

HOUSE BILL 26-012

By Senator(s) Zokaie
also Representative(s) Richards, Roberts, Rocha, Willis

AN ACT**CONCERNING REVISING STATE INCOME TAX FOR LOW-INCOME RESIDENTS.**

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 “Fair Income Tax Adjustment Act.”

SECTION 2. LEGISLATIVE FINDINGS AND INTENT.

- (a) The General Assembly finds that the state income tax system should reflect principles of fairness, ability to pay, and economic stability.
- (b) Lower-income households experience a disproportionate financial burden from taxation relative to income, particularly with respect to essential living expenses.
- (c) Providing tax relief to low-income residents supports economic mobility, reduces financial insecurity, and strengthens local economies through increased consumer spending.
- (d) Adjustments to tax brackets for higher-income earners may be used to maintain revenue neutrality while reducing tax burdens on lower-income households.
- (e) It is the intent of the General Assembly to eliminate state income tax liability for individuals earning less than twenty-five thousand dollars annually and to adjust upper-income tax brackets to ensure continued funding of state services.
- (f) The General Assembly further finds that tax relief directed toward low-income households should be implemented in a manner that promotes economic stability while ensuring long-term fiscal responsibility and predictable funding for essential public services.

SECTION 3. DEFINITIONS.

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

- (a) “Department” means the Department of Revenue.
- (b) “Taxable income” means income subject to state income taxation as defined by existing law.
- (c) “Resident taxpayer” means an individual subject to state income tax under state law.
- (d) “Earned income” means wages, salaries, tips, and other compensation for personal services, including net earnings from self-employment, as defined by federal income tax law.

SECTION 4. MODIFICATION OF INCOME TAX BRACKETS.

- (a) Beginning with tax year 2027, the state income tax rate schedule shall be modified as follows:
 - (I) Taxable income up to twenty-five thousand dollars annually shall be subject to a zero percent state income tax rate.

- (II) Taxable income between \$25,001 and \$330,000 annually: Tax rates shall remain as established under existing law unless modified by future legislation.
- (III) Taxable income exceeding three hundred thirty thousand dollars annually shall be subject to additional marginal tax rates established by law. The Department shall not independently adjust tax rates except as expressly authorized by statute enacted by the General Assembly.
- (c) Nothing in this section shall reduce or eliminate existing deductions, credits, or exemptions unless otherwise provided by law.
- (d) Beginning in tax year 2029 and every tax year thereafter, the income threshold established in subsection (a)(I) of this section shall be adjusted annually by the Department based upon the consumer price index to preserve the real value of the exemption.
- (e) A refundable working family tax credit is hereby created for resident taxpayers with taxable income not exceeding fifty thousand dollars annually. The credit shall equal five percent of earned income, not to exceed one thousand dollars per taxpayer, and shall be refundable regardless of tax liability.
- (f) Implementation of this Act shall not result in an increase in effective income tax liability for resident taxpayers with taxable income below three hundred thirty thousand dollars annually unless expressly authorized by subsequent legislation.
- (g) The Department shall publish annually, on its public website, a clear schedule of the tax brackets established under this section and provide examples demonstrating the application of the zero-rate income bracket for taxpayers whose taxable income falls below the threshold established in subsection (a)(I) of this section.
- (h) The Department shall ensure that implementation of the refundable working family tax credit established in subsection (e) of this section includes simplified filing procedures for taxpayers with income below fifty thousand dollars annually.
- (i) The Department shall provide an annual notice to taxpayers whose income falls within the zero percent tax bracket established in subsection (a)(I) of this section informing them that no state income tax liability is owed for that tax year unless otherwise required by law.
- (j) The Department shall ensure that electronic filing systems clearly display eligibility for the refundable working family tax credit created in subsection (e) of this section and automatically calculate the credit when sufficient income information is provided.
- (k) Nothing in this section shall be construed to authorize the Department to create additional tax brackets or alter existing statutory tax rates without an act of the General Assembly.
- (l) In addition to the refundable working family tax credit established in subsection (e) of this section, a resident taxpayer who claims one or more dependent children under the age of eighteen for federal income tax purposes shall be eligible for an additional refundable child tax credit. The credit shall equal two hundred fifty dollars for each qualifying dependent child, not to exceed one thousand dollars per taxpayer in any tax year. The credit authorized by this subsection shall be refundable regardless of tax liability and shall be administered by the Department in a manner consistent with the working family tax credit established in subsection (e) of this section.
- (m) The refundable working family tax credit established in subsection (e) of this section shall be increased by three hundred dollars for each qualifying dependent child claimed by a resident

taxpayer under federal income tax law. The additional credit provided by this subsection shall be refundable and shall be subject to the same income eligibility requirements established in subsection (e) of this section.

SECTION 4.5. REVENUE STABILIZATION.

(a) If implementation of this Act results in a projected revenue reduction exceeding two percent of general fund revenue in any fiscal year, adjustments to upper-income marginal tax rates shall occur only following approval by the General Assembly through the annual appropriations process.

(b) No adjustment authorized under this section shall reduce the zero-rate income bracket established under Section 4.

(c) Any proposal to adjust upper-income marginal tax rates pursuant to this section shall be accompanied by a fiscal analysis prepared by the Department of Revenue estimating the anticipated revenue impact over a five-year period.

(d) Any revenue adjustments proposed pursuant to this section shall prioritize maintaining the tax exemption for taxpayers with taxable income below the threshold established in Section 4(a)(I).

SECTION 5. IMPLEMENTATION.

(a) The Department of Revenue shall promulgate rules necessary to implement the revised tax brackets.

(b) The Department shall update withholding tables and guidance for employers no later than October 1, 2026.

(c) Public informational materials shall be made available to taxpayers explaining the new bracket structure.

(d) Updated withholding tables shall ensure that taxpayers eligible for the zero-rate bracket receive corresponding reductions in payroll withholding beginning January 1, 2027.

(e) The Department shall conduct public outreach efforts, including informational materials and online resources, to ensure taxpayers understand the changes to the income tax structure established under this Act.

(f) Updated withholding guidance issued pursuant to this section shall include examples illustrating payroll withholding adjustments for employees whose annual income falls within the zero percent tax bracket.

SECTION 6. REPORTING REQUIREMENT.

(a) On or before January 15, 2029, and annually thereafter for five years, the Department of Revenue shall submit a report to the Governor and the General Assembly evaluating:

- (I) Revenue impacts of the revised tax structure;
- (II) Distributional effects across income groups;
- (III) Poverty reduction and household income stability outcomes;
- (IV) Economic growth indicators; and
- (V) Recommendations for statutory modification.

(b) The report required under subsection (a) of this section shall also include an evaluation of the administrative costs associated with implementing the revised income tax structure and recommendations for improving taxpayer compliance and accessibility.

(c) The report required under subsection (a) of this section shall include an analysis of the number of taxpayers who benefited from the zero percent tax bracket and the refundable working family tax credit established by this Act.

(d) The Department shall include in the report an evaluation of whether the revised income tax structure has resulted in measurable changes to household income stability for taxpayers earning less than fifty thousand dollars annually.