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

8 The Hawaii climate change mitigation and adaptation
9 commission has stated that the most effective single means of
10 reducing greenhouse gas emissions is to "put a price on carbon".
11 The concept of "carbon pricing" is supported by various local
12 and state entities and, as of the end of 2018, fifty-one carbon
13 pricing initiatives have been implemented or scheduled for
14 implementation worldwide. Numerous respected economists have
15 emphasized the importance of assuring that the social costs of
16 the adverse impacts of carbon dioxide emissions will be included
17 in future market pricing involving fossil fuels.



1 The legislature further finds that the best means of carbon
2 pricing for the State is a use-based tax on all carbon dioxide-
3 emitting fuels, such as oil, gas, and coal. The department of
4 taxation already implements various fuel-based taxes, including
5 the environmental response, energy, and food security tax, which
6 imposes a tax on barrels of petroleum products. A separate tax
7 is also imposed on fossil fuels other than petroleum, applied to
8 each million British thermal units (BTUs) of heat value of a
9 fuel. The legislature concludes that the environmental
10 response, energy, and food security tax provisions could be
11 amended to implement a state carbon emissions tax. However, the
12 current tax rates per barrel and per million BTUs of fossil
13 fuels should be replaced with a tax table that reflects the
14 quantity of carbon dioxide emissions produced per barrel or per
15 million BTUs of various fuels.

16 A carbon emissions tax is typically calculated as a value
17 per metric ton of carbon dioxide equivalent emissions. Many
18 climate change experts have concluded that, to be effective in
19 achieving reductions in combustion of fossil fuels to the extent
20 needed to meet the goals set under the Paris Agreement, the
21 price of carbon emissions should be set in the range of \$40 per



1 metric ton of carbon dioxide emissions in 2020, and increase to
2 a price of \$80 by 2030. The legislature finds that the need to
3 establish effective carbon prices is compelling.

4 Accordingly, the purpose of this Act is to:

- 5 (1) Establish a carbon emissions tax;
- 6 (2) Establish a carbon emissions tax special fund and a
7 special fund for climate adaptation; and
- 8 (3) Establish a refundable tax credit for lower-income
9 individuals to mitigate the effect of the carbon
10 emissions tax.

11 The legislature notes that, since the initial increase in tax
12 rates is not scheduled to take effect until , the
13 legislature will have the opportunity to consider any revisions
14 to the tax rates set by this Act that may be warranted by the
15 results of the carbon pricing study currently underway pursuant
16 to Act 122, Session Laws of Hawaii 2019.

17 PART II

18 SECTION 2. Chapter 243, Hawaii Revised Statutes, is
19 amended by adding two new sections to be appropriately
20 designated and to read as follows:



1 "§243-A Carbon emissions tax. (a) In addition to any
 2 other taxes provided by law, subject to the exemptions set forth
 3 in section 243-7, there is hereby levied, assessed, and
 4 collected a carbon emissions tax on each barrel or fractional
 5 part of a barrel of petroleum product sold by a distributor to
 6 any retail dealer or end user of petroleum product, other than a
 7 refiner. The tax on each barrel or fractional part of a barrel
 8 of petroleum product shall be in the amounts provided in the
 9 following table:

10	<u>Product</u>	<u>2021</u>	<u>2024</u>	<u>2027</u>	<u>2030</u>
11	<u>Propane; Butane</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
12	<u>Gasoline</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
13	<u>Diesel</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
14	<u>Kerosene</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
15	<u>No. 6 fuel oil</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
16	<u>Other</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

20 The tax imposed by this subsection shall be paid by the
 21 distributor of the petroleum product.



1 (b) Of the tax revenues collected pursuant to subsection
2 (a), \$ shall be deposited into the carbon emissions tax
3 special fund, with the excess revenues to be deposited into the
4 climate adaptation special fund.

5 (c) In addition to subsection (a), the carbon emissions
6 tax shall also be levied, assessed, and collected on each one
7 million British thermal units of fossil fuel sold by a
8 distributor to any retail dealer or end user, other than a
9 refiner, of fossil fuel. The tax on each one million British
10 thermal units of fossil fuel is set forth in the following
11 table:

<u>Fuel</u>	<u>2021</u>	<u>2024</u>	<u>2027</u>	<u>2030</u>
<u>Coal (all</u>				
<u>forms)</u>	<u>\$</u> _____	<u>\$</u> _____	<u>\$</u> _____	<u>\$</u> _____
<u>Natural gas</u>				
<u>(including</u>				
<u>liquefied</u>				
<u>natural gas)</u>	<u>\$</u> _____	<u>\$</u> _____	<u>\$</u> _____	<u>\$</u> _____

19 The tax for each year referenced above shall take effect on
20 July 1 of that year and continue to be applicable until the
21 effective date of the next increment.



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

3 (d) Of the tax revenues collected pursuant to subsection
4 (c), \$ shall be deposited into the carbon emissions tax
5 special fund, with the excess revenues to be deposited into the
6 climate adaptation special fund.

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

19 (f) A gas utility shall be allowed to recover the cost of
20 the tax imposed under subsection (c) as part of its fuel cost in



1 its fuel adjustment charge without further approval by the
2 public utilities commission.

3 (g) Each distributor subject to the tax imposed by
4 subsection (a) or (c), on or before the last day of each
5 calendar month, shall file with the director, on forms
6 prescribed, prepared, and furnished by the director, a return
7 statement of the tax under this section for which the
8 distributor is liable for the preceding month. The form and
9 payment of the tax shall be transmitted to the department of
10 taxation in the appropriate district.

11 (h) Notwithstanding section 248-8 to the contrary, the
12 carbon emissions tax collected under this section shall be paid
13 over to the director of finance for deposit as provided in
14 subsection (b) or (d), as the case may be.

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



1 relevant to the enforcement and administration of this chapter
2 as the department may require.

3 (j) For the purposes of this section:

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

7 "Fossil fuel" means a fuel, such as coal, natural gas, or
8 liquefied natural gas, derived from a hydrocarbon deposit
9 resulting from the accumulated remains of ancient plants or
10 animals; provided that the term specifically does not include
11 petroleum product.

12 **§243-B Carbon emissions tax special fund.** (a) There is
13 established in the state treasury the carbon emissions tax
14 special fund, into which shall be deposited revenues from the
15 carbon emissions tax, pursuant to section 243-A.

16 (b) The director of taxation shall administer the carbon
17 emissions tax special fund.

18 (c) All moneys paid into the carbon emissions tax special
19 fund shall be appropriated, applied, or expended by the
20 department of taxation for the administration of the tax credit



1 to mitigate the effect of a carbon emissions tax on lower income
2 taxpayers, pursuant to section 235- ."

3 PART III

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

7 "§235- Tax credit to mitigate the effect of a carbon
8 emissions tax on lower income taxpayers. (a) There shall be
9 allowed to each qualified taxpayer subject to the tax imposed
10 under this chapter, an income tax credit that shall be
11 deductible from the taxpayer's net income tax liability, if any,
12 imposed by this chapter for the taxable year in which the credit
13 is properly claimed.

14 (b) The amount of the tax credit shall be determined as
15 follows:

16 (1) For a taxpayer filing a single return or a married
17 person filing separately, the applicable tax credit is
18 determined by which bracket in the following table the
19 taxpayer's gross annual household income falls within:

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21 Gross Annual Household Income Credit Amount



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\$ _____ or less but
more than \$ _____ \$ _____

\$ _____ or less but
more than \$ _____ \$ _____

\$ _____ or less but
more than \$ _____ \$ _____

\$ _____ or less \$ _____.

(c) If the tax credit claimed by the taxpayer under this section exceeds the amount of the income tax payments due from the taxpayer, the excess of credit over payments due shall be refunded to the taxpayer; provided that the tax credit properly claimed by a taxpayer who has no income tax liability shall be paid to the taxpayer; provided further that no refunds or payments on account of the tax credit allowed by this section shall be made for amounts less than \$1. All moneys used to pay for refunds issued pursuant to this section shall be derived from the carbon emissions tax special fund.



1 All claims for the tax credit under this section, including
2 amended claims, shall be filed on or before the end of the
3 twelfth month following the close of the taxable year for which
4 the credit may be claimed. Failure to comply with the foregoing
5 provision shall constitute a waiver of the right to claim the
6 credit.

7 (d) The director of taxation:

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

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

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

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

18 (f) As used in this section, "qualified taxpayer" means a
19 resident taxpayer who meets the following criteria:

20 (1) The taxpayer files an individual income tax return,
21 whether as a single taxpayer, a head of household, a



1 married individual filing a separate return, a married
2 couple filing a joint return, or a surviving spouse;
3 and

4 (2) The taxpayer has a gross annual household income
5 within the ranges listed in subsection (b) (1), (2), or
6 (3), as applicable."

7 PART IV

8 SECTION 4. Chapter 128D, Hawaii Revised Statutes, is
9 amended by adding a new part to be appropriately designated and
10 to read as follows:

11 "PART . CLIMATE ADAPTATION

12 §128D- Climate adaptation special fund. (a) There is
13 established within the state treasury the climate adaptation
14 special fund, to be administered by the department, into which
15 shall be deposited:

16 (1) Appropriations made by the legislature to the fund;
17 and

18 (2) Carbon emissions tax revenues pursuant to section
19 243-A.

20 (b) The department may use moneys in the special fund for
21 climate adaptation projects, including:



- 1 (1) Post-disaster recovery projects that include plans to
- 2 address the impacts of sea level rise and coastal
- 3 flooding;
- 4 (2) Sea level rise adaptation and shoreline protection;
- 5 (3) Managed retreat; and
- 6 (4) Assessment and protection of critical infrastructure
- 7 and areas of public interest and economic importance."

8 PART V

9 SECTION 5. In codifying the new sections added by section
10 2 of this Act, the revisor of statutes shall substitute
11 appropriate section numbers for the letters used in designating
12 the new sections in this Act.

13 SECTION 6. New statutory material is underscored.

14 SECTION 7. This Act shall take effect on July 1, 2050;
15 provided that part III shall apply to taxable years beginning
16 after December 31, 2021.



Report Title:

Carbon Emissions Tax; Tax Credit

Description:

Establishes a carbon emissions tax. Establishes a refundable tax credit for lower-income individuals. Establishes a special fund to be used to administer the tax credit. Establishes a special fund for climate adaptation. Allocates carbon emissions tax revenues to the special funds. Effective 7/1/2050. Tax credit applies to taxable years beginning after 12/31/2021. (SB3150 HD1 PROPOSED)

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