

JAN 23 2026

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## 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



5 SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
6 amended by adding a new section to be appropriately designated  
7 and to read as follows:

§231- Carbon emissions tax and dividend special fund.

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

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

16 (1) Administer the environmental response, energy, carbon  
17 emissions, and food security tax;  
18 (2) Administer the carbon cashback tax credit established  
19 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."



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

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

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

16 "(a) There is created within the state treasury an energy  
17 security special fund, which shall consist of:  
18 (1) The portion of the environmental response, energy,  
19 carbon emissions, and food security tax specified  
20 under section 243-3.5;  
21 (2) Moneys appropriated to the fund by the legislature;



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

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

19 (1) \$5.25 for 2027;  
20 (2) \$9.45 for 2028;  
21 (3) \$13.65 for 2029;



<u>1</u>	<u>(4)</u>	<u>\$17.85 for 2030;</u>
<u>2</u>	<u>(5)</u>	<u>\$22.05 for 2031;</u>
<u>3</u>	<u>(6)</u>	<u>\$26.25 for 2032;</u>
<u>4</u>	<u>(7)</u>	<u>\$30.45 for 2033;</u>
<u>5</u>	<u>(8)</u>	<u>\$34.65 for 2034;</u>
<u>6</u>	<u>(9)</u>	<u>\$38.85 for 2035; and</u>
<u>7</u>	<u>(10)</u>	<u>\$43.05 for 2036;</u>

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.

- 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 [4h] (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 SECTION 8. There is appropriated out of the general  
4 revenues of the State of Hawaii the sum of \$1,000,000 or so much  
5 thereof as may be necessary for fiscal year 2026-2027 to  
6 administer the carbon cashback program established by this Act.

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

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

14 SECTION 10. The department of taxation shall submit an  
15 annual report to the legislature no later than forty days prior  
16 to the convening of each regular session from 2028 through and  
17 including 2036, with information about the carbon cashback  
18 program. The report shall include revenues from the  
19 environmental response, energy, carbon emissions, and food  
20 security tax and the amounts distributed through the refundable  
21 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.

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

