

HOUSE BILL 26-013

By Senator(s) Zokaie
also Representative(s) Rocha, Willis, Young, Peterson

AN ACT**CONCERNING REVISING STATE INCOME TAX FOR DEPENDENTS AND OTHER INCOME.**

Be It Enacted by the General Assembly of the State of San Andreas:

SECTION 1. SHORT TITLE.

This bill shall be known and cited as the “Tax Fairness Act.”

SECTION 2. LEGISLATIVE FINDINGS AND INTENT.

- (a) The General Assembly finds that families with dependent children face increasing costs related to housing, childcare, education, and healthcare.
- (b) Providing targeted tax relief to working families supports economic stability and improves child well-being.
- (c) Employees in service industries and individuals participating in app-based or independent contractor work frequently experience irregular income and limited access to employment benefits.
- (d) Exempting tip income and certain gig-based earnings from state income taxation may provide immediate financial relief to workers while supporting economic flexibility.
- (e) It is the intent of the General Assembly to establish a state child tax credit and to exempt qualifying tip income and certain gig income from state income taxation while maintaining fair and efficient administration of the tax system.
- (f) The General Assembly further finds that refundable tax credits directed toward families with dependent children may reduce childhood poverty and improve long-term educational and economic outcomes.

SECTION 3. DEFINITIONS.

For purposes of this Act, unless the context otherwise requires:

- (a) “Department” means the Department of Revenue.
- (b) “Qualifying child” means a dependent child meeting eligibility requirements under state income tax law.
- (c) “Tip income” means voluntary monetary amounts received directly from customers in recognition of services performed, whether received in cash, electronic form, or through employer reporting systems.
- (d) “Gig income” means income earned by an individual as an independent contractor or through a digital platform facilitating short-term services, including but not limited to rideshare, delivery, freelance, or on-demand service platforms.

- (e) “Eligible taxpayer” means a resident taxpayer filing a state income tax return.
- (f) “Household income” means adjusted gross income as reported for federal income tax purposes, including income earned by both spouses filing jointly where applicable.

SECTION 4. CHILD TAX CREDIT.

- (a) Beginning with tax year 2027, an eligible taxpayer shall be allowed a refundable state child tax credit for each qualifying child.
- (b) Beginning with tax year 2027, the refundable state child tax credit shall equal:
- (I) One thousand two hundred dollars for each qualifying child for taxpayers with household income not exceeding seventy-five thousand dollars annually;
- (II) Eight hundred dollars for each qualifying child for taxpayers with household income greater than seventy-five thousand dollars but not exceeding one hundred fifty thousand dollars annually; and
- (III) Four hundred dollars for each qualifying child for taxpayers with household income greater than one hundred fifty thousand dollars but not exceeding two hundred thousand dollars annually.
- (c) The credit shall be refundable, allowing taxpayers with little or no tax liability to receive the full value of the credit.
- (d) The child tax credit shall phase out completely for taxpayers with household income exceeding two hundred thousand dollars annually. The Department shall implement a proportional phase-out structure to prevent abrupt loss of eligibility.
- (e) The credit established by this section shall supplement and not replace any federal child tax credit.
- (f) Beginning in tax year 2029 and annually thereafter, credit amounts and income thresholds established in this section shall be adjusted for inflation based upon the consumer price index.
- (g) In the case of a taxpayer with a qualifying child under the age of six, the refundable child tax credit established in subsection (b) of this section shall be increased by an additional three hundred dollars per qualifying child.
- (h) The Department shall implement procedures allowing taxpayers eligible for the child tax credit established in this section to receive a portion of the credit through periodic advance payments during the tax year if authorized by rule.
- (i) A taxpayer claiming the child tax credit established under this section shall provide the identifying information for each qualifying child consistent with federal dependent reporting requirements.
- (j) In the case of a joint return filed by a married couple, the household income thresholds established in subsection (b) of this section shall be doubled for purposes of determining eligibility for the credit amounts established in this section.

SECTION 5. EXEMPTION OF TIP AND GIG INCOME FROM STATE INCOME TAX.

- (a) Beginning with tax year 2027, tip income and qualifying gig income received by an eligible taxpayer shall be exempt from state income taxation up to a maximum of fifty thousand dollars annually per taxpayer.

- (b) Employers and digital platform companies shall continue to report earnings for informational purposes as required under federal law.
- (c) The exemption provided in this section shall not apply to:
- (I) Salaries or hourly wages paid by an employer;
 - (II) Bonuses or employer-distributed service charges; or
 - (III) Income reclassified for the purpose of avoiding taxation.
- (d) The Department shall promulgate rules necessary to prevent misclassification of wages as tip or gig income.
- (e) Any employer or digital platform determined by the Department to have knowingly reclassified wages as exempt tip or gig income for the purpose of avoiding taxation shall be subject to penalties established under state tax law, including repayment of avoided tax liability and applicable fines.
- (f) Nothing in this section shall permit conversion of salaried or hourly employment into contract-based compensation solely for the purpose of qualifying income for exemption under this Act.
- (g) The Department shall publish guidance annually clarifying which categories of income qualify as gig income for purposes of the exemption established in this section.
- (h) The exemption for tip income and gig income established under subsection (a) of this section shall be limited to income earned through personal services performed by the taxpayer and shall not apply to passive investment income or ownership distributions.

SECTION 5.5. REVENUE STABILIZATION.

- (a) If implementation of income exemptions under this Act results in a projected general fund revenue reduction exceeding three percent in any fiscal year, adjustments to exemption limits may occur only through subsequent legislation enacted by the General Assembly.
- (b) Relief provided under Section 4 relating to the child tax credit shall not be reduced pursuant to this subsection.

SECTION 6. IMPLEMENTATION.

- (a) The Department shall update withholding tables, tax forms, and guidance materials necessary to implement this Act.
- (b) The Department may adopt rules necessary to administer the child tax credit and income exemptions established by this Act.
- (c) The Department shall conduct public outreach and educational efforts to ensure that taxpayers eligible for the child tax credit or income exemptions established by this Act are informed of their eligibility.

SECTION 7. REPORTING REQUIREMENT.

- (a) On or before January 15, 2029, and annually thereafter for five years, the Department shall submit a report to the Governor and the General Assembly evaluating:
- (I) Distribution of child tax credit benefits by income level;
 - (II) Fiscal impact of tip and gig income exemptions;

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- (III) Labor market effects, including worker classification trends;
- (IV) Poverty and household income outcomes; and
- (V) Recommendations for statutory modification.
- (b) The report required under subsection (a) of this section shall also evaluate the administrative costs associated with implementing the child tax credit and income exemptions established under this Act.
- (c) The Department shall include in the report an evaluation of whether the exemption for tip and gig income has affected worker classification practices within the state.