
A BILL FOR AN ACT

RELATING TO CARBON PRICING.

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

1 SECTION 1. The legislature finds that climate change is
2 the most critical issue confronting the State. The overwhelming
3 consensus of climate scientists who have studied the issue is
4 that climate change is occurring primarily as a result of the
5 combustion of fossil fuels. The legislature concurs with this
6 conclusion.

7 The Hawaii climate change mitigation and adaptation
8 commission has stated that the most effective single means of
9 reducing greenhouse gas emissions is to "put a price on carbon".
10 Without carbon emissions pricing, fossil fuel prices do not
11 reflect the health and climate costs of burning these fuels, nor
12 do they provide incentives to shift Hawaii toward a clean energy
13 economy. The concept of "carbon pricing" is supported by
14 various local and state entities and, as of the end of 2018,
15 fifty-one carbon pricing initiatives have been implemented or
16 scheduled for implementation worldwide. Numerous respected
17 economists have emphasized the importance of assuring that the



1 social costs of the adverse impacts of carbon dioxide emissions
2 will be included in future market pricing involving fossil
3 fuels.

4 The legislature further finds that the coronavirus disease
5 2019 (COVID-19) pandemic has resulted in a significant economic
6 downturn in Hawaii, resulting in one of the highest unemployment
7 rates in the nation and straining residents who already endure a
8 high cost of living. Other jurisdictions have successfully
9 implemented effective carbon taxes with direct rebates to
10 residents. Putting a price on pollution, while giving revenues
11 back to low- and moderate-income residents, will accelerate
12 Hawaii's transition to a clean energy and transportation future
13 without placing a burden on Hawaii's working families.
14 Furthermore, an acceleration to a clean economy will foster
15 innovation and create new job opportunities.

16 The best means of carbon pricing for the State is a
17 use-based tax on all carbon dioxide-emitting fuels, such as oil,
18 gas, and coal. The department of taxation already implements
19 various fuel-based taxes, including the environmental response,
20 energy, and food security tax, which imposes a tax on barrels of
21 petroleum products. A separate tax is also imposed on fossil



1 fuels other than petroleum, applied to each million British
2 thermal units of heat value of a fuel. The legislature
3 concludes that the environmental response, energy, and food
4 security tax provisions could be amended to implement a state
5 carbon emissions tax. The current tax rates per barrel and per
6 million British thermal units of fossil fuels should be replaced
7 with a tax table that reflects the quantity of carbon dioxide
8 emissions produced per barrel or per million British thermal
9 units of various fuels.

10 A carbon emissions tax is typically calculated as a value
11 per metric ton of carbon dioxide equivalent emissions. Many
12 climate change experts have concluded that to be effective in
13 achieving reductions in combustion of fossil fuels to the extent
14 needed to meet the goals set under the Paris Agreement, the
15 price of carbon emissions would have needed to be set in the
16 range of \$40 per metric ton of carbon dioxide emissions in 2020
17 and increase to a price of \$80 by 2030. The legislature finds
18 that establishing effective carbon prices is necessary and the
19 need is compelling.

20 Accordingly, the purpose of this Act is to:



- 1 (1) Amend the environmental response, energy, and food
- 2 security tax to address carbon emissions; and
- 3 (2) Establish a refundable tax credit to mitigate the
- 4 effect of the tax on carbon emissions for Hawaii's
- 5 residents.

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

9 "§235- Tax credit to mitigate the effect of a carbon
 10 emissions tax on taxpayers. (a) There shall be allowed to each
 11 qualified taxpayer subject to the tax imposed under this
 12 chapter, an income tax credit that shall be deductible from the
 13 taxpayer's net income tax liability, if any, imposed by this
 14 chapter for the taxable year in which the credit is properly
 15 claimed.

16 (b) The amount of the tax credit shall be equal to the sum
 17 of the following:

- 18 (1) The following amounts per taxpayer:
- 19 (A) \$ _____ for taxpayers filing as single or
- 20 married filing separately;



1 (B) \$ _____ for taxpayers filing as a head of
2 household; or

3 (C) \$ _____ for taxpayers filing a joint return
4 or as a surviving spouse; and

5 (2) \$ _____ per qualifying child.

6 (c) If the tax credit claimed by 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 claimed by 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.

14 All claims for the tax credit under this section, including
15 amended claims, shall be filed on or before the end of the
16 twelfth month following the close of the taxable year for which
17 the credit may be claimed. Failure to comply with the foregoing
18 provision shall constitute a waiver of the right to claim the
19 credit.

20 (d) The director of taxation:



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

3 (2) May require the taxpayer to furnish reasonable
4 information to ascertain the validity of the claim for
5 the tax credit made under this section; and

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

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

11 (f) As used in this section:

12 "Qualified taxpayer" means a resident taxpayer who meets
13 the following criteria:

14 (1) The taxpayer files an individual income tax return,
15 whether as a single taxpayer, a head of household, a
16 married individual filing a separate return, a married
17 couple filing a joint return, or a surviving spouse;

18 and

19 (2) The taxpayer has a gross annual household income
20 within the following ranges:



1 (A) For a taxpayer filing a single return or a
2 married person filing separately, up to
3 \$ _____ ;

4 (B) For a taxpayer filing as a head of household, up
5 to \$ _____ ; and

6 (C) For a taxpayer filing a joint return or as a
7 surviving spouse, up to \$ _____ .

8 "Qualifying child" means a minor who:

9 (1) Resides with the taxpayer; and

10 (2) Is claimed as a dependent by the taxpayer."

11 SECTION 3. Section 128D-2, Hawaii Revised Statutes, is
12 amended by amending subsection (a) to read as follows:

13 "(a) There is created within the state treasury an
14 environmental response revolving fund, which shall consist of
15 moneys appropriated to the fund by the legislature, moneys paid
16 to the fund as a result of departmental compliance proceedings,
17 moneys paid to the fund pursuant to court-ordered awards or
18 judgments, moneys paid to the fund in court-approved or
19 out-of-court settlements, all interest attributable to
20 investment of money deposited in the fund, moneys deposited in
21 the fund from the environmental response, energy, carbon



1 emissions, and food security tax pursuant to section 243-3.5,
2 and moneys allotted to the fund from other sources."

3 SECTION 4. Section 141-10, Hawaii Revised Statutes, is
4 amended by amending subsection (b) to read as follows:

5 "(b) The following moneys shall be deposited into the
6 special fund:

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

10 (2) Any appropriation by the legislature into the special
11 fund;

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

13 (4) Any interest earned on the balance of the special
14 fund."

15 SECTION 5. Section 201-12.8, Hawaii Revised Statutes, is
16 amended by amending subsection (a) to read as follows:

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

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



- 1 (2) Moneys appropriated to the fund by the legislature;
- 2 (3) All interest attributable to investment of money
- 3 deposited in the fund; and
- 4 (4) Moneys allotted to the fund from other sources,
- 5 including under section 196-6.5."

6 SECTION 6. Section 243-3.5, Hawaii Revised Statutes, is
7 amended to read as follows:

8 "**§243-3.5 Environmental response, energy, carbon**
9 **emissions, and food security tax; uses.** (a) In addition to any
10 other taxes provided by law, subject to the exemptions set forth
11 in section 243-7, there is hereby imposed a state environmental
12 response, energy, carbon emissions, and food security tax on
13 each barrel or fractional part of a barrel of petroleum product
14 sold by a distributor to any retail dealer or end user of
15 petroleum product, other than a refiner. The tax [~~shall be~~
16 ~~\$1.05~~] on each barrel or fractional part of a barrel of
17 petroleum product [~~that is not aviation fuel; provided that of~~
18 ~~the tax~~] shall be in the amounts provided in the following
19 table:

20	<u>Product</u>	<u>2022</u>	<u>2026</u>	<u>2029</u>	<u>2032</u>
21	<u>Propane; Butane</u>	\$ _____	\$ _____	\$ _____	\$ _____



1	<u>Gasoline</u>	\$ _____	\$ _____	\$ _____	\$ _____
2	<u>Diesel</u>	\$ _____	\$ _____	\$ _____	\$ _____
3	<u>Kerosene</u>	\$ _____	\$ _____	\$ _____	\$ _____
4	<u>Aviation gas</u>	\$ _____	\$ _____	\$ _____	\$ _____
5	<u>Jet fuel</u>	\$ _____	\$ _____	\$ _____	\$ _____
6	<u>No.6 Fuel oil</u>	\$ _____	\$ _____	\$ _____	\$ _____
7	<u>Other</u>	\$ _____	\$ _____	\$ _____	\$ _____

8 The tax for each year referenced above shall take effect on
9 January 1 of that year and continue to be applicable until the
10 effective date of the next increment.

11 The tax imposed by this subsection shall be paid by the
12 distributor of the petroleum product.

13 (b) Tax revenues collected pursuant to [~~this~~]
14 subsection[+] (a) shall be distributed in the following
15 priority, with the excess revenues to be deposited into the
16 general fund:

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



- 1 (2) [5] ____ cents of the tax on each barrel shall be
- 2 deposited into the energy security special fund
- 3 established under section 201-12.8;
- 4 (3) [10] ____ cents of the tax on each barrel shall be
- 5 deposited into the energy systems development special
- 6 fund established under section 304A-2169.1; [and]
- 7 (4) [15] ____ cents of the tax on each barrel shall be
- 8 deposited into the agricultural development and food
- 9 security special fund established under
- 10 section 141-10[+];
- 11 (5) cents of the tax on each barrel shall be
- 12 deposited into the building energy efficiency
- 13 revolving loan fund established under section 201-20;
- 14 (6) All taxes paid on gasoline or other aviation fuel sold
- 15 for use in or used for airplanes shall be deposited in
- 16 the airport revenue fund created by section 248-8; and
- 17 (7) All taxes paid on gasoline, diesel, or other fuel sold
- 18 for use in or used for small boats shall be deposited
- 19 in the boating special fund created by section 248-8.
- 20 ~~[The tax imposed by this subsection shall be paid by the~~
- 21 ~~distributor of the petroleum product.~~



1 ~~(b)~~ (c) In addition to subsection (a), the environmental
 2 response, energy, carbon emissions, and food security tax shall
 3 also be imposed on each one million British thermal units of
 4 fossil fuel sold by a distributor to any retail dealer or end
 5 user, other than a refiner, of fossil fuel. The tax ~~shall~~
 6 ~~be 19 cents~~ on each one million British thermal units of fossil
 7 fuel~~;~~ ~~provided that of the tax~~ is set forth in the following
 8 table:

9	<u>Fuel</u>	<u>2022</u>	<u>2026</u>	<u>2029</u>	<u>2032</u>
10	<u>Coal (all</u>				
11	<u>forms)</u>	\$ _____	\$ _____	\$ _____	\$ _____
12	<u>Natural gas</u>				
13	<u>(including</u>				
14	<u>liquefied</u>				
15	<u>natural gas)</u>	\$ _____	\$ _____	\$ _____	\$ _____

16 The tax for each year referenced above shall take effect on
 17 January 1 of that year and continue to be applicable until the
 18 effective date of the next increment.

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



1 (d) Tax revenues collected pursuant to [~~this~~]
2 subsection[+] (c) shall be distributed in the following priority
3 each fiscal year, with the excess revenues to be deposited into
4 the general fund:

5 (1) 4.8 per cent of the tax on each one million British
6 thermal units shall be deposited into the
7 environmental response revolving fund established
8 under section 128D-2;

9 (2) 14.3 per cent of the tax on each one million British
10 thermal units shall be deposited into the energy
11 security special fund established under
12 section 201-12.8;

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

17 (4) 14.3 per cent of the tax on each one million British
18 thermal units shall be deposited into the agricultural
19 development and food security special fund established
20 under section 141-10.



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

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

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

20 ~~[(e)]~~ (g) Each distributor subject to the tax imposed by
21 subsection (a) or ~~[(b)]~~, (c), on or before the last day of each



1 calendar month, shall file with the director, on forms
2 prescribed, prepared, and furnished by the director, a return
3 statement of the tax under this section for which the
4 distributor is liable for the preceding month. The form and
5 payment of the tax shall be transmitted to the department of
6 taxation in the appropriate district.

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

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

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



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

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

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

11 "(b) Deposits into the special fund may be from the
12 following:

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

19 SECTION 8. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



1 SECTION 9. This Act shall take effect on July 1, 2050;
2 provided that section 2 shall apply to taxable years beginning
3 after December 31, 2021.



H.B. NO. 1319 H.D. 1

Report Title:

Environmental Response, Energy, and Food Security Tax; Carbon Emissions; Tax Credit

Description:

Amends the environmental response, energy, and food security tax to address carbon emissions. Establishes a refundable tax credit to mitigate the effect of a carbon emissions tax on taxpayers. Tax credit applies to taxable years beginning after 12/31/2021. Effective 7/1/2050. (HD1)

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2021-1464 HB1319 HD1 HMSO

