

**First Regular Session
Seventy-Seventh General Assembly
STATE OF SAN ANDREAS**

REENGROSSED

LLS NO. 26-0717.03 Asa Miller x2741

HOUSE BILL 26-012

SENATE SPONSORSHIP

Brinkerhoff

HOUSE SPONSORSHIP

Richards, Roberts, Rocha, Willis

House Committees

Finance & Revenue

Senate Committees

Not assigned

A BILL FOR AN ACT

CONCERNING REVISING STATE INCOME TAX FOR LOW-INCOME RESIDENTS.

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <https://saleg.uscgov.com>)

This bill modifies the state income tax structure by eliminating state income tax liability for individuals earning less than \$25,000 annually and adjusting upper-income tax brackets to maintain state revenue stability. The bill is intended to reduce the tax burden on low-income residents while reallocating tax responsibility toward higher-income earners based on ability to pay.

Shading denotes HOUSE amendment. Underlining denotes SENATE amendment.
*Capital letters or bold & italic numbers indicate new material to be added to existing law.
Dashes through the words or numbers indicate deletions from existing law.*

Beginning in tax year 2027, individuals with taxable income below \$25,000 would no longer be subject to state income tax. Existing tax rates for middle-income earners remain unchanged under the bill. To offset the reduction in revenue resulting from the exemption, the legislation directs the Department of Revenue to apply adjusted marginal tax rates to income exceeding \$330,000 annually, subject to fiscal analysis and implementation through rulemaking.

The bill also requires the Department of Revenue to update withholding guidance and provide public information regarding the revised tax structure. A reporting requirement directs the Department to evaluate the fiscal and economic impacts of the new tax brackets and submit findings to the Governor and the General Assembly.

1 *Be it enacted by the General Assembly of the State of San*
2 *Andreas:*
3 **SECTION 1. SHORT TITLE.** This bill shall be known and cited
4 as the “Fair Income Tax Adjustment Act.” **SECTION 2.**
5 **LEGISLATIVE FINDINGS AND INTENT.** (a) The General
6 Assembly finds that the state income tax system should reflect
7 principles of fairness, ability to pay, and economic stability. (b)
8 Lower-income households experience a disproportionate financial
9 burden from taxation relative to income, particularly with respect
10 to essential living expenses. (c) Providing tax relief to low-income
11 residents supports economic mobility, reduces financial insecurity,
12 and strengthens local economies through increased consumer
13 spending. (d) Adjustments to tax brackets for higher-income
14 earners may be used to maintain revenue neutrality while reducing
15 tax burdens on lower-income households. (e) It is the intent of the
16 General Assembly to eliminate state income tax liability for
17 individuals earning less than twenty-five thousand dollars
18 annually and to adjust upper-income tax brackets to ensure
19 continued funding of state services. (f) The General Assembly
20 further finds that tax relief directed toward low-income
21 households should be implemented in a manner that promotes

1 economic stability while ensuring long-term fiscal responsibility
2 and predictable funding for essential public services. SECTION
3 3. DEFINITIONS. For purposes of this Act, unless the context
4 otherwise requires: (a) “Department” means the Department of
5 Revenue. (b) “Taxable income” means income subject to state
6 income taxation as defined by existing law. (c) “Resident
7 taxpayer” means an individual subject to state income tax under
8 state law. (d) “Earned income” means wages, salaries, tips, and
9 other compensation for personal services, including net earnings
10 from self-employment, as defined by federal income tax law.
11 SECTION 4. MODIFICATION OF INCOME TAX
12 BRACKETS. (a) Beginning with tax year 2027, the state income
13 tax rate schedule shall be modified as follows: (I) Taxable income
14 up to twenty-five thousand dollars annually shall be subject to a
15 zero percent state income tax rate. (II) Taxable income between
16 \$25,001 and \$330,000 annually: Tax rates shall remain as
17 established under existing law unless modified by future
18 legislation. (III) Taxable income exceeding three hundred thirty
19 thousand dollars annually shall be subject to additional marginal
20 tax rates established by law. The Department shall not
21 independently adjust tax rates except as expressly authorized by
22 statute enacted by the General Assembly. (c) Nothing in this
23 section shall reduce or eliminate existing deductions, credits, or
24 exemptions unless otherwise provided by law. (d) Beginning in
25 tax year 2029 and every tax year thereafter, the income threshold
26 established in subsection (a)(I) of this section shall be adjusted
27 annually by the Department based upon the consumer price index
28 to preserve the real value of the exemption. (e) A refundable
29 working family tax credit is hereby created for resident taxpayers
30 with taxable income not exceeding fifty thousand dollars annually.
31 The credit shall equal five percent of earned income, not to
32 exceed one thousand dollars per taxpayer, and shall be refundable
33 regardless of tax liability. (f) Implementation of this Act shall not

1 result in an increase in effective income tax liability for resident
2 taxpayers with taxable income below three hundred thirty
3 thousand dollars annually unless expressly authorized by
4 subsequent legislation. (g) The Department shall publish annually,
5 on its public website, a clear schedule of the tax brackets
6 established under this section and provide examples
7 demonstrating the application of the zero-rate income bracket for
8 taxpayers whose taxable income falls below the threshold
9 established in subsection (a)(I) of this section. (h) The Department
10 shall ensure that implementation of the refundable working family
11 tax credit established in subsection (e) of this section includes
12 simplified filing procedures for taxpayers with income below fifty
13 thousand dollars annually. (i) The Department shall provide an
14 annual notice to taxpayers whose income falls within the zero
15 percent tax bracket established in subsection (a)(I) of this section
16 informing them that no state income tax liability is owed for that
17 tax year unless otherwise required by law. (j) The Department
18 shall ensure that electronic filing systems clearly display
19 eligibility for the refundable working family tax credit created in
20 subsection (e) of this section and automatically calculate the credit
21 when sufficient income information is provided. (k) Nothing in
22 this section shall be construed to authorize the Department to
23 create additional tax brackets or alter existing statutory tax rates
24 without an act of the General Assembly. (l) In addition to the
25 refundable working family tax credit established in subsection (e)
26 of this section, a resident taxpayer who claims one or more
27 dependent children under the age of eighteen for federal income
28 tax purposes shall be eligible for an additional refundable child
29 tax credit. The credit shall equal two hundred fifty dollars for each
30 qualifying dependent child, not to exceed one thousand dollars per
31 taxpayer in any tax year. The credit authorized by this subsection
32 shall be refundable regardless of tax liability and shall be
33 administered by the Department in a manner consistent with the

1 working family tax credit established in subsection (e) of this
2 section. (m) The refundable working family tax credit established
3 in subsection (e) of this section shall be increased by three
4 hundred dollars for each qualifying dependent child claimed by a
5 resident taxpayer under federal income tax law. The additional
6 credit provided by this subsection shall be refundable and shall be
7 subject to the same income eligibility requirements established in
8 subsection (e) of this section. **SECTION 4.5. REVENUE**
9 **STABILIZATION.** (a) If implementation of this Act results in a
10 projected revenue reduction exceeding two percent of general
11 fund revenue in any fiscal year, adjustments to upper-income
12 marginal tax rates shall occur only following approval by the
13 General Assembly through the annual appropriations process. (b)
14 No adjustment authorized under this section shall reduce the
15 zero-rate income bracket established under Section 4. (c) Any
16 proposal to adjust upper-income marginal tax rates pursuant to
17 this section shall be accompanied by a fiscal analysis prepared by
18 the Department of Revenue estimating the anticipated revenue
19 impact over a five-year period. (d) Any revenue adjustments
20 proposed pursuant to this section shall prioritize maintaining the
21 tax exemption for taxpayers with taxable income below the
22 threshold established in Section 4(a)(I). **SECTION 5.**
23 **IMPLEMENTATION.** (a) The Department of Revenue shall
24 promulgate rules necessary to implement the revised tax brackets.
25 (b) The Department shall update withholding tables and guidance
26 for employers no later than October 1, 2026. (c) Public
27 informational materials shall be made available to taxpayers
28 explaining the new bracket structure. (d) Updated withholding
29 tables shall ensure that taxpayers eligible for the zero-rate bracket
30 receive corresponding reductions in payroll withholding
31 beginning January 1, 2027. (e) The Department shall conduct
32 public outreach efforts, including informational materials and
33 online resources, to ensure taxpayers understand the changes to

1 the income tax structure established under this Act. (f) Updated
2 withholding guidance issued pursuant to this section shall include
3 examples illustrating payroll withholding adjustments for
4 employees whose annual income falls within the zero percent tax
5 bracket. **SECTION 6. REPORTING REQUIREMENT.** (a) On or
6 before January 15, 2029, and annually thereafter for five years,
7 the Department of Revenue shall submit a report to the Governor
8 and the General Assembly evaluating: (I) Revenue impacts of the
9 revised tax structure; (II) Distributional effects across income
10 groups; (III) Poverty reduction and household income stability
11 outcomes; (IV) Economic growth indicators; and (V)
12 Recommendations for statutory modification. (b) The report
13 required under subsection (a) of this section shall also include an
14 evaluation of the administrative costs associated with
15 implementing the revised income tax structure and
16 recommendations for improving taxpayer compliance and
17 accessibility. (c) The report required under subsection (a) of this
18 section shall include an analysis of the number of taxpayers who
19 benefited from the zero percent tax bracket and the refundable
20 working family tax credit established by this Act. (d) The
21 Department shall include in the report an evaluation of whether
22 the revised income tax structure has resulted in measurable
23 changes to household income stability for taxpayers earning less
24 than fifty thousand dollars annually. **SECTION 7. EFFECTIVE**
25 **DATE.** This Act shall take effect after the 90 day period following
26 the final adjournment of the Seventy-Seventh general assembly
27 and shall apply to income earned on or after that date. The
28 Department of Revenue may begin rulemaking and administrative
29 preparation necessary to implement this Act prior to the effective
30 date specified in subsection (a) of this section.