

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

ENGROSSED

LLS NO. 26-0718.02 Asa Miller x2741

HOUSE BILL 26-013

SENATE SPONSORSHIP

Zokaie

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. **SECTION 3. DEFINITIONS.** For purposes of this
2 Act, unless the context otherwise requires: (a) “Department”
3 means the Department of Revenue. (b) “Qualifying child” means
4 a dependent child meeting eligibility requirements under state
5 income tax law. (c) “Tip income” means voluntary monetary
6 amounts received directly from customers in recognition of
7 services performed, whether received in cash, electronic form, or
8 through employer reporting systems. (d) “Gig income” means
9 income earned by an individual as an independent contractor or
10 through a digital platform facilitating short-term services,
11 including but not limited to rideshare, delivery, freelance, or
12 on-demand service platforms. (e) “Eligible taxpayer” means a
13 resident taxpayer filing a state income tax return. **SECTION 4.**
14 **CHILD TAX CREDIT.** (a) Beginning with tax year 2027, an
15 eligible taxpayer shall be allowed a refundable state child tax
16 credit for each qualifying child. (b) Beginning with tax year 2027,
17 the refundable state child tax credit shall equal: (I) One thousand
18 two hundred dollars for each qualifying child for taxpayers with
19 household income not exceeding seventy-five thousand dollars
20 annually; (II) Eight hundred dollars for each qualifying child for
21 taxpayers with household income greater than seventy-five
22 thousand dollars but not exceeding one hundred fifty thousand
23 dollars annually; and (III) Four hundred dollars for each
24 qualifying child for taxpayers with household income greater than
25 one hundred fifty thousand dollars but not exceeding two hundred
26 thousand dollars annually. (c) The credit shall be refundable,
27 allowing taxpayers with little or no tax liability to receive the full
28 value of the credit. (d) The child tax credit shall phase out
29 completely for taxpayers with household income exceeding two
30 hundred thousand dollars annually. The Department shall
31 implement a proportional phase-out structure to prevent abrupt
32 loss of eligibility. (e) The credit established by this section shall
33 supplement and not replace any federal child tax credit. (f)

1 Beginning in tax year 2029 and annually thereafter, credit
2 amounts and income thresholds established in this section shall be
3 adjusted for inflation based upon the consumer price index.

4 **SECTION 5. EXEMPTION OF TIP AND GIG INCOME FROM**
5 **STATE INCOME TAX.** (a) Beginning with tax year 2027, tip
6 income and qualifying gig income received by an eligible
7 taxpayer shall be exempt from state income taxation up to a
8 maximum of fifty thousand dollars annually per taxpayer. (b)
9 Employers and digital platform companies shall continue to report
10 earnings for informational purposes as required under federal law.
11 (c) The exemption provided in this section shall not apply to: (I)
12 Salaries or hourly wages paid by an employer; (II) Bonuses or
13 employer-distributed service charges; or (III) Income reclassified
14 for the purpose of avoiding taxation. (d) The Department shall
15 promulgate rules necessary to prevent misclassification of wages
16 as tip or gig income. (e) Any employer or digital platform
17 determined by the Department to have knowingly reclassified
18 wages as exempt tip or gig income for the purpose of avoiding
19 taxation shall be subject to penalties established under state tax
20 law, including repayment of avoided tax liability and applicable
21 fines. (f) Nothing in this section shall permit conversion of
22 salaried or hourly employment into contract-based compensation
23 solely for the purpose of qualifying income for exemption under
24 this Act. **SECTION 5.5. REVENUE STABILIZATION.** (a) If
25 implementation of income exemptions under this Act results in a
26 projected general fund revenue reduction exceeding three percent
27 in any fiscal year, adjustments to exemption limits may occur only
28 through subsequent legislation enacted by the General Assembly.
29 (b) Relief provided under Section 4 relating to the child tax credit
30 shall not be reduced pursuant to this subsection. **SECTION 6.**
31 **IMPLEMENTATION.** (a) The Department shall update
32 withholding tables, tax forms, and guidance materials necessary to
33 implement this Act. (b) The Department may adopt rules

1 necessary to administer the child tax credit and income
2 exemptions established by this Act. **SECTION 7. REPORTING**
3 **REQUIREMENT.** (a) On or before January 15, 2029, and
4 annually thereafter for five years, the Department shall submit a
5 report to the Governor and the General Assembly evaluating: (I)
6 Distribution of child tax credit benefits by income level; (II)
7 Fiscal impact of tip and gig income exemptions; (III) Labor
8 market effects, including worker classification trends; (IV)
9 Poverty and household income outcomes; and (V)
10 Recommendations for statutory modification. **SECTION 8.**
11 **EFFECTIVE DATE.** This Act shall take effect after the 90 day
12 period following the final adjournment of the Seventy-Seventh
13 general assembly and shall apply to income earned on or after that
14 date.