

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

**REENGROSSED**

LLS NO. 26-0717.03 Asa Miller x2741

**HOUSE BILL 26-012**

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**SENATE SPONSORSHIP**

**Zokaie**

**HOUSE SPONSORSHIP**

**Richards, Roberts, Rocha, Willis**

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**House Committees**

Finance & Revenue

**Senate Committees**

Not assigned

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**A BILL FOR AN ACT**

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

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**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.

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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.