HOUSE OF REPRESENTATIVES
THIRTY-THIRD LEGISLATURE, 2026
STATE OF HAWAII

H.B. NO. 1695

A BILL FOR AN ACT

RELATING TO RENEWABLE FUEL.

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

SECTION 1. The legislature finds that, because of the recent *Navahine F. v. Hawai'i Department of Transportation* CIV. NO. 1CCV-24-0000631 (Hawai'i Cir. Ct.) settlement, there is a clear need for the State to take meaningful and coordinated action to reduce its greenhouse gas emissions, particularly within the transportation sector. The settlement underscores the State's constitutional responsibility to ensure a life-sustaining climate for current and future generations. It also calls for the development and implementation of a comprehensive energy security and waste reduction plan to guide decarbonization efforts over the next twenty years, including the adoption of sustainable aviation fuel as a key strategy.

The legislature further finds that the transportation sector is the single largest contributor to greenhouse gas emissions in Hawaii, accounting for forty-eight per cent of statewide emissions, well above the national average. Within that sector, aviation plays a critical role, supporting

commerce, tourism, and essential interisland travel, and contributes significantly to overall emissions. Hawaii consumes approximately seventeen million barrels, or seven hundred fourteen million gallons of jet fuel annually. Transitioning this system away from fossil fuels is essential to achieving the State's climate goals. Even producing a modest portion of that fuel locally, using renewable feedstocks, can yield outsized benefits, stimulating local agriculture, creating economic opportunities, reducing emissions, and building energy resilience. Rather than continuing to grow the State's annual fossil fuel demand by small increments each year, Hawaii has the opportunity to stop that trajectory and instead take a bold, measurable step toward emissions reduction and local sustainability in a single year.

The legislature recognizes that renewable fuel used for sustainable aviation fuel (SAF) offers a near-term and scalable solution to decarbonize aviation without requiring changes to aircraft or infrastructure. However, SAF remains several times more expensive than conventional fuels. Without targeted policy support, including financial incentives, local SAF production and adoption will remain cost-prohibitive. Other states have

enacted policy tools and tax credits to bridge this gap. The State must act similarly to remain competitive, meet its legal obligations, and seize the economic opportunities offered by renewable fuel production.

Updating the renewable fuels production tax credit to increase incentives is a critical component of this effort. Revising this tax credit will support local production of SAF and other renewable fuels, enabling investment in energy infrastructure, job creation, and economic development. These fuels benefit a broad spectrum of the State's residents, from households that rely on propane for cooking to patients who depend on affordable interisland flights for medical care, ensuring that climate action is equitable and far-reaching.

The legislature believes that an updated renewable fuels production tax credit also encourages agricultural innovation by supporting energy crops that serve as regenerative cover crops, helping to restore soil health while complementing food production and requiring minimal water. These crops offer farmers an additional source of revenue and generate byproducts that can be used as feed for local livestock and aquaculture, reinforcing both food and energy resilience. Importantly, this

transition creates new jobs in agriculture, a sector that will play a vital role in the State's renewable fuels future and long-term sustainability. Moreover, local renewable fuel production supports skilled employment, allowing Hawaii's refinery workforce to adapt and thrive in a clean energy economy. These jobs offer long-term, high-value career pathways for residents and contribute to workforce development aligned with the State's decarbonization goals.

Accordingly, the purpose of this Act is to fulfill the State's climate commitments by expanding the renewable fuels production tax credit.

SECTION 2. Section 235-110.32, Hawaii Revised Statutes, is amended as follows:

1. By amending subsection (a) to read:

"(a) Each year during the credit period, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter a renewable fuels production tax credit that shall be applied to the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

For each taxpayer producing renewable fuels, the annual dollar amount of the renewable fuels production tax credit during the ten-year credit period shall be equal to [~~20~~] 35 cents per seventy-six thousand British thermal units of renewable fuels using the lower heating value sold for distribution in the State; provided that [~~the~~]:

(1) The taxpayer's production of renewable fuels is not less than two billion five hundred million British thermal units of renewable fuels per calendar year; provided further that [~~the amount of the tax credit claimed under this section by a taxpayer shall not exceed $3,500,000 per taxable year; provided further that the tax credit shall only be claimed for fuels with lifecycle emissions below that of fossil fuels. No~~] no other tax credit may be claimed under this chapter for the costs incurred to produce the renewable fuels that are used to properly claim a tax credit under this section for the taxable year[~~.~~];

(2) The tax credit shall only be claimed for fuels that meet the lifecycle greenhouse gas emissions reduction

threshold and product transportation emissions threshold;

(3) There shall be an additional credit value of $1.00 per diesel gallon equivalent for low lifecycle emissions renewable fuels; and

(4) There shall be an additional credit value equal to $1.00 per gallon if the renewable fuel is sustainable aviation fuel.

Each taxpayer, together with all of its related entities as determined under section 267(b) of the Internal Revenue Code and all business entities under common control, as determined under sections 414(b), 414(c), and 1563(a) of the Internal Revenue Code, shall not be eligible for more than a single [~~ten-year~~] credit period[~~.~~]; provided that taxpayers who previously claimed a tax credit under this section before July 1, 2026, may claim another tax credit for taxable years beginning after December 31, 2025."

2. By amending subsections (c) and (d) to read:

"(c) No later than thirty days following the close of the calendar year, every taxpayer claiming a credit under this section shall complete and file an independent, third-party

certified statement, at the taxpayer's sole expense, with and in the form prescribed by the Hawaii state energy office, providing the following information:

(1) The type, quantity, and British thermal unit value, using the lower heating value, of each qualified fuel, broken down by the type of fuel, produced and sold during the previous calendar year;

(2) The feedstock used for each type of qualified fuel;

(3) The proposed total amount of credit to which the taxpayer is entitled for each calendar year and the cumulative amount of the tax credit the taxpayer received during the credit period;

(4) The number of full-time and [~~number of~~] part-time employees of the facility and those employees' states of residency, totaled per state;

(5) The number and location of all renewable fuel production facilities within and outside of the State; [~~and~~]

(6) The lifecycle greenhouse gas emissions [~~per~~] in kilograms of carbon dioxide equivalent per million

British thermal units for each type of qualified fuel produced[~~.~~]; and

(7) The lifecycle greenhouse gas emissions reported to the United States Department of the Treasury, if different than the emissions reported pursuant to paragraph (6).

(d) Within thirty calendar days after the due date of the statement required under subsection (c), the Hawaii state energy office shall:

(1) Acknowledge, in writing, receipt of the statement; and

(2) Issue a certificate to the taxpayer reporting the amount of renewable fuels produced and sold, the amount of credit that the taxpayer is entitled to claim for the previous calendar year, and the cumulative amount of the tax credit during the credit period[~~; and~~

~~(3) Provide the taxpayer with a determination of whether the lifecycle greenhouse gas emissions for each type of qualified fuel produced is lower than that of fossil fuels~~]."

3. By amending subsection (f) to read:

"(f) The total amount of tax credits allowed under this section for all eligible taxpayers in the aggregate in any calendar year shall not exceed [~~$20,000,000 for all eligible taxpayers in any calendar year.~~] the program cap. In the event that the credit claims under this section exceed [~~$20,000,000~~] the program cap for all eligible taxpayers in any given calendar year, the [~~$20,000,000~~] total amount allowed shall be [~~divided between all~~] allocated to eligible taxpayers [~~for that year~~] in proportion to the total amount of renewable fuels [~~produced by all eligible taxpayers. Upon reaching $20,000,000 in the aggregate, the Hawaii state energy office shall immediately discontinue issuing certificates and notify the department of taxation. In no instance shall the total dollar amount of certificates issued exceed $20,000,000 per calendar year.~~] production tax credit claims under this section for the calendar year. No taxpayer shall be eligible for more credits than allowed under the single producer cap. The total aggregate amount of additional credit value for sustainable aviation fuel under subsection (a)(4) shall not exceed the sustainable aviation fuel additional value cap. To the extent that the proportional allocation and applications of the single producer

cap and sustainable aviation fuel additional value cap results in total credits lower than the program cap, the difference between the program cap and the total shall be allocated to any remaining eligible claims from taxpayers that have not exceeded either the single producer cap or sustainable aviation fuel additional value cap in proportion to the renewable fuels production tax credit claims for those taxpayers in the calendar year. To the extent that the limitations of this subsection reduce the amount of a taxpayer's credit, the amount of the reduction shall be available to the taxpayer to be used as a credit in the subsequent calendar year; provided that the credit shall not be carried over for any calendar year thereafter; provided further that the carryover credit shall be subject to the limitations of this subsection."

4. By amending subsection (o) to read:

"(o) [~~As used in~~] For the purposes of this section:

"Credit period" means a maximum period of ten consecutive years, beginning from [~~the first taxable year in which a taxpayer begins renewable fuels production at a level of at least two billion five-hundred million British thermal units of renewable fuels per calendar year.~~] July 1, 2026.

"Feedstock transportation emissions threshold" means the carbon intensity contribution associated with the oceangoing transportation of the feedstock from the feedstock producer to the renewable fuel producer is less than grams per megajoule as determined by the lifecycle greenhouse gas emissions analysis.

"Lifecycle greenhouse gas emissions" means the aggregate attributional core lifecycle greenhouse gas emissions values utilizing one of the following:

(1) The most recent version of the United States Department of Energy's Argonne National Laboratory's greenhouse gases, regulated emissions, and energy use in technologies (GREET) model, including agricultural practices and carbon capture and sequestration; or

(2) Another lifecycle methodology approved by the Hawaii state energy office.

"Lifecycle greenhouse gas emissions reduction threshold" means a reduction in lifecycle greenhouse gas emissions of fifty per cent compared to the fossil fuel for which the renewable fuel is most likely to replace.

"Low lifecycle emissions renewable fuels" means renewable fuel that meets the lifecycle greenhouse gas emissions reduction threshold, product transportation emissions threshold, and feedstock transportation emissions threshold.

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Product transportation emissions threshold" means the carbon intensity contribution associated with the oceangoing transportation of the finished fuel from the renewable fuel producer to the final distribution storage facility is less than grams per megajoule as determined by the lifecycle greenhouse gas emissions analysis.

"Program cap" means $20,000,000.

"Renewable feedstocks" means:

(1) Biomass crops and other renewable organic material, including but not limited to logs, wood chips, wood pellets, and wood bark;

(2) Agricultural residue;

(3) Oil crops, including but not limited to algae, canola, jatropha, palm, soybean, and sunflower;

(4) Sugar and starch crops, including but not limited to sugar cane and cassava;

(5) Other agricultural crops;

(6) Grease, fats, tallows, and waste cooking oil;

(7) Food wastes;

(8) Municipal solid wastes [~~and~~], industrial wastes[~~;~~], and construction and demolition wastes;

(9) Water, including wastewater; [~~and~~]

(10) Bio-intermediate ethanol produced from renewable feedstock;

[~~(10)~~] (11) Animal residues and wastes[~~,~~];

(12) Biogas or renewable natural gas;

(13) Gaseous carbon dioxide; and

(14) Renewable or zero carbon energy resources,

that can be used to generate energy.

"Renewable fuels" means fuels produced from renewable feedstocks; provided that the fuel:

(1) Is sold as a fuel in the State; [~~and~~]

(2) Meets the lifecycle greenhouse gas emissions reduction threshold; and

[~~(2)~~] (3) Meets the relevant ASTM International specifications or other industry specifications for the particular fuel, including but not limited to:

(A) Methanol, ethanol, or other alcohols;

(B) Hydrogen;

(C) Biodiesel or renewable diesel;

(D) Biogas;

(E) Other biofuels;

(F) Renewable [~~jet fuel or renewable~~] gasoline[~~,~~] or renewable naphtha;

(G) Renewable propane or renewable liquid petroleum gases;

(H) Sustainable aviation fuel; or

[~~(G)~~] (I) Logs, wood chips, wood pellets, or wood bark.

"Single producer cap" means seventy-five per cent of the total amount of credits allowed in any calendar year.

"Sustainable aviation fuel" means liquid fuel that:

(1) Consists of synthesized hydrocarbons and meets the requirements of the American Society for Testing and Materials International Standard D7566 or D1655; and

(2) Is derived from renewable feedstocks.

"Sustainable aviation fuel additional value cap" means fifty per cent of the total aggregate amount of renewable fuels production tax credits allowed in any year."

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect on July 1, 2026, and shall apply to taxable years beginning after December 31, 2025.

INTRODUCED BY: _____

JAN 20 2026

H.B. NO. 1695

Report Title:
Fuel Tax Credit; Renewable Fuel; Sustainable Aviation Fuel; Renewable Fuels Production Tax Credit

Description:
Expands the provisions of the renewable fuels production tax credit.

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