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# A BILL FOR AN ACT

RELATING TO RENEWABLE FUEL.

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

1 SECTION 1. The legislature finds that, because of the  
2 recent Navahine F. v. Hawai'i Department of Transportation  
3 (Hawaii Cir. Ct. 2024) settlement, there is a clear need for the  
4 State to take meaningful and coordinated action to reduce its  
5 greenhouse gas emissions, particularly within the transportation  
6 sector. The settlement underscores the State's constitutional  
7 responsibility to ensure a life-sustaining climate for current  
8 and future generations. It also calls for the development and  
9 implementation of a comprehensive energy security and waste  
10 reduction plan to guide decarbonization efforts over the next  
11 twenty years, including the adoption of sustainable aviation  
12 fuel as a key strategy.

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



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

15 The legislature recognizes that renewable fuel used for  
16 sustainable aviation fuel offers a near-term and scalable  
17 solution to decarbonize aviation without requiring changes to  
18 aircraft or infrastructure. However, sustainable aviation fuel  
19 remains several times more expensive than conventional fuels.  
20 Without targeted policy support, including financial incentives,  
21 local sustainable aviation fuel production and adoption will



1 remain cost-prohibitive. Other states have enacted policy tools  
2 and tax credits to bridge this gap. The State must act  
3 similarly to remain competitive, meet its legal obligations, and  
4 seize the economic opportunities offered by renewable fuel  
5 production.

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

16 The legislature believes that an updated renewable fuels  
17 production tax credit also encourages agricultural innovation by  
18 supporting energy crops that serve as regenerative cover crops,  
19 helping to restore soil health while complementing food  
20 production and requiring minimal water. These crops offer  
21 farmers an additional source of revenue and generate byproducts



1 that can be used as feed for local livestock and aquaculture,  
2 reinforcing food and energy resilience. Importantly, this  
3 transition creates new jobs in agriculture, a sector that will  
4 play a vital role in the State's renewable fuels future and  
5 long-term sustainability. Moreover, local renewable fuel  
6 production supports skilled employment, allowing Hawaii's  
7 refinery workforce to adapt and thrive in a clean energy  
8 economy. These jobs offer long-term, high-value career pathways  
9 for residents and contribute to workforce development aligned  
10 with the State's decarbonization goals.

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

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

16 1. By amending subsection (a) to read:

17 "(a) Each year during the credit period, there shall be  
18 allowed to each taxpayer subject to the taxes imposed by this  
19 chapter a renewable fuels production tax credit that shall be  
20 applied to the taxpayer's net income tax liability, if any,



1 imposed by this chapter for the taxable year in which the credit  
2 is properly claimed.

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

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



1                   (2) The tax credit shall only be claimed for fuels that  
2                   meet the lifecycle greenhouse gas emissions reduction  
3                   threshold and product transportation emissions  
4                   threshold;  
5                   (3) There shall be an additional credit value of \$1.00 per  
6                   diesel gallon equivalent for low lifecycle emissions  
7                   renewable fuels; and  
8                   (4) There shall be an additional credit value equal to  
9                   \$1.00 per gallon if the renewable fuel is sustainable  
10                   aviation fuel.

11                  Each taxpayer, together with all of its related entities as  
12                  determined under section 267(b) of the Internal Revenue Code and  
13                  all business entities under common control, as determined under  
14                  sections 414(b), 414(c), and 1563(a) of the Internal Revenue  
15                  Code, shall not be eligible for more than a single [ten-year]  
16                  credit period[–]; provided that taxpayers who previously claimed  
17                  a tax credit under this section before July 1, 2025, may claim  
18                  another tax credit for taxable years beginning after December  
19                  31, 2025."

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



1                 "(c) No later than thirty days following the close of the  
2 calendar year, every taxpayer claiming a credit under this  
3 section shall complete and file an independent, third-party  
4 certified statement, at the taxpayer's sole expense, with and in  
5 the form prescribed by the Hawaii state energy office, providing  
6 the following information:

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

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

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

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

19 (5) The number and location of all renewable fuel  
20 production facilities within and outside of the State;

21 [and]



1 (6) The lifecycle greenhouse gas emissions [per] in  
2 kilograms of carbon dioxide equivalent per million  
3 British thermal units for each type of qualified fuel  
4 produced[–]; and

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

8 (d) Within thirty calendar days after the due date of the  
9 statement required under subsection (c), the Hawaii state energy  
10 office shall:  
11 (1) Acknowledge, in writing, receipt of the statement; and  
12 (2) Issue a certificate to the taxpayer reporting the  
13 amount of renewable fuels produced and sold, the  
14 amount of credit that the taxpayer is entitled to  
15 claim for the previous calendar year, and the  
16 cumulative amount of the tax credit during the credit  
17 period[; and  
18 (3) ~~Provide the taxpayer with a determination of whether~~  
19 ~~the lifecycle greenhouse gas emissions for each type~~  
20 ~~of qualified fuel produced is lower than that of~~  
21 ~~fossil fuels]."~~



1           3. By amending subsection (f) to read:

2           "(f) The total amount of tax credits allowed under this  
3        section for all eligible taxpayers in the aggregate in any  
4        calendar year shall not exceed [\$20,000,000 for all eligible  
5        taxpayers in any calendar year.] the program cap. In the event  
6        that the credit claims under this section exceed [\$20,000,000]  
7        the program cap for all eligible taxpayers in any given calendar  
8        year, the [\$20,000,000] total amount allowed shall be [divided  
9        between all] allocated to eligible taxpayers [for that year] in  
10      proportion to the total amount of renewable fuels [produced by  
11      all eligible taxpayers. Upon reaching \$20,000,000 in the  
12      aggregate, the Hawaii state energy office shall immediately  
13      discontinue issuing certificates and notify the department of  
14      taxation. In no instance shall the total dollar amount of  
15      certificates issued exceed \$20,000,000 per calendar year.]  
16      production tax credit claims under this section for the calendar  
17      year. No taxpayer shall be eligible for more credits than  
18      allowed under the single producer cap. The total aggregate  
19      amount of additional credit value for sustainable aviation fuel  
20      under subsection (a) (4) shall not exceed the sustainable  
21      aviation fuel additional value cap. To the extent that the



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

16 4. By amending subsection (o) to read:

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

18 "Credit period" means a maximum period of ten consecutive  
19 years, beginning from [the first taxable year in which a  
20 taxpayer begins renewable fuels production at a level of at



1 least two billion five hundred million British thermal units of  
2 renewable fuels per calendar year.] July 1, 2026.

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

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

12 (1) The most recent version of the United States  
13 Department of Energy's Argonne National Laboratory's  
14 greenhouse gases, regulated emissions, and energy use  
15 in technologies (GREET) model, including agricultural  
16 practices and carbon capture and sequestration; or  
17 (2) Another lifecycle methodology approved by the Hawaii  
18 state energy office.

19 "Lifecycle greenhouse gas emissions reduction threshold"  
20 means a reduction in lifecycle greenhouse gas emissions of fifty



1 per cent compared to the fossil fuel for which the renewable  
2 fuel is most likely to replace.

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

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

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

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

16 "Renewable feedstocks" means:

17 (1) Biomass crops and other renewable organic material,  
18 including but not limited to logs, wood chips, wood  
19 pellets, and wood bark;  
20 (2) Agricultural residue;



- 1       (3) Oil crops, including but not limited to algae, canola,
- 2               jatropha, palm, soybean, and sunflower;
- 3       (4) Sugar and starch crops, including but not limited to
- 4               sugar cane and cassava;
- 5       (5) Other agricultural crops;
- 6       (6) Grease, fats, tallow, and waste cooking oil;
- 7       (7) Food wastes;
- 8       (8) Municipal solid wastes [and], industrial wastes~~[r]~~,  
9               and construction and demolition wastes;
- 10      (9) Water, including wastewater; [and]
- 11      (10) Bio-intermediate ethanol produced from renewable  
12               feedstock;
- 13      ~~(10)~~ (11) Animal residues and wastes~~[r]~~;
- 14      (12) Biogas or renewable natural gas;
- 15      (13) Gaseous carbon dioxide; and
- 16      (14) Renewable or zero carbon energy resources,
- 17      that can be used to generate energy.

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

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



1           (2) Meets the lifecycle greenhouse gas emissions reduction  
2           threshold; and  
3        [+2+] (3) Meets the relevant ASTM International  
4           specifications or other industry specifications for  
5           the particular fuel, including but not limited to:  
6           (A) Methanol, ethanol, or other alcohols;  
7           (B) Hydrogen;  
8           (C) Biodiesel or renewable diesel;  
9           (D) Biogas;  
10          (E) Other biofuels;  
11          (F) Renewable ~~[jet fuel or renewable]~~ gasoline~~[+]~~ or  
12           renewable naphtha;  
13          (G) Renewable propane or renewable liquid petroleum  
14           gases;  
15          (H) Sustainable aviation fuel; or  
16        [+G+] (I) Logs, wood chips, wood pellets, or wood  
17           bark.  
18          "Single producer cap" means seventy-five per cent of the  
19          total amount of credits allowed in any calendar year.  
20          "Sustainable aviation fuel" means liquid fuel that:



1       (1) Consists of synthesized hydrocarbons and meets the  
2       requirements of the American Society for Testing and  
3       Materials International Standard D7566 or D1655; and  
4       (2) Is derived from renewable feedstocks.

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

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

10       SECTION 4. This Act shall take effect on July 1, 3000, and  
11       shall apply to taxable years beginning after December 31, 2025.



**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. Applies to taxable years beginning after December 31, 2025. Effective 7/1/3000. (HD1)

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