

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

REENGROSSED

LLS NO. 26-0718.03 Asa Miller x2741

HOUSE BILL 26-013

SENATE SPONSORSHIP

Brinkerhoff

HOUSE SPONSORSHIP

Rocha, Willis, Young, Peterson

House Committees

Finance & Revenue

Senate Committees

Not assigned

A BILL FOR AN ACT

CONCERNING REVISING STATE INCOME TAX FOR DEPENDENTS AND OTHER INCOME.

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 establishes a refundable state child tax credit and exempts qualifying tip income and certain gig-based earnings from state income taxation beginning in tax year 2027. The bill is intended to provide targeted financial relief to working families, service industry employees, and individuals earning income through app-based or independent contractor work.

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.*

The legislation creates a refundable child tax credit available to eligible taxpayers for each qualifying child, with credit amounts and income eligibility thresholds determined through annual appropriations. The credit is designed to supplement existing federal tax benefits and provide support to low- and moderate-income households.

In addition, the bill exempts tip income and qualifying gig income — including earnings from rideshare, delivery, and other digital platform-based work — from state income taxation. Employers and platform companies must continue reporting income for informational purposes, and the Department of Revenue is directed to adopt rules to prevent misclassification of wages as exempt income.

The bill also requires the Department of Revenue to evaluate the fiscal and economic impacts of the tax changes and report 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 “Tax Fairness Act.” **SECTION 2. LEGISLATIVE**
5 **FINDINGS AND INTENT.** (a) The General Assembly finds that
6 families with dependent children face increasing costs related to
7 housing, childcare, education, and healthcare. (b) Providing
8 targeted tax relief to working families supports economic stability
9 and improves child well-being. (c) Employees in service
10 industries and individuals participating in app-based or
11 independent contractor work frequently experience irregular
12 income and limited access to employment benefits. (d) Exempting
13 tip income and certain gig-based earnings from state income
14 taxation may provide immediate financial relief to workers while
15 supporting economic flexibility. (e) It is the intent of the General
16 Assembly to establish a state child tax credit and to exempt
17 qualifying tip income and certain gig income from state income
18 taxation while maintaining fair and efficient administration of the

1 tax system. (f) The General Assembly further finds that
2 refundable tax credits directed toward families with dependent
3 children may reduce childhood poverty and improve long-term
4 educational and economic outcomes. **SECTION 3.**
5 **DEFINITIONS.** For purposes of this Act, unless the context
6 otherwise requires: (a) “Department” means the Department of
7 Revenue. (b) “Qualifying child” means a dependent child meeting
8 eligibility requirements under state income tax law. (c) “Tip
9 income” means voluntary monetary amounts received directly
10 from customers in recognition of services performed, whether
11 received in cash, electronic form, or through employer reporting
12 systems. (d) “Gig income” means income earned by an individual
13 as an independent contractor or through a digital platform
14 facilitating short-term services, including but not limited to
15 rideshare, delivery, freelance, or on-demand service platforms. (e)
16 “Eligible taxpayer” means a resident taxpayer filing a state
17 income tax return. (f) “Household income” means adjusted gross
18 income as reported for federal income tax purposes, including
19 income earned by both spouses filing jointly where applicable.
20 **SECTION 4. CHILD TAX CREDIT.** (a) Beginning with tax year
21 2027, an eligible taxpayer shall be allowed a refundable state
22 child tax credit for each qualifying child. (b) Beginning with tax
23 year 2027, the refundable state child tax credit shall equal: (I) One
24 thousand two hundred dollars for each qualifying child for
25 taxpayers with household income not exceeding seventy-five
26 thousand dollars annually; (II) Eight hundred dollars for each
27 qualifying child for taxpayers with household income greater than
28 seventy-five thousand dollars but not exceeding one hundred fifty
29 thousand dollars annually; and (III) Four hundred dollars for each
30 qualifying child for taxpayers with household income greater than
31 one hundred fifty thousand dollars but not exceeding two hundred
32 thousand dollars annually. (c) The credit shall be refundable,
33 allowing taxpayers with little or no tax liability to receive the full

1 value of the credit. (d) The child tax credit shall phase out
2 completely for taxpayers with household income exceeding two
3 hundred thousand dollars annually. The Department shall
4 implement a proportional phase-out structure to prevent abrupt
5 loss of eligibility. (e) The credit established by this section shall
6 supplement and not replace any federal child tax credit. (f)
7 Beginning in tax year 2029 and annually thereafter, credit
8 amounts and income thresholds established in this section shall be
9 adjusted for inflation based upon the consumer price index. (g) In
10 the case of a taxpayer with a qualifying child under the age of six,
11 the refundable child tax credit established in subsection (b) of this
12 section shall be increased by an additional three hundred dollars
13 per qualifying child. (h) The Department shall implement
14 procedures allowing taxpayers eligible for the child tax credit
15 established in this section to receive a portion of the credit
16 through periodic advance payments during the tax year if
17 authorized by rule. (i) A taxpayer claiming the child tax credit
18 established under this section shall provide the identifying
19 information for each qualifying child consistent with federal
20 dependent reporting requirements. (j) In the case of a joint return
21 filed by a married couple, the household income thresholds
22 established in subsection (b) of this section shall be doubled for
23 purposes of determining eligibility for the credit amounts
24 established in this section. **SECTION 5. EXEMPTION OF TIP**
25 **AND GIG INCOME FROM STATE INCOME TAX.** (a)
26 Beginning with tax year 2027, tip income and qualifying gig
27 income received by an eligible taxpayer shall be exempt from
28 state income taxation up to a maximum of fifty thousand dollars
29 annually per taxpayer. (b) Employers and digital platform
30 companies shall continue to report earnings for informational
31 purposes as required under federal law. (c) The exemption
32 provided in this section shall not apply to: (I) Salaries or hourly
33 wages paid by an employer; (II) Bonuses or employer-distributed

1 service charges; or (III) Income reclassified for the purpose of
2 avoiding taxation. (d) The Department shall promulgate rules
3 necessary to prevent misclassification of wages as tip or gig
4 income. (e) Any employer or digital platform determined by the
5 Department to have knowingly reclassified wages as exempt tip or
6 gig income for the purpose of avoiding taxation shall be subject to
7 penalties established under state tax law, including repayment of
8 avoided tax liability and applicable fines. (f) Nothing in this
9 section shall permit conversion of salaried or hourly employment
10 into contract-based compensation solely for the purpose of
11 qualifying income for exemption under this Act. (g) The
12 Department shall publish guidance annually clarifying which
13 categories of income qualify as gig income for purposes of the
14 exemption established in this section. (h) The exemption for tip
15 income and gig income established under subsection (a) of this
16 section shall be limited to income earned through personal
17 services performed by the taxpayer and shall not apply to passive
18 investment income or ownership distributions. **SECTION 5.5.**
19 **REVENUE STABILIZATION.** (a) If implementation of income
20 exemptions under this Act results in a projected general fund
21 revenue reduction exceeding three percent in any fiscal year,
22 adjustments to exemption limits may occur only through
23 subsequent legislation enacted by the General Assembly. (b)
24 Relief provided under Section 4 relating to the child tax credit
25 shall not be reduced pursuant to this subsection. **SECTION 6.**
26 **IMPLEMENTATION.** (a) The Department shall update
27 withholding tables, tax forms, and guidance materials necessary to
28 implement this Act. (b) The Department may adopt rules
29 necessary to administer the child tax credit and income
30 exemptions established by this Act. (c) The Department shall
31 conduct public outreach and educational efforts to ensure that
32 taxpayers eligible for the child tax credit or income exemptions
33 established by this Act are informed of their eligibility.

1 **SECTION 7. REPORTING REQUIREMENT.** (a) On or before
2 January 15, 2029, and annually thereafter for five years, the
3 Department shall submit a report to the Governor and the General
4 Assembly evaluating: (I) Distribution of child tax credit benefits
5 by income level; (II) Fiscal impact of tip and gig income
6 exemptions; (III) Labor market effects, including worker
7 classification trends; (IV) Poverty and household income
8 outcomes; and (V) Recommendations for statutory modification.
9 (b) The report required under subsection (a) of this section shall
10 also evaluate the administrative costs associated with
11 implementing the child tax credit and income exemptions
12 established under this Act. (c) The Department shall include in the
13 report an evaluation of whether the exemption for tip and gig
14 income has affected worker classification practices within the
15 state. **SECTION 8. EFFECTIVE DATE.** This Act shall take
16 effect after the 90 day period following the final adjournment of
17 the Seventy-Seventh general assembly and shall apply to income
18 earned on or after that date.