

JAN 30 2026

A BILL FOR AN ACT

RELATING TO INTERISLAND AIR SERVICE.

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

1 SECTION 1. The legislature finds that Hawaii is the only
2 state separated by water and that reliable interisland air
3 service is a critical lifeline for residents and businesses.
4 The legislature further finds that interisland air service
5 enables access to essential medical care and services that are
6 not uniformly available on every island, supports time-sensitive
7 shipment of freight and agricultural products, facilitates
8 workforce mobility, and sustains family reunification and
9 community continuity across the State.

10 The legislature also finds that the State is a major
11 institutional user of interisland air service through the travel
12 needs of state workers and the delivery of public services, and
13 through interisland travel that is integral to the health care
14 system, education, and commerce. The legislature additionally
15 finds that disruptions to interisland air service or material
16 degradation of reliability, capacity, affordability, or safety



1 would adversely affect the State's public health, public safety,
2 and economic welfare.

3 The legislature additionally finds that interisland jet
4 fleets operate in high-cycle conditions that accelerate wear and
5 increase maintenance demands. The legislature notes that recent
6 federal safety directives applicable to Boeing 717-200 aircraft
7 underscore the importance of proactive fleet investment and
8 rigorous safety compliance for high-cycle operations. The
9 legislature finds that investment in aircraft, maintenance, and
10 operational resilience is necessary to preserve interisland
11 service reliability and protect the State's vital interests.

12 The legislature recognizes that private ownership and
13 management of interisland air service can coexist with strategic
14 public support when the State acts to protect compelling state
15 interests and when public resources are conditioned on
16 enforceable public-benefit commitments. The legislature further
17 finds that targeted tax incentives can accelerate capital
18 investment and preserve essential service while anchoring high-
19 wage aviation jobs in the State and supporting related local
20 industries.

21 Accordingly, the purpose of this Act is to:



(1) Establish a Hawaii interisland air service stability and transformation program to be administered by the department of taxation;

(2) Require a covered interisland air service operator to issue an equity interest to the State as a condition of participation in the Hawaii interisland air service stability and transformation program; and

(3) Establish the interisland air service stability and transformation tax credit.

SECTION 2. The Hawaii Revised Statutes is amended by adding a new chapter to be appropriately designated and to read as follows:

"CHAPTER

**HAWAII INTERISLAND AIR SERVICE STABILITY AND TRANSFORMATION
PROGRAM**

§ -1 Definitions. As used in this chapter:

"Applicant" means a taxpayer that submits an application for certification and intends to claim the tax credit.

"Attestation" means a written declaration, signed under penalty of law by an officer of the applicant or by a certified



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1 public accountant, affirming that the information submitted to
2 the State is true, accurate, and complete.

3 "Certified public accountant" means a person licensed to
4 practice public accountancy in any state or territory of the
5 United States who is independent of the applicant and who meets
6 the independence standards of the American Institute of
7 Certified Public Accountants.

8 "Covered interisland air service operator" means any entity
9 or affiliate that operates scheduled interisland passenger air
10 service in the State and that is designated by the department,
11 in consultation with the director, for purposes of this chapter.

12 "Department" means the department of taxation.

13 "Director" means the director of finance.

14 "Equity interest" means a minority ownership interest
15 issued to the State that may include:

- 16 (1) Common stock;
- 17 (2) Preferred stock;
- 18 (3) Limited liability company membership units;
- 19 (4) Partnership interests;
- 20 (5) Warrants;
- 21 (6) Options;



(7) Convertible instruments; or

(8) Any other equity-class instrument approved by the director.

"Essential interisland air cargo service" means the scheduled air transportation of goods between islands within the State that supports time-sensitive delivery of medical supplies, perishable foods, agricultural products, and other critical goods, as determined by the director by rule.

"Final certification" means the written determination issued by the department that the covered interisland air service operator has satisfied all requirements of this chapter for a taxable year and is authorized to claim, transfer, or receive a refund of the tax credit.

"Initial certification" means the written determination issued by the department that the covered interisland air service operator is eligible to participate in the program for a taxable year, subject to final certification.

"Interisland air service" means scheduled passenger air transportation between islands within the State.

"Pre-credit valuation" means the fair market valuation of the covered interisland air service operator, or the relevant



1 issuing entity, immediately before the issuance of any equity
2 interest required under this chapter, determined using a
3 valuation methodology approved by the director, which may
4 include independent third-party valuation.

5 "Program agreement" means a written agreement or set of
6 covenants executed between the State and the covered interisland
7 air service operator to implement this chapter, including equity
8 terms, reporting obligations, and public-benefit commitments.

9 "Public benefit commitments" means enforceable commitments
10 negotiated under this chapter to support the State's compelling
11 interests in interisland air service, which may include:

12 (1) Service continuity benchmarks, including minimum
13 frequencies, capacity, and reliability targets for
14 interisland routes;

15 (2) Commitments to maintain or improve essential
16 interisland air cargo service;

17 (3) Workforce commitments, including employment and
18 training for residents of the State;

19 (4) Capital investment commitments for fleet renewal,
20 safety compliance, maintenance capacity, and
21 operational resilience; and



(5) Voluntary resident, senior, neighbor island, health care, agricultural, or small business travel or cargo programs that may be offered through negotiated discounts, fare products, or contract pricing; provided that nothing in this paragraph shall be construed to require the covered interisland air service operator to file or publish specific fares beyond those required by federal law.

"Qualified interisland expenditures" means expenditures incurred in the State that are directly attributable to preserving, maintaining, modernizing, or expanding interisland air service or essential interisland air cargo service, including but not limited to:

(1) Aircraft acquisition, leasing, or major modifications primarily used for interisland service;

(2) Maintenance, repair, and overhaul costs for interisland aircraft, including safety compliance expenditures;

(3) Capital expenditures for interisland operational facilities, maintenance infrastructure, and ground handling equipment located in the State;



1 (4) Wages and salaries paid to employees performing
2 interisland operations or maintenance services in the
3 State;

4 (5) Workforce development and training costs for aviation
5 jobs based in the State;

6 (6) Information technology and operational resilience
7 investments supporting interisland scheduling,
8 dispatch, and reliability; and

9 (7) Any other expenditure determined by the department, in
10 consultation with the director, to be necessary to
11 preserve interisland air service and the State's
12 compelling interests.

13 "Recordkeeping period" means a period of not less than
14 seven years following the close of the taxable year in which the
15 tax credit is claimed.

16 "Tax credit" means the interisland air service stability
17 and transformation credit established under section 235- .

18 "Transfer" or "transferable credit" means the sale,
19 assignment, or other conveyance of all or any portion of a
20 certified credit to another taxpayer with income tax liability



1 in the State, subject to verification and approval by the
2 department.

3 § -2 **Application required; procedure.** (a) The covered
4 interisland air service operator shall submit an annual
5 application to the department for certification under this
6 chapter in a form and manner prescribed by the department.

7 (b) Each application shall include, at a minimum:

8 (1) The legal name, tax identification number, and
9 business address of the covered interisland air
10 service operator;

11 (2) A description of interisland operations and essential
12 interisland air cargo service;

13 (3) A schedule of projected qualified interisland
14 expenditures;

15 (4) Documentation supporting projected expenditures;

16 (5) Identification of bonus credit categories sought and
17 proposed supporting metrics;

18 (6) A proposed program agreement outlining public-benefit
19 commitments and reporting;

20 (7) An attestation signed by an officer of the covered
21 interisland air service operator; and



1 (8) Any other information required by the department by
2 rule.

3 (c) The department shall review each application for
4 completeness and may request additional information.

5 (d) Before initial certification, the director shall
6 conduct a preliminary review of the applicant's pre-credit
7 valuation and proposed equity interest, including proposed
8 monetization rights.

9 (e) Upon satisfactory review, the department shall issue
10 an initial certification subject to any conditions imposed.

11 (f) The department may deny an application for failure to
12 meet the requirements of this chapter.

13 (g) An applicant aggrieved by a denial may appeal pursuant
14 to chapter 91.

15 § **-3 Interim reporting; compliance monitoring.** (a) A
16 covered interisland air service operator shall submit quarterly
17 interim reports to the department in a form prescribed by the
18 department.

19 (b) Interim reports shall include, as applicable:

20 (1) Updated qualified interisland expenditures with
21 supporting documentation;



(2) Documentation of payroll and residency information for employees who are residents of the State;

(3) Status of fleet renewal, safety compliance, maintenance capacity, and operational resilience investments;

(4) Metrics demonstrating performance against reliability, capacity, and service continuity benchmarks established in the program agreement;

(5) Documentation supporting eligibility for any bonus credits sought; and

(6) Disclosure of any material changes to interisland operations.

(c) The department may conduct desk reviews, field reviews, and site visits, and may request additional records to verify continued eligibility and that the covered interisland air service operator is maintaining its public benefit commitments.

(d) Failure on the part of a covered interisland air service operator to submit accurate interim reports may result in corrective action, suspension, or revocation of certification.



1 § **-4 Final certification.** (a) No tax credit shall be
2 claimed, transferred, or refunded unless a covered interisland
3 air service operator has obtained final certification from the
4 department.

5 (b) An applicant seeking final certification shall submit:

6 (1) A final expenditure report;

7 (2) Supporting documentation for all qualified interisland
8 expenditures;

9 (3) Documentation supporting eligibility for any bonus
10 credits claimed;

11 (4) Final performance metrics for service continuity and
12 reliability benchmarks;

13 (5) A certified public accountant audit, if required under
14 section -5; and

15 (6) Proof of issuance of the equity interest required
16 under section -6, and execution of the program
17 agreement.

18 (c) The department shall approve or deny final
19 certification based on compliance with this chapter and the
20 program agreement.



(d) An applicant aggrieved by a denial may appeal pursuant to chapter 91.

§ -5 **Audit; certified public accountant.** (a) The department may require a covered interisland air service operator to obtain a certified public accountant audit of qualified interisland expenditures and related documentation.

(b) The audit shall verify:

(1) Eligibility and substantiation of qualified interisland expenditures;

(2) Accuracy of payroll and residency documentation;

(3) Eligibility for bonus credits; and

(4) Accuracy of equity valuation calculations and supporting inputs.

(c) The certified public accountant shall be independent of the covered interisland air service operator.

(d) All audit costs shall be borne by the covered interisland air service operator.

(e) A covered interisland air service operator's failure to submit a required audit shall result in denial of final certification.



1 (f) A covered interisland air service operator's failure
2 to comply with an audit shall be grounds for denial or recapture
3 of the tax credit.

4 § -6 **Equity issuance; valuation; program agreement;**
5 **enforcement.** (a) As a condition of initial certification, a
6 covered interisland air service operator shall issue an equity
7 interest to the State equal to the ratio of the total credit
8 value claimed to the pre-credit valuation.

9 (b) The equity interest shall be issued before
10 certification, transfer, or refund of any credit.

11 (c) The form, issuing entity, and terms of the equity
12 interest shall be approved by the director and may be documented
13 in the program agreement.

14 (d) The director may require independent valuation,
15 updated valuations, inspection rights, reporting covenants, and
16 monetization rights; provided that the director may, by rule,
17 establish valuation methodologies, minimum monetization terms,
18 and standardized equity instruments for purposes of this
19 chapter.



1 (e) A covered interisland air service operator's failure
2 to issue the required equity interest or to execute the program
3 agreement shall result in denial or recapture of the credit.

4 (f) An equity interest issued pursuant to this chapter
5 shall include information rights, inspection rights, and
6 monetization rights as determined by the director; provided that
7 the director may require anti-dilution protections, redemption
8 features, put or call rights, registration rights, or other
9 terms reasonably necessary to avoid paper equity that cannot be
10 realized.

11 § -7 **Interagency coordination.** (a) The department of
12 business, economic development, and tourism shall coordinate
13 with the department and the director to support implementation
14 of this chapter.

15 (b) The department of business, economic development, and
16 tourism may provide technical assistance regarding workforce
17 development, supply chain opportunities, and related aviation-
18 industry development consistent with the purposes of this
19 chapter.



1 § -8 **Department of taxation; administration;**

2 **enforcement.** (a) The department shall administer and enforce
3 this chapter.

4 (b) In addition to any other powers granted by law, the
5 department may:

6 (1) Prescribe forms, procedures, and documentation
7 requirements;

8 (2) Examine books, records, and financial statements;

9 (3) Conduct desk audits, field audits, and forensic
10 audits;

11 (4) Verify eligibility of expenditures and credits;

12 (5) Approve, deny, adjust, or recapture credits;

13 (6) Coordinate with other State agencies; and

14 (7) Adopt rules pursuant to chapter 91.

15 § -9 **Equity management.** (a) The director shall
16 receive, hold, manage, and dispose of all equity interests
17 issued pursuant to this chapter.

18 (b) The director shall:

19 (1) Monitor the value and performance of equity interests;

20 (2) Exercise shareholder or ownership rights;

21 (3) Receive and deposit proceeds into the general fund;



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(4) Establish procedures for valuation, monetization, or liquidation; and

(5) Require updated valuations when necessary.

§ -10 **Recordkeeping and retention.** (a) A covered interisland air service operator shall retain all records necessary to substantiate eligibility and credit amounts for a period of not less than seven years.

(b) The department may inspect records during the recordkeeping period.

§ -11 **Recapture of credits.** (a) The department shall recapture the tax credit if a covered interisland air service operator:

(1) Submits false or misleading information;

(2) Claims ineligible expenditures;

(3) Fails to comply with certification requirements or the program agreement;

(4) Fails to issue the required equity interest; or

(5) Otherwise violates this chapter.

(b) Recapture shall include the tax credit amount, interest, and penalties.



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1 § **-12 Penalties.** (a) The department may impose civil
2 penalties for violations of this chapter.

3 (b) A covered interisland air service operator may be
4 subject to criminal penalties for fraudulent claims.

5 § **13 Annual report.** The department shall submit an
6 annual report of its findings and recommendations, including any
7 proposed legislation, to the legislature no later than twenty
8 days prior to the convening of each regular session. The report
9 shall detail:

10 (1) Tax credits claimed by a covered interisland air
11 service operator pursuant to section 235- ;

12 (2) Audits conducted;

13 (3) Compliance action taken;

14 (4) Any recapture conducted by the department; and

15 (5) The equity interests held by the director pursuant to
16 this chapter and any proceeds received.

17 § **-14 Rulemaking.** The department shall adopt rules
18 pursuant to chapter 91 as necessary to carry out this chapter;
19 provided that the department of business, economic development,
20 and tourism may adopt rules as necessary for its coordination
21 functions under this chapter."



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

4 "§235- Interisland air service stability and
5 transformation tax credit. (a) There shall be allowed to each
6 qualified taxpayer subject to the tax subject to the tax imposed
7 under this chapter an interisland air service stability and
8 transformation tax credit that shall be deductible from the
9 taxpayer's net income tax liability, if any, imposed by this
10 chapter for the taxable year in which the credit is properly
11 claimed.

12 (b) The tax credit shall be one hundred per cent of
13 qualified interisland expenditures incurred by a qualified
14 taxpayer during the taxable year.

15 (c) A qualified taxpayer may be eligible for additional
16 tax credits of not more than fifty per cent of qualified
17 interisland expenditures as follows:

18 (1) Not more than fifteen per cent for capital investment
19 in fleet renewal, maintenance infrastructure, or
20 operational facilities located in the State that
21 directly support interisland air service;



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- 1 (2) Not more than ten per cent for expenditures that
2 improve essential interisland air cargo service,
3 including time-sensitive medical and agricultural
4 freight capability;
- 5 (3) Not more than ten per cent for wages paid to residents
6 of the State employed in interisland operations or
7 aviation maintenance positions, as verified by the
8 department of taxation;
- 9 (4) Not more than fifteen per cent for measurable
10 improvements in interisland reliability, capacity, or
11 service continuity benchmarks established in the
12 program agreement as defined in section -1;
- 13 (5) Not more than ten per cent for neighbor island hub
14 investments, including passenger processing, ramp,
15 ground handling, or cargo handling capacity
16 improvements at neighbor island airports, as
17 established in the program agreement as defined in
18 section -1;
- 19 (6) Not more than ten per cent for maintenance
20 apprenticeship pipelines and aviation workforce
21 training programs operated in the State, including



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1 apprenticeships, credentialing, or structured training
2 partnerships, as established in the program agreement
3 as defined in section -1;

4 (7) Not more than five per cent for rural or community
5 access commitments that maintain or improve reasonable
6 access to interisland air service for underserved
7 communities, as established in the program agreement
8 as defined in section -1;

9 (8) Not more than five per cent for medical transport
10 coordination commitments that support timely
11 interisland access to medical care, including
12 protocols, capacity commitments, or operational
13 coordination for time-sensitive patient movement, as
14 established in the program agreement; and

15 (9) Not more than ten per cent for agricultural freight
16 capacity guarantees or improvements that support the
17 interisland movement of agricultural products,
18 including time-sensitive perishables, as established
19 in the program agreement as defined in section -1.



1 (d) To be eligible for a tax credit under this section, a
2 qualified taxpayer shall comply with the requirements of
3 chapter _____.

4 (e) A qualified taxpayer claiming the credit under this
5 section shall not claim any other income tax credit for the same
6 taxable year.

7 (f) The tax credit allowed under this section shall be
8 transferable in whole or in part; provided that a transfer shall
9 be subject to verification and approval by the department.

10 (g) The total credit allowed under this section shall not
11 exceed one hundred fifty per cent of qualified interisland
12 expenditures.

13 (h) The director of taxation:

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

16 (2) May require a qualified taxpayer to furnish reasonable
17 information to verify the claim for the tax credit
18 made under this section; and

19 (3) May adopt rules pursuant to chapter 91 necessary to
20 carry out the purposes of this section;



1 (i) If the tax credit claimed by a qualified taxpayer
2 under this section exceeds the amount of the income tax payments
3 due from the taxpayer, the excess of credit over payments due
4 shall be refunded to the taxpayer; provided that the tax credit
5 properly claimed by a qualified taxpayer who has no income tax
6 liability shall be paid to the taxpayer; provided further that
7 no refunds or payments on account of the tax credit allowed by
8 this section shall be made for amounts less than \$1. All claims
9 for the tax credit under this section, including amended claims,
10 shall be filed on or before the end of the twelfth month
11 following the close of the taxable year for which the credit may
12 be claimed. Failure to comply with the foregoing provision
13 shall constitute a waiver of the right to claim the credit.

14 (j) For the purposes of this section:
15 "Qualified interisland expenditures" has the same meaning
16 as defined in section -1.

17 "Qualified taxpayer" means a covered interisland air
18 service operator as that term is defined in section -1."

19 SECTION 4. New statutory material is underscored.

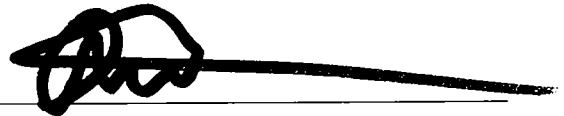


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1 SECTION 5. This Act shall take effect on July 1, 2026, and
2 shall repeal on June 30, 2036; provided that section 3 shall
3 apply to taxable years beginning after December 31, 2026.

4

INTRODUCED BY: _____

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Report Title:

DOTAX; Department of Business, Economic Development, and Tourism; Hawaii Interisland Air Service Stability and Transformation Program; Interisland Air Service Stability and Transformation Tax Credit; Airlines; Interisland Transportation; Essential Services; Equity Participation

Description:

Establishes a Hawaii Interisland Air Service Stability and Transformation Program to be administered by the Department of Taxation. Requires a covered interisland air service operator to issue an equity interest to the State as a condition of participation in the Hawaii Interisland Air Service Stability and Transformation Program. Establishes the Interisland Air Service Stability and Transformation Tax Credit. Sunsets 6/30/2036.

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

