shall be deposited into the energy



1 security special fund established under section
2 201-12.8; and

3 (3) 9.5 per cent of the tax on each one million British
4 thermal units shall be deposited into the energy
5 systems development special fund established under
6 section 304A-2169.1.

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

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



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

5 ~~[(e)]~~ (g) Each distributor subject to the tax imposed by
6 subsection (a) or ~~[(b)]~~ (c), on or before the last day of each
7 calendar month, shall file, in the form and manner prescribed by
8 the department, a return statement of the tax under this section
9 for which the distributor is liable for the preceding month.

10 The form and payment of the tax shall be transmitted to the
11 department in the form and manner prescribed by the department.

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

17 ~~[(g)]~~ (i) Every distributor shall keep in the State and
18 preserve for five years a record in a form as the department of
19 taxation shall prescribe showing the total number of barrels,
20 and the fractional part of barrels, of petroleum product or the
21 total number of one million British thermal units of fossil



1 fuel, as the case may be, sold by the distributor during any
2 calendar month. The record shall show any other data and
3 figures relevant to the enforcement and administration of this
4 chapter as the department may require.

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

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

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

14 SECTION 7. Section 304A-2169.1, Hawaii Revised Statutes,
15 is amended by amending subsection (b) to read as follows:

16 "(b) Deposits into the special fund may be from the
17 following:

18 (1) Appropriations from the legislature;

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



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

SECTION 8. There is appropriated out of the general revenues of the State of Hawaii the sum of \$1,000,000 or so much thereof as may be necessary for fiscal year 2026-2027 to administer the carbon cashback program established by this Act.

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

SECTION 9. The department of taxation shall submit an interim report to the legislature no later than forty days prior to the convening of the regular session of 2027 on preparations for the implementation of the carbon cashback program established by this Act.

SECTION 10. The department of taxation shall submit an annual report to the legislature no later than forty days prior to the convening of each regular session from 2028 through and including 2036, with information about the carbon cashback program. The report shall include revenues from the environmental response, energy, carbon emissions, and food security tax and the amounts distributed through the refundable tax credits under section 235- , Hawaii Revised Statutes. The



1 reports shall include any information necessary for the
2 legislature to assess the need to adjust the amounts of the
3 refundable tax credits in future years.

4 SECTION 11. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 12. This Act shall take effect on July 1, 2026;
7 provided that section 3 shall apply to taxable years beginning
8 after December 31, 2025.

9

INTRODUCED BY: Karl Rhoads



S.B. NO. 2719

Report Title:

Department of Taxation; Environmental Response, Energy, Carbon Emissions, and Food Security Tax; Carbon Emissions; Carbon Cashback Tax Credit; Carbon Emissions Tax and Dividend Special Fund; Reports; Appropriation

Description:

Establishes the Carbon Emissions Tax and Dividend Special Fund. Gradually increases the Environmental Response, Energy, Carbon Emissions, and Food Security Tax and establishes a refundable income tax credit to mitigate the effect of the increased tax on taxpayers. Requires reports to the Legislature. Appropriates funds.

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