
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 legislature finds that based on the carbon
3 pricing study commissioned under Act 122, Session Laws of Hawaii
4 2019, and the findings and recommendations of the 2020-2022 tax
5 review commission, establishing a carbon cashback program that
6 increases taxes on fossil fuels and distributes most of the new
7 tax revenues back to taxpayers would be a cost-effective and
8 equitable way to reduce the State's greenhouse gas emissions, as
9 well as to provide financial relief to most households in the
10 State. The legislature further finds that the needs addressed
11 by the agricultural development and food security special fund,
12 which was effectively repealed in 2021 due to budget concerns,
13 are as important to the State now as ever.

14 Accordingly, the purpose of this Act is to:

15 (1) Reestablish the agricultural development and food
16 security special fund;



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

4 **"§141- Agricultural development and food security**
5 **special fund; establishment.** (a) There is established within
6 the state treasury the agricultural development and food
7 security special fund.

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

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

13 (2) Appropriations from the legislature;

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

15 (4) Any interest, dividend, or other income earned on the
16 balance of the special fund.

17 (c) Moneys in the special fund may be expended for the
18 following purposes:

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



- 1 (2) The acquisition of real property for agricultural
2 production or processing activity;
- 3 (3) The improvement of real property, irrigation systems,
4 and transportation networks necessary to promote
5 agricultural production or processing activity;
- 6 (4) The purchase of equipment necessary for agricultural
7 production or processing activity;
- 8 (5) The conducting of research on and testing of
9 agricultural products and markets;
- 10 (6) The funding of agricultural inspector positions within
11 the department of agriculture and biosecurity;
- 12 (7) The promotion and marketing of agricultural products
13 grown or raised in the State; and
- 14 (8) Any other activity that is intended to increase
15 agricultural production or processing and that may
16 lead to reduced importation of food, fodder, or feed
17 from outside the State.
- 18 (d) No later than twenty days prior to the convening of
19 each regular session, the department of agriculture and
20 biosecurity shall submit a report to the legislature on the
21 status and progress of existing programs and activities and the



1 status of new programs and activities funded under the
2 agricultural development and food security special fund. The
3 report shall also include:

- 4 (1) The spending plan of the agricultural development and
5 food security special fund;
- 6 (2) All expenditures from the agricultural development and
7 food security special fund;
- 8 (3) The targeted markets of the expenditures, including
9 reasons for selecting those markets;
- 10 (4) The persons to be served using the expenditures; and
- 11 (5) The specific objectives of the expenditures, including
12 measurable outcomes."

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

16 "§231- Carbon emissions tax and dividend special fund.

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

20 (b) Moneys in the carbon emissions tax and dividend
21 special fund shall be administered by the department of taxation



1 and shall be expended for salaries, contracted services,
2 supplies, and other administrative expenses to:

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

5 (2) Administer the carbon cashback tax credit established
6 by section 235- ; and

7 (3) Increase public awareness and interest in the carbon
8 cashback tax credit established by section 235- and
9 the other refundable tax credits."

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

13 "§235- Carbon cashback tax credit. (a) For taxable
14 years beginning after December 31, 2025, there shall be allowed
15 to each qualifying taxpayer subject to the tax imposed under
16 this chapter, a carbon cashback tax credit that shall be applied
17 against the taxpayer's net income tax liability, if any, imposed
18 by this chapter for the subject taxable year.

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



- 1 (1) For a taxpayer filing as single or married filing
2 separately, the amount of \$52;
- 3 (2) For a taxpayer filing as a head of household, the
4 amount of \$52;
- 5 (3) For a taxpayer filing a joint return or as a surviving
6 spouse, the amount of \$104; and
- 7 (4) The amount of \$26 per dependent claimed.
- 8 (c) For taxable years beginning after December 31, 2026,
9 the amount of the tax credit for a given taxable year shall be
10 as specified in subsection (d), where the value of one share
11 shall be the amount of revenue collected through the
12 environmental response, energy, carbon emissions, and food
13 security tax specified under section 243-3.5 and deposited into
14 the general fund in that given taxable year, divided by the
15 number of whole shares, where the number of whole shares is
16 1,440,000.
- 17 (d) For taxable years beginning after December 31, 2026,
18 the amount of the credit shall be equal to the sum of the
19 following:
- 20 (1) For a taxpayer filing as single or married filing
21 separately, the value of one share;



- 1 (2) For a taxpayer filing as a head of household, the
2 value of one share;
- 3 (3) For a taxpayer filing a joint return or as a surviving
4 spouse, the value of two shares; and
- 5 (4) The value of one-half share per dependent claimed.
- 6 (e) If the tax credit allowed to the taxpayer under this
7 section exceeds the amount of the income tax payments due from
8 the taxpayer, the excess of credit over payments due shall be
9 refunded to the taxpayer; provided that the tax credit properly
10 allowed to a taxpayer who has no income tax liability shall be
11 paid to the taxpayer; provided further that no refunds or
12 payments on account of the tax credit allowed by this section
13 shall be made for amounts less than \$1. To be allowed a tax
14 credit under this section, the individual income tax return,
15 including amended returns, shall be filed on or before the end
16 of the twelfth month following the close of the taxable year for
17 which the credit is allowed. Failure to comply with the
18 foregoing provision shall constitute a waiver of the right to be
19 issued the credit.
- 20 (f) Any carbon cashback tax credits not issued pursuant to
21 this section for the most recent taxable year for which the



1 return filing deadline has passed shall be allocated to the
2 department of human services' Med-QUEST division. To determine
3 the amount of credits not issued, the department of taxation
4 shall calculate the product of the number of whole shares and
5 the value of one share for the relevant taxable year, less the
6 total amount of eligible allowances for carbon cashback tax
7 credits issued for the relevant taxable year. The department of
8 taxation may use a substantively similar calculation to
9 determine the amount.

10 (g) The director of taxation:

11 (1) Shall revise any forms as may be necessary to allow
12 issuance of a tax credit under this section in a
13 manner that does not require an explicit claim by the
14 taxpayer;

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

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

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



1 (i) As used in this section, "qualifying taxpayer" means
2 an individual subject to the taxes imposed by this chapter.
3 "Qualifying taxpayer" does not include any person who is claimed
4 or is otherwise eligible to be claimed as a dependent by another
5 taxpayer for federal or Hawaii state individual income tax
6 purposes."

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

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

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



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

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

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

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

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

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

13 "**§243-3.5 Environmental response, energy, carbon**
14 **emissions, and food security tax; uses.** (a) In addition to any
15 other taxes provided by law, subject to the exemptions set forth
16 in section 243-7, there is hereby imposed a state environmental
17 response, energy, carbon emissions, and food security tax on
18 each barrel or fractional part of a barrel of petroleum product
19 sold by a distributor to any retail dealer or end user of
20 petroleum product, other than a refiner. The tax [~~shall be~~
21 ~~\$1.05~~] on each barrel or fractional part of a barrel of



1 petroleum product [~~that is not aviation fuel; provided that of~~
2 ~~the tax collected pursuant to this subsection;~~] shall be as
3 follows for each calendar year:

4 \$5.25 for 2026;

5 \$9.45 for 2027;

6 \$13.65 for 2028;

7 \$17.85 for 2029;

8 \$22.05 for 2030;

9 \$26.25 for 2031;

10 \$30.45 for 2032;

11 \$34.65 for 2033;

12 \$38.85 for 2034; and

13 \$43.05 for 2035;

14 provided that the tax shall be increased by \$1.00 on each barrel
15 or fractional part of a barrel of petroleum product each taxable
16 year thereafter.

17 The tax imposed by this subsection shall be paid by the
18 distributor of the petroleum product. The tax imposed for each
19 year referenced above shall take effect on January 1 of that
20 year and shall continue until the effective date of the next
21 increment.



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 shall be deposited
5 into the environmental response revolving fund
6 established under section 128D-2;

7 (2) 4 cents of the tax on each barrel shall be deposited
8 into the energy security special fund established
9 under section 201-12.8;

10 (3) 5 cents of the tax on each barrel shall be deposited
11 into the energy systems development special fund
12 established under section 304A-2169.1;

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

16 (5) 3 cents of the tax on each barrel shall be deposited
17 into the hydrogen fueling system subaccount
18 established pursuant to section 269-33(f) [~~-~~];

19 (6) 15 cents of the tax on each barrel shall be deposited
20 into the agricultural development and food security
21 special fund established under section 141- ;



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

4 (8) All of the tax collected on aviation fuel shall be
5 deposited in the airport revenue fund established
6 under section 248-8; and

7 (9) \$1.05 of the tax on each barrel of liquid fuel sold
8 for use in or used for small boats shall be deposited
9 in the boating special fund established under section
10 248-8, in accordance with the method of determining
11 the amount of tax derived from the sale of liquid fuel
12 for use in or used for small boats as specified in
13 section 248-8. For the purposes of this paragraph,
14 "small boats" has the same meaning as in section 248-
15 8.

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

18 ~~(b)]~~ (c) In addition to subsection (a), the environmental
19 response, energy, carbon emissions, and food security tax shall
20 also be imposed on each one million British thermal units of
21 fossil fuel sold by a distributor to any retail dealer or end



1 user, other than a refiner, of fossil fuel. The tax [~~shall be~~
2 ~~19 cents~~] on each one million British thermal units of fossil
3 fuel [~~;~~ ~~provided that of the tax collected pursuant to this~~
4 ~~subsection:~~] shall be as follows for each calendar year:

5 \$0.79 for 2026;

6 \$1.39 for 2027;

7 \$1.99 for 2028;

8 \$2.59 for 2029;

9 \$3.19 for 2030;

10 \$3.79 for 2031;

11 \$4.39 for 2032;

12 \$4.99 for 2033;

13 \$5.59 for 2034; and

14 \$6.09 for 2035;

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

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



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 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 shall be deposited into the energy
10 security special fund established under section
11 201-12.8; ~~[and]~~

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

16 (4) 14.3 per cent of the tax on each one million British
17 thermal units shall be deposited into the agricultural
18 development and food security special fund established
19 under section 141- .

20 ~~[The tax imposed by this subsection shall be paid by the~~
21 ~~distributor of the fossil fuel.~~



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

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

18 ~~[(e)]~~ (g) Each distributor subject to the tax imposed by
19 subsection (a) or ~~[(b)],~~ (c), on or before the last day of each
20 calendar month, shall file, in the form and manner prescribed by
21 the department, a return statement of the tax under this section



1 for which the distributor is liable for the preceding month.
2 The form and payment of the tax shall be transmitted to the
3 department in the form and manner prescribed by the department.

4 ~~[(f)]~~ (h) Notwithstanding section 248-8 to the contrary,
5 the environmental response, energy, carbon emissions, and food
6 security tax collected under this section shall be paid over to
7 the director of finance for deposit as provided in subsection
8 ~~[(a)]~~ (b) or ~~[(b)7]~~ (d), as the case may be.

9 ~~[(g)]~~ (i) Every distributor shall keep in the State and
10 preserve for five years a record in a form as the department of
11 taxation shall prescribe showing the total number of barrels,
12 and the fractional part of barrels, of petroleum product or the
13 total number of one million British thermal units of fossil
14 fuel, as the case may be, sold by the distributor during any
15 calendar month. The record shall show any other data and
16 figures relevant to the enforcement and administration of this
17 chapter as the department may require.

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

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



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

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

8 "(b) Deposits into the special fund may be from the
9 following:

- 10 (1) Appropriations from the legislature;
- 11 (2) A portion of the environmental response, energy,
12 carbon emissions, and food security tax pursuant to
13 section 243-3.5; and
- 14 (3) Investment earnings, gifts, donations, or other income
15 received by the Hawaii natural energy institute."

16 PART III

17 SECTION 9. There is appropriated out of the general
18 revenues of the State of Hawaii the sum of \$1,000,000 or so much
19 thereof as may be necessary for fiscal year 2026-2027 to
20 administer the carbon cashback program established by this Act.



1 SECTION 11. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 12. This Act shall take effect on July 1, 3000;
4 provided that:

5 (1) Section 4 shall apply to taxable years beginning after
6 December 31, 2025; and

7 (2) Section 7 shall apply to taxable years beginning after
8 December 31, 2026.



Report Title:

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

Description:

Reestablishes the Agricultural Development and Food Security Special Fund. Renames the Environmental Response, Energy, and Food Security Tax, also known as the barrel tax, as the Environmental Response, Energy, Carbon Emissions, and Food Security Tax; gradually increases barrel tax rates; and allocates portions of barrel tax revenues to the Agricultural Development and Food Security Special Fund, Carbon Emissions Tax and Dividend Special Fund, Airport Revenue Fund, and Boating Special Fund. Establishes a refundable Carbon Cashback Tax Credit and appropriates funds to the Department of Taxation to administer the tax credit. Establishes the Carbon Emissions Tax and Dividend Special Fund to be used in the administration of the barrel tax and Carbon Cashback Tax Credit and for public awareness of the Carbon Cashback Tax Credit. Requires the Department of Taxation to submit reports to the Legislature. Effective 7/1/3000. (HD1)

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