

JAN 21 2026

# 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12 which was effectively repealed in 2021 due to budget concerns,  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 establish a  
15 carbon cashback program that:

16 (1) Gradually increases the environmental response,  
17 energy, carbon emissions, and food security tax to



1                   reduce fossil fuel imports and reduce greenhouse gas  
2                   emissions and pollution in furtherance of the State's  
3                   zero emissions clean economy target established in  
4                   Act 15, Session Laws of Hawaii 2018;  
5                   (2) Distributes most of the new tax revenues as refundable  
6                   income tax credits to mitigate the effect of the  
7                   increased tax on income taxpayers and provide net  
8                   financial benefits to most of them; and  
9                   (3) Reestablishes the agricultural development and food  
10                   security special fund.

11                   PART II

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

15                   "§141- Agricultural development and food security  
16                   special fund; establishment. (a) There is established within  
17                   the state treasury the agricultural development and food  
18                   security special fund.  
19                   (b) The following moneys shall be deposited into the  
20                   special fund:



- 1        (1) The portion of the environmental response, energy,  
2        carbon emissions, and food security tax specified  
3        under section 243-3.5;
- 4        (2) Appropriations from the legislature;  
5        (3) Any grant or donation made to the special fund; and  
6        (4) Any interest, dividend, or other income earned on the  
7        balance of the special fund.
- 8        (c) Moneys in the special fund may be expended for the  
9        following purposes:
  - 10        (1) The awarding of grants to farmers for agricultural  
11        production or processing activity;
  - 12        (2) The acquisition of real property for agricultural  
13        production or processing activity;
  - 14        (3) The improvement of real property, irrigation systems,  
15        and transportation networks necessary to promote  
16        agricultural production or processing activity;
  - 17        (4) The purchase of equipment necessary for agricultural  
18        production or processing activity;
  - 19        (5) The conducting of research on and testing of  
20        agricultural products and markets;



1       (6) The funding of agricultural inspector positions within  
2       the department of agriculture and biosecurity;  
3       (7) The promotion and marketing of agricultural products  
4       grown or raised in the State; and  
5       (8) Any other activity that is intended to increase  
6       agricultural production or processing and that may  
7       lead to reduced importation of food, fodder, or feed  
8       from outside the State.

9       (d) No later than twenty days prior to the convening of  
10      each regular session, the department of agriculture and  
11      biosecurity shall submit a report to the legislature on the  
12      status and progress of existing programs and activities and the  
13      status of new programs and activities funded under the  
14      agricultural development and food security special fund. The  
15      report shall also include:

16      (1) The spending plan of the agricultural development and  
17      food security special fund;  
18      (2) All expenditures from the agricultural development and  
19      food security special fund;  
20      (3) The targeted markets of the expenditures, including  
21      reasons for selecting those markets;



1        (4) The persons to be served using the expenditures; and  
2        (5) The specific objectives of the expenditures, including  
3        measurable outcomes."

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

7        "§231- Carbon emissions tax and dividend special fund.  
8        (a) There is established the carbon emissions tax and dividend  
9        special fund, into which shall be deposited the amount specified  
10      by section 243-3.5.  
11      (b) Moneys in the carbon emissions tax and dividend  
12      special fund shall be administered by the department of taxation  
13      and shall be expended for salaries, contracted services,  
14      supplies, and other administrative expenses to:  
15      (1) Administer the environmental response, energy, carbon  
16      emissions, and food security tax;  
17      (2) Administer the carbon cashback tax credit established  
18      by section 235- ; and  
19      (3) Increase public awareness and interest in the carbon  
20      cashback tax credit established by section 235- and  
21      the other refundable tax credits."



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

4 **"§235- Carbon cashback tax credit.** (a) For taxable  
5 years beginning after December 31, 2025, there shall be allowed  
6 to each qualifying taxpayer subject to the tax imposed under  
7 this chapter, a carbon cashback tax credit that shall be applied  
8 against the taxpayer's net income tax liability, if any, imposed  
9 by this chapter for the subject taxable year.

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

13 (1) For a taxpayer filing as single or married filing  
14 separately, the amount of \$52;  
15 (2) For a taxpayer filing as a head of household, the  
16 amount of \$52;  
17 (3) For a taxpayer filing a joint return or as a surviving  
18 spouse, the amount of \$104; and  
19 (4) The amount of \$26 per dependent claimed.

20 (c) For taxable years beginning after December 31, 2026,  
21 the amount of the tax credit for a given taxable year shall be



1    as specified in subsection (d), where the value of one share  
2    shall be the amount of revenue collected through the  
3    environmental response, energy, carbon emissions, and food  
4    security tax specified under section 243-3.5 and deposited into  
5    the general fund in that given taxable year, divided by the  
6    number of whole shares, where the number of whole shares is  
7    1,440,000.

8            (d) For taxable years beginning after December 31, 2026,  
9    the amount of the credit shall be equal to the sum of the  
10   following:

11            (1) For a taxpayer filing as single or married filing  
12            separately, the amount shall be one share;  
13            (2) For a taxpayer filing as a head of household, the  
14            amount shall be one share;  
15            (3) For a taxpayer filing a joint return or as a surviving  
16            spouse, the amount shall be two shares; and  
17            (4) The amount of one-half shares per dependent claimed.  
18            (e) If the tax credit allowed to the taxpayer under this  
19            section exceeds the amount of the income tax payments due from  
20            the taxpayer, the excess of credit over payments due shall be  
21            refunded to the taxpayer; provided that the tax credit properly



1    allowed to a taxpayer who has no income tax liability shall be  
2    paid to the taxpayer; provided further that no refunds or  
3    payments on account of the tax credit allowed by this section  
4    shall be made for amounts less than \$1. To be allowed a tax  
5    credit under this section, the individual income tax return,  
6    including amended returns, shall be filed on or before the end  
7    of the twelfth month following the close of the taxable year for  
8    which the credit is allowed. Failure to comply with the  
9    foregoing provision shall constitute a waiver of the right to be  
10    issued the credit.

11    (f)    Any carbon cashback tax credits not issued pursuant to  
12    this section for the most recent taxable year for which the  
13    return filing deadline has passed shall be allocated to the  
14    department of human services' Med-QUEST division. To determine  
15    the amount of credits not issued, the department of taxation  
16    shall calculate the product of the number of whole shares and  
17    the value of one share for the relevant taxable year, less the  
18    total amount of eligible allowances for carbon cashback tax  
19    credits issued for the relevant taxable year. The department of  
20    taxation may use a substantively similar calculation to  
21    determine the amount.



1       (g) The director of taxation:

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

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

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

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

13      (i) As used in this section, "qualifying taxpayer" means  
14     an individual subject to the taxes imposed by this chapter.

15     "Qualifying taxpayer" does not include any person who is claimed  
16     or is otherwise eligible to be claimed as a dependent by another  
17     taxpayer for federal or Hawaii state individual income tax  
18     purposes."

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



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

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

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



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

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

### "§243-3.5 Environmental response, energy, carbon

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

**17** \$5.25 for 2026;

**18** \$9.45 for 2027;

**19**                   \$13.65 for 2028;

**20**                   \$17.85 for 2029;

**21** \$22.05 for 2030;



1        \$26.25 for 2031;

2        \$30.45 for 2032;

3        \$34.65 for 2033;

4        \$38.85 for 2034; and

5        \$43.05 for 2035;

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

9        The tax imposed by this subsection shall be paid by the  
10      distributor of the petroleum product. The tax imposed for each  
11      year referenced above shall take effect on January 1 of that  
12      year and shall continue until the effective date of the next  
13      increment.

14        (b) Tax revenues collected pursuant to subsection (a)  
15      shall be distributed in the following priority each fiscal year,  
16      with the excess revenues to be deposited into the general fund:

17        (1) 5 cents of the tax on each barrel shall be deposited  
18            into the environmental response revolving fund  
19            established under section 128D-2;



- (2) 4 cents of the tax on each barrel shall be deposited into the energy security special fund established under section 201-12.8;
- (3) 5 cents of the tax on each barrel shall be deposited into the energy systems development special fund established under section 304A-2169.1;
- (4) 3 cents of the tax on each barrel shall be deposited into the electric vehicle charging system subaccount established pursuant to section 269-33(e); [and]
- (5) 3 cents of the tax on each barrel shall be deposited into the hydrogen fueling system subaccount established pursuant to section 269-33(f) [–];
- (6) 15 cents of the tax on each barrel shall be deposited into the agricultural development and food security special fund established under section 141- ;
- (7) \$1,000,000 shall be deposited into the carbon emissions tax and dividend special fund established under section 231- ;
- (8) All of the tax collected on aviation fuel shall be deposited in the airport revenue fund established under section 248-8; and



1                   (9) \$1.05 of the tax on each barrel of liquid fuel sold  
2                   for use in or used for small boats shall be deposited  
3                   in the boating special fund established under section  
4                   248-8, in accordance with the meaning of "small boats"  
5                   as defined in section 248-8, and the method of  
6                   determining the amount of tax derived from the sale of  
7                   liquid fuel for use in or used for small boats as  
8                   specified in section 248-8.

9                   [~~The tax imposed by this subsection shall be paid by the~~  
10                   ~~distributor of the petroleum product.~~

11                  {b)} (c) In addition to subsection (a), the environmental  
12                  response, energy, carbon emissions, and food security tax shall  
13                  also be imposed on each one million British thermal units of  
14                  fossil fuel sold by a distributor to any retail dealer or end  
15                  user, other than a refiner, of fossil fuel. The tax [~~shall be~~  
16                  19 cents] on each one million British thermal units of fossil  
17                  fuel[; ~~provided that of the tax collected pursuant to this~~  
18                  subsection:] shall be as follows for each calendar year:

19                  \$0.79 for 2026;  
20                  \$1.39 for 2027;  
21                  \$1.99 for 2028;



1       \$2.59 for 2029;  
2       \$3.19 for 2030;  
3       \$3.79 for 2031;  
4       \$4.39 for 2032;  
5       \$4.99 for 2033;  
6       \$5.59 for 2034; and  
7       \$6.09 for 2035;

8       provided that the tax shall be increased by \$0.15 on each one  
9       million British thermal units of fossil fuel each year  
10      thereafter.

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

15      (d) Tax revenues collected pursuant to subsection (c)  
16      shall be distributed in the following priority each fiscal year,  
17      with the excess revenues to be deposited into the general fund:

18       (1)    4.8 per cent of the tax on each one million British  
19            thermal units shall be deposited into the  
20            environmental response revolving fund established  
21            under section 128D-2;



1 (2) 14.3 per cent of the tax on each one million British  
2 thermal units shall be deposited into the energy  
3 security special fund established under section  
4 201-12.8; [and]  
5 (3) 9.5 per cent of the tax on each one million British  
6 thermal units shall be deposited into the energy  
7 systems development special fund established under  
8 section 304A-2169.1[-]; and  
9 (4) 14.3 per cent of the tax on each one million British  
10 thermal units shall be deposited into the agricultural  
11 development and food security special fund established  
12 under section 141- .  
13 ~~The tax imposed by this subsection shall be paid by the~~  
14 ~~distributor of the fossil fuel.~~  
15 {e} (e) The tax imposed under subsection [+] (c) shall  
16 not apply to coal used to fulfill [a signed] an existing power  
17 purchase agreement between an independent power producer and an  
18 electric utility that is in effect as of June 30, 2015[-];  
19 provided that this exemption from taxation shall not apply to  
20 any extension of an existing power purchase agreement or to any  
21 subsequent power purchase agreement. An independent power



1 producer shall be permitted to pass the tax imposed under  
2 subsection ~~(b)~~ (c) on to an electric utility. In ~~which~~  
3 ~~case,~~ any case in which the tax is passed on, the electric  
4 utility may recover the cost of the tax through an appropriate  
5 surcharge to the end user that is approved by the public  
6 utilities commission.

7 ~~(d)~~ (f) A gas utility shall be allowed to recover the  
8 cost of the tax imposed under subsection ~~(b)~~ (c) as part of  
9 its fuel cost in its fuel adjustment charge without further  
10 approval by the public utilities commission.

11 ~~(e)~~ (g) Each distributor subject to the tax imposed by  
12 subsection (a) or ~~(b)~~ (c), on or before the last day of each  
13 calendar month, shall file, in the form and manner prescribed by  
14 the department, a return statement of the tax under this section  
15 for which the distributor is liable for the preceding month.

16 The form and payment of the tax shall be transmitted to the  
17 department in the form and manner prescribed by the department.

18 ~~(f)~~ (h) Notwithstanding section 248-8 to the contrary,  
19 the environmental response, energy, carbon emissions, and food  
20 security tax collected under this section shall be paid over to



1 the director of finance for deposit as provided in subsection  
2 ~~[+a]~~ (b) or ~~[+b]~~ (d), as the case may be.

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

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

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

16 "Fossil fuel" means a ~~hydrocarbon deposit,~~ fuel, such as  
17 coal, natural gas, or liquefied natural gas, derived from a  
18 hydrocarbon deposit resulting from the accumulated remains of  
19 ancient plants or animals and used for fuel; provided that the  
20 term specifically does not include petroleum product."



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

3 "(b) Deposits into the special fund may be from the  
4 following:

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

11 PART III

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

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

18 PART IV

19 SECTION 10. (a) The department of taxation shall submit  
20 an interim report to the legislature no later than forty days  
21 prior to the convening of the regular session of 2027 on



1 preparations for the implementation of the carbon cashback  
2 program.

3 (b) The department of taxation shall submit annual reports  
4 to the legislature no later than forty days prior to the  
5 convening of each regular session from 2028 through and  
6 including 2036, with information about the carbon cashback  
7 program. The reports shall include revenues from the  
8 environmental response, energy, carbon emissions, and food  
9 security tax and the amounts distributed through the refundable  
10 tax credits under section 235- , Hawaii Revised Statutes. The  
11 reports shall include any information necessary for the  
12 legislature to assess the need to adjust the amounts of the  
13 refundable tax credits in future years and any recommendations  
14 to improve the carbon cashback program.

15 PART V

16 SECTION 11. Statutory material to be repealed is bracketed  
17 and stricken. New statutory material is underscored.

18 SECTION 12. This Act shall take effect on July 1, 2026;  
19 provided that:

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



3

INTRODUCED BY:

Mike Gabbard



# S.B. NO. 2332

**Report Title:**

Department of Taxation; Environmental Response, Energy, Carbon Emissions, and Food Security Tax; Carbon Emissions; 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. Establishes the Carbon Emissions Tax and Dividend Special Fund. Gradually increases the Environmental Response, Energy, Carbon Emissions, and Food Security tax rates and establishes a refundable carbon cashback tax credit to offset increases for most 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.*

